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David ,

As discussed on the phone this morning, we have had further discussions within Ofgem and also with DECC.

Previously, I indicated that the carbon cost assessment should not include the capital cost of CO2 removal equipment in any scenarios. This was largely on the basis that this would allow a separate decision as to whether the capital cost could be considered a "relevant" cost (as described in the HM Treasury Green Book). While this general principle holds true, this could result in capital costs not being considered as relevant (e.g. if they do not contribute to the abatement of carbon emissions) if scenarios (such as your scenarios 1 and 2) are considered in isolation.

However, it may be argued that the principle reason for installing the amine units is to abate the increase of emissions in the NTS system and in particular the emissions in the non-traded sector. Therefore, the cost of the amine units could be considered as relevant in the analysis of the abatement of emissions in the NTS system when considering the carbon valuation.

The DECC document [Carbon Valuation in UK Policy Appraisal: A Revised Approach](#) provides the background for the differences in carbon pricing between the traded and non-traded sector and potential reason for the abatement of emissions in the NTS system (in particular the non-traded sector) in preference to reducing emissions upstream of the NTS system. However, the justification for the capital costs of the amine units would only hold true if the costs of the abatement in the NTS system were cost effective. DECC provides guidance in assessing cost-effectiveness in its document [Valuation of energy use and greenhouse gas \(GHG\) emissions: Supplementary guidance to the HM Treasury Green Book on Appraisal and Evaluation in Central Government](#) in particular Chapter 5 and the example given in Box 5.3 may be relevant in this instance.

I propose to also advise the workgroup of this at the next meeting.

Please do not hesitate to call me if you wish to further discuss.

Regards  
David

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