

CODE MODIFICATION PROPOSAL No 0321
Code Governance Review: Approach to environmental assessments within the UNC
Version 2.0

Date: 11/08/2010
Proposed Implementation Date: 31 December 2010
Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used.

This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).

Background

In November 2007, Ofgem announced the Review of Industry Code Governance, which concluded at the end of March 2010 when Ofgem published their Final Proposals for the Code Governance Review (CGR). The Final Proposals covered the following work strands:

- Significant Code Review and Self Governance proposals;
- Proposals on the governance of network charging methodologies;
- Proposed approach to environmental assessment within the code objectives ;
- Proposals on the role of code administrators and small participant and consumer initiatives; and
- The Code Administration Code of Practice (subset of the above code administrators proposals).

The licence modifications necessary to implement the Final Proposals for the Code Governance Review and the Code Administration Code of Practice were published on 3 June 2010 and become effective on the 31 December 2010.

This Modification Proposal aims to implement the Code Governance Review Final Proposals with regards to the environmental assessment that needs to be carried out regarding the impact on greenhouse gas emissions as part of UNC Panel* deliberations on whether to recommend acceptance or rejection of a Modification Proposal. The environmental assessment was advocated by Ofgem in their November 2008 consultation on 'Environment and Code Objectives'.

In particular this Modification Proposal has been raised to amend the

Uniform Network Code in line with Standard Licence Condition 9 (12 iv (bb)), and Standard Special Condition 11, 15(bb).

(bb) where the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas emissions, to be conducted in accordance with any such guidance (on the treatment of carbon costs and evaluation of greenhouse gas emissions) as may be issued by the Authority from time to time; and

The Guidance (see Appendix 1) on the treatment of carbon costs under the current industry code objectives issued by the Authority states “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, where material, the value of any change in 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 mandated as a requirement in the code governance process.

Following a consultation period, the guidance was revised. It is now considered that it is possible to take account of environmental costs and benefits in the same way that the various UNC, CUSC, BSC Panels and industry consider other economic costs and benefits when assessing a Modification Proposal against the relevant objectives governing efficient and economic network operation.

The Final Proposals stipulate that an evaluation of the quantifiable impact of greenhouse gas emissions and the treatment of carbon costs needs to be conducted when preparing and consulting on Modification Proposals, in accordance with the guidance issued by the Authority.

Nature of the Proposal

Where an assessment of greenhouse gas emissions has been undertaken, the proposer should refer to the guidance from Ofgem on the treatment of carbon costs under the current industry code objectives, which is included as an appendix to this proposal, and can also be found within as Appendix 4 of ‘Code Governance Review – Final Proposals’.

It is proposed that the UNC Modification Rules* are amended so that where the Proposer or the UNC Panel members (through a majority vote as at 7.24) considers that the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives and or its suitability to enter the Consultation Phase shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas

emissions. This should be carried out in accordance with any relevant guidance that has been issued by the Authority. Details of any such assessment shall be included in the reports produced during the progression of the proposal.

It is proposed that if implemented the following transition arrangements are used;

All modification proposals that have been allocated a number by the Joint Office at the time of implementation will continue on the arrangements prior to implementation of this proposal, however from the date of implementation any new modifications will progress using the new arrangements

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The proposer believes that this Modification Proposal is sufficiently clear to proceed directly to consultation.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Modification Proposal does not affect xoserve systems or procedures and therefore it is not affected by User Pays governance arrangements.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Not applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

Not applicable.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Not applicable.

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

This Proposal is raised in accordance with paragraph 1c of Standard Special Condition A11. Network Code and Uniform Network Code. The Proposer feels that the Proposal better facilitates the efficient discharge by the licensee of the obligations imposed upon it following the Ofgem Code Governance Review, under paragraph 15(bb) of Standard Special Condition A11. Network Code and Uniform Network Code, of the Gas Transporters' Licence as provided below:

(bb) where the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas emissions, to be conducted in accordance with any such guidance (on the treatment of carbon costs and evaluation of greenhouse gas emissions) as may be issued by the Authority from time to time; and

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

Not applicable.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

Not applicable.

b) The development and capital cost and operating cost implications:

Not applicable.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Not applicable.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

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6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Not applicable

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Amendment to administration procedures required to capture assessments where necessary.

b) The development and capital cost and operating cost implications

There will be a cost for the environmental assessment required particularly if external expertise has to be employed.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

All Users would need to take into consideration the environmental assessment required when raising a Modification Proposal.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

See above.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

Implementation of the proposal would allow the new licence obligation effective on 31 December 2010 to be met.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

The proposal would allow the new licence obligation effective on 31 December 2010 to be met.

The proposal will allow (where relevant and material) environmental costs and benefits to be fully considered by industry participants, UNC Panel members and the Authority in their assessment of the Modification Proposal

Disadvantages

The amendment process may become extended to allow for the necessary environmental assessment to be carried out and captured in the report.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is recommended that this be implemented the next working day after Authority decision.

16 Comments on Suggested Text

17 Suggested Text

[Draft] Legal Text

MODIFICATION RULES

*Amend paragraph 2.1 to insert the following definitions:*¹

"Emissions": has the meaning given in section 97 of the Climate Change Act 2008;

"Targeted Greenhouse Gas": has the meaning given in section 24(1) of the Climate Change Act 2008;

Amend paragraph 9.4.1(b) to read as follows:

provide an analysis of whether, and if so the extent to which, the Modification would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives, such analysis to include, where in the opinion of the Panel the impact of the Modification (if any) on [gas supply] Targeted Greenhouse Gas Emissions is likely to be material, an assessment of the [quantifiable] impact of the Modification on [gas supply] Targeted Greenhouse Gas Emissions, to be conducted in accordance with any such guidance [(on the [treatment of carbon costs and] evaluation of [gas supply] Targeted Greenhouse Gas Emissions)]² as may be issued by the Authority from time to time);"

Code Concerned, sections and paragraphs

, Modification Rules, 2.1 and 9.4.1 (b)

Uniform Network Code

General, Modification Rules

Section(s)

Proposer's Representative

Beverley Viney, National Grid NTS

Proposer

National Grid NTS

¹ These are the defined terms used in the Gas Act 1986.

² This is included as it is in licence condition A11(15)(iv)(bb) but we do not think it is necessary.

Appendix 1

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 emissions¹. 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 DECC². 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 Book⁴.

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_20100610_131858_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