

David Hunt
Ofgem (Transmission and Governance Team)
9 Millbank
London
SW1P 3GE

26 April 2010

Dear David

Transmission Price Control 4 – Scope of the Adapted Roll-over (2012-13)

EDF Energy welcomes the opportunity to respond to this consultation. The key points of our response are as follows:

- EDF Energy supports the principle of proportionate intervention in respect of this adapted roll-over.
- We agree with the Authority's objectives for the adapted roll-over.
- The general approach for the scope of this work represents a reasonable and balanced response to the relevant issues.
- Given the forecast of investment to be undertaken in this price control period it is imperative that this adapted roll-over supports the efficient and timely delivery of critical investment.

Objectives and approach

We consider Ofgem's approach to this one-year adapted roll-over is proportionate and consistent with the Authority's duties and the principle of better regulation. In general, the objectives of the adapted roll-over appear reasonable. Strategic network investment is imperative and therefore we urge Ofgem to avoid any delays to critical investment.

Scope of the adapted roll-over

Ofgem appears to have given a balanced consideration of each aspect of the scope of this work, and on the whole the options chosen are reasonable and appropriate. We believe that the detailed and in-depth analysis and assessment that would be required for a full transmission price control review is not warranted for this one-year roll-over. The additional resource burden could not be justified.

Whilst the more straightforward options presented could give rise to a risk of inefficient expenditure (and therefore costs to consumers), the short timescales of this roll-over should mean that any inefficiencies are swiftly corrected.

Other comments

The clarity Ofgem has provided regarding the Enhanced TO incentives for electricity investment is very welcome. As previously stated strategic investment in the network is imperative and the Enhanced TO incentives policy work represents a crucial step in ensuring timely network investment.

We welcome the intention to review revenue drivers and other parameters of the price control. For electricity it is important that consideration is given to the enduring Connect and Manage regime for Transmission Access. However, there is also an opportunity to consider the revenue drivers for National Grid Gas, for example in cases where it is unlikely that investment will be incurred.

The proposal to use average historical costs as the basis to set the one year control period for Opex and Capex is sensible. However, Real Price Effects (RPEs) should be treated separately. The effect of RPEs cumulatively grows over time, and so averaging these costs will tend to understate them. Ofgem should include a forecast of RPE for the period to ensure that the allowance is properly reflective of likely future costs. We note that Ofgem intends to apply a company specific efficiency factor, the derivation of which should be justified.

There has been volatility in the cost of capital recently due to the economic downturn and historically low UK interest rates. There is the potential for Ofgem's preferred option for reviewing WACC (to seek to review inputs to WACC only where there had been a material change) to result in a fundamental review. We question how this review would interact with the Bristol Water review into the cost of capital. It may be more appropriate to adjust the WACC set at DPCR5 to reflect the higher gearing of Transmission Companies.

Ofgem should also set out how the output of the RoRE analysis interacts with the decision on WACC. It is not appropriate for WACC to be set assuming a level of outperformance will be achieved, as this means an averagely efficient company may not achieve a return equal to the WACC.

It is not clear why Ofgem is benchmarking pension costs only amongst the three Transmission Companies. Benchmarking was a valuable exercise for DPCR5, where the number of companies was significantly greater, thereby providing a useful comparison. The provision of pensions is a common activity amongst all network owners and it would therefore appear that benchmarking should occur between all of them.

If you have any queries on this response or would like to arrange a meeting to discuss it, please do not hesitate to contact Rob Rome on 01452 653170, or myself.

Yours sincerely,

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

Denis Linford
Corporate Policy and Regulation Director