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RIIO-ED1: Draft Determination for Western Power Distribution Ltd and Assessment of RIIO ED1 business plans and fast tracking

We are responding to the consultation on the draft determination for Western Power Distribution Ltd, along with some more general comments which are relevant to the assessment of the other business plans, in view of the need to reduce cost pressures on consumers.

We welcome Ofgem's decision to set 2015/16 revenue for each slow-tracked DNO based on the draft determination in July 2014, and that it will fix 2015/16 revenue at the fast-track final determination in February 2014, with any deferred revenues recovered over the remaining years of RIIO ED1. However, this approach does not provide sufficient certainty on final charges for year one, nor commitment to doing so on a rolling basis for the rest of period.

WPD's business plan states that its RIIO ED1 charges will reduce in the first year and will be broadly flat thereafter and that they have committed to publish detailed revenue forecasts up to 2023 for suppliers. However, as we have advocated throughout the RIIO ED1 stakeholder engagement process, suppliers require forward notification of final charges. Revenue forecasts are subject to significant volatility and uncertainty, from within and between price controls, driven by instability of the charging models and incentive mechanisms. This in turn impacts suppliers and end consumers, as these costs cannot be optimally hedged into retail pricing.

EDF Energy recognises that rising energy prices are a real concern for individuals and businesses all over the UK. We believe that the best way to help customers is to bear down on costs. Our proposals for improving the predictability of networks charges would help in this regard. That is why we have welcomed the change proposal for DCUSA which seeks to provide suppliers with 15 months forward notification of charges. We strongly support this proposal for industry change and believe that it would bring transparency and significant cost benefits for end consumers. We are disappointed that such a key issue has not been covered in the fast-track assessment.

We welcome that WPD, in its acquisition of the Central Networks businesses, has made progress on cost efficiencies, but we believe that Ofgem should continue to challenge for further efficiencies where possible and review the potential to benchmark other DNOs' costs accordingly.

We welcome the creation of a licence condition requirement for DNOs to publish an annual report on the commitments in their plans creating interim reputational incentives to deliver. This would be more robust if accompanied with annual notification of final charges, as per our proposals to reduce volatility.

We agree that the costs of diverting lines associated with Network Rail electrification should be borne by rail customers and not energy consumers. While a licence condition has been included to remove the expenditure if another party can fund this, there is no certainty that this will happen. Therefore, we think this expenditure should be excluded from the business plan.

Finally, we would welcome Ofgem's consideration of whether there are further cost efficiencies that could be gained by extending the regulatory depreciation of both new and existing assets from 20-45 years.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Simon Vicary on 01452 654791 or myself.

I confirm that this letter 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