

Rachel Fletcher
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Dear Rachel

Delivering the electricity distribution structure of charges project

EDF Energy Networks welcomes the opportunity to respond to this consultation, and for taking time yesterday to discuss the issues raised by Ofgem's consultation.

This response is on behalf of EDF Energy's three licensed distribution companies: EDF Energy Networks (EPN) plc, EDF Energy Networks (LPN) plc and EDF Energy Networks (SPN) plc. I can confirm that this response can be published on Ofgem's website.

EDF Energy's three DNOs have participated in the structure of charges project since its inception in 2000. Since 2004, shortly after Ofgem's initial decisions were published, we have actively progressed our methodology development and implementation. This progress has included:

- Completing a full methodology review and the implementation of an approved common methodology across our three network areas;
- Standardising tariff formats across our three network areas;
- Participating in the implementation steering group (ISG) and joint DNO work group forums where many of the principles for enduring charging methodologies were established; and
- Developing and consulting on our long-term charging methodology, common across our three network areas, which is ready for implementation by SPN.

It is disappointing that Ofgem consider that DNOs have failed to deliver their revised methodologies, and it is unfair to put all of the blame on them. Whilst with hindsight I am sure we could have done more to expedite progress, we believe that Ofgem have also contributed to the current situation by:

- Not fully understanding the amount of work required to establish robust, forward-looking load flow models;
- Changing priorities over time with the result that the project has suffered a degree of 'scope creep'; and
- Introducing onerous levels of scrutiny which seem to seek perfection, rather than simply addressing the SLC4 test to only "better achieve the relevant objectives".

It would be helpful if Ofgem took a more balanced approach in any future publications on the subject.

Ofgem's current preferred position, to establish a common methodology, is an example of how the numerous objectives have changed and clashed over time. In Ofgem's consultation on the longer term framework (May 2005), Ofgem asked questions about the merits of a common methodology. The issue was also discussed at ISG meetings and at that time many DNOs were supportive of a common methodology. It is our belief that Ofgem steered away from commonality during 2005, partly because Ofgem sought innovation, but also to avoid having to prescribe the level of detail and guidance necessary to establish a common approach.

In deciding this latest change, Ofgem does not seem to have fully understood the underlying constraints and extended timescales which would be required to achieve implementation. In particular, we would face the difficulty of continuing to develop our load flow models at the same time as a debate occurred as to the best overall approach to take. Indeed, it may be difficult, in the context of Ofgem's proposed enforceable timescales, to resist the adoption of an inferior non load-flow based approach.

We do not wish to back away from some aspects of failing to meet deadlines; we have always striven for the earliest possible implementation date but have not wished to compromise the establishment of a robust and enduring methodology by delivering a solution of inferior quality in shorter timescales. We too have underestimated the timescales involved in this project, but the estimates we made were in good faith, covering new areas of development and at a time when we are facing competing priorities for its skilled resources (the delivery of charging methodologies, its vital capital expenditure programme and significant levels of new connections).

We fully support Ofgem's desire to deliver the structure of charges project before the 2010 price control. However, we could not achieve Ofgem's proposed deadlines in respect of EPN and LPN without compromising our performance in other areas. The additional work will also unnecessarily stretch those who are best left to work on implementation with a commitment to have methodologies in place by April 2010.

In addition, as Ofgem knows, the full benefits of any enduring methodology cannot be fully realised until the demand and generation price controls are aligned – until then it is not possible to send appropriate price signals to generators which value the contribution they can make to supporting the distribution network. Ofgem has made a commitment to achieve this as part of the next price review and, at this stage, it is sensible to align the full introduction of revised methodologies at the same time. Clearly, any prices introduced prior to this change will have to be significantly revised – something we regard as not at all helpful to prospective distributed generators.

To summarise:

- We have developed a revised methodology based on Ofgem's preferred load flow approach, and we have developed models and prices for our SPN area which we will submit for approval this summer.
- Our methodology is intended to be common across our three DNOs.
- We strongly oppose a move to a collective approach at this time in the project's development. Given Ofgem's timetable, we would be particularly concerned about being pressured to revert to an inferior non-load flow approach (an outcome we do not believe Ofgem wants to see either).
- The time frame which is required to develop, understand and validate load flow models for EPN and LPN is not consistent with Ofgem's proposed timescale, and we would be unable to accept licence modifications which reflected these proposals.

- Cost reflective charges are severely undermined by separate distribution and generation price controls – a problem which we expect Ofgem to address for 1 April 2010 under DPCR5.
- We are committed to introducing revised prices for all three of our DNOs on 1 April 2010, to align with the introduction of more joined-up price controls.

If you have any questions regarding this letter, please do not hesitate to contact me.

Yours sincerely

Paul Delamare
Programme Director, DPCR5