

John Perkins
National Grid
National Grid House
Gallows Hill
Warwick
CV34 6DA

Telephone: 01738 457909

E:mail: Jeff.Chandler@
scottish-southern.co.uk

Our Reference:

Your Reference:

Date : 30 May 08

Dear John,

Consultation on SO Environmental Incentive

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above Consultation Document.

Question 1

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

No, we believe that it is unnecessary and therefore inappropriate. As we stated in our response to the SO Incentive consultation, we believe methane leakage is already adequately managed through the gas shrinkage incentive and we do not believe Ofgem should be looking to introduce an additional incentive

Question 2

Is the approach taken to setting the target volume of vented gas (2086 tonnes) appropriate? Notwithstanding our comments above, given the historic figures are those provided to the Environment Agency as part of their requirements under their permits then the average of these submissions seems appropriate.

Question 3

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

This seems appropriate.

Question 4

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

Given the use of Defra's shadow price, and the conversion factors to account for methane by weight, then the price of £437/tonne seems appropriate.

Question 5

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

Given the level of anticipated materiality, we do not believe it is necessary to have sharing factors, a cap or a floor.

Question 6

Is it appropriate that the scheme should have a deadband?

We recognise that a deadband would reduce incentives under this scheme to minimise emissions. However, there are already incentives on shrinkage and concerns that National Grid would be exposed to windfall profits or losses, as there would appear no natural relationship between venting and e.g. supply patterns. Therefore, if this scheme is to be put in place, we strongly believe that a deadband should be applied.

Question 7

If there was a deadband what size should it be?

The deadband should be set at or around the level of the largest historic variances.

If you would like to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
Gas Strategy Manager
Energy Strategy