

Hannah Nixon
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Ofgem
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30 March 2012

Dear Hannah

RIIO-GD1: Decision on fast track process

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 both residential and business users.

We welcome the opportunity to respond to this consultation. The key points of our response are:

- The engagement by the Gas Distribution Networks (GDNs) when developing their business plans has been welcomed and represents a significant improvement over the traditional price control process.
- The GDNs have clearly spent significant effort and time engaging with stakeholders and developing detailed business plans which they have submitted to Ofgem.
- As this is the first time that the RIIO process has been followed it is a learning process for all parties, including GDNs and the regulator. It is therefore unsurprising that different business plans have different strengths and weaknesses.
- Ofgem is best placed to scrutinise and analyse the business plans that have been developed and identify which are suitable for fast tracking and which are not. We therefore support Ofgem's initial proposals to not fast track any of the business plans at this time.
- We are surprised at the high increase in revenues that Ofgem has highlighted for some of the GDNs from their business plans. Given the uncertainties around demand and whether this will remain constant or decline over the RIIO period we would have expected revenues to replicate this, rather than a forecasted increase.
- We defer to Ofgem's expertise as to which areas of the business plans require further development and have provided some high level comments in an appendix on the areas identified by Ofgem that require further development.

The new RIIO process has represented a significant improvement on the traditional approach to price controls as this has enabled the industry to feed into the development of the GDNs' business plans, and also has enabled the GDNs business plans to feed into the business plans of the industry. This supports a more co-ordinated approach to

planning and business developments and ensures that the GDNs are responding to the needs of their customers.

The GDNs have clearly spent significant effort and time engaging with stakeholders and developing their detailed business plans. The level of detail and transparency regarding these business plans has been welcomed with the GDNs appearing to have published their full business plans for review and appraisal by stakeholders. Where appropriate we have fed this information into our own business planning process. At the same time there is also recognition that as this is the first time that the RIIO process has been used there are improvements that can be made in the future to meet stakeholder requirements. In particular we note that there is recognition that the priorities for stakeholders and the GDNs may not always be aligned; and that there would be a value in co-ordinating RIIO work to support extended engagement.

Further as this is a learning process for the GDNs, regulators and stakeholders it is unsurprising that different business plans have different strengths and weaknesses that need to be addressed. Ofgem are probably best placed to assess these business plans and ascertain their completeness as they have previous experience of assessing GDNs' business plans. Ofgem's proposals to not keep any GDN in the fast track process therefore appear appropriate at this stage.

We are surprised at the level of revenue growth that Ofgem has forecast for some of the GDNs. As we have noted in previous responses and in comments to the GDNs the future path of demand on the GDNs is unknown at this time. With the move to a low carbon economy, energy efficiency incentives and the role out of distributed generation and renewable heat there is a view that demand will reduce on the GDN network over the RIIO-GD1 period. Although we recognise that there is also a view that demand will remain static over this period, we would have expected the business plans to reflect this with uncertainty mechanisms providing revenue reduction in the case demand on the GDN network reduced. We would welcome greater clarity from the GDNs as to what is driving this growth in costs and revenues to understand whether this is appropriate.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Stefan Leedham on 020 3126 2312, or myself.

I can confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

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

Denis Linford
Corporate Policy and Regulation Director

Attachment

RIIO-GD1: Decision on fast track process

EDF Energy comments on the areas identified by Ofgem for further development

Repex and approach to CBA

We welcome Ofgem's intention to review the data and methodologies submitted by the GDNs regarding their repex requirements and approach to Cost benefit Analysis (CBA). There would appear to be significant value in ensuring a common approach across the GDNs towards their repex work on Tier 2 thresholds and also with regards to the CBAs that they conduct to identify which repex to undertake. Ultimately this work is required for Health and Safety requirements and so it would appear reasonable to assume that a common approach to this work should help to ensure that the safety of customers is protected. At the same time we share Ofgem's concerns with the level and value of work that some of the GDNs are proposing under this methodology. We expected that the new arrangements implemented by the Health and Safety Executive would have provided a benefit to consumers through a less expensive repex regime and at the same time ensured that the safety of consumers is protected.

