



*taking care of the essentials*

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Our Ref.  
Your Ref.  
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Dear John,

**RE: National Grid Gas System Operator Incentives: Proposed Methane Incentive Consultation**

Centrica welcomes the opportunity to comment on the issues raised in the consultation on the proposed Methane incentive relating to the Gas System Operator Incentive. This response is on behalf of the Centrica Group excluding Centrica Storage Ltd. There is no confidential information contained within this response. We attempt to answer each of the questions posed in the consultation document where appropriate, although there are some areas of overlap and so some of the questions may not be individually addressed.

Centrica agrees that NGG should be provided with an incentive to minimise methane emissions. The incentive should ideally take the form of an allowed volume, which would be expected to decline over time, and a methane price in £/tonne which is to be paid by NGG for each tonne emitted, this would be an allowed cost up to a limit. Above the limit NGG should be subject to the cost. This may be difficult to manage until there is experience of the operation of such an incentive.

The historical levels of vented methane were not subject to an environmental incentive and it is possible that there may be some reductions which can be made at little or no cost. The target should be tougher than that suggested by National Grid as the proposed mechanism could lead to a reward which is out of proportion to the effort used to reduce methane emissions. Therefore there may be a need for a cap/deadband/collar form of incentive at least initially.

Question 1. Is it appropriate for National Grid to have an Environmental Incentive relating the natural gas vented from NTS compressors?

YES

Question 2 Is the approach taken to setting the target volume of vented natural gas (2086 tonnes) appropriate?

No - to take the average of the last 7 years does not provide any incentive to reduce. It needs to be much more aggressive. There is an argument to say that it should be set at the lowest figure (as NG have shown it can be achieved) with some structure to institute further reductions going forward.

Question 3. Is it correct to use an 80% conversion factor to apply from natural gas to methane?

We are not convinced that the proportion of methane in natural gas is the right conversion. The other constituent parts are also greenhouse gases (apart possibly from nitrogen) and although maybe not having quite the same environmental impact as methane, we should still apply an incentive to reduce the emissions of these.

Question 4. Is £546/tonne of methane and therefore £437/tonne of natural gas vented, the correct price to apply to the incentive?

Price should follow from the methodology adopted in Q3.

Question 5. Is it appropriate that the incentive has no sharing factor, cap or floor?

Only NG have any control over these emissions, the approach taken has resulted in a high target volume which without a sharing factor, cap or floor would leave NG with no incentive to reduce venting. If a more aggressive target were to be used, however, then NG might be left with a target which they were unable to meet without increasing other costs or risks. A more appropriate form of incentive might be to use a range over which there was a sharing of cost between NG and users.

Question 6. Is it appropriate that the scheme should have a deadband?

A deadband could be a method for exposing how much control NG have over these emissions. If aggressive targets were set the deadband would have less relevance.

Question 7. If there was a deadband what size should it be?

It would need to be related to the structure of the incentive e.g. if the incentive were average of 7 years a wide deadband below this (of around 10%) would enable NG to reduce by "at least 10%". With a more aggressive structure, i.e. lowest (or second lowest) figure over the last 7 years, if they can improve on this, then there is less of an argument for a deadband.

If you have any queries in relation to this response, please do not hesitate to contact me.

Yours sincerely,

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