

Andy MacFaul
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Dear Andy

PROPOSED CORPORATE STRATEGY AND PLAN 2008–2013

This is EDF Energy's response, set out below, to Ofgem's open letter inviting views on the development of the Authority's strategy and priorities. We are pleased to have the opportunity to comment.

General: Ofgem is to be complimented on the general clarity and presentation of the corporate plan. We particularly welcome the new focus on the delivery of sustainable energy solutions as the core of Ofgem's work to protect consumers' interests both now and in the longer term. At the same time, it will remain important for Ofgem to continue to focus at all levels on maintaining a high quality and reasonable process of regulation, including in compliance and enforcement activity.

Creating and sustaining competition: Ofgem should aim for stability in regulating the wholesale and retail energy supply markets. This is essential in an environment where so much major new infrastructural investment and renewal is required to deliver secure low-carbon energy systems. Regulatory intervention increases the perceived risk of investing and, hence, the cost of capital for the industry, with obvious adverse consequences for consumers.

Regulating networks effectively: The plan places significant emphasis on the need to retain and develop an appropriate incentive framework for regulating the energy networks. This approach remains correct in principle and we support it, particularly in relation to the DPCR5 process. However, it is not clear from the plan that Ofgem is sufficiently alert to the need for price controls to be robust to the demands of asset replacement and workforce renewal, while continuing to enable network operators to finance their activities and maintain their investment grade status.

In detail, it seems inconsistent for Ofgem to ask each DNO to continue to develop charging models while Ofgem is at the same time considering whether to move to a common methodology. Ofgem needs to be clear about the option that it wants to head towards, and to arrange its process accordingly. There also needs to be more clarity about the role of the annual regulatory reporting arrangements in relation to DPCR5. These have succeeded in improving the quality of DNOs' cost reporting, but some companies have lagged behind. It is important that compliance with the clear requirements of the reporting arrangements should be enforced.

Helping to protect the security of energy supplies: We agree with Ofgem on the importance of a market approach towards ensuring the security of supply through timely investment in diverse energy sources. This depends not only on removal of barriers to investment, but on availability of good information. We therefore welcome Ofgem's work with BERR on the Energy Markets Outlook and the opportunities this provides for disseminating analysis and information on longer term security of supply issues.

A leading voice in Europe: Like Ofgem, we are keen to see the development of a single sustainable energy market in Europe, and to that end it is particularly important that Ofgem should continue to be heavily engaged in policy development work for CEER and ERGEG. We recognise, however, that in this process it may be found that the approach to market liberalisation that we have taken in Great Britain may not in every respect be the only way to achieve the same goal in Europe.

Helping to achieve sustainable development: This aspect of Ofgem's work is of such growing importance that some industry stakeholders argue that it should become the Authority's new statutory objective, with all other duties and considerations being relocated under it. The activities and commitments detailed in the corporate plan in relation to the sustainable development theme strengthen our own belief that such reformulation of the regulatory remit is not currently necessary. However, there is a strong case for the government's guidance to Ofgem on social and environmental matters to be replaced with more formal guidance on the Authority's fulfilment of its own statutory duty to contribute to sustainable development.

Helping to tackle fuel poverty: We agree with Ofgem that tackling fuel poverty is ultimately the responsibility of government, as it results from many factors, including low income, poor housing, and high household costs. But we also agree that energy suppliers can play a part in supporting government in this area. However, in order to target our voluntary initiatives to those most in need, it is important to better develop the working relationship with government departments, particularly DWP and HMRC, in order to access information on benefit recipients. We should like Ofgem to play a more active role in taking this work forward alongside BERR and Defra.

We are concerned to note that Ofgem mentions the prospect of revisiting the issue of suppliers' ability to block customer switching in cases of debt. We remain certain, as we were during the supply licence review and on all previous occasions when Ofgem has sought to review the issue, that removing this facility would disadvantage some of our most vulnerable customers. Without the facility, we would have to write off larger amounts of bad debt, while also paying debt recovery agencies to try to recover debt from former customers. These extra costs would be borne by all our customers, including those who are fuel poor.

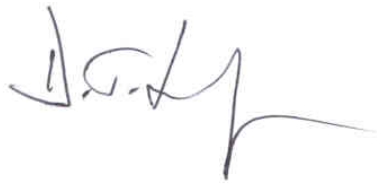
In addition, the higher risks involved would mean that we would also have to develop some type of credit vetting, with the inevitable consequence that financially unstable customers would become less attractive to all suppliers. None of these outcomes is desirable for either our general customer base or vulnerable customers.

Better regulation: We believe that Ofgem has a good record over the past five years in easing the burden of regulation on the industry while maintaining, and in some cases (such as the supply licence review) increasing, the quality and effectiveness of its regulatory process overall. But, as we have said before, it would be unfortunate if the self-imposed internal cost control of RPI-3 per cent had the effect of reducing the regulatory resources available to Ofgem to ensure a credible DPCR5.

Within the continuing commitment to better regulation principles, it will also be crucial to ensure appropriate allocation of staff and resources to the industry codes governance review. This will be an important and complex project, with potentially significant and interlocking consequences for the industry. So it will need to be strongly managed while remaining transparent, accessible, and inclusive for all industry players.

We hope that all of these comments will be helpful, and we look forward to seeing the corporate plan in its final form.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

Denis Linford
Director of Regulation