

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP072 (Urgent) – Environmental Assessment of Change Proposals</b>		
Decision:	The Authority <sup>1</sup> directs that proposal DCP072 be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested Parties		
Date of publication:	9 November 2010	Implementation Date:	31 December 2010

## Background to the modification 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.

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

<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).

occur by reference to our published GHG guidance, which was itself updated to align with the DECC guidance<sup>7</sup>.

### The modification proposal

The proposer (EdF Energy Networks) raised DCP072 in August 2010. The proposal seeks to reflect in the DCUSA legal text the change made to the licences of all electricity distribution Network Operators as a result of our CGR final proposals<sup>8</sup>.

The proposal would amend the DCUSA to provide that, when a DCUSA change proposal is raised, a proposer can provide a view on whether there is likely to be a material impact on greenhouse gas emissions as a result. The proposal also amends the relevant sections of the DCUSA to provide:

- that DCUSA working groups ought to consider during the Definition Procedure whether there would be an impact, where that impact is likely to be material, on greenhouse gas emissions of a DCUSA change proposal and
- that a DCUSA Change Report should reflect the views of working groups in this regard including, where an assessment has been undertaken in line with the latest version of our GHG guidance at the time, the outcome of that assessment

In the proposer’s view, DCP072 would better facilitate DCUSA objective 3.1.3 ‘the efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences’ by bringing DCUSA obligations into line with the explicit obligation set out in the licence change regarding the assessment of greenhouse gas emission impacts.

### DCUSA Parties’ recommendation

The Change Declaration for DCP072 indicates that DNO, IDNO/OTSO, Supplier and DG parties were eligible to vote on DCP072. In each party category where votes were cast (no votes were cast in the DG party category), there was unanimous support for the proposal and its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP072 is accepted. The outcome of the weighted vote is set out in the table below:

DCP072	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	100	0	100	0	100	0	n/a	n/a

### The Authority’s decision

The Authority has considered the issues raised by the proposal and the Change Declaration dated 5 October 2010. The Authority has considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. The Authority has concluded that:

1. implementation of the change proposal DCP072 will better facilitate the achievement of the General DCUSA objectives; and

<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> New standard licence condition SLC22 (9A) in electricity distribution licences.

2. directing that the change is approved is consistent with the Authority's principal objective and statutory duties<sup>9</sup>.

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

We note the unanimous support for the proposal from those parties that voted. There were some comments on the proposed legal text changes suggesting additional wording to make the DCUSA legal text more accurate and consistent with the licence change.

#### ***General objective 3.1.3 - efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences***

We agree that the proposal better meets this objective. The licence change placing an obligation on licensees to amend the DCUSA change procedures to provide for an assessment of the impact, where the impact is likely to be material, on greenhouse gas emissions of a DCUSA change proposal comes into effect on 31 December 2010.

If the DCUSA legal text did not change to reflect the licence change, the two would not be aligned and could confuse DCUSA Parties regarding the application of the licence obligation. By aligning the licence wording and the code legal text, a consistent approach is achieved and licensees would be able to deliver their licence obligations efficiently.

#### ***General objective 3.1.4 - the promotion of efficiency in the implementation and administration of the DCUSA and the arrangements under it***

We consider that the proposal also better meets this objective. By reflecting the licence change in the DCUSA, DCUSA working groups are fully aware of their obligations regarding assessment of the impact on greenhouse gas emissions of change proposals and can determine whether an assessment is required. This more efficiently delivers the DCUSA administrative arrangements.

### **Legal text**

We note the comments made on legal text. One party suggested minor changes to add the words "it is likely that" to clauses 11.14.6 and 11.20.6 (D) to more accurately reflect the wording of the licence change. While the proposed legal text meets the intent of the proposal and does not affect our decision to direct that DCP072 is made, we agree that the additional suggested words would further improve the accuracy of the legal text. The suggested words could be added through a future DCUSA housekeeping change.

### **Decision notice**

In accordance with standard condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP072: '*Environmental Assessment of Change Proposals*' be made.

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