



May 30th, 2008

Thanks for giving Scottish Power the opportunity to comment on the following:

**National Grid Gas (NTS) SO Environmental Incentive – Initial Proposal
Consultation**

General Thoughts

National Grid tend to do well from incentives, but we believe that the impact of any incentive should not just be a cost to the industry. We want to see some real derived benefit from this particular incentive and National Grid's performance against it – and related activities – should be closely monitored.

One concern is that since the measured impact is low, we don't want to set a perverse incentive, which would discourage National Grid from running the system efficiently, or even at the expense of other environmental considerations.

Specific Questions

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

We believe that it is appropriate to set environmental incentives on National Grid, relating to the emissions from compressors on the NTS.

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

We appreciate that other potential relationships are being monitored, but the simple mean over the past 7 years is a reasonable value for an initial target.

We also assume the information will continue to be provided to the environment agency and appropriate analysis can be conducted periodically to ensure that the target volumes remain relevant.

There may be merit in looking at the average monthly values although no detail is provided on how this might vary. However, this would increase the complexity of the incentive.

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

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

These calculations look reasonable based on the information provided, but we lack information/expertise to provide an authoritative opinion on how relevant this is.

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

It has the advantage of making this a clear and simple incentive.

Is it appropriate that the scheme should have a deadband?

If there was a deadband what size should it be?

The deadband would weaken the incentive, particularly if breached early in the year. If it were used, we would prefer a monthly deadband was applied to ensure that the incentive could still be useful in the remainder of the year. As stated above though, this would increase the complexity of the analysis required and the incentive itself.

If you have any questions on any of the points raised in this response, please call me on 0141 568 2464.

Yours Sincerely,



Commercial & Regulation Manager (Gas)
Scottish Power Energy Management Limited