

Amendment proposal:	Connection and Use of System Code (CUSC) - Code Governance Review: Environmental Assessment and the Relevant Objectives (CAP187)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties		
Date of publication:	19 October 2010	Implementation Date:	02 November 2010

Background to the amendment proposal

In June 2008, Ofgem published guidance on the treatment of greenhouse gas emissions under the industry code objectives³ (the 'GHG guidance'). Our GHG guidance set out how greenhouse gas emissions should be valued in the assessment of a code modification. We stated that, like Ofgem, code panels and workgroups should assess, against the relevant code objective⁴, the likely costs of emissions of code modification proposals. Our GHG guidance set out practical ways in which panels and workgroups should undertake this assessment.

We also noted that the GHG guidance was subject to development following further consultation. This consultation took place as part of our Industry Codes Governance Review ('CGR') and focused on whether panels and industry participants should formally take responsibility to assess the wider environmental impacts of code modification proposals as there appeared to be a continuing perception of this being desirable rather than essential.

In July 2009, the Government published revised guidance on the valuation of carbon emissions⁵ (the 'DECC guidance'). The DECC guidance reflected changes to the way that greenhouse gas emissions would be valued:

- emissions in sectors covered by the EU ETS would generally be valued using a 'traded price of carbon';
- emissions in sectors outside of the EU ETS would be valued using a 'non-traded price of carbon' instead of using the shadow price of carbon.

Initial values for both prices were set out in the DECC guidance.

In March 2010, we published the final proposals of the CGR⁶. These proposals were given effect through changes to the network licence provisions. These changes were implemented on 5 July 2010 and take full effect on 31 December 2010.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ This guidance appears on the Ofgem website at:

<http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Open%20letter%20response-%20final%20version%20of%20letter%2030%20June.pdf>.

⁴ Assessment should be made under the efficient and economic network operation code objective or related objective.

⁵ DECC's guidance, 'Carbon Valuation in UK Policy Appraisal: A Revised Approach', is available at: http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/valuation/valuation.aspx.

⁶ The final proposals appear at:

http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR_Finalproposals_310310.pdf.

In these proposals we restated our view that code panels and workgroups should assess the quantifiable impact on greenhouse gas emissions of any change proposals raised, where the impact is likely to be material. We reiterated that any assessment should occur by reference to our published GHG guidance, which was itself updated to align with the DECC guidance⁷.

The amendment proposal

The proposer (NGET) raised CAP187 in July 2010 stating that it is a result of the changes to its Transmission Licence as they apply to the operation of the CUSC modification procedures (Condition C10 6b (ivB)). This proposal is one of a number of CUSC change proposals⁸ which NGET raised to address the changes to its licence as a result of the CGR final proposals.

The proposal includes a requirement in the CUSC for the CUSC Panel and workgroups to evaluate the quantifiable impact on greenhouse gas emissions of CUSC change proposals where the impact is likely to be material. This evaluation would be conducted in accordance with the latest version of the GHG guidance at the time that proposals are assessed.

In the proposer's view, it is under a mandatory requirement to implement the relevant licence changes in the CUSC to align the licence and the code. By doing so, in the proposer's view, the proposal would better facilitate applicable CUSC objective (a) 'efficient discharge by the licensee of its obligations under the Transmission Licence'.

CUSC Panel⁹ recommendation

On 3 September 2010, the CUSC Panel voted unanimously in favour of CAP187. All panel members considered that the proposal would better facilitate applicable objective (a) and felt that it would be neutral with regard to applicable objective (b).

The Authority's decision

The Authority has considered the issues raised by CAP187 and the final Amendment Report (AR) dated 17 September 2010. The Authority has considered and taken into account the responses to NGET's consultation on CAP187 which are attached to the AR¹⁰. The Authority has concluded that:

1. implementation of the amendment proposal will better facilitate the achievement of the applicable objectives of the CUSC¹¹; and
2. directing that the amendment be made is consistent with the Authority's principal objective and statutory duties¹².

⁷ The latest version of our GHG guidance (July 2010) to reflect updated values for the traded and non-traded prices of carbon appears at: http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/GHG_guidance_July2010update_final_080710.pdf.

⁸ The other proposals are CAP183, CAP184, CAP185, CAP186 and CAP188.

⁹ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

¹⁰ CUSC amendment proposals, amendment reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

¹¹ As set out in Standard Condition C10(1) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=5327

¹² The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Reasons for the Authority's decision

We note that each of the four respondents who commented supported the implementation of this proposal and that there were few substantive comments.

Applicable Objective (a) (the efficient discharge by the licensee of the obligations imposed upon it by the act and the Transmission Licence)

We agree with the Panel and all respondents to the CAP187 consultation that the proposal better meets this objective. NGET stated that it has a licence obligation, to be reflected in the CUSC modification procedures, that CUSC change proposals should be assessed for the quantifiable impact on greenhouse gas emissions, where that impact is likely to be material, in accordance with the latest version of the GHG guidance. The proposal is therefore aligning the licence and code requirements to ensure they are consistent and achieve absolute clarity and transparency for the benefit of all CUSC users and others with an interest in the CUSC.

By ensuring that the licence and code are consistent, NGET would efficiently discharge its licence obligation than if the licence and code were not aligned. Accordingly, the proposal would better meet Applicable Objective (a).

Further, we note that recent changes to the Authority's statutory duties clarified that our principal objective to protect the interests of existing and future gas and electricity consumers includes their interests in the reduction of greenhouse gases. The proposal would therefore not only align the CUSC code modification procedures with NGET's licence obligations but also help align the industry's assessment with this particular element of the Authority's own decision making process by obliging code panels and workgroups to assess the impact on greenhouse gas emissions of code change proposals, where that impact is likely to be material. We consider this would have a broader beneficial impact on the efficiency of the CUSC governance process.

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby directs that amendment proposal CAP187: '*Code Governance Review: Environmental Assessment and the Relevant Objectives*' be made.

Mark Cox
Associate Partner, Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose