

Andy Cormie
Distribution Policy
Ofgem
9 Millbank
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SW1P 3GE

17 August 2012

Dear Andy

Whether to activate the Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control – Qs 1-8 and 10-11

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, 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.

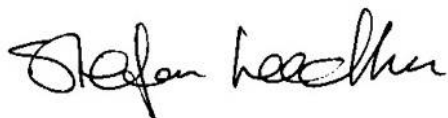
With regards to questions 1-8, 10 and 11 of the consultation, it is our preference that a decision is made as soon as practicable. Any delay in providing a direction for the DPCR4 and DPCR5 losses mechanism decisions, creates more volatility for both customers and suppliers, which is not something we would wish to promote.

We do not believe that the DPCR5 incentive mechanism should be activated. This is due to the inability to determine whether or not the mechanism has been successful at reducing losses on the network.

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 Julia Haughey on 0203 126 2167, or myself.

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

Yours sincerely,



Stefan Leedham
Senior Transmission & Trading Advisor

Attachment

Whether to activate the Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control – Qs 1-8

EDF Energy's response to your questions

Questions 1: Do you have views on whether the existing losses mechanism is effectively incentivising DNOs to reduce losses? Please explain your answer.

It is our opinion that the losses mechanism, as it currently stands, does not and cannot measure technical losses on the network with any degree of accuracy. If the mechanism is not working correctly it will not incentivise DNOs.

Question 2: Do you have views on whether or not the DPCR5 losses mechanism should be activated? Please explain your answer.

If the losses mechanism is not fit for purpose then it should not be activated. It is unfair to ask suppliers and customers to pay for a mechanism that is ineffective.

Question 3: Do you agree with our position that we should not allow retrospective changes to be made to the DPCR4 mechanism? Please explain your answer.

The mechanism was put in place after lengthy discussions prior to the implementation of DPCR4. Given this level of development it is not appropriate to make retrospective changes to the mechanism now as the results are not as attractive as expected. The DPCR4 losses incentive should now be closed off.

Question 4: Are there other options we should have considered?

Not that we are aware of.

Question 5: Do you agree with Ofgem's preference for Option 3? Please explain your answer.

Numerous industry discussions have taken place over the last year. It is obvious from these discussions that the incentive mechanism is not structured in such a way that the industry can identify the losses that are reduced due to the mechanism. We therefore agree with option 3 that the mechanism for DPCR5 should not be activated.

Question 6: Do you have views on our proposal to introduce a reporting requirement for DNOs to inform us of actual measures they are taking to reduce losses? Please explain your answer.

The suggested reporting requirements for DNOs would help in developing a greater understanding of their activities towards reducing losses as normal business. The information provided could then feed into a robust mechanism for RIIO-ED1.

Question 7: Do you have views on the detail of what DNOs would be required to report and the approach to publishing details? Please explain your answer.

The information suggested appears reasonable but it is fairly theoretical. As part of the reporting requirements it would be helpful if an additional clause could be added to record on past activity, showing the reduction in losses seen rather than just expected losses.

Question 8: Do you have views on our proposal to move the date by which a direction is required on the value of PPL from 30 November 2012 to 1 April 2013? Please explain your answer.

Delaying the date of the direction provides more uncertainty for customers and suppliers. If the date is delayed we would expect at least 15 months notice of any additional amounts of monies that need to be recovered through Distribution charges that are not currently in the DNOs forecasts. This will allow Suppliers and Customers to factor these changes into their business plans.

Question 10: Do you have views about whether the PPL term, when set, should be recovered over the single remaining year of DPCR5, over two years running into RIIO-ED1 or in the first two years of RIIO-ED1? Please explain your answer.

If the date of the direction is delayed to 1st April 2013 then customers who are contracted in the April 2013 round i.e. signed up before the direction is announced run the risk of having higher risk premiums in their contracts due to the uncertainty of the charges. In order to mitigate this it would seem sensible to recover the additional monies from the first two years of RIIO-ED1.

Question 11: Do you have views on whether we should move the date by which a direction is required on the DPCR5 targets from 30 November 2012 to 1 April 2013? Please explain your answer.

As already stated we would prefer a decision on the direction to be made as soon as practicable. Currently the DNOs have been left to decide for themselves what they add

into the forecasts for the DPCR5 incentive. From a customer and supplier perspective this leads to more uncertainty.

We would like Ofgem to direct the DNOs to either leave the current forecasts in place, with any under/over recovery to be moved to future years, or to remove all assumptions regarding the DPCR5 incentive from future forecasts. Once the direction has been made the DNOs can then introduce the incentive into the charges in a transparent and timely manner.

EDF Energy
August 2012