

Hannah Nixon
Senior Partner Distribution
Ofgem
9 Millbank
London
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2nd April 2012

E-mail to: RIIO.ED1@ofgem.gov.uk

Dear Hannah,

Open letter consultation on the way forward for the next electricity distribution price control review – RIIO-ED1

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 welcomes the opportunity to respond to this open letter, the key points of our response cover:

- how we should structure the price control to deliver the timely and cost effective connection of low carbon technologies
- which DPCR5 outputs and incentives can be retained how we can improve the cost assessment for RIIO-ED1 expenditures
- whether the ED1 price control period should last eight or nine years
- stakeholder engagement mechanisms used by the companies and by Ofgem, noting that there are currently no plans for a Supplier working group which we consider a necessity as Suppliers are one of the main DNO stakeholders

EDF Energy also welcomes the publication of the primary output categories and key milestones from Ofgem. We would like the DNOs to provide information to help Supplier and Customers understand the impact of their proposed business plans on DUoS charges, recognising that those fast tracked may be able to provide information earlier than the rest.



Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Stefan Leedham on 0203 126 2312, or myself.

I 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

Open letter consultation on the way forward for the next electricity distribution price control review – RIIO-ED1

EDF Energy's response to your questions

Question 1: Do you agree that ensuring that DNOs accommodate low carbon technologies in a timely and cost effective way should be a key objective of RIIO-ED1? Do you have any thoughts on how we could address this?

The connection of low carbon technologies is important and the DNOs should deliver the necessary network capacity. However, this must be balanced with the need to ensure that customers do not have to pay for redundant assets.

This could be achieved through appropriate incentive mechanisms for DNOs while maintaining the ability of the price control to adapt to low carbon technology uptake.

Question 2: Which of the DPCR5 outputs and incentives do you consider to be fit for purpose, or require minimal amendment, for RIIO-ED1?

We agree that some of the outputs and incentives work well under DPCR5 but others do not. Those relating to the carbon footprint, under grounding in areas of natural beauty and the interruption incentive scheme may only need limited change. Others, such as the losses incentive, should undergo a much larger overhaul.

Question 3: We welcome respondents' views on how we can improve the cost assessment, particularly with respect to the expenditures that will be proposed in RIIO-ED1.

From experience of the RIIO-T1 and RIIO-GD1 process Ofgem is best placed to undertake the detailed cost assessment and expenditures submitted as part of RIIO-ED1. However, from our perspective it would be useful if the DNOs were to provide clear and transparent updates on what the main drivers of their expenditure are, what impact this will have on allowed revenue and what the impacts of the uncertainty mechanisms will have on allowed revenue. This will enable Suppliers and embedded generators to build these views into their business plans and at the same time recognise the risks associated with these views.

Question 4: We would be interested to hear stakeholders' views on potential outputs, for example what might be included in the social obligation category, and whether it would be useful to set outputs related, for example, to the role DNOs might play in Local Authorities' integrated energy schemes.

Given the impacts identified on the roll out of smart metering and the long term move to decarbonise domestic heating to meet the UK's carbon targets, it would appear appropriate that an output is developed to encourage and incentivise the DNOs to facilitate this move at the lowest cost to consumers. This should consider issues such as strategic investments to facilitate this move.

Question 5: Do you think the ED1 price control period should last for eight or nine years?

Eight years is our preference for the duration of RIIO-ED1. As this is a new price control framework there are large uncertainties for DNOs, Supplier and customers. We will have to contend with a cliff edge at the end of the price control period which could represent a significant risk of a step change in distribution costs. An additional year will probably make this a larger change.

Question 6: We welcome feedback on the business plans and proportionate treatment process for RIIO-T1 and GD1 and any improvements we can make for RIIO-ED1.

Overall the RIIO-T1 and RIIO-GD1 processes have worked well, especially when these were the first time that the industry had followed this process. From our perspective one of the key issues will be to provide summaries of the business plans that contain sufficient detail to inform stakeholders. We note that all of the TO's have improved on the original business plans that were submitted that contained too much detail which made interpretation difficult and limited their usefulness.

Question 7: We welcome feedback on the company stakeholder engagement processes used in RIIO-T1 and GD1, and also welcome any feedback on the consultations being initiated by the DNOs.

One of the key issues that has transpired from the RIIO-T1 and RIIO-GD1 process is the need to coordinate stakeholder engagement appropriately. This should particularly be the case for the RIIO-ED1 process to ensure that industry time is used efficiently and appropriately. The key areas that we believe can be improved upon are to provide a clear timetable of meetings and consultations to enable Suppliers to resource these and to organise coordinated events amongst the DNOs. In particular we note that the message from Suppliers are likely to be similar for each DNO and so it would not represent the best use of resources to have to make the same point on separate occasions.

Questions 8: Have these stakeholder engagement groups been useful in RIIO-T1 and GD1? Are there any improvements that we could make for RIIO-ED1?

The stakeholder engagement groups have been very useful and we would like to see the best practice from these, and DNO events, utilised for RIIO-ED1. We note that there are currently no plans for a Supplier working group which we consider a necessity as Suppliers are one of the main DNO stakeholders.

EDF Energy
March 2012