

<b>CUSC Amendment Proposal Form</b>	<b>CAP:187</b>
<b>Title of Amendment Proposal:</b> Code Governance Review: Environmental Assessment and the Relevant Objectives	
<b>Description of the Proposed Amendment</b> <i>(mandatory by proposer):</i>	
<p>This Amendment Proposal is part of a series of proposals raised by National Grid to implement the Final Proposals of the wider Code Governance Review which was initiated by Ofgem in November 2007. The review sought to address concerns that the existing code arrangements may be too complex and inaccessible to smaller market participants. Given the Authority's evolving role with the introduction of additional statutory duties and the right of appeal to the Competition Commission, such a review was considered to be conducted at an appropriate time.</p>	
<p>Ofgem published its Final Proposals for the Code Governance Review in March 2010, followed by its statutory consultation on licence modifications on 3<sup>rd</sup> June 2010. National Grid Electricity Transmission plc has not objected to the licence modifications. As part of the suite of work strands conducted by the Code Governance Review, it was proposed that the relevant code panels carry out an assessment of the impact on Greenhouse Gas Emissions as part of their deliberations on whether to recommend acceptance or rejection of a modification proposal.</p>	
<b>Background</b>	
<p>The introduction of the EU Emissions Trading Scheme (ETS), amongst other policy schemes, has meant that a market value can be placed on the cost of greenhouse gas emissions including carbon dioxide. In addition, the Government also issued guidance on valuing carbon which can be used to assess environmental costs and benefits. In June 2008, guidance was provided by the Authority specifying that the cost of greenhouse gas emissions should be taken into account when assessing code modification proposals. However, there was uncertainty surrounding the detail of this and it was not enforced as mandatory. Following a consultation period the guidance was revised which set out a 'dual pricing' approach to valuing carbon. It is now considered that it is possible to take account of environmental costs and benefits in the same way that the code panels and industry consider other economic costs and benefits when assessing a modification proposal against the relevant code objective governing efficient and economic network operation.</p>	
<b>Final Proposals</b>	
<p>The Final Proposals stipulate that an evaluation of the quantifiable impact of an Amendment Proposal on greenhouse gas emissions needs to be conducted when preparing and consulting on an Amendment Report, where the impact is likely to be material and in accordance with guidance issued by the Authority. Where relevant, this evaluation should be undertaken for both original and alternative solutions. When assessing an Amendment Proposal against the Applicable CUSC Objectives, if the Amendments Panel considers that an Amendment Proposal may have a material impact on greenhouse gas emissions, then the environmental costs and benefits associated with the emissions should be assessed, using the latest guidance from Ofgem on the treatment of carbon costs and evaluation of the greenhouse gas emissions. The latest version of this guidance, issued in March 2010 as Appendix 4 to the Code Governance Review Final Proposals document (ref: 43/10), is attached as an appendix to this Amendment Proposal for reference. This could result in employing the relevant expertise to undertake such assessment, although we do not propose to make this an explicit requirement within the CUSC.</p>	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address</b> <i>(mandatory by proposer):</i>	
<p>This Amendment Proposal results from the licence modifications required to implement the Code Governance Review Final Proposals. National Grid Electricity Transmission plc has not objected to the licence modifications and therefore has an obligation to make the changes and additions to the CUSC where applicable.</p>	

**Impact on the CUSC** (*this should be given where possible*):

Section 8 of the CUSC will be amended to require Working Groups and the Amendments Panel to assess the quantifiable impact of an Amendment Proposal on greenhouse gas emissions, where applicable. The findings would subsequently be included in the Amendment Report and therefore an addition is required in Section 8 to include this provision.

The CUSC will also require an addition to incorporate the views of the Proposer on the CUSC Amendment Proposal Form as to whether they believe that their Proposal has a material impact on greenhouse gas emissions and, if so, what they believe that impact to be. National Grid also intends to update the proposal form itself, although this does not form part of the CUSC.

**Impact on Core Industry Documentation** (*this should be given where possible*):

None anticipated.

**Impact on Computer Systems and Processes used by CUSC Parties** (*this should be given where possible*):

None identified.

**Details of any Related Modifications to Other Industry Codes** (*where known*):

National Grid intends to raise similar proposals to both the BSC and the UNC, in line with the timetable which has been published to the industry in June 2010. These modification proposals will not interact with the changes proposed to the CUSC.

