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TPCR Rollover Initial Proposals

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. We generate 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the publication of the TPCR4 rollover initial proposals and is pleased to contribute to the consultation process. Please see our detailed response attached to this letter; the main points of our response are:

- We agree that a one year extension is appropriate, as this helps to maintain stability for agreed investments and creates the correct impact of RIIO-T1 when implemented.

- We agree that capital expenditure should be made only where a clear requirement has been identified and justified, but we do support the need for transmission companies to maintain and develop their supporting systems.

- We believe it is appropriate to continue to reduce leakage of SF6 and we support the application of the current rate of decrease to the targets.

We would welcome the opportunity to meet with you and discuss our response in more detail, and should you wish to meet with us or have any queries please contact my colleague Stefan Leedham on 0203 126 2312, or myself.

Yours sincerely

Rob Rome
Head of Transmission and Trading Arrangements
Corporate Policy and Regulation

Attachment

TPCR Rollover Initial Proposals

EDF Energy's response to your questions

Chapter Two

Question 1
We invite stakeholders to comment on our proposed operating cost allowances for the transmission companies

The proposed operating cost allowances for the transmission companies appear reasonable; we are however, reliant on the work and analysis undertaken by Ofgem and KEMA to inform this position.

We support Ofgem's position that no real pay increases for National Grid (NGET and NGG) should be allowed in the current economic environment, which would ultimately be borne by consumers.

Question 2
We invite stakeholders to comment on our proposed capital expenditure allowances for the transmission companies

It would appear that reductions proposed to transmission companies' revenues are appropriate, given the reasons provided by Ofgem and its consultants. We support the view that only capital expenditure which has been identified as required and feasible within this one year rollover should be allowed.

Question 3
We invite stakeholders to comment on our proposed operating cost allowances for the gas and electricity system operator

The proposed allowances appear appropriate for a one year extension. We are pleased to note that National Grid is able to continue to deliver efficiency savings, which will improve value for money for our customers.

Question 4
We invite stakeholders to comment on our proposed capital expenditure allowances for the gas and electricity system operator

We note Ofgem has proposed to reduce allowances relating to IT costs, until there is greater clarity on projects such as iGMS and data centres. We recognise the need for appropriate IT systems to support system operation, but agree that investment decisions need to be made in the context of greater clarity of EMR impact and with proof that the most appropriate option has been pursued.

Question 5
We invite stakeholders to comment on our proposal to disallow expenditure relating to network flexibility on the gas transmission network

We support this decision as it could be argued that the case has not been made at this stage. We consider that expenditure relating to network flexibility should be covered under the uncertainty mechanism under RIIO-T1.

Chapter three

Question 6
We invite stakeholders to comment on our initial proposals for the structure of the incentives and uncertainty mechanisms for the rollover year for the electricity and gas transmission licenses.

We support Ofgem's approach to the treatment of incentives and uncertainty mechanisms, which would appear appropriate for a one year rollover.

Question 7
We invite stakeholders to comment on our initial proposals for the structure of the incentives and uncertainty mechanisms for the rollover year applicable to National Grid's internal costs incurred in balancing the electricity and gas transmission systems.

We support Ofgem's approach to the treatment of incentives and uncertainty mechanisms relating to National Grid's internal costs, which would appear appropriate for a one year rollover.

Question 8
We invite stakeholders to comment on our proposed revised SF6 leakage targets for the rollover year.

Based on the information presented, it appears correct to continue with the current rate of decrease of SF6 targets in order to reduce leakage of this greenhouse gas.

Question 9
We invite stakeholders to comment on our proposal to apply the capex incentive adjustment over a number of years to protect users of the transmission system from fluctuating charges.

We believe this is an appropriate approach to the TPCR 4 rollover and await Ofgem's analysis after the RIIO-T1 review.

Question 10
We invite stakeholders to comment on our approach to apply the capex incentive revenue drivers for the electricity transmission licensees into the rollover year.

We believe this is an appropriate approach to the TPCR 4 rollover and await Ofgem's analysis after the RIIO-T1 review.

Question 11
We invite stakeholders to comment on our proposed timeline for the application of the rollover capex incentive and reconciliation of the provisional TCPR4 capex incentive.

This seems appropriate and for this to work effectively, TOs should be encouraged to provide a view to their customers of the impact that this might have on their charges. This information will facilitate accurate forecasting of any significant anticipated price changes.

Chapter Four

Question 12
Do you think that the proposed allowed return is appropriate to a one year rollover?

The financial markets have changed significantly since the TPCR4 was set in 2006 and it is appropriate that these changes are reflected in the rollover arrangements for 2012-13.

Question 13
Do you agree with the adoption of the new pensions methodology for the rollover?

The amounts proposed appear reasonable, but we note that NGG is the outlier on admin costs; (£1.6m compared to £0.9m for NGET) the reasons for which we would like to better understand.

EDF Energy
September 2011