

Hannah Nixon
Partner, Transmission
Ofgem
9 Millbank
London
SW1P 3GE

30 September 2010

Dear Hannah,

Open letter consultation on Transmission Price Control Review 5 (TPCR5) – the way forward

Thank you for the opportunity to comment on Ofgem's open letter regarding the way forward for the Transmission Price Control Review. I can confirm that this response is not confidential and can be published on the Ofgem website.

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

The key points of our response are as follows:

- We agree that Ofgem has correctly identified the key issues for TPCR5 for both gas and electricity transmission.
- The approach to developing output measures described by Ofgem seems reasonable and the initial thoughts on output categories are appropriate.
- We are satisfied with the anticipated level of stakeholder engagement but request that Ofgem work closely with transmission owners to align consultations, workshops and seminars to minimise the resource requirements of TPCR5.
- The initial business plan guidance should provide transmission licensees with a reasonable indication of Ofgem's expectations.
- We welcome publication of the key milestones and the timetable for the review although we believe this is challenging and there should be flexibility in the timetable.
- The funding of xoserve has in the past been covered by the TPCR and GDPCR. Going forward we believe that xoserve should be subject to an individual price control.

EDF Energy has taken considerable interest in the development of the RPI-X@20 framework. In our response to the recent consultation on the recommendations, we were able to offer support to the large majority of proposals, but we were concerned about the difficulty in implementing certain aspects and the lack of detail in some areas. As a consequence we intend to take a close interest in both the Gas and Transmission price control reviews and look forward to engaging positively with both in order to realise the potential of the RIIO framework.

Key issues

We believe that the key issues for TPCR5 have been correctly identified by Ofgem in this open letter. We would particularly highlight the need to ensure that key electricity network investment in line with the requirements of the changing generation mix should not be delayed by any overly complex or inappropriate incentives. As we have discussed on previous occasions we have welcomed the approach Ofgem has taken to the release of funding within this price control to deliver strategic network investment and would hope that the sensible approach taken thus far will be continued. Regarding gas transmission incentives, similarly it would seem sensible to ensure that revenue drivers and assumptions regarding remuneration measures are designed to reflect the changing requirements of the gas transmission network (e.g. the increasing use of LNG).

Primary Outputs

We support the shift in focus to the delivery of outputs. The six categories of output seem comprehensive, and as is stated, echo the discussions on primary outputs from DPCR5. We hope that all relevant stakeholders have had the opportunity to be involved in the development of these outputs from the outset.

Safety, reliability and environmental concerns should be of a primary concern for all transmission businesses. We note that the arrangements for connection conditions for electricity transmission should account for the changes in the enduring transmission access regime since the current price control. Finally we would comment that customer satisfaction occurs at all organisational levels of the transmission business, not only the immediate service provided in terms of connections but also the communications with industry on a day to day basis, such as clear and transparent information provided on the transmission licencees' websites. We would hope that the requirement on network companies to better understand customer expectations will allow industry to comment on the quality of services provided to all levels of their organisation.

Enhanced Engagement

The proposals for stakeholder engagement are in line with our expectation from the RPI-X@20 recommendations and, through the use of the various mechanisms described, seem to offer the prospect of a thorough engagement process.

We support the approach Ofgem intend to take regarding stakeholder engagement, but note that the transmission licensees will also be looking to engage extensively with interested parties throughout this price control review. We would therefore request that Ofgem liaise extensively with the licensees to ensure that the approach to consultations, workshops and seminars is aligned, to minimise the resource requirements of the review. This is made all the more important by the parallel Gas Distribution Price Control Review and the necessary resourcing from stakeholders should not be underestimated. We discuss aspects of this further regarding the timetable for the review.

We note that Ofgem is proposing to undertake Willingness to Pay (WTP) research. It was our understanding from the RPI-X@20 recommendations that the Network Companies would be expected to undertake such research. We appreciate that there may be good reasons to conduct a 'national view' to supplement the views of stakeholders in a particular region. We hope this will not create any duplication of effort in this activity, and emphasise our view that regional preferences must take precedence if company business plans are to be seen as responsive to local requirements.

