



**Legal, Regulation and
Compliance**

Centrica Energy

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Friday, 16 January 2009

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

By E-mail: mark.feather@ofgem.gov.uk

Dear Mark,

Re: Open Letter, Review of Industry Code Governance – Environment and Code Objectives

Thank you for the opportunity to comment on the open letter detailed above. This non-confidential response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd and may be placed on the Ofgem website and in the Ofgem library.

We responded to your previous open letter in April 2008, setting out that Centrica is supportive of the principle that when considering modifications to industry codes, the industry should carefully evaluate and have regard to the environmental consequences of change. However, we had significant concerns about the approach and the proposed guidance set out in Ofgem's open letter. We do still have a number of concerns.

We appreciate that Ofgem has raised this issue as part of the Governance Review. However the review process is ongoing and given this, we are reluctant to support potentially inefficient piecemeal changes. Centrica is contributing to the review process and believes that all changes should be made as part of a carefully thought through package of measures once the Review is completed. This would avoid the risk of unintended problems and consequential changes being made at a later date.

As we previously stated, Centrica believes that in order for proper cognisance to be taken of the environmental impacts, and for this to be fully embedded in the subsequent code decisions, a change to the relevant objectives of the codes would be required.

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If, as part of the Governance Review, the conclusion is reached that such a change is desirable, this should be taken forward through the proper channels and cascaded appropriately through all relevant processes and documentation.

Questions raised by the consultation

1) Ofgem's position that the existing legal framework is sufficient not only to enable but to require industry and code panels to assess and take account of the impacts of modification proposals ("Mods") on Greenhouse Gas ("GHG") emissions;

Ofgem suggests that this "requirement" arises through the existing objective governing efficient and economic network operation. We believe that this is not necessarily clear and hence that it would be preferable to consider GHG impact assessment against all the relevant objectives. Centrica would prefer that, subject to the conclusions of the Governance review, such requirements should be made explicit in the code objectives to avoid later confusion and unfounded challenges to decisions.

2) Ofgem's position that the scope of the assessment required by the existing legal framework is not limited to the impact on a particular licensee or industry;

Please refer to our comments above in respect of the lack of clarity in the current framework. Further we believe it is not clear that the existing code objectives have the breadth of remit implied by question 2. Centrica believes that relevance and proportionality should be built in to any evaluations added to the relevant objectives, to ensure that an efficient and economic approach is adopted. In particular, assessing environmental impacts can be technically challenging and may well itself impose costs, these need to be minimised.

3) Whether there would be merit in amending relevant licence conditions with a view to expressly providing for industry and code panels to have regard to the economic impacts of GHG emissions in considering Mods;

Centrica holds the view that the relevant objectives against which Mods are tested need to be clear and unambiguous to ensure that the Mod process is efficient, consistent and that unnecessary costs are minimised. Hence, if after due consultation, the Governance review concludes that a change to the relevant objectives is required, full consultation would be required in respect of drafting and potential impacts.

4) Ofgem's interpretation of what constitutes "broader environmental issues" and whether there are additional environmental considerations to those that are captured within the letter which industry and panels could take account of;

The interpretation seems reasonable.

5) Whether Industry and Code panels should take account of broader environmental impacts when considering Mods and, if so, how industry and code panels could take account of those impacts.

Centrica agrees that, in general, Mods would not be expected to impact significantly on issues such as those identified. It therefore seems reasonable to confine any change to GHG emissions at this point. If a formal change is made to the objectives, it may be as well to make provision to consider "other" environmental impacts if evidence is provided by respondents for that particular Mod.

In addition to the questions raised and our comments, if a change to the relevant objectives is made, it will be essential to consider how conflicts between the environmental evaluation on a Mod and the existing relevant objective on network operation should be addressed. It is also unclear how quantified effects (CO2) and non quantified effects (network operation) would be balanced. This will be particularly important where reports on groups of similar Mods are presented for consideration.

There are also outstanding issues in terms of which carbon prices are to be used and who is to conduct the analysis, though there is a suggestion that the panel itself may need to employ the relevant expertise, presumably with attendant costs.

With all these issues in mind, Centrica believes that if a change is required to the code objectives, it will be necessary to consider knock-on impacts in detail before making the decision to proceed. In addition, given that the Governance Review may also produce other changes, a holistic approach to change is needed.

Overall, Centrica is supportive of the principle of taking account of environmental impacts during the evaluation of Mods. However, we believe that this needs to be properly managed and formally built into the industry governance and associated processes.

We trust these comments have been useful, but if you would like to discuss any of these points in more detail, I should be happy to help.

Kind regards,

Yours sincerely,

By e-mail

Alison Russell
Senior Regulation Manager, Upstream Energy