



Making a positive difference
for energy consumers

Chris Hewitt
Senior Commercial Developer
National Grid Gas
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Your Ref:
Our Ref:
Direct Dial: 020 7901 7270
Email: louise.vanrensburg@ofgem.gov.uk

Date: 24 August 2018

Dear Chris

Greenhouse Gas (GHG) Emissions Incentive: Licence and Regulatory Instructions and Guidance (RIGs) inconsistencies

We¹ have decided to reconcile the GHG Emissions Incentive (“the incentive”) payments National Grid Gas² (NGG) has made due to the inclusion of station vent emissions, but we do not intend to reconcile the payments NGG has made due to the use of an incorrect carbon reference price.

Our decision is explained in more detail below. We make a number of comments about the intention of the gas transporter licence in defining natural gas venting and how it is captured by the GHG Incentive.

Background

On the 16 October 2017 and 20 February 2018, you sent us letters explaining two issues about how incentive payments had been calculated. These relate to:

- the use of an out of date carbon reference price in formula year 2016/17
- the incorrect inclusion of station vent emissions between formula years 2013/14 and 2016/17.

Each of these issues is explained in more detail below. You considered the errors meant overpayments of £361,587 for the inclusion of station vents, and £74,151 for using the wrong carbon reference price, had been made dating back to 2013/14. Table 1 and Table 2 below show the amounts you believe you have overpaid in each year. You requested these amounts be reconciled.

Table 1:

	2013/14	2014/15	2015/16	2016/17
Station vent inclusion	£114,758	£38,192	£86,239	£122,398
Total in each year	£114,758	£38,192	£86,239	£196,549
Total over four years	£361,587			

¹ The terms “the Authority”, “Ofgem”, “we”, “us” and “our” are used interchangeably in this letter.

² The terms “National Grid Gas”, “NGG” and “you” are used interchangeably in this letter.

Table 2:

	2013/14	2014/15	2015/16	2016/17
Carbon reference price	-	-	-	£74,151
Total in each year	-	-	-	£74,151
Total over four years	£74,151			

Carbon reference price

Special Condition (SC) 3D.37 requires you to use the latest Non Traded Carbon Price (NTCP), which is defined as being that which has been published by the Department for Business, Energy and Industrial Strategy (BEIS), when calculating the incentive revenue. The carbon reference price is published in "Green Book supplementary guidance: valuation of energy use and GHG emissions for appraisal" which is updated periodically by BEIS.

In formula year 2016/17, a carbon reference price of £1455/tonne which was published by BEIS in October 2011 was used in the incentive calculation. However, the carbon reference price was updated by BEIS to £1348/tonne in December 2015 and this amount should have been applied to the incentive in formula year 2016/17. If it had been, you would have paid £74,151 less in penalties.

You have requested incentive payments in 2016/17 are reconciled against the carbon reference price published in December 2015. You have assured us that the latest price published by BEIS will be used in future incentive revenue calculations.

Station vent emissions

You believe the interaction between licence definitions for natural gas venting and reporting requirements in the Regulatory Instructions and Guidance (RIGs) has caused station vent emissions to be included incorrectly in the incentive payments.

In particular, SC 3D of the gas transporter licence sets out the formula for calculating the Greenhouse Gas Emissions Incentive Revenue. The formula includes a measure of the aggregate amount of natural gas released to the atmosphere by Venting from all Relevant Compressors. Venting is defined in SC 3D.39 as the release of natural gas from a Relevant Compressor as a result of:

- a) starting a compressor;
- b) purging a compressor;
- c) depressurising a compressor; or
- d) the leakage of gas through a seal around the shaft of a compressor.

SC 8H of the gas transporter licence – which concerns the Greenhouse Gas Emissions Methodology – also includes a definition for 'Natural Gas Vented'. This definition is the same as that included in SC 3D.39 with the addition of:

- e) such other sources identified as a result of work completed under Scheme of Work.

The Scheme of Work is described in SC 8D. It concerns an obligation on you to undertake activities to establish a long term external gas system operator incentive to reduce targeted greenhouse gas emissions. In effect, the Scheme of Work means that station vent emissions are included in the Natural Gas Vented definition in SC 8H.

The RIGs captures both definitions included in SCs 3D and 8H. Tables 7.11 and 7.12 set out reporting requirements for the Greenhouse Gas Emissions Incentive and Greenhouse Gas Emissions Methodology respectively.

You consider that data submitted for Table 7.12 has been copied into Table 7.11. This means station vent emissions have been included wrongly in the incentive payments.

Our views

We have considered the information you have submitted to us and reviewed the applicable sections in the gas transporter licence. We are satisfied that a reconciliation of the incentive payments as set out in Table 1 and subject to the comments below is appropriate, but not table 2.

Carbon reference price

We agree that an incorrect carbon reference price was used to calculate incentive revenue in 2016/17. This was an oversight on your part and we are satisfied with the assurances that you have given that a similar mistake will not be made in the future.

However we are not persuaded that there is sufficient justification to reconcile the incentive payments made in 2016/17 to reflect the carbon reference price published in December 2015. You are responsible for the accuracy of the data values submitted and for ensuring that the values are correct. Consequently we will not adjust this payment.

Station vents

After reviewing the information you submitted, and the relevant special conditions, we accept that the licence can reasonably be interpreted in the way you have set out, i.e. so that emissions identified as a result of the Scheme of Work should not be included in the incentive revenue calculation.

SCs 3D and 8H both contain definitions for the venting of natural gas. SC 3D defines 'Venting' for the purposes of the incentive. This limits emissions to various functions or components of compressors. SC 8H defines 'Natural Gas Vented' for the purposes of the GHG methodology. This definition is the same as the one set out in SC 3D with the addition of emission sources identified through the Scheme of Work (i.e. station vents).

As SC 3D specifically relates to the incentive, we have decided to reconcile the payments you have made since 2013/14 to remove those emissions which were caused by station vents. The estimated financial impacts of doing so are set out in Table 1. We consider this is a reasonable interpretation of the existing licence text.

However, while we recognise that the licence can be interpreted in such a way to justify reconciling the incentive, we remain to be convinced that the existing text is suitable. In particular, we are concerned that SCs 3D and 8H contain separate definitions for the same activity – the venting of natural gas.

After reviewing SCs 3D, 8D and 8H, it is our view there are clear links between the conditions. Whilst there may be some benefit from having a single definition for venting on natural gas in relation to greenhouse gas incentives we believe our decision provides greater clarity and will help avoid any future issues around the misinterpretation of licence conditions and how they relate to incentive reporting, namely that station vents emissions are not included in the definition.

Therefore we are not proposing any immediate changes to the licence which would introduce a single definition. We will review the incentive as part of the next price control and consider the need for any further changes or revisions as part of that process.

Next steps

We are content to reconcile the incentive payments described above. We expect this reconciliation will be achieved through the Annual Iteration Process (AIP). When submitting the incentive payments through the AIP you should be clear on reconciliation amounts and how they relate to payments you made in previous years.

If you have any questions about this decision, please contact Bogdan Kowalewicz on bogdan.kowalewicz@ofgem.gov.uk or 020 7901 7293.

Yours faithfully

Louise Van Rensburg
Interim Deputy Director, SO & Whole Systems