

Amendment proposal:	<b>System Operator ("SO") – Transmission Owner ("TO") Code ("STC") CA040: Environmental Assessment and the Relevant Objectives</b>		
Decision:	The Authority <sup>1</sup> has decided to approve this proposal <sup>2</sup>		
Target audience:	National Grid Electricity Transmission PLC (NGET), Parties to the STC and other interested parties		
Date of publication:	30 November 2010	Implementation Date:	6 December 2010

## Background to the amendment proposal

In June 2008, Ofgem published guidance on the treatment of greenhouse gas emissions under the industry code objectives<sup>3</sup> (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 objective<sup>4</sup>, 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 would be subject to development following further consultation. This consultation took place as part of our Industry Codes Governance Review (the '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 emissions<sup>5</sup> (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 Emissions Trading System (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 CGR<sup>6</sup>. 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.

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

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

<sup>3</sup> 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>.

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

<sup>5</sup> 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](http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/valuation/valuation.aspx).

<sup>6</sup> The final proposals appear at:

[http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR\\_Finalproposals\\_310310.pdf](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 guidance<sup>7</sup>.

### **The proposed Amendment**

The proposer (NGET) raised CA040 in September 2010. The proposed amendment progressed through a shortened timetable of assessment to allow the Authority to make a timely decision before the CGR licence changes take effect.

The proposed amendment would amend the STC legal text to implement the changes made to NGET's transmission licence (Standard Licence Condition B12 6 (vA) and (vi)). As a result, the STC Committee would be required to evaluate the quantifiable impact on greenhouse gas emissions of a STC amendment or any alternative against the relevant code objective, where that impact is likely to be material, in line with the Authority's latest guidance and include its evaluation in a final report about the amendment. The proposer of a STC amendment would also be able to provide on the proposal form a reasoned opinion regarding whether there is such a quantifiable impact.

In the proposer's view, CA040 would better meet a number of the STC Applicable Objectives, namely:

- the efficient discharge of their licence obligations by transmission licensees (Applicable Objective (a))
- development, maintenance and operation of an efficient and economical transmission system (Applicable Objective (b)) and
- promotion of good industry practice and efficiency in the implementation and administration of the STC arrangements (Applicable Objective (e)).

The proposer considered that the mandatory requirements imposed by the licence changes to its transmission licence would justify the implementation of CA040.

### **Responses to the STC Committee consultation**

The STC Committee undertook an Assessment and Report consultation on CA040. All the existing STC Parties responded indicating that there would be no impact on their systems and no cost would be involved in implementing CA040. There was one response to the consultation supportive of CA040.

### **STC Committee<sup>8</sup> recommendation**

The STC Committee recommended that CA040 should be implemented with an implementation date five business days after the Authority's decision. The Committee agreed with the proposer that CA040 would better facilitate STC Applicable Objectives (a), (b) and (e).

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<sup>7</sup> 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](http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/GHG_guidance_July2010update_final_080710.pdf).

<sup>8</sup> The STC Committee is established and constituted from time to time pursuant to and in accordance with section B6 of the STC.

## **The Authority's decision**

The Authority has considered the final Amendment Report for CA040, including the proposed legal text, submitted on 26 October 2010 and the response to the CA040 consultation. The Authority has concluded that implementation of the amendment proposal would better facilitate the achievement of the STC Applicable Objectives<sup>9</sup>.

### **Reasons for the Authority's decision**

*Applicable Objective a (efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act)*

We agree with the STC Committee and the proposer that aligning the STC legal text with the licence changes in SLC B12 which take effect on 31 December 2010 would avoid confusing those with an interest in the STC regarding the code obligations as they relate to the licence. It would be more efficient from NGET's perspective, as the affected licensee, to ensure that the licence changes are appropriately reflected in the STC. By doing so, this objective would be better met.

*Applicable Objective b (development, maintenance and operation of an efficient and economical transmission system)*

We agree that assessing amendment proposals to determine whether they have an impact on greenhouse gas emissions which is likely to be material, would better meet this objective. This assessment would ensure that the efficiency impact and economic costs and benefits of the proposed solution are properly and fully captured in the analysis accompanying a proposal.

*Applicable Objective e (promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC)*

We also agree with the STC Committee that efficient administration of the STC and the promotion of good industry practice require appropriate alignment of code obligations with the licence that gives rise to those obligations. Adopting alignment between the licence and the STC would better meet Applicable Objective (e).

We agree that the proposed legal text meets the requirements set out in the licence. We note that, although the proposed implementation date means that the code obligations takes effect prior to the licence changes, the adoption of good practice beforehand through the STC amendment procedures should not be delayed unnecessarily.

### **Decision notice**

The Authority has decided to direct that Proposed Amendment STC CA040 '*Environmental Assessment and the Relevant Objectives*' should be approved.

### **Mark Cox**

#### **Associate Partner, Smarter Grids and Governance**

Signed on behalf of the Authority and authorised for that purpose

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<sup>9</sup> The Applicable Objectives are set out in Standard Licence Condition B12 of the Transmission Licence.