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17 February 2016

### **Forward Work Programme 2016-17**

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 welcomes the opportunity to comment on Ofgem's draft work programme for 2016/17. Providing stakeholders with an ability to help shape Ofgem's programme of work is supported and we welcome the transparency provided through the publication of Ofgem's planned activities and deliverables for the year.

We offer the following observations on the draft programme.

### **Scale of industry change**

EDF Energy agrees with the general approach that Ofgem has set out with in its proposed work programme, which clearly highlights the variety of significant challenges faced by the industry and the number of fundamental market reforms to be delivered over the next few years.

The scope and scale of such changes, including smart metering, Project Nexus, faster switching and half-hourly settlement, touch on virtually all areas of the energy regulatory framework and the customer/supplier relationship. It is therefore clearly in customers' interests to ensure that these reforms are delivered in an efficient and staged manner to ensure costs are minimised and the reliability of systems and processes and customer service levels are maintained.

Ofgem clearly has a pivotal role in the development and delivery of these reforms, ensuring throughout that consumer interests are protected. There will be need for Ofgem to take a holistic and coordinated view of the reforms, ensuring that it takes full account of the impact on costs and available resources on market participants in delivering these fundamental reforms simultaneously. For example, changes should be planned from left to right, and should not put existing systems at risk. In particular, there should be sufficient time provided to design, build and test any solution prior to implementation. This will ensure that the desired outcomes are delivered efficiently and a positive consumer experience is achieved, rather than prioritising an implementation date over quality and cost.

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Given this extensive workload, we recognise the importance of Ofgem having sufficient resources to effectively tackle projects in an efficient manner. We further note that Ofgem has, over the next year five year period, agreed a reduction of 15% in total expenditure. Delivering reforms, whilst at the same time reducing costs, may lead to the need for greater prioritisation of projects. However, we note that Ofgem's work programme makes no attempt to indicate any priority to its activities.

### **CMA Market Investigation**

It is important that Ofgem acknowledges the need for its forward work programme to be flexible in order that it can adapt to significant market challenges that may occur during the work programme period. The conclusion of the Competition and Markets Authority's (CMA's) current market investigation, early in the 2016-17 programme period, has the potential to result in need for further significant market changes to be implemented. Such changes are likely to have a significant impact on Ofgem's work programme. It is important therefore that Ofgem is mindful of this risk and adapt its plans accordingly in planning initiatives and setting deliverables for 2016-17.

### **Embedded benefits and charging reform**

An important area of work that appears to have been omitted from Ofgem's work programme is around network charging. In particular, in the context of a market that is experiencing increasing amounts of embedded generation, we consider a review of transmission charging is needed urgently given growing embedded benefits and their impact on the Capacity Market. This should be a focus during the early part of 2016 and as such, should be explicitly referenced in Ofgem's work programme.

More generally, with innovation in the energy sector and significant changes to the generation mix, a more holistic review is needed to ensure that network charging arrangement remain fit for purpose. We believe such a review needs to be started in 2016 so that the issues are considered in a timely manner to minimise barriers or distortions to the market.

### **Interconnection: cap and floor regime**

We note that Ofgem plans to undertake assessment of further electricity interconnector projects following its second cap and floor application window. While supporting this work, it is important that assessment of any further interconnector projects are carefully analysed and assessed to ensure they bring value to consumers and are economically justified.

However, given the success of the first tender window and the cap and floor regime, we believe it is important that Ofgem undertake a lesson learnt exercise of this regime during 2016 before supporting further projects through the regime. We believe that refinements are needed to the cap and floor regime to ensure continued consumer value.

## **Innovation**

We note that innovation is a key theme that is referenced throughout the work programme. EDF Energy is supportive of Ofgem work that seeks to ensure the regulatory framework is proportionate and does not stifle innovation, particularly regarding demand response, system flexibility, and new business models. However, rather than trying to force specific types of innovation, Ofgem's role should be one of facilitation and not one that seeks to actively promote new business models as an alternative to the models already adopted by incumbents. An overriding principle of any regulatory framework should be the creation of a level playing field where all market participants are subject to the same rules and free to compete in a fair manner irrespective of their size or business model. Differential treatment for specific business models, through exceptions or special rules, should on the whole be avoided.

## **REMIT**

In order to further promote compliance with REMIT requirements, we consider that where possible Ofgem should seek to issue further guidance to market participants on the application of REMIT. Such guidance should not only reflect the outcomes of its cooperation with other regulators but also the results of its monitoring activities undertaken since the introduction of its REMIT powers. More specifically, we would like to see greater cooperation between Ofgem and the industry (as discussed recently with Energy UK) with a view to recognising and agreeing common practices within the GB energy markets that are relevant to the publication of insider information on the capacity and availability of assets by market participants.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre on 01452 653741, or myself.

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

Yours sincerely,

A handwritten signature in blue ink, reading "Paul Delamare".

**Paul Delamare**  
**Head of Customers Policy and Regulation**