Business Plan Guidance

We have no detailed comments to make regarding the business plan guidance for transmission licensees. We welcome the detail provided in the letter as to the anticipated content of the business case, building as it does on the RPI-X@20 recommendations. The transparent approach to this work is welcomed and we view this initial guidance as a useful indication of Ofgem's expectations.

Key Milestones

We are supportive of many aspects of the new regulatory framework. We are therefore keen to ensure that these positive developments are not lost in attempting to stick to a strict timetable.

There are two areas of the timetable on which we provide specific comment:

Stakeholder Engagement and production of initial business plans

As enhanced engagement is intended to be at the heart of the RIIO framework, we do not believe that the current timetable allows for a full debate with stakeholders over their requirements, testing of their preferences and then subsequent validation of the proposed business plans.

We note that some Transmission licensees are currently publishing pre-consultation documents asking fundamental questions, such as who their stakeholders are, and seeking views on appropriate methods of engagement. However, companies are expected to move from this point to submission of their initial business plans in around ten months. Approximately seven months has been allowed from the release of the Initial Strategy consultation document through to submission of the initial business plan, with four months allowed from publication of the business plan templates to their submission. We would question whether this gives adequate time for stakeholder engagement as it would require engagement both in respect of development of the various options stemming from the strategy document and then validation of the content of the business plan to be submitted.

We note that Ofgem has allowed around six months for consideration of the business plans. We believe there may be a benefit in allowing more time to the transmission licensees for production of their initial business plan. This would give more opportunity

for stakeholder engagement, which, when combined with the greater preparation time, should lead to a better quality submission. It would also have the benefit of giving Ofgem greater time to work on other issues, such as financeability, tax, pensions etc., work which will need to have been completed if one or more companies are to follow the fast-track process.

Production of the Initial Proposals

Experience from DPCR5 would suggest that publishing a comprehensive set of Initial Proposals in July 2012 will be challenging, if final business plans are not submitted until April 2012.

In the DPCR5 process, the July initial proposals were followed by a September update and two further updates in October. In addition, a number of significant elements of the final price control settlement, such as the Cost of Capital, were not completed until the final proposals.

We believe that Ofgem should be explicit about the contents within the initial proposal as this will allow all parties to focus on the decisions that will need to be made. There may also be a benefit in developing a contingency plan which would allow for a September paper to deal with a more defined set of issues or decisions, rather than being an update on the initial proposals. This will then give greater certainty to the companies on the likely shape of the final settlement.

Further to the points above in respect of the price control timetable, we believe that Ofgem should be conscious that this is a new process and that difficulties might arise in its operation which were not foreseen in the RPI-X@20 project. We have been concerned that there were areas of the recommendations which lacked detail, quite understandably, and it is during these price controls that these detailed issues will need to be worked through.

Ofgem also needs to be mindful of the fact that it is running two price control reviews in parallel. There is a risk of both the organisation and the industry becoming over-stretched by the demands that this will bring.

We would request that Ofgem ensure interim response dates are highlighted to industry on their website, as we note that the request for interested parties to join the working groups was made within the text of this open letter and may not have been sufficiently visible to stakeholders.

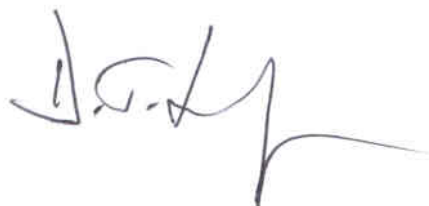
Xoserve

Finally we would like to provide some additional comments on xoserve, who provide a service to Shippers on behalf of all the Gas Transporters. In the past the funding of this has been recovered through transportation charges and as a result xoserve's costs have been governed by the outcomes of both the TPCR and GDPCR. We believe it would be

more efficient for the services provided by xoserve to be subject to more direct regulation through, for example, a separate price control and specific outputs and incentives. This might ensure that the services provided by xoserve are given the scrutiny they deserve and appropriately incentivised.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Rob Rome on 01452 653170, or myself.

Yours sincerely,

A handwritten signature in black ink, appearing to read "D. Linford".

Denis Linford
Corporate Policy and Regulation Director