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Dear Rachel

Next Steps in Delivering the Electricity Structure of Charges Project

Thank you for providing EDF Energy with the opportunity to respond to this consultation. As you know, we are one of the UK's largest energy companies, with activities throughout the energy chain. Our response therefore covers all our licensed businesses.

In principle, we support the proposal to refer the LRIC model at EHV to the Competition Commission (CC), owing to the benefits that a common model will bring to the supply sector of the industry. However, we have strong concerns over such a referral knocking off course the delivery of the HV/LV elements of the structure of charges project, because of resource conflicts. We see a possible solution for this in delaying referral to the CC until the first quarter of 2010, when the relevant resources will be less constrained. Further details on the above and answers to your specific questions can be found in the appendix to this letter.

If you have any queries on the above or the appendix, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'D. Linford'.

Denis Linford
Director of Regulation

Appendix

Chapter 2: Drivers for the structure of charges project

Question 1: In this chapter we highlight the key objectives for the structure of charges project and explain why these objectives are policy priorities for Ofgem. Do you consider that Ofgem is right to prioritise delivery of these objectives?

We agree with Ofgem's key objectives and that the delivery of these objectives through the structure of charges project is the correct approach.

Question 2: Given the potential benefits of delivering the project for electricity customers, generators, distributors and suppliers, do you agree that it would be appropriate for Ofgem to continue to pursue delivery of the project?

We believe that the delivery of the project is itself more important than full commonality across the voltages at this stage. Therefore, the benefits of delivering the project are strong enough reasons for pursuing its delivery.

Chapter 3: Next steps in delivering the structure of charges project

Question 1: Do you consider that it would be appropriate for the Authority to refer the package of measures consulted on in our October proposal for a ruling by the CC? On this question we invite generators, suppliers and customer groups to confirm which aspect of our October decision would deliver the greatest benefit to them, and where possible to quantify this benefit.

It appears that a CC ruling is necessary to achieving a common methodology for EHV. However, we would refer Ofgem to our answers to questions 2 and 3 in respect of the scope and timing of the referral.

With regard to the second part of your question, the greatest benefit from a supply perspective would be to have a common methodology across all DNOs. This would enable the suppliers to concentrate their efforts on understanding one methodology as opposed to a range.

Transparency and stability of costs are also beneficial to suppliers, enabling charges to be passed on to consumers that suitably reflect the changes in costs for future years. Volatility is the most difficult thing for a supplier to deal with and brings with it the most risk. Within a price control several factors may be visible, like RPI, but this can still mean that we see charges that are much higher than expected. For example, the indicative rates published for April 2009 show double digit increases for some areas against an approximate RPI increase of around 4%. As distribution costs generally account for approximately 20% of the costs of supplying a customer, a 10% increase in charges will mean a reduction of 2% in margin, and for some customers this could wipe out the supplier's entire expected margin.

Transparency and stability will help to avoid the need for high risk premiums due to the volatility of these charges. Publishing charging methodologies and a range of tariff charge scenarios for future years would at least enable the suppliers to assess their appetite for risk.

Question 2: Do you consider that it would be more appropriate for the Authority to modify the October proposal by excluding the requirement for a common charging methodology at EHV level, and opening a CLM statutory consultation on a modified proposal to deliver commonality at HV/LV level only?

We believe that taking the opportunity to ‘bank’ the benefits gained by the HV/LV model is a sensible approach for Ofgem to take. This is one area where all licensees have shown support and it would appear to be a gamble not to secure its implementation.

Question 3: If you agree that it would be appropriate to consult again on a modified CLM proposal at HV/LV level, do you consider that it would be appropriate for Ofgem to refer our October decision to implement a common LRIC methodology at EHV level for a ruling by the CC? If you do not agree that it would be appropriate to refer our LRIC decision to the CC, what option would you recommend to Ofgem to deliver revised charging methodologies at EHV level?

In principle, we support the proposal to refer the LRIC model at EHV to the Competition Commission (CC). However, we have strong concerns over such a referral knocking off course the delivery of the HV/LV elements of the structure of charges project. This is because we believe that the resources employed to deliver the project will be sucked into responding to requests for information and modelling from the CC, since this will no doubt need to be prioritised above delivery of the project. A possible solution is to delay referral to the CC until the first quarter of 2010, when the resources tasked with delivering the project will have a lower workload and will then be able to respond to requests for information and work from the CC.

Question 4: Are there options we have not considered for ensuring delivery of the structure of charges project, if so what are they?

Please see our answer to question 3.

EDF Energy
January 2009