

**Legal & Regulatory**

Lakeside West  
30 The Causeway  
Staines  
Middlesex TW18 3BY

Telephone 01784 874 000

Facsimile 01784 878719

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

Mark Cox  
Associate Partner, Industry Code and Licensing  
Ofgem  
9 Millbank  
London  
SW1P 3GE

27<sup>th</sup> September 2010

Dear Mark,

**Re: Potential Significant Code Reviews (SCRs)**

1. Centrica have been supportive of the principles behind the Significant Code Review (SCR) since the start of the Codes Governance Review, and are therefore pleased that Ofgem are now consulting about the potential SCRs it may launch. We have set out our views below on the three initial areas which are under consideration.

**Electricity Cash Out**

2. We do not agree that electricity cash-out arrangements should be subject to an SCR. It is not clear to us that there are such major, immediate, issues with electricity cash out that require an SCR at this point and believe that the issues that do exist can be effectively managed through the standard code modifications process. In respect of a more fundamental review, we believe that this should be addressed as part of the Electricity Market Reform (EMR) process where it can be considered holistically in the light of the outcomes of the EMR. It may be that once the EMR has been completed, any resulting issues may be sensibly addressed via an SCR process, but not until the EMR has concluded and decisions can be made in the light of all necessary information.
3. Regarding Project TransmiT, Centrica is currently considering its response to the call for evidence and will address the point of whether this is best managed through an SCR process as part of our response.

**Gas Security of Supply**

4. We agree with the proposal that gas security of supply should be subject to an SCR, although want to stress that the scope of the proposed SCR needs to be much wider than just the UNC if it is to deliver any meaningful results.
5. The UK gas market has never experienced a full emergency and as such the various pieces of regulation which are designed to ensure security of supply have never been tested. We therefore believe it is difficult for the market to make proper decisions about both the merit and need of any proposed modifications in isolation.

6. In order to make an informed decision about the merits of any change for example, parties must consider the impact on other jurisdictions with an interest in this area, for example the Department for Energy and Climate Change (DECC), the Health and Safety Executive (HSE) and Network Emergency Co-ordinator (NEC). Modifications Proposals raised in the Uniform Network Code (UNC) in this area can lead to poor conclusions being reached.
7. It is for this reason that Centrica have long argued for a more strategic review of security of supply arrangements, of which cash-out is just one. Indeed, we are aware that the industry has requested such a review by Ofgem through the UNC Transmission Workstream<sup>1</sup>. Whilst Project Discovery has since looked at this area, Centrica believe that a narrow review which examines just the UNC arrangements will not do full justice to the issues present and risk missing the opportunity an SCR presents for cross-code review.

#### Smart Metering

8. We support the proposal for an SCR on the Smart Metering Program, and believe that this will provide an opportunity to ensure future cross-code regulation is properly designed, rather than allowing the industry to develop solutions through a piecemeal approach.
9. Specifically we have some concerns that the work currently in progress as part of Project Nexus is not confirmed as being within the scope of the Smart Metering Program and believe that this presents a major risk. The systems being designed by xoserve are fundamental to the operation of the gas industry and it is unthinkable that replacement of the gas industry systems, including those which handle registration and settlement, can be done in isolation of the Smart Metering Program and the impacts which that will bring.

#### Transmission Charging Arrangements

10. Although not formally part of this consultation we were interested to note that Ofgem may consider a future SCR in this area.
11. Centrica is concerned that the current arrangements are not fit for purpose and are in need of an urgent review. In particular, we consider that any regime which in effect requires long-term capacity buyers to pay twice, cross-subsidising short-term capacity buyers in the process is inappropriate. This must be addressed, and if not through an SCR then through code modifications.
12. Whilst we therefore welcome the recent changes which allow Shippers to raise modifications against the charging methodologies of Network Owners, we would not want to embark on a large piece of work designed to address the current issues only to have these rejected by Ofgem and for the process to then recommence under the guise of an SCR. We therefore ask that Ofgem move now to either rule this subject in or out of scope for future SCRs so that we can be clear on how best to progress this.
13. We are happy for this response to be published within Ofgem's library and website. Should you wish to discuss any of the points raised in this response, please do not hesitate to telephone me on 07789 570501.

Yours sincerely

David Watson  
Regulatory Manager

---

<sup>1</sup> In July 2008, Ofgem agreed to consider establishing a group to look at this area with a number of stakeholders.