STC Amendment Proposal Form

CA040

1. Title of Amendment Proposal

Environmental Assessment and the Relevant Objectives.

2. Description of the Proposed Amendment

This Amendment Proposal is part of a series of code 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.

Ofgem published its Final Proposals for the Code Governance Review in March 2010, followed by its statutory consultation on licence modifications on 3rd June 2010. NGET 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.

To this end, it is proposed to amend Section B of the STC (Governance) to place obligations on the Amendment Proposer and the STC Committee Secretary to give due consideration to the impact of greenhouse gas emissions for all Amendment Proposals.

Further Background

European Union Emissions Trading Scheme

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.

Final Proposals

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 STC 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. 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 STC. The latest guidance from Ofgem is dated July 2010 and is attached as an appendix to this document.

3. Description of Issue or Defect that Proposed Amendment seeks to Address

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 as Transmission Owner, has an obligation to make the changes and additions to the STC where applicable.

4. Impact on the STC

Amendments to STC Section B will be required to include that an evaluation of the quantifiable impact of an Amendment Proposal on greenhouse gases, where the impact is likely to be material and in accordance with guidance issued by the Authority, is conducted when preparing and consulting on an Amendment Report.

The STC will also require an addition to incorporate the views of the Proposer on the STC 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 STC.

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5. Impact on other frameworks e.g. CUSC, BSC

- None

6. Impact on Core Industry Documentation

- None

7. Impact on Computer Systems and Processes used by STC Parties

- None

8. Details of any Related Modifications to Other Industry Codes

- Similar Proposals are currently being raised for the CUSC, BSC and UNC but these will not interact with the changes proposed to the STC.

9. Justification for Proposed Amendment with Reference to Applicable STC Objectives

Amending the STC as described above will adhere to the mandatory requirements imposed under the new licence modifications and therefore justifies this proposal.

Amending the STC in this manner would mean that the following objectives are better facilitated:
(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act;
(b) development, maintenance and operation of an efficient, economical and co-ordinated system of electricity transmission;
(d) protection of the security and quality of supply and safe operation of the national electricity transmission system insofar as it related to interactions between transmission licensees; and
(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC.

Details of Proposer Organisation's Name	National Grid Electricity Transmission plc
Capacity in which the Amendment is being proposed (i.e. STC Party or other Party as designated by the Authority pursuant to STC section B7.2.2.1 (b))	STC Party
Details of Proposer's Representative Name Organisation Telephone Number Email Address	Bec Thornton National Grid Electricity Transmission plc 01926 656386 Bec.Thornton@uk.ngrid.com
Details of Representative's Alternate Name Organisation Telephone Number Email Address	Emma Clark National Grid Electricity Transmission plc 01926 655223 emma.clark@uk.ngrid.com
Attachments (Yes/No): No – text amendments as Appendices to this Amendment Proposal Form Appendix 1 – Proposed Legal Text Appendix 2 – Ofgem guidance on the treatment of carbon costs under the current industry objectives, July 2010.	

Notes:

1. Those wishing to propose an Amendment to the STC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 7.2 of the STC.

2. The Committee Secretary will check that the form has been completed, in accordance with the requirements of the STC, prior to submitting it to the Committee. If the Committee Secretary accepts the Amendment Proposal form as complete, then she/he will write back to the Proposer informing them of the reference number for the Amendment Proposal and the date on which the Committee will consider the Proposal. If, in the opinion of the Committee Secretary, the form fails to provide the information required in the STC, then he/she may reject the Proposal. The Committee Secretary will inform the Proposer of the rejection and report the matter to the Committee at their next meeting. The Committee can reverse the Committee Secretary's decision and if this happens the Committee Secretary will inform the Proposer.

   The completed form should be returned to:

   Kabir Ali
   STC Committee Secretary
   Regulatory Frameworks
   National Grid Company plc
   National Grid House
   Warwick Technology Park
   Gallows Hill
   Warwick, CV34 6DA

   Or via e-mail to: Kabir.ali@uk.ngrid.com

Appendix 1 – Proposed Legal text

The following amendments shall be made at Section B of the STC:

At Paragraph 7.2.2.2 add the following after (f) 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;

At Paragraph 7.2.5.2 add the following to the end of the paragraph

It shall also include, where the impact is likely to be material, an assessment of the quantifiable impact of the Proposed Amendment or any alternative amendment on greenhouse gas emissions, to be conducted in accordance with such 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.

Appendix 2 – Latest Ofgem 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 facilitated the emergence of a market value for carbon dioxide emissions in the sectors covered under the ETS. In addition, the Government has issued revised guidance on valuing greenhouse gas emissions[1]. The revised approach to carbon valuation in the non-traded sector is based on estimates of the 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) 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

1 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

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[2]. This guidance includes traded and non-traded prices for carbon for each year up to 2100 for the purpose of policy appraisal. The guidance also 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'[3]. Emissions of other greenhouse gases should, where relevant, include any effects on methane leakage from the gas transmission and 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'. We recognise that going forward, other mechanisms to measure the market value of greenhouse gases may be developed and this clarification and guidance should not be interpreted as precluding the use of any such mechanisms. Any assessment should therefore clearly state the source of values used. If the assessment uses values which differ from the prevailing DECC guidance, these should be robust and justifiable in the context of the analysis; 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[4]

[2] Carbon values are expected to be updated every year. The latest carbon values can be found in ' Updated short term traded carbon values for UK public policy appraisal (June 2010)' at: www.decc.gov.uk/assets/decc/what%20we%20do/a%20low%20carbon%20uk/carbon%20valuation/1_20100610131858_e_@@_carbonvalues.pdf [3] The DECC guidance (see footnote 1) provides details regarding conversion.

[4] http://www.hm-treasury.gov.uk/data_greenbook_index.htm

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