Martin Rodgers
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20 May 2014

Dear Martin

Strategy Consultation: Revenue, Incentives and Outputs for National Grid's Role in Electricity Market Reform

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 are broadly satisfied with the proposed provisional allowances, outputs and incentives that Ofgem is proposing for the first 20 months of EMR.

Our detailed responses are set out 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 Mari Toda on 07875 116520, or me.

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

Yours sincerely,

Mark Cox
Head of Transmission and Trading Arrangements

Attachment

Strategy Consultation: Revenue, Incentives and Outputs for National Grid's Role in Electricity Market Reform

EDF Energy's response to your questions

Provisional Allowances

CHAPTER: Two

Question 1: Do you agree that we should allow NGET provisional funding subject to the receipt of a well justified business plan?

Yes. NGET should be allowed provisional funding to cover its EMR delivery functions for the first 20 months (August 2014 to March 2016) of the enduring regime, subject to delivery of a well justified business plan by 30 September 2014.

Question 2: Do you agree that we should not allow an adjustment to reflect the time value of money if NGET do not meet the September 2014 submission date?

Yes. Doing so should act as an incentive to deliver a well justified business plan by the September submission date.

Question 3: Do you agree that the £5m proposed cost allowance is reasonable?

NGET provided an estimate of £7m and Ofgem reduced this to £5m. Given that these costs will be replaced by final allowances following full assessment of the detailed EMR business plan, the £5m figure seems reasonable.

Provisional Outputs and incentives

CHAPTER: Three

Question 4: Do you agree with the incentives we are proposing?

Since EMR is a new role, Ofgem is proposing a combination of strong reputational incentives, plus a conservative approach to setting financial incentives so that they are proportionate to the provisional EMR revenues.

While linking the financial incentives to NGET's key proposed deliverables (such as dealing with Tier 1 disputes) is sensible, we are not completely persuaded by the reputational incentives because it appears NGET's performance will simply be reported. It is not clear from the consultation whether Ofgem would do anything if NGET is performing poorly. For example, to be effective, poor performance may need to be linked to a downside financial incentive.

Business Plan and Assessment

CHAPTER: Four

Question 5: Do you agree with our proportionate approach to the assessment of the business plan including provision of different scenarios?

Yes.

Question 6: Do you agree that the capitalisation rate for internal SO costs should also apply to EMR enduring costs?

Applying the capitalisation rate of 27.9% already set for internal SO costs seem reasonable.

Licence Changes

CHAPTER: Five

Question 7: Do you agree with the proposed licence changes?

We have not sought legal advice but the changes appear consistent.

Question 8: Do you agree with the proposed Financial Handbook and PCFM changes?

Yes.

EDF Energy
May 2014