

Ian Marlee
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Ofgem
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20 June 2012

Dear Ian

Consultation on proposed funding arrangements for the Western High Voltage Direct Current (HVDC) link (“Western Bootstrap”)

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, our key points are:

- The total funding allowance for the Western HVDC Bootstrap appears reasonable, although we note that Ofgem and Poyry are best placed to take an informed decision on this.
- It is not clear from the consultation when the post expenditure review will occur, and whether there will be a separate review for the TII period compared to the RIIO period.
- It would be useful if NGET could provide an overview of how this funding and investment will translate into total allowed revenue for the two TOs for both the TII and RIIO-T1 periods.
- There is a benefit in NGET identifying as early as possible the impact that this funding allowance would have on tariffs. This will enable generators and suppliers to build the impact of this into their business plans.

The funding and subsequent connection of the Western HVDC Bootstrap will go a significant way to relieving the constraints that currently exist on the B6 Boundary. Although a substantial investment that will have to be funded over a forty year period this project will result in a larger reduction in constraint costs and so reduce overall costs to consumers. Overall the proposed total funding allowance for the Western HVDC Bootstrap appears reasonable; however, we believe that Ofgem and the appointed consultants, Poyry, are best placed to take an informed decision on the appropriateness of the proposed funding. In particular we note that Ofgem and Poyry have access to commercially confidential information which is not publicly available. We would therefore defer to Ofgem’s judgement on what the appropriate funding levels should be.

We note that it is not clear from the consultation when the post expenditure review of the will take place. In particular it would be useful to understand if a single review of the capex will occur or there will be a separate review under the TII and RIIO-T1 arrangements. We believe that this information will be beneficial to provide transparency to the industry as to when this review and the potential re-adjustment of revenues will occur.

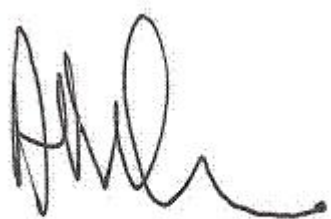
It would also be beneficial if NGET, or Ofgem, were to identify the impact that this funding will have on the TOs' allowed revenue. We note that the funding arrangements under RIIO-T1 differ to the traditional TPCR and TII arrangements, as a result of the introduction of investments being part funded from revenues in the year that the investment occurs. Therefore the funding of this investment could result in an increase in the region of £100m per annum once completed. Identification and clarification of this impact will enable the industry to model this and so build this into their long term business plans.

Finally we also note that as identified in our response to Ofgem's consultation on network charging volatility one of the key issues for generators and suppliers is the ability to predict tariffs so that they can incorporate these into their business plans. We therefore believe that it would be beneficial if NGET were to identify the impact that this project and proposed funding arrangements would have on tariffs as soon as possible. This will help to provide transparency to the industry and so avoid any unexpected increases in tariffs as a result of these funding arrangements.

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 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 "Mark Cox".

Mark Cox
Head of Transmission and Trading Arrangements