

Modification proposal:	<b>Distribution Code: Modification to the Distribution Code to implement the requirements of Standard Licence Condition 21</b>		
Decision:	The Authority directs that this proposal be made <sup>1</sup>		
Target audience:	Parties to the Distribution Code and other interested parties		
Date of publication:	20 January 2011	Implementation Date:	1 February 2011

## Background to the change proposal

Electricity Distribution Licence holders<sup>2</sup> are required by Standard Licence Condition ("SLC") 20 to have in force, implement and comply with the Distribution Code. SLC 21 requires that licensees take all steps within their power to ensure that the Distribution Code in force under the licence at 31 May 2008 remains a code approved by the Authority<sup>3</sup> that is designed to better facilitate the achievement of the Applicable Distribution Code Objectives<sup>4</sup> so far as is consistent with particular requirements set out in that condition<sup>5</sup>. Electricity distribution licence holders are required to periodically review the Distribution Code and its implementation and, where appropriate, modify the Distribution Code, subject to the Authority's approval, with any revisions as they reasonably think are required for continuing achievement of the Applicable Distribution Code Objectives.

In June 2008, Ofgem published guidance on the treatment of greenhouse gas emissions under the industry code objectives<sup>6</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>7</sup>, the likely costs of emissions related to 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 emissions<sup>8</sup> (the 'DECC guidance'). The DECC guidance reflected changes to the way that greenhouse gas emissions would be valued:

<sup>1</sup>This decision document includes the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>2</sup> This includes the fourteen ex-PES licensees referred to as DNOs and all other licence holders referred to as IDNOs.

<sup>3</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority; the regulator of the gas and electricity industries in GB. Ofgem is the Office of the Gas and Electricity Markets which supports the Authority.

<sup>4</sup> The Objectives are set out in Standard condition 21.4 of the electricity distribution licence.

<sup>5</sup> The requirements appear in Standard conditions 21.2 and 21.3 of the electricity distribution licence.

<sup>6</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>7</sup> Assessment should be made under the efficient and economic network operation code objective or related objective.

<sup>8</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).

- 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 CGR<sup>9</sup>. These proposals were given effect through changes to the network licence provisions, including to SLC 21 of the Electricity Distribution Licence. These changes were implemented on 5 July 2010 and took 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 occur by reference to our published GHG guidance, which was itself updated to align with the DECC guidance<sup>10</sup>.

### **The modification proposal**

The Distribution Code Review Panel (DCRP), in consultation with Ofgem, decided that it would be appropriate to modify the Distribution Code and its associated procedures to recognise the change to SLC 21. The licence change obliges relevant licence holders to include, when providing a report to the Authority on a review of the Distribution Code and its implementation, an evaluation of whether any change(s) would better facilitate the applicable code objectives<sup>11</sup>. Furthermore this evaluation must include an assessment of the quantifiable impact, where that impact is likely to be material, of the change(s) on greenhouse gas emissions ("GHG")<sup>12</sup>. The evaluation would be conducted in accordance with guidance (on the treatment of carbon costs and evaluation of GHG emissions) published by Ofgem from time to time. We note that the DCRP decided that a consultation on this code change proposal was not necessary. Taking account of the nature of the proposal we support this position.

The DCRP also took the opportunity to make a further change to the Code to recognise the replacement of the (then) DTI's publication, "Technical Guide to the Connection of Embedded Generators to the Distribution Network" by the ENA's "Distributed Generation Connection Guide". The ENA guide was produced by licence holders in accordance with SLC 25A under the governance of the DCRP and after public consultation. We have approved<sup>13</sup> the use of the guide.

The effects of the proposed changes are, in particular:

- to re-draft Distribution General Condition 4.5 of the Code to recognise the change to SLC 21;
- to re-draft Clause 21(d) of the DCRP's Constitution and Rules to recognise the change to SLC 21;
- to re-draft Clause 4.1(xi) of the Standards Governance Procedure, "Governance of Qualifying Standards"; and
- to amend the title of Generation Connection Guide in Appendix 2 of the "Guide to the Distribution Code of Great Britain" to reflect the name of the ENA's guide.

<sup>9</sup> The Code Governance Review Final Proposals can be found [here](#) .

<sup>10</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>11</sup> See footnote 4.

<sup>12</sup> The licence change is set out in Standard condition 21.8A of the electricity distribution licence.

<sup>13</sup> [Ofgem's approval of the DG Connection Guide](#).

## **DCRP recommendation**

The DCRP considered the proposed changes at its meeting on 25 November 2010 and agreed unanimously to seek our approval to modify the Distribution Code.

The changes proposed by the DNOs are set out in the Report to the Authority of 23 December 2010 sent in accordance with SLC 21.9.

## **The Authority's decision**

SLC 21.10 of the Electricity Distribution Licence provides that modifications to the Distribution Code that are proposed by the licensees and sent to the Authority under SLC 21 cannot be implemented without the Authority's approval.

The Authority has considered the Report dated 23 December 2010. The Authority has concluded that:

1. implementation of the proposed changes will better facilitate compliance with the relevant requirements of the Electricity Distribution Licence; and
2. the modification made is consistent with the Authority's principal objective and statutory duties<sup>14</sup>.

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

The proposed changes to the Distribution Code are a direct result of our licence changes. The Report of 23 December 2010 states that these changes will enable each DNO to continue to meet its mandatory requirements under its Electricity Distribution Licence. In our view, the proposed changes ensure that the Code implements the changes made to the licence and enables each DNO to meet the recent new requirements of SLC 21.

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 Distribution Code modification procedures with the licence obligations but also help align the industry's assessment with this particular element of the Authority's own decision making process by obliging the code panel 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 Distribution Code governance process.

Finally, we note that a further change is proposed to recognise the replacement of the (then) DTI's publication, "Technical Guide to the Connection of Embedded Generators to the Distribution Network" by the ENA's "Distributed Generation Connection Guide" approved under SLC 25A.

## **Decision notice**

In accordance with SLC 21.10 of the Electricity Distribution Licence, the Authority, hereby directs that **the modifications to the Distribution Code and its Constitution and Rules set out in the Report to the Authority of 23 December 2010** 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>14</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are largely provided for in statute, principally in this case the Electricity Act 1989 as amended, as well as arising from directly effective European Union law.