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21 September 2012

Dear Grant

## **RIIO-T1: Initial Proposals for National Grid Electricity Transmission and National Grid Gas**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to respond to this consultation. The key points of our response are:

- The RIIO-T1 period represents a period of significant reform and investment in the electricity system as GB moves towards a low carbon economy. It is therefore imperative that the RIIO-T1 proposals support these investments and do not create barriers or delays.
- For generation projects that are dependent on investments that are classified as Strategic Wider Works (SWW) we would welcome clarification from Ofgem as to what comfort can be provided to investors that Ofgem will release the funds for these works.
- Overall we believe that the allowances that Ofgem has made for National Grid Electricity Transmission (NGET) appear reasonable, but note that Ofgem and their consultants are best placed to undertake detailed judgements on NGET's business plans.
- We are aware that there is a significant divergence between National Grid Gas' (NGG's) business plans and Ofgem's initial proposals. Overall we believe that Ofgem's proposals are reasonable and reflect the significant uncertainty that the gas system faces in the future.
- Going forward we note that the outcome of the RIIO-T1 settlement will have a significant impact on the charges faced by generators and consumers. It is therefore important that National Grid provide forecasts and scenarios for the impact that these settlements will have on the charges that National Grid levies. We also believe that any increases, or decreases, in NGET's revenues should be lagged so that generators and suppliers have time to build these into their business plans.

GB's move towards a low carbon economy and its carbon targets will require a significant investment in its generation capacity as well as the transmission system required to support this. It was in recognition of this pressure that Ofgem reviewed the RPI-X framework that had traditionally been used for setting price controls and driving efficiency from the network businesses and subsequently introduced the RIIO framework which is now being employed for the first time. At the same time the Electricity Networks Strategy Group (ENSG) has identified the strategic works required over the period to 2020 to support the transition to a low carbon economy and ensure that the required transmission system is delivered in a timely manner to minimise costs to consumers.

In this context, it is imperative that the RIIO-T1 settlement supports these required investments and does not create a barrier or delay generation investment decisions. It would therefore be beneficial if Ofgem could clarify how it will approach funding requests for SWW and what comfort they can provide to generators whose investment decision will be dependant on the delivery of this investment. In particular it would be particularly beneficial were Ofgem to identify the process that they will follow when analysing any SWW funding and set out clear timelines for reaching any decision. Without this clarity there is a risk that generation investment decisions will be delayed.

We are aware that there is a significant divergence between National Grid Gas' (NGG's) business plans and Ofgem's initial proposals. We are aware that the pressures and demands on the gas system are significantly less than those faced by the electricity system, which is undergoing a fundamental change as part of the transition to a low carbon economy. At the same time there is also significant uncertainty about the impact that Electricity Market Reform (EMR) will have on the operation of the gas system and the running profile of gas generators, combined with uncertainty over GDN demand in the medium and long term. Overall therefore we believe that Ofgem's proposals are reasonable and reflect the significant uncertainty that the gas system faces in the future.

We note that the outcome of the RIIO-T1 settlement will have a significant impact on the future charges faced by generators and consumers. It is therefore important that National Grid provide forecasts and scenarios for the impact that these settlements will have on the charges that National Grid levies. This will enable generators and suppliers to build these forecasts into their business plans. In this respect we welcome the actions taken by NGG to update their transmission charging forecasts and would encourage NGET to respond to the requests from its customers to follow suit. In addition we believe that there is value in lagging any changes in revenue as a result of an uncertainty mechanism. This will enable generators and suppliers to build these changes into their business plans.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 07875 115499, or myself.

