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Dear Mark,

Review of Industry Governance - Environment and Code Objectives

Thank you for your open letter on the above topic. Good Energy has argued consistently for a strengthening of the code objectives to enhance the ability of parties to implement change which will help combat climate change, and to fight changes which could have a detrimental affect.

The committee for climate change(CCC) has called for a carbon reduction by 2050 of 80% compared to 1990 levels. There is general consensus that this will require the complete de-carbonisation of the UK electricity industry, and a significant reduction in the use of gas.

The Energy Act 2008 also heightens Ofgem's environmental objective to a second ranking objective, subject to protecting both existing and future customers. This means the Authority has a significant role to play in meeting the targets set by the CCC.

We welcome your view that the existing codes should require the various panels to take into account the impact on GHG of relevant modification proposals. However, our experience of modification groups suggests that this is not the case, and as such believe that a specific objective is required in each code.

We also believe that a separate objective is even more paramount if Ofgem decides to allow certain changes to be made without reference to the Authority under its proposals for more self regulation.

Whilst we support the decision to use the shadow price of carbon as opposed to the EU ETS as a means of quantifying the monetary value of carbon, we believe this is insufficient on its own. In order for modifications to be properly assessed, then guidance is also required on the following:

- The method of calculating the carbon saving
- The period of time the saving is calculated
- The discount rate applicable over the agreed time period

Without guidance on these, then any calculation will still be subjective even if the shadow price of carbon is used. This could lead to the authority considering modifications using differing calculations, or based on unsubstantiated carbon saving claims.

We would like to see in every code a specific objective as to whether the proposed modification will reduce the carbon output of the UK energy industry, based on an agreed methodology including the above variables, not just an agreed price.

As a separate objective, changes can then be assessed independently of the economic efficiency objectives in a transparent manner. This means that the industry and the Authority can decide whether to implement changes which could significantly reduce carbon output, even if they are assessed to introduce an economic inefficiency.

We believe such an objective should be based on the carbon saving of the energy industry as a whole, not necessarily any particular licensee. However, consideration could be taken regarding any significant impact on certain industry parties as is now when assessing economic impact.

With regard to your question about the broader environmental impact, we believe these are outside the scope of the codes and are best left to planning, environmental and health and safety laws.

I hope you find these comments useful. Should you require any clarification, please do not hesitate to contact me.

Yours sincerely,

Chris Welby

Chris Welby
Commercial Director