**Justification for Proposed Amendment with Reference to Applicable CUSC Objectives\*\*** (*mandatory by proposer*):

National Grid considers that implementation of this Amendment Proposal would better facilitate the following Applicable CUSC Objective:

(a): *"the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence"*,

This is a mandatory requirement under the new Licence Modifications and therefore justifies this Proposal.

<b>Details of Proposer:</b> Organisation's Name:	National Grid Electricity Transmission plc
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Emma Clark National Grid Electricity Transmission plc 01926 655223 <a href="mailto:emma.clark@uk.ngrid.com">emma.clark@uk.ngrid.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Alex Thomason National Grid Electricity Transmission plc 01926 656379 <a href="mailto:Alex.thomason@uk.ngrid.com">Alex.thomason@uk.ngrid.com</a>

**Attachments: Yes**

Appendix 1 - Proposed Legal text

Appendix 2 - Ofgem Guidance on the treatment of carbon costs under the current industry objectives, March 2010.

**Notes:**

1. Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.
2. The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Steven Lam  
Commercial  
National Grid  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Or via e-mail to: [steven.lam@uk.ngrid.com](mailto:steven.lam@uk.ngrid.com)

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

3. Applicable CUSC Objectives\*\* - These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1. Reference should be made to this section when considering a proposed amendment.

## Appendix 1 – Proposed Legal text

The following amendments shall be made at Section 8 of CUSC:

At Paragraph 8.15.2 add the following as (g) and renumber accordingly

- (g) the reasoned opinion of the **Proposer** as to whether the **Proposed Amendment** would have a quantifiable effect on greenhouse gas emissions, assessed in accordance with such current guidance on the treatment of carbon costs and evaluation of the greenhouse gas emissions as may be issued by the **Authority** from time to time;

Amend 8.20.2(d) as follows:

- (d) an analysis of whether (and, if so, to what extent) the **Proposed Amendment** would better facilitate achievement of the **Applicable CUSC Objective(s)**, including, where the impact is likely to be material, an assessment of the quantifiable impact of the **Proposed Amendment** on greenhouse gas emissions, to be conducted in accordance with such current guidance on the treatment of carbon costs and evaluation of the greenhouse gas emissions as may be issued by the **Authority** from time to time, and providing a detailed explanation of the **Amendments Panel's** reasons for that assessment;

Amend 8.20.2(e) as follows:

- (e) an analysis of whether (and, if so, to what extent) **any Working Group Alternative Amendment** would better facilitate achievement of the **Applicable CUSC Objective(s)** as compared with the **Proposed Amendment** and any other **Working Group Alternative Amendment** and the current version of the **CUSC**), including, where the impact is likely to be material, an assessment of the quantifiable impact of the **Working Group Alternative Amendment** on greenhouse gas emissions, to be conducted in accordance with such current guidance on the treatment of carbon costs and evaluation of the greenhouse gas emissions as may be issued by the **Authority** from time to time, and providing a detailed explanation of the **Amendments Panel's** reasons for that assessment;

## Appendix 2 – Ofgem Guidance on the treatment of carbon costs under the current industry code objectives.

### Appendix 4 - Guidance on the treatment of carbon costs under the current industry code objectives

#### 1. Introduction

- 1.1 The clarification and guidance contained in this document relate to the following codes: the Balancing and Settlement Code, the Connection and Use of System Code, the Uniform Network Code, the Distribution Connection and Use of System Agreement, the System Operator Transmission Owner Code, the Uniform Network Code for Independent Gas Transporters, the Grid Code and the Distribution Code.
- 1.2 These codes govern many aspects of the electricity and gas markets arrangements. It is a feature of all of these codes that they are capable of being modified in accordance with industry led modification procedures. Under these modification procedures code panels and/or other industry parties need to assess proposed modifications against certain objectives. While the precise objectives vary from code to code, they all contain an objective relating, broadly, to the efficient and economic operation of the relevant network system.
- 1.3 This document sets out our position on the scope for considering carbon costs within the existing code governance framework. It also contains some guidance to code panels, administrators and industry participants as to how they could take account of this clarification in practice.

