E.ON Energy Solutions Limited
Newstead Court
Little Oak Drive
Sherwood Park
Annesley
Nottinghamshire
NG15 0DR
www.eonenergy.com

Colette Baldwin
T 02476 181382

colette.baldwin@eonenergy.com

Mr James Grayburn
Ofgem
9 Millbank
London
SW1P 3GE

Tuesday 18 September 2012

Dear James

RIIO-GD1: Initial Proposals – Overview

Thank you for the opportunity to comment on the RIIO GD1 initial proposals.

Timeline

Your intention to publish the final proposals in December 2012 leaves us with some concerns around the application of these new proposals from 1st April 2013 and whether there will be sufficient notice of any changes. Our planning cycle and contract round starts within the gas business in October each year when most of the contracts are signed for a duration of more than 12 months. The timing of making information available is important to us in providing indicative charges to actual charges or one-off impacts such as IFRS in 2015. Volatility here will bring uncertainty when setting future tariffs and will place a greater reliance on risk premium when setting future tariffs.

We think the best way to approach these is within Ofgem's Charging Volatility Consultation Option 1 as it would be beneficial for implementation to this regard. It reduces risk to suppliers but would not add additional cash-flow risk on Network Operators.

Transparency

We would encourage greater transparency in the level of information behind certain events given to suppliers. Information is crucial in order to understand the drivers and logic behind a movement and its associated risks which could potentially lead to a re-forecast and lower risk premium for customer contracts depending on the impact of such a change - for example, the two different revenue figures for the indicative charges and then the final charges this year for the start of RIIO. This aspect would as well be in line with Ofgem's Charging Volatility Consultation Option 1 and we therefore would welcome an adoption of the above concerns for the implementation of RIIO in 2013.

Sustainable Mitigation

Mitigation of additional revenue costs is a concern to suppliers. The implementation of a threshold (cap and collar scenario) of potential changes in revenues within a pre-defined range would be beneficial. If an impact is higher or lower than this, any additional financial impact should be smeared over a 3 year period in order to avoid further volatility that could arise in future years. Option 5 of Ofgem's Charging Volatility Consultation would be a preferred instrument to use in this regard as it introduces greater stability not only for the year of the event itself but also the coming years. The assumed pre-defined range would work as a risk sharing approach between suppliers and Network Operators.

Possible events could be the impact of IFRS in 2015 or any issue resulting from the re-opener/mid-review window(s) around 2016.

Outputs and Associated Incentives

In respect of the Iron Mains Replacement programme, we are pleased to see the review of non-mandatory tier 2 and tier 3 proposals having to satisfy a cost benefit analysis and only being undertaken where the customer benefit outweighs the replacement cost. This however seems to be at odds with the proposed uncertainty mechanisms where a volume driver in relation to Tier 2 mains replacement is to be considered. Furthermore we welcome the losses reduction and greenhouse gas emissions reduction targets resulting from Tier 1 main replacement targets.

In terms of Environmental outputs it is reassuring to see the requirement on GDNs to further reduce their own business carbon footprint and to reduce other non-carbon emissions from their activities which we expect to see reflected in losses reduction and improvements in shrinkage.

Uncertainty Mechanisms

Proposed "Pass Through" mechanisms for third party network damage and water ingress do not place the right incentives on GDNs to take action to recover their costs when their networks are damaged. We would expect GDNs to take all reasonable steps to recover those costs from the relevant party before seeking to pass them through to the end consumer via price control.

GDNs and iGTs

Given the maturing of the iGT market and the scale of new gas connections coming via independent gas transporter networks now reaching 1.4 million sites, we would ask Ofgem to consider whether there should be some new alignment between the proposed new price control mechanisms for GDNs and iGTs. RPC was introduced almost 10 years ago and was aligned to the GDPC five year periods. The financial decisions now being proposed under RIIO are in a landscape that has investment decisions being structured over a period of 8 years, yet it's unclear that the basis of charging for iGTs should be in the future.

Yours sincerely

Colette Baldwin
Regulation & Policy Executive