

The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

2 August 2013

RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) business plans – publication, views and next steps

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 the RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) business plans.

Over the past year, EDF Energy has engaged extensively with Ofgem and the DNOs on solutions to improve the predictability of networks charges and to reduce volatility of these costs, both within and between price control periods. This is a key part of the broader need to manage the affordability of costs on energy bills.

Variability in networks charges represents one of the biggest unhedgeable risks for suppliers to factor into retail pricing. The impacts of volatility are significant on slim margins in energy retail, and, particularly as more customers opt for fixed price deals. Ultimately, it is consumers that bear the cost of this unnecessary risk.

Our work has been informed by independent analysis from CEPA and has looked at how DNOs, with a lower cost of capital, are best placed to bear the risks of movements in charges, provided they could be kept 'whole'. In view of this analysis, we put forward proposals to DNOs as part of their RIIO ED1 stakeholder engagement process. We asked DNOs to set their final prices at least 15 months ahead, and preferably 27 months (which would cover 1 and 2 year fixed price tariffs).

We have met with, and written to, all the DNOs. From a review of the business plan documents submitted, and wider industry forum discussions, we are pleased that UK Power Networks (UKPN) and Northern Power Grid (NPG) have thoroughly embraced this process. As a result, they have produced a change proposal for DCUSA (DCP 178) which seeks to provide suppliers with 15 months forward notification of charges, by replacing the requirement for 40 days final charges to 15 months). We continue to work collaboratively with UKPN and NPG to facilitate this change and welcome Ofgem's support. We believe that this exemplary approach to stakeholder engagement, and acknowledgement of the impacts of reducing charging volatility on end consumers and the importance of finding solutions, should be reflected in Ofgem's decisions on fast tracking. We welcome that UKPN has outlined its intention to publish tariffs with 15 months notice in its business plan. For April 2015, subject to fast tracking, UKPN could effectively publish their tariffs in December this year, which would provide the required notice period.

EDF Energy also welcomes that other DNOs, such as ENWL, with Haven Power are actively progressing solutions to stabilise the charging models, which is a source of volatility, by locking down the elements of these models for four years. In their business plan, ENWL has also referred to providing 15 months indicative charges. While these developments are a step in the right direction, we believe this will not on its own provide suppliers with the required certainty. In terms of the models, many of the key drivers of volatility, such as demand and volume inputs, will not be tackled. We do however recognise that the business models and finance structure of the DNOs will differ. In this regard, we welcome that all DNOs have engaged with us and have taken our proposals back for consideration at the highest levels of management, though we are disappointed with those companies that did not make reference to the issue in their business plan documentation.

We will continue to work with all industry parties on effective solutions.

Finally, we have made some more general, and brief, points on the plans and the presentation of costs 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 Claire Antill on 0207 7522194, or myself.

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

Yours sincerely,

A handwritten signature in blue ink that reads 'Paul Delamare'.

Paul Delamare
Head of Downstream Policy and Regulation

Attachment

RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) business plans – publication, views and next steps

EDF Energy's response to your questions

Specific areas where Ofgem seek views

Overall quality of the plans

- **Do you consider that the plans are comprehensive and well-justified? Do they provide a clear understanding of what the DNO will deliver over the price control period?**

It is not clear what the impact to charges will be, as all comparisons are presented in 2012/13 prices. This is misleading for stakeholders who may be expecting a reduction in their costs, which may not outturn.

- **Do the plans include all relevant information necessary for you to understand the impact of those plans on your interests?**

The business plans are lengthy documents that do not follow a consistent format. Therefore, it has not been easy, or even possible in some cases, to extract the information required. It would be helpful to all stakeholders if a standardised summary document were produced to include key information such as profiled allowed revenue in real terms. Some DNOs, such as NPG, have produced good summary documents and user-friendly web pages, which provide the right level of detail and overview. While it is useful for DNOs to present web-based documents, the process for finding the required level of detail is not always self evident. The reader often has to search multiple sub-documents before finding the relevant information.

Reflecting what customers value/ stakeholder engagement

Under RIIO stakeholders have a greater opportunity to inform our, and network companies' decisions during the price control review process.

- **Have the views you provided to the DNOs been reflected in their plans? If not, has the DNO explained why?**

EDF Energy welcomes that all DNOs have engaged extensively with us, in particular on our discussions on managing charging volatility. However, it is disappointing that some DNOs have not made reference to these discussions, or consideration of the issues raised, as part of this stakeholder engagement in their business plans.

- **Do you consider that the plans reflect the interests of both existing and future consumers?**

Most DNOs have tried to encompass how future customers may impact their network, but this has not been representative of all DNOs.

Expenditure proposals

We require DNOs to set out the operating and capital investment expenditure they require to deliver the outputs required by customers.

- **Do you consider that the DNOs have clearly identified and justified their operating and capital expenditure requirements to deliver the required outputs?**

It is difficult for us to make any comment on this currently, as the business plans are not easy to interpret. Through its analysis, we would expect Ofgem to ensure that the plans represent value for money for the consumer.

- **Do you consider that the DNOs have adequately considered the potential efficiency gains from:**
 - **learning arising from the Low Carbon Networks Fund**
 - **future innovation**
 - **adoption of smart solutions (including Demand Side Response)?**

Again, we would expect Ofgem to ensure that efficiencies were demonstrated in the business plans.

Financial proposals

We put forward proposals in our Strategy Decision to ensure efficient DNOs would be able to raise finance and to ensure they would be remunerated appropriately.

- **Do you have any views on the package of finance measures proposed by the DNOs?**

It is noted that some DNOs feel that the financial package would not support governance changes that stakeholders are supporting. For example, providing suppliers with 15 months' notice for charges, which their current cost of capital would prevent them from progressing. We would welcome Ofgem's involvement in industry discussions to find a suitable solution for this, and other related issues.

Uncertainty and risk

DNOs are required to demonstrate that their proposals take account of the various risks and uncertainties they face and in light of these provide a strategy to deal with them efficiently.

- **Do you consider that the plans present a comprehensive consideration of the sources of uncertainty they face, including uncertainty in relation to the low carbon future?**

We are concerned that the business plans cover a lengthy period and that this may cause additional risks that will need to be recovered from customers. We would expect Ofgem

to only approve the recovery of such risks following consultation and an appropriate notice period for recovery of additional costs, as per our recommendations on improving the predictability of charges and managing volatility.

EDF Energy
August 2013