

Philip Cooper
Ofgem
9 Millbank
London
SW1P 3GE

24 February 2012

Dear Philip,

Forward Work Programme 2012-13

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. 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 residential and business users.

EDF Energy agrees with the general approach and objectives that Ofgem has proposed. However, we believe an overarching theme for Ofgem's forward work programme should be a continuation of the consumer trust agenda. We share this common goal with Ofgem and together with health & safety, regaining the trust of consumers is a top priority for EDF Energy.

Against that backdrop, we offer the following comments in response to Ofgem's proposed program:

1. Regulatory Risk

During the development of the regulatory regime, there are commercial risks for contracting parties who want to, or are planning to, engage in the market. For example, participants may want to invest in new generating assets or develop new contractual structures that may be materially influenced by the new regulatory codes. We therefore expect the plan to provide us with enough information to inform our own forward strategy and planning, particularly as the industry is currently subject to a significant number of regulatory initiatives. These include Strategic Code Reviews for gas and electricity cash out, the Retail Market Review, network price reviews and the implementation of the Third Package.

2. Relative Resources placed on each of the Programs activities

It is not clear how the resource allocation for each project will be managed or what the relative importance of each individual project is. For example figure 1 (p11) we see that markets have a lower resource allocation (£15.8M) than governance and smarter grids (£18.4M) in 2011/2012 yet the bulk of the policy reviews are likely to fall within markets. This situation changes in subsequent years but only to the point where they are broadly equal in terms of expenditure at around £20 million each.

As a work program, we would have preferred more detail on the relative resources each work area defined by the program would require. This is because of the wide ranging nature of the programs. The work plan gives a list of priorities but we have not seen any

indication of the resources associated with them other than broad spending categories. This would have been useful to coordinate the industries efforts with Ofgem activity.

It would also have been useful to define clear project milestones so that the industry can judge the progress of each work area.

3. Engagement, Scheduling and Contingency Planning

Given the relative fixed budget and the extensive nature of the proposed projects we are concerned that it could potentially impact the quality of the final proposals if they are concentrated in a limited time frame for some components of the project. Industry needs the ability to correctly asses the impact of the proposals on the business as and when the detailed proposals are known.

Given the magnitude of the changes a more sophisticated industry engagement approach is required as it is ultimately the industry that will have to make the proposals work. For example, this could involve workshops where models are tested. While we expect Ofgem to develop a regulatory plan it must also consider that some reforms e.g. cash out, will require more practical detailed system design and testing together with potentially significant investment for individual players. For example, the transmission access review and zonal losses issue featured this dynamic where a great deal of modelling was required.

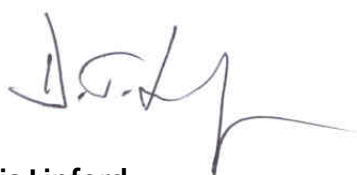
We note that slippages may occur due to project complexity that would need to be resolved or because new/unanticipated evidence comes to light during policy development. Therefore, there needs to be some element of contingency built into the program.

4. Conclusion

We notice that Ofgem has set a very ambitious set of projects for 2012-2013. The nature and number of these projects lead us to have concerns about the associated regulatory risk, the resources allocated to the individual project and the subsequent impact on the quality of proposals. We would have preferred a more focussed and prioritised work programme. Looking at the proposed plan, the cumulative package of work represents a significant set of changes in the industries' regulatory landscape.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Ravi Baga on 020 7752 2143, or myself.

Yours sincerely,

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

Denis Linford
Corporate Policy and Regulation Director