

James Grayburn  
RIIO-GD1  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Send to: [RIIO.GD1@ofgem.gov.uk](mailto:RIIO.GD1@ofgem.gov.uk)

21 September 2012

Dear James

### RIIO-GD1: Initial Proposals

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 residential and business users.

We welcome the opportunity to respond to this consultation. The key points of our response are:

- As recognised in Ofgem's consultation the issue of charging volatility is material to the industry and we welcome Ofgem's continuing work in this area.
- Going forward the outcome of the RIIO-GD1 settlement will have a significant impact on the charges faced by consumers. It is therefore important that the GDNs provide forecasts and scenarios for the impact that these settlements will have on the charges that they levy, as a direction of travel is not sufficient.
- We agree with Ofgem that there is uncertainty in relation to the role that gas has in providing heat as GB moves to a low carbon economy, and so support Ofgem's proposals to only allow investment that has a relatively short pay back period provided that this does not have a detrimental impact on the safe operation of the system.
- Overall Ofgem's proposed cost allowances and efficiencies appear reasonable and sufficient to ensure that the GDNs can deliver the required outputs over the RIIO period. However, we note that Ofgem and their consultants are best placed to make this judgement given their access to confidential information and expertise in this area.
- We support the introduction of a customer satisfaction survey, but note that Shippers are also customers of the GDNs. As such therefore it is disappointing that the proposed customer satisfaction survey only focuses on one class of customer.
- We continue to support the introduction of an incentive mechanism on GDNs to minimise the number and size of offtake meter errors. We therefore welcome Ofgem's proposed incentive, but believe that Ofgem and the GDNs need to work with the industry to develop reporting arrangements to ensure that this reputational incentive is effective.
- We would welcome greater clarity on the timelines and processes involved in reviewing and amending Xoserve's funding and governance structure. This will help

to inform our business plans and enable effective engagement in this key piece of work.

As recognised in Ofgem's consultation the issue of charging volatility is key to the industry. From our perspective this is a material issue that needs to be resolved and so we welcome Ofgem's continued focus on this important area. We note that part of the volatility from a GDN perspective has been caused by the regular mid-year resetting of gas distribution charges, which has been hard for Shippers to forecast and so build into their business plans. We are aware that the use of this mechanism has been driven by the licence requirements on the GDNs not to over or under recover revenue and the associated incentive mechanism. We therefore welcome Ofgem's continuing work in the area of charging volatility, but believe that consideration should be given as to how different incentive mechanisms interact and the consequences of this when setting the RIIO-GD1 allowances and associated licence conditions.

Going forward the outcome of the RIIO-GD1 settlement will have a significant impact on the charges faced by consumers. It is therefore important that the GDNs provide forecasts and scenarios for the impact that these settlements will have on the charges that they levy. This will enable suppliers to build these forecasts into their business plans, which they are not able to do if only a direction of travel is provided. We recognise the work that the GDNs undertake in their mod 186 report, but believe that this could be enhanced further if this information was updated in a timely manner following any developments – such as Ofgem's initial decisions – along with scenarios to provide a high and low case outlook.

We note that there energy markets are undergoing a period of significant reform as the GB moves to a low carbon economy and Electricity Market Reform (EMR) is developed and then implemented to support this in the near term. In the longer term there is still uncertainty on the role that gas will play in providing heating load in GB in a low carbon economy. Given this uncertainty Ofgem's proposals to only allow investment that has a relatively short pay back period appear prudent and will help to ensure that customers are not paying for stranded investments.

Given the level of uncertainty in the long term, Ofgem's proposed cost allowances and efficiencies appear reasonable and sufficient to ensure that the GDNs can deliver the required outputs over the RIIO period whilst protecting the interests of consumers. However, we note that Ofgem and their consultants have access to a wide range of information and material that is not publicly available upon which they can base their decision. In addition Ofgem has significant expertise and experience in this. We therefore believe that Ofgem are best placed to make these judgements compared to other industry participants.

We support the introduction of a customer satisfaction survey, but believe further classification is required around the classes of customers that are questioned. In particular it would be useful to understand if an interruption to a customers' premise that is planned by the GDN but not notified to the customer in sufficient time would count as a planned or unplanned outage. We also believe that there would be a benefit in identifying the number of questionnaires completed and returned so that best practices can be shared to

ensure a representative satisfaction survey is being conducted. Finally we would also note that there are numerous customers of GDNs including domestic customers, developers, business premises and generators. In addition Shippers are also customers of the GDNs with more regular and frequent interaction with them than the majority of customers. As such it is disappointing that the proposed customer satisfaction survey only focuses on one class of customer, and not on the wider range of customers who interact with the GDNs. This could run the risk that GDNs focus on only one class of customer and not the interactions and services that they provide to other customers.

We continue to support the introduction of an incentive mechanism on GDNs to minimise the number and size of offtake meter errors. We are aware from the Gas SO Incentives consultation that the volume of NTS unaccounted for gas has increased exponentially in recent years. Although the exact cause of this is unknown it is believed that this is being caused by metering errors – either at entry or offtake. For Shippers and Suppliers the issue of offtake (NTS to GDN) metering errors, combined with the current Reconciliation by Difference (RbD) arrangements are very hard to manage as the energy customers are billed for does not match the energy that Shippers are billed for. The tendency for offtake meter errors to under record energy and so large meter errors can therefore have a significant and unexpected impact on a Shippers costs depending on the geographic location where they occur. We therefore welcome Ofgem's proposed output in this area, but note that meeting this output would actually only require an improvement in performance from Scotia's gas networks. We also welcome the adoption of a single industry output measure for all networks. We therefore believe that Northern Gas Networks' (NGN's) proposed output measure is more appropriate as it will encourage improvement from all the GDNs and reduce the impact of meter errors for Shippers and consumers. Going forward we would encourage Ofgem and the GDNs to work with the industry to develop reporting arrangements to ensure that this reputational incentive is effective. This will help to identify improvements in performance and also ensure that this output measure has a positive impact on good performers whilst ensuring that poor performers are focused upon by the industry and Ofgem.

Finally we would welcome greater clarity on the timelines and processes involved in reviewing and amending Xoserve's funding and governance structure. We are aware that the review and funding of Xoserve was started as part of the RIIO process to ensure that the appropriate arrangements were in place to support the delivery of future services required by Shippers and customers going forward in light of smart metering roll out. We have welcomed Ofgem's decision to create separate funding and governance arrangements for Xoserve, but it is not clear where in the process this work is at the moment. We continue to believe that the reform of Xoserve is imperative to delivering improved and targeted services for Shippers and customers going forward, and so the quicker this is resolved the sooner these benefits will flow through. Clarity on the process and timelines will also help to inform our business plans and enable effective engagement in this key piece of work.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 07875 115499, 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**