**I confirm that this letter and its attachment may be published on Ofgem's website.**

Yours sincerely,

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

**Denis Linford**  
**Corporate Policy and Regulation Director**

## **Attachment**

### **RIIO-T1: Initial Proposals for National Grid Electricity Transmission and National Grid Gas**

#### **EDF Energy's response to your questions**

#### **Questions in Overview Document**

##### **CHAPTER: Two**

#### **Question 1: Do you have any comments on the overall package of proposals for NGET?**

Overall Ofgem's proposed package for NGET appears reasonable and strikes the right balance between minimising the costs for consumers, whilst ensuring that NGET is able to deliver the investments required to support the transition to a low carbon economy. However, we note that Ofgem and their consultants are best placed to make the detailed judgements on NGET's business plans with access to confidential information and with experience in these technical areas. We would therefore defer to Ofgem's judgement in this area.

##### **CHAPTER: Three**

#### **Question 2: Do you have any comments on the overall package of proposals for NGGT?**

We are aware that there is a significant divergence between National Grid Gas' (NGG's) business plans and Ofgem's initial proposals. We are aware that the pressures and demands on the gas system are significantly less than that faced by the electricity system which is undergoing a fundamental change as part of the transition to a low carbon economy. At the same time there is also significant uncertainty on the impact that Electricity Market Reform (EMR) will have on the operation of the gas system and the running profile of gas generators, combined with uncertainty over GDN demand in the medium and long term. Overall we believe that Ofgem's proposals are reasonable and reflect the significant uncertainty that the gas system faces in the future.

## Questions in Outputs, incentives and innovation Supporting Document

### CHAPTER: Two

#### Question 1: Do you have any comments on our Initial Proposals on NGET's output and incentives?

In general we believe Ofgem's proposed outputs and incentives appear reasonable; however, we have some detailed comments on particular areas:

- Value of Lost Load (VoLL): As has been recognised through historic debates it is very difficult and complex to identify an appropriate level of VoLL as this varies amongst customer classes as well as at time of day. For example the VoLL of an office at 01.00 am on Sunday will be a lot lower than at 10.00 am on a Friday; whilst, an office will have a lower VoLL than a manufacturing plant were a loss of electricity supply could cause damage to machinery or to a domestic customer where an interruption to their electricity supply would also interrupt their heating. We therefore remain to be convinced that the proposed VoLL is appropriate and note that this may over incentivise reliability for some customers and under incentivise it for others. When setting a value for load there may also be merit in ensuring consistency between other market developments and arrangements.
- The investment required on the system to support new generation capacity that is expected to come on line is significant and requires a co-ordinated approach to planning to ensure that the disruption to generators and customers is minimised. We therefore support the introduction of the Network Access Policy to support the co-ordination of outages between TOs and SO. However, we believe that this should be stronger than a reputational incentive so that if an event occurs as a result of poor management by a TO then this should have a financial impact for the TO. Currently NG's reliability incentive is only on maintaining the transmission system operationally for as long as possible and doesn't take into account the number of or hours generators are disconnected for. We note NG's disconnections and emergency instructions, which prevent wider Transmission issues, have been increasing over the years<sup>1</sup> and we would welcome Ofgem's views on whether this trend needs to be monitored and controlled through an incentive.
- When developing any reputational incentive we believe that it is important that this is developed with industry and published in an open and transparent manner. This will help to ensure that information that is useful to the industry is presented and that the incentive has an impact on the relevant TO's reputation.
- We support the introduction of a customer satisfaction survey and believe that this should reward TO's not just on their satisfaction score, but also in comparison for their results with other TOs. We are aware that the approach to customer engagement has varied amongst the TOs and although we are starting to see improvements, a comparative incentive may encourage TOs to follow best industry practice.

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<sup>1</sup> National Grid's Balancing Services Principles Statement reports

**Question 2: Do you have any views on our Initial Proposals on setting an expenditure cap for the start of RIIO-T1 in relation to addressing the visual amenity impacts of existing infrastructure in designated areas?**

We note that the issue of visual amenity tends to be a very subjective issue, especially for those that live near to any existing or proposed NTS cables. However, we agree with Ofgem's assessment that NGET has not made the case for a higher cap and so an initial cap of £100m appears appropriate. We also note that NGET will be introducing its new pylon design during the RIIO-T1 period, and it is not clear if this has been taken into account in their willingness to pay studies.

