

David Hunt
Transmission and Governance Team
Ofgem
9 Millbank
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11 August 2010

Dear David

Transmission Price Control 4 – Rollover (2012/13) Scope Decision and Consultation

EDF Energy welcomes the opportunity to respond to this consultation. In general we support Ofgem's decision on the scope of the TPCR 4 rollover. The key points of our response are as follows:

- Given the forecast 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
- Any changes/amendments to the electricity revenue drivers should support the continued delivery of this investment
- We require further information on the costs and effectiveness of the Sulphur Hexafluoride (SF6) incentive in order to develop an informed view on this incentive for the rollover year
- We believe further work is required on NGG's capacity obligations to ensure that their revenue is aligned with their obligations and risks, including the delivery and availability of capacity

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 decisions are reasonable and appropriate. We agree with Ofgem that the detailed and in-depth analysis and assessment required for a full transmission price control review is not warranted for this one-year roll-over. The additional resource burden might not be justified.

Ofgem's approach to this price control strikes the right balance between the risk of inefficient expenditure (and therefore costs to consumers) and workload associated with a one year rollover. We note that 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, we believe that any reform to the electricity revenue drivers should ensure that the required investment is not detrimentally impacted.

We also believe that further work is required on NGG's capacity obligations to ensure that their revenue allowances are consistent with these obligations. In particular we note that NGG currently appears to be remunerated for obligations at Dynevor Arms which no longer exist and for delivery of additional capacity at Fleetwood (where no investment or obligations have materialised). We therefore believe that arrangements should be developed to ensure that revenue is aligned with these obligations and risks.

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

Yours sincerely

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

Denis Linford
Corporate Policy and Regulation Director

Appendix 1

Response to Ofgem Consultation Questions

CHAPTER: Two

Question 1: Do you think it is appropriate that the revenue drivers should be used in the rollover year to determine allowed capex for the electricity TOs?

EDF Energy recognises Ofgem's concern regarding the appropriateness of revenue drivers for a one year price control period as the uncertainty over investment is significant reduced compared to five year price control period. At the same time we would note that investment required on the electricity transmission system is significant and it is imperative that this is delivered in a timely and efficient manner. This will support the connection of new and existing generation plant, maintain security of supply and minimise constraint costs. All of which will provide benefit to consumers.

EDF Energy therefore believes that any review of the electricity revenue drivers should be swift, with clear amendments made (if required) early in the process. We believe that this is consistent with the objectives of a one year rollover, and will ensure that any uncertainties are removed, so facilitating the continued delivery of this investment.

Question 2: Do you believe the SF6 incentive scheme should continue into the rollover year and, if so, is the current structure appropriate or should it be modified?

EDF Energy would note that the SF6 incentive was developed and implemented at the start of the last price control, and so it is surprising that such a "young" incentive is already under the spotlight for review and reform. At this stage we require further information to identify whether the current SF6 incentive remains appropriate. In particular we believe that Ofgem should identify how much this incentive has paid out to the transmission companies in the last price control period, for each year and also the impact that this has had on SF6 emissions (both in terms of volume and equivalent carbon cost).

Question 3: NGG have incentives to deliver capacity in a timely manner and we hope to continue this type of incentive for the rollover year. How do you feel this can best be achieved during the rollover year?

EDF Energy recognises the importance of these incentives and welcomes Ofgem's review of these for this rollover period. We also recognise that the scope of this rollover is significantly reduced, compared to that of a full price control given the reduced impacts that this will have. At the same time we also recognise that incentives set for this single year will impact on NGG's revenues and capacity delivery for several years after this date due to the long lead times associated with these projects. It would therefore appear appropriate to ensure that these remain fit for purpose. Therefore, any reform of these

incentives should be focused on improving the existing incentives. In particular we believe that improvements could be made so that:

- In instances when a revenue driver is triggered, but no obligation or investment is incurred by NGG then the revenue driver should be scaled back by Ofgem. This will ensure that NGG's revenue is reflective of costs and risks incurred, whilst ensuring that they do not make an abnormal profit. For simplicity the trigger for this scale back could be at Ofgem's discretion along with the size of the scale back.
- A quick review of baseline obligations should be conducted to ensure that there are no clearly erroneous requirements. For clarity we do not believe that this requires a review of all baselines, or amendments to all baselines, but a quick review could ensure that NGG does not have baseline obligations that are clearly not required – for example at the Dynevor Arms storage connection point.
- Any review or reform of capacity incentives and reform should be clearly flagged to the industry at an early stage, along with potential outcomes to ensure that there are no unexpected outcomes.

Question 4: Do you believe that the current structure of the SO internal incentive scheme should roll over (accounting for updates to external SO incentive parameters as is currently the case)?

EDF Energy believes that a simple rollover of the Internal SO Incentive Scheme is appropriate for a one year rollover, in the recognition that a full and fundamental review will occur in the next year.

CHAPTER: Four

Question 1: We are in the process of finalising our approach to stakeholder engagement for the rollover period, do you agree with the proposed approach detailed in this section?

EDF Energy supports Ofgem's proposed approach for stakeholder engagement. However, we would note that this could be added to by the transmission owners providing transparency to their customers on the impact that this review will have. In particular we believe they should make the impact that this roll over will, and may have, on allowed revenue and so charges available to interested parties. We would note that the existing TCMFs may provide the appropriate fora for these updates.

**EDF Energy
August 2010**