

Change proposal:	<b>Grid Code F/10: Code Governance Review - Environmental Assessment</b>		
Decision:	The Authority <sup>1</sup> directs that the proposed change to the Grid Code <sup>2</sup> be made		
Target audience:	National Grid Electricity Transmission PLC (NGET), Grid Code users and other interested parties		
Date of publication:	17 December 2010	Implementation Date:	31 December 2010

## Background to the change 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 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 change proposal**

NGET raised Grid Code change proposal F/10 in September 2010. The proposal seeks to include in the Grid Code a requirement to conduct an evaluation of the quantifiable impact of a proposed Grid Code change on greenhouse gas emissions, where that impact is likely to be material and in accordance with guidance issued by the Authority. In the proposer's view, implementing the change proposal in the Grid Code would help it to meet its new licence obligation, introduced by the CGR licence change, to conduct an evaluation of the quantifiable impact on greenhouse gas emissions of a proposed Grid Code change. The following change to the Grid Code is proposed to implement the change proposal:

- General Condition (GC) 4.5 of the Grid Code would include appropriate legal text reflecting the CGR licence change regarding the assessment of the impact on greenhouse gas emissions of a Grid Code change proposal

The proposer submitted the change proposal to wider consultation after discussion with the Grid Code Review Panel (GCRP). The consultation closed on 12 November 2010 and six responses were received which were generally supportive of the change proposal.

### **NGET's recommendation**

NGET submitted its final Report to the Authority in November 2010. In its view, the implementation of the change proposal would help it to meet its licence obligations and to achieve Grid Code objective (i) (to permit the development, maintenance and operation of an efficient, coordinated and economical system for the transmission of electricity) as it would:

- ensure a more complete assessment of Grid Code change proposals, including an evaluation of the impact, where that impact is likely to be material, on greenhouse gas emissions of those change proposals; and
- this more complete assessment would help to discover whether specific change proposals provide the most efficient and economic solution for developing, maintaining and operating the transmission system.

### **The Authority's decision**

The Authority has considered the issues raised by the change proposal and in the Final Report dated 23 November 2010. The Authority has considered and taken into account the responses to NGET's consultation on the change proposal which are included in the final Report<sup>8</sup>. The Authority has concluded that:

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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> Grid Code proposals, final reports and representations can be viewed on NGET's website at:  
<http://www.nationalgrid.com/uk/Electricity/Codes/gridcode/consultationpapers/>

1. implementation of the change proposal will better facilitate the achievement of the objectives of the Grid Code<sup>9</sup>; and
2. approving the change is consistent with the Authority's principal objective and statutory duties<sup>10</sup>.

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

We note the views of the proposer and respondents to the consultation on the change proposal which generally support the proposal.

*Grid Code objective (i) (to permit the development, maintenance and operation of an efficient, coordinated and economical system for the transmission of electricity)*

We agree that there are two specific benefits of the proposal which help better achieve this Grid Code objective:

- the inclusion of an evaluation of the impact, where that impact is likely to be material, on greenhouse gas emissions of a change proposal would provide a more complete and rounded assessment of the proposal. A rounded assessment is more likely to provide appropriate evidence of whether a proposal does permit the development, maintenance and operation of an efficient and economic transmission system in line with this objective than if this assessment did not occur;
- the visibility of the CGR licence change in the wording of the Grid Code ensures that the licence obligation is given greater transparency. This avoids the risk that those parties with an interest in the Grid Code are unaware of the change to the licence or that the licence obligation is misinterpreted. It is more efficient to align the code wording with the licence wording to ensure consistency and to eliminate the risk of confusion. Improving consistency between the licence and code would have an overall beneficial impact on the efficient and economic operation of the Grid Code.

We agree with the proposer that this Grid Code objective is better achieved by the change proposal. We note that changes to the legal text were made after suggestions from some respondents. We agree that it is a review of individual change proposals, and not of the Grid Code as a whole, that aligns the code wording with the intent of the licence change.

### **Decision notice**

In accordance with Standard Condition C14 of NGET's Transmission Licence, the Authority, hereby directs that change proposal Grid Code F/10: *'Code Governance Review Environmental Assessment'* be made. We direct that the change proposal is implemented on the same date as the licence change comes into effect, namely 31 December 2010.

**Mark Cox**

**Associate Partner, Smarter Grids & Governance**

Signed on behalf of the Authority and authorised for that purpose

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<sup>9</sup> As set out in Standard Condition C14(1)(b) of NGET's Transmission Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=14343](http://epr.ofgem.gov.uk/document_fetch.php?documentid=14343)

<sup>10</sup>The Authority's statutory duties are wider than matters which NGET must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.