We would also appreciate further clarity on how any additional funds above the initial cap would feed into NGET's revenue allowances. We believe that there may be value in lagging these revenues so that their impact can be accommodated into generators' and suppliers' business plans.

#### **CHAPTER: Three**

**Question 3: Do you have any comments on our Initial Proposals on NGGT's output and incentives?**

Overall Ofgem's proposals appear appropriate.

**Question 4: We welcome your views on the appropriate permits arrangements from 1 April 2014 if no other changes to the incremental capacity arrangements have been made?**

We fully agree with Ofgem's proposals to maintain the current connection arrangements and release of incremental capacity, until appropriate changes have been made to the UNC in conjunction with the industry. We agree with Ofgem that NGG's proposals were presented very late in the day, and with limited discussion with industry. At the same time we recognise that the new planning regimes may impact on NGG's ability to deliver incremental capacity, and so it appears appropriate to increase the permits that are available to NGG in 2013/14. However, it is not clear whether Ofgem's proposed enhancement of £19m is appropriate or not.

**Question 5: We welcome your views on the two options on constraint management tools retained in our Initial Proposals. Are you aware of any evidence that might help us in judging between these two options?**

At this stage we support the retention of the status quo arrangements for the constraint management tools for NGG. We agree with Ofgem's assessment that NGG's proposals were developed with limited stakeholder engagement, and do not believe that NGG has made the case for amending the current regime.

## CHAPTER: Four

**Question 6: We welcome your views on the proposed level of funding for the licensees' NIA, based on the quality and content of their innovation strategies.**

Overall Ofgem's proposals appear appropriate.

**Question 7: In relation to funding the Gas NIC for 2013/14, do you support either Option 1 (run the NIC and raise the required funds from the winning licensee's customers) or Option 2 (no Gas NIC, but roll-over funds to 2014/15). If NIC is delayed beyond 2014/15, what option would you support?**

Overall Ofgem's proposals appear appropriate.

## Questions in Cost assessment and uncertainty Supporting Document

### CHAPTER: Two

**Question 1: Do you agree with our assumptions for real price effects and ongoing efficiency?**

Overall Ofgem's proposals appear appropriate.

**Question 2: Do you agree with our proposed materiality thresholds of 1 per cent (subject to the efficiency incentive rate) for the majority of costs to be treated under the reopener mechanism?**

Overall this appears reasonable; however, we note that in the past there has been a tendency for re-openers only to cover increases in costs and not unexpected material decreases. As such we believe any re-opener should be symmetric covering increases and decreases.

**Question 3: Do you agree with our proposal to restrict the reopeners for the roll-out of innovation to the two standard reopener windows, i.e. 2015/16 and 2018/19?**

Overall Ofgem's proposals appear appropriate.

**Question 4: Do you have any other comments in relation to our approach to uncertainty mechanisms?**

Overall Ofgem's proposals appear appropriate.

## CHAPTER: Three

### **Question 5: Do you consider that our proposed funding baseline for NGET (TO) has been set at an appropriate level?**

Overall Ofgem's proposals appear appropriate. We note that GB's move towards a low carbon economy and its carbon targets will require a significant investment in its generation capacity as well as the transmission system required to support this.

As such it is imperative that the RIIO-T1 settlement supports these investments and does not create a barrier or delay generation investment decisions. It would therefore be beneficial for Ofgem to provide clarity as to how it will approach funding requests for SWW and what comfort they can provide to generators whose investment decision will be dependant on the delivery of this investment. Without this clarity and comfort there is a risk that generation investment decisions are delayed.

### **Question 6: Do you consider that our proposed uncertainty mechanisms for NGET (TO) are appropriate?**

Overall Ofgem's proposals appear appropriate.

**EDF Energy**  
**September 2012**