

Ref: AW/PW/092

Mark Feather
Director, Industry Codes and Licensing
Ofgem
9 Millbank
London
SW1P 3GE

30 April 2008

Dear Mark

Proposed Guidance – Environmental Issues and the Code Objectives

Thank you for the opportunity to comment on the above proposed guidance, which Ofgem is proposing that the UNC, and other code panels, follow from 19 May 2008. Our response specifically addresses the impact on gas code panels and does not consider the impact on electricity panels.

While recognising that Ofgem has to take account of environmental issues in assessing proposals, NGN has some concerns that implementation of these changes is proposed under too hasty a timetable. The imminent launch of a broader Industry Codes Governance Review would, in our view, be the most appropriate route to focus on this topic. A piece meal approach to introducing code governance changes is less suitable.

It would be appropriate to have due consultation on these measures, in particular as they impose additional costs on the industry. Furthermore, we would suggest that if these changes were deemed appropriate, there should be a licence modification confirming the change to the relevant objectives of the UNC. In addition, the UNC would require modification to change the format of modification reports.

The proposal imposes additional costs on the industry as it is likely that the proposer of modifications would have to employ relevant expertise to assess environmental impacts. This may reduce the number of modification proposals which may have adverse consequences for the industry and again suggests that full consultation is required. It seems inappropriate to impose additional obligations on GDNs at the start of a price control period that were not taken into account during the price review.

Furthermore, NGN does not believe that UNC panel members have the detailed understanding required to implement this proposal by 19 May 2008. Additionally, this proposal may have substantial impacts on existing modification proposals, for example those relating to exit reform, that may delay current modifications.

The guidance states that the “financial impacts of greenhouse gas emissions are factored into the analysis” and that proposals should be considered against the market value and shadow price of carbon. NGN is not able to immediately contribute in a meaningful way to such considerations without clear guidance and time to train internal resources.

If Ofgem decides to impose this additional obligation without consultation then NGN would propose:

- (i) the lead time for introduction is moved to a more sensible timeframe (say at least 6 months' notice) to allow all Code parties the opportunity to correctly understand the specific elements to consider with respect to carbon emission pricing etc.
- (ii) UNC governance is formally altered to reflect such changes.
- (iii) Sufficient time is allowed for consideration of proposals already in the code process which will not have had any specific environmental impact assigned to them.
- (iv) Ofgem provides clear guidance setting out exactly how the economic cost of greenhouse gas should be measured and updates this as alternative mechanisms are developed.

I trust these comments are helpful. Should you have any questions relating to the attached please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "Alex Wiseman". The signature is written in a cursive style with a long, sweeping underline.

Alex Wiseman
Regulation Director

cc Rachel Fletcher, Director Distribution