



NGG Initial Proposals Consultation – SO Environmental Incentive Comments from AEP¹

The Association of Electricity Producers (AEP) welcomes the opportunity to submit comments to this initial consultation. The Association recognizes the importance of environmental initiatives and considers it appropriate for an incentive of this type to be developed.

Is it appropriate for National Grid to have an Environmental Incentive relating to the natural gas vented from NTS compressors.

We believe it is appropriate for this type of incentive to be developed. Whilst we appreciate the volumes of gas involved are relatively small it also seems that venting is something that NG has control over so it is reasonable that it should be incentivised to reduce methane emissions, especially given the potency of methane relative to carbon dioxide as a greenhouse gas.

Is the approach taken to setting the target volume of vented natural gas (2086 tonnes) appropriate?

Given the current lack of understanding as to past variations in volumes and apparent absence of correlation with operational parameters, this approach would seem to provide a reasonable starting point. However the target volume should be adjusted in the light of future outcomes and operational experience.

Is it correct to use an 80% conversion factor to apply from natural gas to methane?

Given the information provided in paragraph 24 this would appear to be the correct conversion factor. However this assumes that methane is the only greenhouse gas in natural gas. We believe that ethane also makes a contribution to climate change through increasing the methane lifetime and ozone production and should be considered for inclusion.

¹ The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

Is £546/tonne of methane and therefore £437/tonne of natural gas vented, the correct price to apply to the incentive?

This price appears to have been derived from the Defra guidance on the use of the shadow price of carbon in policy appraisal. However it would appear that the price for 2008 in 2008 money should be £26.5. Clearly it is sensible to be consistent with this guidance and for the value to apply in future years to also be consistent with this guidance. The price would also have to be adjusted to incorporate ethane if this were considered appropriate.

Is it appropriate that the incentive has no sharing factor, cap or floor?

Given the materiality we agree it is appropriate to exclude these parameters to maintain a clear incentive.

Is it appropriate that the scheme should have a deadband?

We accept there may be windfall losses and gains but consider including a deadband would weaken the incentive to reduce emissions.

Other issues:

Some commentary on how this relates to other incentives would be useful, for example if NG decides not to depressurize following the introduction of this incentive where it may previously have done so where do the costs of keeping the unit pressurized appear?

Similarly some commentary on the introduction of compressors driven by electricity may be useful.

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