

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

Paul Whittaker  
UK Director of Regulation

paul.whittaker@uk.ngrid.com  
Direct tel +44 (0)1926 653190  
Direct fax +44 (0)1926 656520

[www.nationalgrid.com](http://www.nationalgrid.com)

29 July 2009

Dear Mark

## **Review of Industry Code Governance – Environment and Code Objectives**

Thank you for the opportunity to respond to the June open letter regarding the Environment and Code Objectives. This response is on behalf of National Grid Electricity Transmission plc (NGET) and National Grid Gas plc (NGG). NGET owns the electricity transmission system in England and Wales and is the National Electricity Transmission System Operator. It is responsible for administering the electricity Connection and Use of System Code (CUSC), the Grid Code and the System Operator – Transmission Owner Code (STC). NGG owns and operates the Gas Transmission System and also owns and operates four of the gas Distribution Networks. In association with the three other gas Distribution Network Operators it also jointly provides for the administration of the Uniform Network Code (UNC) Governance arrangements through the Joint Office of Gas Transporters.

### **Proposed Licence Changes to Consider GHG Emissions**

Following our response to the November consultation on Environment and Code Objectives, we continue to consider that the existing framework enables the industry and code panels to consider:

- the impact of code modifications on GHG emissions; and
- the financial impact associated with such emissions.

We note that this is in line with the majority of responses to the November consultation and, therefore, believe that there is no requirement to amend the conditions of any licence to achieve this aim.

Instead, we consider that the use of guidelines, such as those developed by the CUSC Environmental Standing Group (based on the June 2008 Ofgem guidance), provides the most flexible and adaptable approach, allowing for the inclusion of adequate detail and flexibility that cannot be achieved through the use of licence conditions as well as permitting review at regular intervals. The guidelines were developed on a cross code basis, with input from representatives of the Panels of the CUSC, BSC, UNC, DCUSA, Distribution Code and Grid Code, and allow for full assessment of the impact of code modifications on GHG emissions.

### **Proposed Licence drafting**

Notwithstanding our position regarding the lack of necessity for licence changes, we do have some comments on the licence drafting proposed.

First, we are concerned that the use of the term “society” in the draft legal text provided for all three codes is unclear and may also be inconsistent with the guidance previously issued by Ofgem on code objectives. We consider that the term “society” can be interpreted in different ways and does not

provide sufficient clarity on the economic assessment to be made. For example, it is not clear from the use of the term “society” whether any consideration of the relevant costs should be limited to costs for consumers alone, consumers and taxpayers or consumers, taxpayers and licensed industry participants. Different interpretations of this term could, for example, lead to too “narrow” a consideration of costs, excluding those encountered by a particular constituency not clearly included in the notion of “society” (such as licensed industry participants) while, at the same time, encouraging the consideration of second-order costs for the wider community which would be beyond the scope of the existing guidance. As such, we consider the requirement to assess the impact of code modifications on “society” is a change from previous guidance provided by Ofgem.

As a result, a more specific description of the constituency whose interests should be taken into account is essential, so that the relevant code panel can identify whether there would be an impact on particular groups. In this light, the relevant constituencies of interest should be set out, such as authorised electricity operators, consumers, generators, suppliers, distribution networks, gas shippers and suppliers as well as consideration being given to the relevance of the interaction of emissions between gas and electricity.

Secondly, we consider that where the word “applicable” is used, the word “possible” would more accurately reflect the required meaning.

### **Broadening the Scope of Evaluation**

With regard to broadening the scope of the evaluation beyond the natural scope of the assessment of code modifications, we continue to consider that this is inappropriate and are pleased to note that Ofgem has indicated agreement with this position in the June consultation. As such, we are particularly concerned that the proposed drafting could be interpreted as broadening the scope of evaluation as described above in our discussion of the use of the term “society”.

### **Summary**

In summary, we believe that licence drafting is not required to facilitate the consideration of GHG emissions on code modifications and that such drafting may be unhelpful in meeting the required aims. Instead, the current guidelines developed by the industry and based on Ofgem’s guidelines provide a more flexible and adaptable approach, without the requirement to be underpinned by licence conditions.

If you wish to discuss this further, or have any queries regarding this response, please contact me, Mark Ripley on 01926 654928 ([mark.g.ripley@uk.ngrid.com](mailto:mark.g.ripley@uk.ngrid.com)) or Richard Court on 01926 656146 ([Richard.court@uk.ngrid.com](mailto:Richard.court@uk.ngrid.com)).

Yours sincerely

*pp. Pauline McCracken*

*(by email)*

**Paul Whittaker**  
**UK Director of Regulation**