

Stephen Perry
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

9 May 2012

Dear Stephen,

Consultation on conflicts in the Distribution Losses Incentive Mechanism and data to be used in calculating its components

EDF Energy is one of the UK's largest energy companies. We provide around 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 5 million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the opportunity to respond to this consultation. We are happy for this letter to be published on the Ofgem website. The key points of our response are:

- Whilst we understand that there is a conflict between two components of the mechanism and that it is important to preserve the policy intent of the DPCR5 price control settlement, changes to the current methodology could create a degree volatility in the allowed revenues recovered from customers in particular DNO areas. Recognising that this may be necessary, we hope lessons are learned from the need to change policy after the start of the current price control and that a similar situation will not arise under RIIO-ED1.
- For RIIO-ED1, we want to see a comprehensive review of how the DNOs are incentivised to reduce losses, both technical and non-technical. In particular, we believe that the use of settlements data (designed for short-term energy balancing) is an unsuitable basis for long-term loss reducing investments. Despite Ofgem's dislike of using input measures as the basis of an incentive, in this area we believe it is the most practicable option. We therefore favour an approach based on the actual delivery of loss reducing actions (such as investment, certain operational actions, and detection of theft).

I hope you find these comments useful, however if you wish to discuss this response further please contact either of my colleagues Simon Vicary (simon.vicary@edfenergy.com 0203 126 2168) or Julia Haughey (julia.haughey@edfenergy.com 0203 126 2167).

Yours sincerely,

A handwritten signature in blue ink, reading "Paul Delamare".

Paul Delamare
Head of Downstream Policy and Regulation

Attachment

Consultation on conflicts in the Distribution Losses Incentive Mechanism and data to be used in calculating its components

EDF Energy's response to your questions

CHAPTER 2

Question 1: Which of the strengths and weaknesses we have suggested are most important to you as we consider options to resolve the conflict?

The most important weakness is any change to the DNOs allowed revenue. During the period of the DPCR5 it has been unclear as to how much the DNOs allowed revenue will be impacted by the losses mechanism any change to resolve the conflict could result in additional volatility.

Question 2: Are there any strengths weaknesses we have missed?

We are not aware of any.

Question 3: What is your assessment of the options we have suggested? In providing your response, please consider the extent to which any option moves away from the original intention of the DPCR5 settlement?

Options 1 or 2 appear to be the closest in intent to DPCR5 proposals as they remove the conflict without increasing the impact to allowed revenues.

Question 4: Which is your preferred option for resolving the conflict and why?

Our preference is for either option 1 or 2 mainly due to their limited impact, although without seeing the detail of the impact by DNO it is hard to make a robust decision.

Question 5: Are there any other options we should consider?

We are not aware of any.

CHAPTER 3

Question 6: Do you think that nominal or RPI-indexed values for incentives over DPCR4 should be used in the LRRM calculation? And do you have any other views on the 5 times E component?

It would be consistent to use RPI-indexed values for incentives over DPCR4.

Question 7: What are your views on the reasons why losses positions might increase, remain at 2009-10 levels or reduce? What bearing should this have on the decision about whether DNOs should use a restated or un-restated ACL2

figure? Please provide evidence or analysis you consider necessary to support your position.

Throughout the workshops and meetings that have been held on the losses issue, it has been made clear that the losses positions are not driven by any action the DNOs have taken to reduce technical losses on the network. It is therefore impossible to predict what might happen to losses in the future.

Question 8: Do the options put forward for Chapter 2 have any bearing on question of whether to use a restated or un-restated ACL2?

As ACL2 is used in the calculations for some of the options in Chapter 2 a change in this number will change the impact of the options.

Question 9: Should we use a restated or un-restated ACL2 for calculating the DPCR4 LRRM Interaction Adjustment?

See answer to question 12, we are not in a position to comment.

Question 10: Do you think we should use restated or un-restated 2009-10 data for the purposes of calculating the DPCR5 target? Please consider your response to the previous question and to questions in Chapter 2 of this document in responding?

See answer to question 12, we are not in a position to comment.

Question 11: Do you think either of these two options may successfully be used to restate units distributed in 2009-10 under the DPCR5 methodology? Can you offer an alternative method? Which method should be used for restating UD2009-10?

See answer to question 12, we are not in a position to comment.

Question 12: Alongside your consideration of whether to use restated or un-restated 2009-10 data, we are seeking views on the degree of any departure from the DPCR5 settlement and any observations or concerns you may want to share with us.

Without knowing the impact of using a restated or un-restated ACL2 it is hard to determine the most appropriate number to use in the calculations.

**EDF Energy
May 2012**