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Our Reference:

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Dear Mark,

Ofgem Proposed Guidance – Environmental Issues and the Code Objectives

Thank you for your recent letter setting out Ofgem's proposed guidance to code panels, administrators and industry participants on the treatment of carbon costs within the existing code governance framework and in particular, in relation to the code objective governing economic and efficient network operation within the industry codes.

We welcome Ofgem's decision to issue such guidance. It is clearly appropriate that the impact of proposed code modifications on the level of greenhouse gas emissions is taken into account by both the panels and Ofgem when considering the merits of proposed modifications. This is particularly the case given the agreed UK targets in place to reduce the overall level of greenhouse gas emissions and to increase significantly the contribution of renewable energy by 2020.

The proposed guidance will also provide greater certainty and transparency to industry when considering code modification proposals. In particular, it will allow the panels to more appropriately assess proposed modifications in line with Ofgem's wider statutory duties, without having to change the code objectives or the licences of the network businesses. However, a number of procedural and funding issues may be required to be addressed in relation to some of the codes in order to fully accommodate the guidance within the panels' current decision making processes, which may take some time to implement. Notwithstanding this, however, we believe that the guidance proposed by Ofgem is helpful and will lead to a more robust and consistent assessment of proposed modifications.

I hope that the above comments are useful.

Yours sincerely

Rob McDonald
Director of Regulation