



John Perkins

National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

30 May 2008

Dear John

EDF Energy response to National Grid Gas (NTS) SO Environmental Incentive – Initial Proposals

EDF Energy welcomes the opportunity to respond to this consultation and provide its views on National Grid Gas's (NGG's) proposals for a NTS SO Environmental Incentive. We have provided some general comments below while the answers to the specific questions are attached as an appendix to this letter.

EDF Energy welcomes NGG's initiative to reduce the amount of methane emitted through use of its NTS compressors. Reducing methane emissions can play an important role in mitigating climate change. However it is not evident that establishing a direct link to a shadow CO₂ price is the most effective approach to deal with methane emissions. EDF Energy is particularly concerned that the mechanistic application of a shadow CO₂ price, without any element of marginal abatement price discovery or transparency on the costs of methane abatement, creates a significant risk that the value of the incentive will either be insufficient to make the necessary investments to reduce methane emissions or lead to unnecessary costs for consumers

A second area of concern is the interaction between NGG's incentive on gas shrinkage and this environmental incentive. For example would the benefit arising from preventing gas leakage be offset against the cost of the environmental incentive? The cost of a tonne of gas is approximately £250 to £300 and does on its own provide a significant incentive to reduce losses compared with an abatement incentive of £437.

Recognising the importance that we all attach to mitigating climate change, we would ask NGG to engage in further dialogue to develop an incentive mechanism that will be effective in delivering positive action to reduce methane emissions. In this context we believe it would be helpful if NGG could provide further information on:

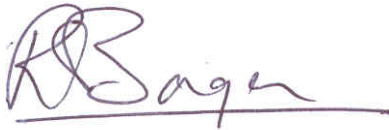
- The costs involved in reducing a tonne of methane at these compressors - does NGG have a marginal abatement curve for reducing methane emissions?
- How does this environmental proposal sit and interact with NGG's current NTS Shrinkage incentive which already includes an incentive to reduce methane emissions through minimising "own gas use" and "unaccounted for gas"

- How this environmental incentive fits in with NG's current Blue NG joint venture project to use compressors at pressure drop points from the NTS to lower tier networks in order to produce electricity
- The monitoring, reporting and verification framework that would be used to determine the incentive payments and the verification of the base line.

Finally, an indication of how NGG would hit its incentive targets this year would be useful given it will be retrospectively introduced from April 2008, potentially losing out on 2 months worth of methane reduction incentive.

I hope you find these comments useful, however please contact me or my colleague John Costa on 020 3162 2324 if you have any questions or would like to discuss any aspect of our response.

Yours sincerely

A handwritten signature in purple ink that reads "R Baga". The signature is written in a cursive style and is underlined with a horizontal line.

Ravinder S. Baga
Policy, Regulation & Environment

Appendix 1

Question 1.	Is it appropriate for National Grid to have an Environmental Incentive relating the natural gas vented from NTS compressors?
	EDF Energy believes that reducing methane emissions is important in mitigating climate change and welcomes NGG's Environmental incentive to drive down emissions from its network. However, the effectiveness of the incentive will depend on striking the balance between risk and reward and it is therefore important to understand NGG's costs and risks in minimising methane vented from its gas compressors. It is also important to understand the interactions of an environmental incentive with the other NTS SO incentives to drive down gas use and inefficiencies such as the Shrinkage incentive.
Question 2	Is the approach taken to setting the target volume of vented natural gas (2086 tonnes) appropriate?
	We believe NGG's approach in using the last 7 years worth of compressor data is useful in order to calculate an appropriate emission target level. However, it would be useful if NGG could provide an explanation as to why methane vented in some years were lower than others to ascertain whether the minimum emission level of 1819 tonnes in 2002 could be used as a starting point.
Question 3.	Is it correct to use an 80% conversion factor to apply from natural gas to methane?
	Yes. However, it will be useful to note how NGG aims to monitor the ratio of methane to gas weight or volume going forward.
Question 4.	Is £546/tonne of methane and therefore £437/tonne of natural gas vented, the correct price to apply to the incentive?
	It is difficult to ascertain whether this reference price is appropriate as it is not clear what NGG's marginal cost of abatement is. More transparency of NGG's costs associated with methane abatement would help identify the most appropriate and effective reference price. This is important in setting an efficient incentive mechanism,
Question 5.	Is it appropriate that the incentive has no sharing factor, cap or floor?
	Yes
Question 6.	Is it appropriate that the scheme should have a deadband?

	No.
Question 7.	If there was a deadband what size should it be?
	We don't believe a deadband would add much value but if one were introduced then we believe it should be linked to the accuracy of monitoring and reporting of methane emissions.