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Monday 16 June 2008

Dear Mark

### **EDF ENERGY'S RECENT APPLICATION FOR A DISTRIBUTION LICENCE**

I refer to the recent application by EDF Energy (IDNO) Ltd, made under section 6A of the Electricity Act 1989, for an electricity distribution licence to be granted to it by the Authority. In the light of the Authority's consultation letter dated 16 May 2008, I write now to confirm that we are able to consent to the amended standard conditions and amended special conditions that were fully set out in the notices given under sections 8A and 11 of the Act that accompanied the consultation letter.

As you will appreciate, our consent is without prejudice to our right to reconsider our position if the consultation (which ends in two days' time ) gives rise to any proposal by the Authority to materially alter the published licence modifications. Our consent is also subject to the following two understandings:

1. The first understanding is that the amended standard conditions to be incorporated into the licence will conform to the style and format (including numbering) used in the PDF file labelled idnolic1 that we are sending with this letter. That file brings the conditions into drafting consistency with the outcomes of Ofgem's recent distribution licence review. The Word file labelled idnolic2 contains some proposed changes to the modified special conditions. We would be grateful if Ofgem could acknowledge formally that the contents of these two files are acceptable to it.
2. The second understanding relates to our ability to include IDNO customers and units in the DNO revenue calculations for the current price control period in order to ensure a consistent approach to both the pre and post 2010 periods. For the post 2010 period onwards we understand that Ofgem will conduct normal price control reviews for each of the DNOs (SPN and LPN) that contain network assets owned by our affiliated IDNO to determine normal allowed revenue. We also understand that Ofgem will then use appropriate IDNO projections for customers and consumption in each of the two DNO areas together with any other capital costs as appropriate to determine a new allowed revenue for each of the DNO areas. This new figure will represent the revenue that

would have been allowed for those DNOs if they had been directly doing the work undertaken by the affiliated IDNO. IDNO revenue for each of the DNO areas will then be deducted from these new figures. Adjustments can be made for variations in combined customer numbers and consumption for the DNO and the IDNO throughout the price control period, as per normal practice.

For the pre 2010 period, i.e. from first connections (due later this year) up to 2010, our original understanding was that no adjustments would be made to the DNO revenues due to the relatively trivial level of the IDNO revenues. However, since Ofgem is now proposing a reduction in DNO revenue equal to the IDNO revenue for this period, we consider that, to ensure full consistency with the post 2010 principles, an adjustment should be made to the DNO revenues up to 2010 to reflect additional revenue that would have been allowed if the DNO had done the work. As the revenues set in 2005 for the price control period up to 2010 contained no allowance for the IDNO work, we suggest that the easiest way to deal with this point is to allow the end of year DNO revenue adjustments for customer numbers and consumption to include the figures for IDNO connections. An adjustment could also be made to cover any appropriate capital costs (if any) that the DNO might have incurred.

As with the first understanding, we would be grateful if Ofgem could acknowledge formally that this second understanding is acceptable to it.

Yours sincerely

**Roger Barnard**

Head of Regulatory Law

EDF Energy