We therefore agree with Ofgem that this area of their business plans requires greater explanation and clarification from the GDNs, with the expectation that the new arrangements should reduce the costs to consumers, and not increase these costs as proposed by the GDNs.

Asset health, criticality and risk data

We further agree with Ofgem's proposed approach to the GDNs' methodologies for asset health, criticality and risk. As with the issue of repex the key issue will be to ensure that the GDNs are able to operate a safe and secure network at the lowest cost for consumers.

Smart metering and loss of metering

We are concerned with the range of costs and assumptions that the GDNs have submitted as a result of the roll out of smart meters. It is expected that the roll out of smart meters will provide significant opportunities and benefits for Shippers and customers through more accurate billing; however, it is not clear why the GDNs would expect any increase in costs as a result of the roll out of smart meters. Given the roll out and installation of smart meters will have to be conducted by suitably qualified personnel it is unclear why the GDNs are expecting an increase in the volume of public reported escapes (pres) and associated costs. As a baseline we would expect these costs to remain static, or potentially decrease if the installation of meters identified safety issues.

We would also appreciate further information on the assumptions used when developing the GDNs' costs for service alterations due to the installation of smart meters. In particular although we recognise that there may be some costs associated with the installation of smart meters as the existing service is inappropriate for these new meters, it would not appear appropriate to fund GDNs for costs incurred as the existing connection is not appropriate and is merely brought to light by the installation of a smart meter. Given the uncertainties in this area it would appear to be a candidate for an uncertainty mechanism with baseline revenue based on existing costs and requirements.

Street works

We note that the issue of street works and the costs faced by GDNs generate significant attention in certain areas, such as London, to ensure that work is conducted as quickly as possible and the disruption to customers and the general public is minimised. To support this objective we are aware that schemes have been put in place in some areas to encourage utility companies, including the GDNs to minimise their impact through street works, with the potential to introduce "time of digging" tariffs. We would appreciate further information from the GDNs as to how they are approaching these arrangements and the costs that they are proposing to pass through to ensure that the intent of these policies are maintained and to ensure that this does not become a stealth tax for consumers.

Low pressure gas holders

It is widely recognised that the low pressure gas holders that are currently operated by the GDNs are relatively inefficient compared to other options such as investment. We therefore support the GDNs' proposals to decommission these. At the same time we are also aware that the land that some of the gas holders sit on have significant commercial value, once remediated; for example the gas holders in Battersea, London which could represent a prime development opportunity. Given that customers are being requested to fund the decommissioning, replacement and remediation costs from these gas holders it appears reasonable that the proceeds from these sales are also returned to consumers. We have provided this view directly to the GDNs through stakeholder feedback. We would support further clarification in this area as to how revenues are treated to ensure that the costs consumers are being asked to cover are reasonable.

Comparative efficiency modelling

We welcome the work that Ofgem has carried out on the comparative efficiency modelling, and support the further work that they intend to do in this area. It is important to ensure that all the networks are subject to challenging, but realistic efficiency targets to ensure that costs to consumers are minimised. For those networks that are currently "less efficient" than their comparators it would appear reasonable that they face a more challenging efficiency target to ensure that costs to all consumers are minimised, and not just those who are connected to an efficient and well performing network.

Social outputs

We welcome the proposals put forward by the GDNs on their social output measures. However, we would welcome further clarity as to how the GDNs are approaching incentives to support fuel poor consumers. We continue to believe that when supporting fuel poor communities the GDNs should consider other alternatives to network extensions such as energy efficiency measures that could have the same effect in reducing fuel bills, but also provide a more cost effective solution limiting costs for consumers.

EDF Energy
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