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Forward Work Programme FY2013-14

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.

EDF Energy agrees with the general approach and objectives that Ofgem has set out in its proposed work programme, which highlights the variety of challenges faced by the industry. Given the heavy workload, we recognise the importance of Ofgem having sufficient resources to tackle projects, but this must be done in a cost efficient way, making savings commensurate with broader efforts to reduce costs. We also look for further support from Ofgem in continuing to rebuild consumer trust in the industry and the development of a clear and consistent narrative on the cost drivers on energy prices.

Below we set out some comments on Ofgem's proposed work programme for 2013/14.

Promoting value for money

EDF Energy believes that consumers are best protected by a competitive market and that Ofgem is right to focus on how to improve consumer engagement through its Retail Market Review (RMR). In particular, we believe it is important that Ofgem works with suppliers to ensure that customers can easily access the information they need to engage. We believe that better tariff comparability will increase transparency, consumer confidence and engagement in the market.

Alongside this, there is a need for a more balanced debate on the drivers of costs. Currently, many consumers mistakenly believe that increased energy prices are evidence of profiteering, despite energy company explanations that the changes are driven by factors outside of their control, such as increases in the charges incurred for the network, the cost of delivering Government's social and environmental policies, and the dynamics of wholesale energy markets.

EDF Energy is committed to improving and maintaining consumer trust in our industry. We believe that it is critical that both the industry and the regulator work together constructively to achieve this aim. With this in mind, we have concerns with the accuracy

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of Ofgem's published supply market indicators report and the need to avoid potentially misleading and unhelpful reporting of supplier margins. In the context of rebuilding trust, such reporting would be most unhelpful and would not, in our view, provide the best backdrop for Ofgem and suppliers to develop and implement appropriate RMR proposals.

We continue to believe that the segmental accounts produced under Standard Licence Condition 19A should be the primary method by which Ofgem and other stakeholders understand the profitability of energy supply companies. We recognise that it is important that stakeholders have confidence in these statements and we will continue to work with Ofgem to increase the comparability and transparency of them.

It is important that consumers understand cost drivers so that they can engage effectively in realising the benefits of policies such as Green Deal/ECO and smart metering. Actively engaged consumers are vital for the success of these programmes and for reducing the overall delivery costs.

We have also raised issues with colleagues in networks and retail markets about ensuring value for money in the RIIO ED1 process, by proposing solutions to improve the predictability of networks charges to ensure efficient outcomes for retail pricing and energy bills. We believe this should be an explicit priority in Ofgem's forthcoming strategy paper, and we also expect DNOs to make proposals as part of their regulatory business plans.

We acknowledge that following the introduction of new standard licence conditions in relation to the roll-out of smart metering Ofgem will be taking on new regulatory functions during 2013/14. We would welcome further information from Ofgem on what work it will carry out in developing appropriate guidance on key compliance concepts, such as "all reasonable steps", in the context of licence conditions to roll-out smart metering to all domestic and designated premises.

EDF Energy notes Ofgem's enforcement review and that this is due to conclude in early 2014, after the implementation of its bespoke enforcement approach for the principles based Standards of Conduct (SOC). We require clarity on the timescales of the enforcement review, and on how this will interact with the development of SOC enforcement. The general nature of the standards means that we need to understand how the regulatory risks of implementing the SOC can be reduced, such as through commitment to dialogue and a two stage process to enforcement.

Relative resources for programme activities

We note the number and scale of important industry projects reflected in the work programme. It would be useful to have more detail behind the high level figures published in this document. This is because our key concern is that resources should be efficiently targeted and prioritised to projects to keep delivery to time. Any changes from the timing, or failures on delivery, will result in uncertainty for the industry and for the investment climate.

Finally, we note that while there are contingent reserves for RMR and DECC projects, which appear to be sensible, there do not seem to be any contingency provisions for regulatory appeals, or indeed for other unexpected resource requirements. For example, scenarios resulting from the upcoming referendum on Scottish Independence.

Work programme coordination and measurement

EDF Energy welcomes that EU regulatory issues receive a broad coverage in the document. However, we believe major reviews have been premature, as there are a number of key decisions in these areas yet to be made. The treatment of these would benefit from a closer coordination with UK projects already under development. For example:

- RMR liquidity proposals are linked to the final text of MIFID II, which is outside of Ofgem's direct control.
- Similarly, EMR legislation has yet to be passed, which has implications for liquidity proposals and other market programmes.
- The timing and scope of the electricity Significant Code Review needs to be carefully aligned with the European electricity balancing code.

Closer linking of cross sectoral EU/UK objectives would enable better resource allocation.

In general, we believe the KPIs and measurement of achieving objectives and deliverables could be improved. Currently, these do not contain a sufficient quality dimension or timeliness metric, other than stating the quarterly expectations in terms of publication of key documents or reaching milestones in projects.

Ensuring efficient delivery of Government's consumer and environmental programmes

We appreciate the increasing challenge of supporting the delivery of a wide range of Government programmes. Nevertheless, we note the significant proposed increase in Ofgem E-Serve's budget for 2013/14. While some schemes, such as CERT and CESP, will transition into a potentially more complex combined scheme in ECO, there should be greater clarity on the agreement with Government on resources for any additional expenditure requirements.

We want to see greater transparency on expectations for delivery and meeting service level requirements from E-Serve. This in turn will assist in suppliers' delivery of these programmes (which will be particularly challenging). In this regard, we would welcome a more explicit determination of:

- The service levels E-Serve customers can expect to receive, clearly set out in a service level agreement or similar commitment;
- The level of risk taken by E-Serve arising from the way it administers the Government schemes. For example, E-Serve may feel it is necessary, perhaps

because it is part of Ofgem, to take a minimum risk position in respect of the evidence it seeks from participants before achievement or entitlement is recognised. We want to see E-Serve determine the level of risk it will take in these matters only after consideration of the costs imposed on participants (and ultimately consumers).

To facilitate these developments, we would also welcome a review of the structure of E-Serve in relation to its role in administering such schemes as opposed to the core regulatory activities of Ofgem. Such a review would focus on how greater separation can be achieved.

Finally, we note that finalising Ofgem's Consumer Vulnerability Strategy proposals and taking forward the vulnerability annual work plan are not listed as deliverables in the work programme. We have called for a more strategic approach to supporting vulnerable customers to improve the efficiency of targeting programmes

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Claire Antill on 020 77522194, or myself.

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

Yours sincerely,

Paul Delamare

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