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Our Reference:

Your Reference:

Date : 31st July 2008

Dear Andrew,

National Grid Gas System Operator Incentives from 1 April 2008 Environmental Incentive Methane Emissions: Final Proposals

SSE welcomes the opportunity to comment on the above proposals.

As stated in our previous responses, SSE does not believe it is necessary or appropriate to introduce a specific incentive in this area. We believe methane leakage is already adequately covered by the shrinkage incentive and environmental regulation. We also question whether, balanced against the cost of implementing and operating the regime, this particular financial incentive will influence changes in behaviour. Over the 7 year period, a +/- 5% deadband would have resulted in a net benefit to NGG of £5,058.

In relation to the specific incentive proposals outlined in the Ofgem letter dated 3rd July, the only other significant point that we would like to make is that we are disappointed that the target has been set based on a 7 year historic average. No account appears to have been taken of NGG's plans to introduce electric compressors. It is our understanding that NGG planned to start commissioning this year and hope to complete installation within 2 years. We believe this could result in a significant reduction in methane emissions this year. If this is the case, we are concerned that there could be significant potential for NGG to realise a windfall gain under the proposed incentive, even with the +/-5% deadband proposed. Further clarification would be appreciated.

We would also expect further information to be provided on NGG's electric compressor installation programme as part of the wider discussions that are ongoing in relation to SO incentives for the period from 1 April 2009. Details should be taken into account when considering incentives for the period from 1 April 2009.

We hope you find these comments useful. Should you require any further information or clarification, please feel free to contact me at the above address.

Yours sincerely

Beverley Grubb
Regulation Manager