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Distribution Policy
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8 September 2005

Dear Mark

Regulation of Independent Electricity Distribution Network Operators

We are pleased to have this opportunity to comment on Ofgem's recent decision paper on the above topic. Our response is not confidential and can therefore be published on the Ofgem website.

We are largely supportive of Ofgem's proposals and view them as a key step in the establishment of a robust long-term regulatory framework for new IDNOs and ex-PES DNOs operating out of area. However, in determining the appropriate arrangements, we believe that the principal consideration should be broad equivalence of regulatory treatment - irrespective of whether the network is operated by an IDNO or the incumbent DNO. We would therefore encourage Ofgem to give consideration to the points raised below.

Price Control Arrangements

- Path Over Control

We are supportive of Ofgem's proposal to implement a relative price control framework (option 1) for IDNOs' long-term charging arrangements. However, it should be noted that the distribution price control for EDF Energy's SPN area increases at RPI + 2 per annum rather than RPI. Some consideration should be given to how this would affect the operation of the floor and ceiling for IDNOs who are active in EDF Energy's SPN distribution area.

- Nested Networks

This is a key area of interest for DNOs and we are surprised that it has not been more fully debated by respondents. We believe that it is inappropriate for an intermediate IDNO to bear costs it is unable to recover. EDF Energy would be pleased to work with the industry to develop a consistent approach to the associated issues.

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Commercial Arrangements

- Aligning Gas and Electricity Structures

We are pleased to note that Ofgem does not propose to align the existing electricity contractual arrangements with those pertinent to the gas sector.

- Boundary Metering

We are pleased that Ofgem acknowledges the importance of this issue and recognises its inherent complexities. EDF Energy would be pleased to work with the rest of the industry to develop an enduring technical solution, minded to its statutory obligations.

- IDNO Credit Cover Requirements

We are interested to note Ofgem's proposals in this regard, particularly the concept of a trust arrangement. While we would not wish to prejudge such a mechanism, we have a number of concerns about its application in practice. Clarification is sought on the following points.

The document does not explain the proposed structure of the trust, nor does it discuss the extent of any interactions with the various parties to use of system agreements (DNOs, IDNOs and suppliers), or how its performance would be monitored.

We are concerned that the proposed arrangements could set a precedent for payment terms, invalidating current industry practice and generating perceptions of discriminatory treatment on the part of suppliers. If IDNOs are allowed to delay payment of their upstream DUoS charges to DNOs, pending receipt of all monies due from suppliers, there is a risk that suppliers could argue for similar credit terms and defer payment of their DUoS charges until such time as they had received all relevant monies from their end user customers. It would be our preference to treat IDNOs on an equal footing with any other use of system customer and operate parallel arrangements.

We are keen to understand how the trust arrangements would be executed following the insolvency of a supplier or an IDNO. In the former case, we would expect to obtain full pass through of our DUoS charges, irrespective of whether or not the IDNO had demonstrated good industry practice in invoicing and debt recovery. In the latter case, it is not clear how any outstanding DUoS revenue held by the trust would be distributed to DNOs.

Other Licence Conditions – SLC 35 (Other Powers etc)

While we recognise the importance of establishing a level playing field for IDNOs, to enable them to compete on an equal footing for development projects with ex-PES DNOs, due consideration must be given to the inherent safety issues.

Generally, utilities and other parties who excavate in public highways will only expect to encounter LV and HV power cables owned by the host DNO. The widespread installation of cables by IDNOs introduces additional complexities: excavating parties will not immediately start to approach IDNOs for details of their plant and cables, and in the medium to long term, the acquisition of cable and plant records by excavators will

become more onerous, as they will potentially have to contact numerous IDNOs for details of their plant, or check a number of web-based sites.

Such an initiative would also give rise to issues in respect of network control, trouble calls, inspection, maintenance and fault repairs for IDNO cables and plant. It will be incumbent on the IDNO to ensure that proper arrangements are in place, since it is likely that the general public will not understand the new regime and will therefore seek assistance from the host DNO. DNOs would be severely disadvantaged if they were required to field preliminary enquiries and execute any follow-up visits: a suitable mechanism must be established to allow full recovery of any associated costs by DNOs, should an IDNO fail to provide these services.

I hope you find our comments helpful. If you would like to discuss any aspect of our response in further detail, please contact me on 020 7752 2199.

Yours sincerely

Roger Barnard

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