#### 2. Relevant, recent developments

- 2.1 The introduction of policy instruments such as the EU Emissions Trading Scheme (ETS) in 2005 has meant that a market value can be placed on the cost of greenhouse gas emissions including carbon dioxide. In addition, the Government has issued updated guidance on valuing carbon which can also be used to assess environmental costs and benefits.<sup>15</sup> The revised approach to carbon valuation is intended to determine the estimated abatement costs that need to be incurred to meet specific emissions reduction targets.
- 2.2 These developments mean that it is possible to place a quantifiable value on carbon dioxide and other greenhouse gas emissions and that this value can be used when assessing the impact on these emissions of proposed code modifications.

#### 3. Significance of developments within existing code arrangements

- 3.1 We consider that it is possible to take account of these environmental costs and benefits, in the same way that we (and the code panels and industry)

<sup>15</sup> The guidance, entitled 'Carbon Valuation in UK Policy Appraisal: A Revised Approach' (dated July 2009), has been issued by DECC and is available at: [http://www.decc.gov.uk/en/content/cms/what\\_we\\_do/lc\\_uk/valuation/valuation.aspx](http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/valuation/valuation.aspx)

- would consider other economic costs and benefits, when assessing a modification proposal against the relevant code objective governing efficient and economic network operation.
- 3.2 In view of this, we would expect that such costs and benefits should be taken into account (where relevant) by the code panels and industry participants when assessing a modification proposal against the relevant code objective governing efficient and economic network operation.
- 3.3 In practical terms, therefore, we expect that industry and/or code panels (as appropriate) should take the following steps:
- (a) When assessing a modification proposal against the relevant code objective governing efficient and economic network operation, if the relevant industry participant and/or code panel consider that the impact of a modification will or may be to reduce or increase greenhouse gas emissions (and that this impact is likely to be material) then, to the extent that this impact will or might affect their assessment of the modification against the code objectives, the quantifiable environmental costs and benefits associated with the greenhouse gas emissions should be assessed (using the methods described in paragraph 3.4). The likely level of impact (materiality) will no doubt influence how the industry participant and/or the code panel go about this assessment. They may, for example, consider it appropriate to make enquiries of the relevant network operator. In addition, or alternatively, the relevant industry participant and/or code panel may decide it would be appropriate to employ the relevant expertise to undertake such assessment.
  - (b) Where they have evaluated the environmental costs and benefits of greenhouse gas emissions, the relevant industry participant and/or code panel should use the results of this analysis to inform its assessment of the relevant modification against the efficient and economic network operation objective of the relevant industry codes.
- 3.4 Where an industry participant and/or code panel undertake an assessment of greenhouse gas emissions, the relevant industry participant and/or code panel undertaking the analysis should, where that assessment is of a level that would warrant it:
- (a) quantify the impact on carbon dioxide and/or other greenhouse gas emissions in terms of tonnes of carbon dioxide using the updated guidance provided by DECC. The guidance includes greenhouse gas global warming potentials which can be used to convert emissions of other greenhouse gases into tonnes of carbon dioxide equivalent in order to value these emissions using a 'non-traded price of carbon'<sup>16</sup>. Emissions of other greenhouse gases should, where relevant, include any effects on methane leakage from the gas transmission and

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<sup>16</sup> The DECC guidance (see footnote 1) provides details regarding conversion.

distribution systems and sulphur hexafluoride leakage from electricity transmission and distribution;

- (b) develop a range of cost scenarios for changes (increases or decreases) in emissions in sectors covered by the EU ETS generally valued at the 'traded price of carbon' and changes in emissions for sectors not covered by the EU ETS generally valued at a 'non-traded price of carbon'. Values for both are set out in the updated guidance<sup>17</sup>. We recognise that going forward, other mechanisms to measure the commercial costs of greenhouse gases may be developed and this clarification and guidance should not be interpreted as precluding the use of any such mechanisms; and
- (c) include scenarios using both a social discount rate and a commercial discount rate. In calculating the social discount rate, the relevant industry code participant and/or code panels should have regard to the guidance in the Treasury Green Book.<sup>18</sup>

#### 4. Other considerations

- 4.1 Ofgem notes that there are potentially wider impacts on the environment beyond the cost of greenhouse gas emissions that may need to be assessed by code panels based on *existing licence obligations* (for example, in the case of CUSC modification proposals, panels would need to consider, where relevant, the extent to which a proposal impacts on the discharge of National Grid's duties relating to the environment under Schedule 9 of the Electricity Act). This document does not offer guidance on these assessments or the interpretation of the Schedule 9 duties.

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<sup>17</sup> Page 119 of the guidance.

<sup>18</sup> [http://www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm)