



National Grid Gas (NTS) System Operator Incentives for 1 April 2010
Consultation Document 2 – Environmental Incentives
Comments from AEP¹

The Association welcomes the opportunity to comment on this consultation document. NG has undertaken a number of projects to identify across its business where releases of natural gas to the atmosphere occur and consider how such releases may be reduced. NG explains that these initiatives have been promoted through existing incentives and EA/SEPA permitting. Clearly such activities are also consistent with National Grid's Environmental Policy² (April 2009) which states its goal is *to comply with regulations, reduce any impact that we may have, and proactively seek out opportunities to improve the environment*. The policy also recognizes that protection of the environment is a significant component of its reputation as a responsible business. In this context and given that, as a greenhouse gas, in the short term methane is said to be 60 times³ more damaging than carbon dioxide, we can appreciate why NG is keen to be proactive in reducing release of natural gas. What is less clear is why NG considers further incentives are necessary for action to be taken.

Question 4.1 Do you agree with National Grid's view (described in section 4.6) of where the approaches for reducing the amount of natural gas released should be targeted?

We broadly agree with these approaches

Question 4.2 Are there other approaches to reducing the amount of natural gas released from the NTS that we should be considering?

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.

² <http://www.nationalgrid.com/NR/rdonlyres/74C0EE78-752D-4111-8362-FA9FDB0F6661/33300/Environmentpolicy2009.pdf>

³ This factor reduces to 21 when a 100 year time frame is considered

The Association is not well placed to comment on technical questions of this nature, but consider NG is better able to consider best available technology

Question 5.1 Do you have any suggestions for areas where you believe it appropriate to introduce new environmental incentives?

The Association is not convinced that creating new SO incentives are the appropriate way of addressing these issues, for a number of reasons. NG already has an incentive in respect of UAG volumes so there would be a risk of double counting. Also it is not entirely clear that all the causes of release of natural gas are SO activities. Many of the instances appear to relate to maintenance of the pipeline system such as online inspections or to make new connections, with others relating to the infrastructure rather than operation of the system.

It is also the case that some releases are regular and therefore perhaps predictable, whereas others relating to inspections or connections are more ad hoc in nature. This means it would be very difficult to set a meaningful target for any incentive scheme. Similarly as any releases are not measured it would be difficult to audit performance against any incentive. The only sensible option might be a penalty only incentive.

We also understand that as EUETS phase 2 includes methane emissions, NG should already be incentivised to reduce these at NTS compressor sites included in the scheme and covered by the monitoring and verification protocol. Such that further incentives should not be necessary and we have concerns that this may create subtle interactions with the existing scheme, which NG should explain further.

Finally we note in Appendix 1, NG reports that there are certain circumstances under which it is incentivised to release natural gas rather than combust it both under its environmental permits and LCPD. Given that methane is a significantly more damaging greenhouse gas than carbon dioxide then these incentives are perverse. Clearly these issues need to be addressed separately and in the context of NG's Environmental Policy and desire to be a responsible business.

For these reasons we do not support extending the existing incentive or creating new SO incentives to be appropriate.

Question 5.2 Given the potential costs and payback periods for any asset based solutions to reduce emissions, should these type of investments be the subject of operational incentives or Price Control Review discussions?

As stated above we do not believe that SO incentives would be appropriate. The Price Control could consider funding for these initiatives, but perhaps NG should also contribute.

Question 5.3 Do you believe that there should be any limit on the maximum duration or value of any operational incentives?

We do not believe that further incentives in this area are appropriate.

Question 5.4 Do you have any comments on how performance measures and targets could be set under any new environmental operational incentives?

See above – we believe setting robust targets and performance measures would be challenging.

Question 6.1 Do you support the view that the target for the environmental incentive should be corrected, so that any incentive payments accurately reflect National Grid's actual performance?

In principle we believe that errors of this nature should be addressed in a fair and equitable way. We would support adjustment being made to correct for these errors but only if carried out on a consistent basis.

Question 6.2 If changes to the incentive target are to be made, do you support the view that this should be done through a single change once all of the relevant studies are completed?

This would seem to be a pragmatic approach to avoid multiple changes but we are somewhat surprised that NG is comfortable with there being uncertainty in the incentive target so late in the incentive year. This seems to conflict with the intent of having an incentive in the first place.

Sep 23, 2009