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**National Grid Gas (NTS) System Operator Environmental Incentive – Initial Proposals
May 2008**

Dear John,

Thank you for providing us with the opportunity to comment on these Initial Proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

The document sets out National Grid Gas' (NGG) proposals for an environmental incentive relating to methane venting. We agree that it is appropriate for an incentive to be developed for this aspect of NGG's system operation activities and that NGG should factor the environmental costs into its decision making process.

The overall approach to designing the incentive seems reasonable based upon the information provided. We support structuring the incentive without sharing factors, cap or floor. The methodology described for calculating an adjusted shadow price of carbon as the incentive price appears to be consistent with relevant published data but the final price should be based on the latest available information.

In the absence of a clear linkage with supply/demand factors as a driver of the volume of gas vented, taking an average of historic data is also reasonable although we agree that this should be kept under review. Given the materiality of the incentive, we do not support introducing a deadband at this stage, as it is important to not weaken the incentive to reduce methane emissions. Should there be windfall gains or losses under the incentive, then a deadband might be considered in the future.

We hope these views are helpful and if you wish to any aspect of our response, please do not hesitate to contact me on 01793 893983

Yours sincerely,

By email so unsigned

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Economic Regulation