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## **RIIO-2 Sector Specific Methodology consultation**

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, storage, and energy supply to end users. We have five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to respond to your proposals for the RIIO-2 Sector Specific Methodology. The network businesses play a critical role in the energy system and it is essential that they are regulated in a way that ensures continued reliable operation while at the same time facilitates development of the network at reasonable cost.

We have not responded to all the questions raised but rather make the following higher level points:

### **Fair Returns**

Energy prices are a very real concern for all consumers. Network costs comprise a substantial part of their bills (~25% for a domestic dual fuel customer). It is therefore essential that network companies are only allowed reasonable returns to keep bills as low as possible and that high returns should only be achieved through high performance.

In this update Ofgem are proposing to reduce returns allowed by network companies along with changes to how risks are managed to protect investors. We support these developments in principle but it is key that Ofgem carefully balance the need to drive down headline costs (through lower returns) while ensuring that network companies remain attractive to investors protecting consumers' longer term interests.

### **Supporting low carbon transition**

Networks have an important role to support the transition to a low carbon energy system by connecting significant new sources of low carbon generation including from offshore wind and nuclear, the connection of smaller scale low carbon generation / resources and to support the electrification of transport and heating systems. Timely network investment is needed to support this transition and delivery of Government policy.

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Our experience as a developer of low carbon generation suggests that improvements can be made to better align delivery of network infrastructure with these policy goals. For instance we have previously raised the interaction between Ofgem's strategic wider works process (which supports large scale transmission investment) with Government auctions for low carbon generation (Contract for Difference). Significant uncertainty over the design and cost of networks can have material implications for developers in these auctions impacting their overall efficiency and consumer costs.

We recognise that there is a balance for consumers in supporting anticipatory network investment to ensure that the networks do not become a barrier to low carbon development while ensuring that these assets do not become stranded. It is though important to fully recognise the downside risks of delaying these low carbon developments versus potentially much smaller costs that could arise from stranded or early network investment. This anticipatory investment is important at transmission to support large scale low carbon generation and also for the distribution networks to ensure that they are ready to support the step change in deployment of electric vehicles, electrification of heat and decentralised energy resources.

We note and welcome Ofgem's recognition of these issues and proposal to introduce a new governance arrangement similar to the Electricity Networks Strategy Group as a means of providing focus around this area. We believe that this should be a helpful development to allow a forum for discussion and challenge by stakeholders of the plans for critical network infrastructure.

### **Network Resilience**

Network security and resilience is fundamentally important to our businesses and to our consumers. Our generation business, and particularly our nuclear generation fleet which provides ~ 20% of consumer demand, needs a secure and reliable route to market. Reliance by society on the electricity system is increasing while at the same time some of the threats to resilience, such as climate and security, are growing.

We welcome Ofgem's focus as part of RIIO2 on the need to ensure the long-term safety, security and reliability of the networks. It is important that the current level of resilience is maintained through RIIO2.

### **Enabling whole system solutions and incentives**

We support enabling of whole system solutions. We agree that the coordination of investment planning and operational delivery between the electricity and gas sectors and between transmission and distribution is an essential component of a whole system solution.

We have noted the increasing interactions between gas and electricity markets, in particular at times of system stress. While these are largely market signals, RIIO-2 is an opportunity to ensure that these interactions are considered fully and that appropriate incentives are in place on network companies to facilitate efficient market outcomes.

Whole system solutions should include market based solutions and encourage flexibility from users to deliver real benefits in deferring or substituting costly asset based solutions where possible.

However, we are concerned about the lack of regulatory clarity and potential conflicts of interest in network companies offering services to System Operators in competition with other sources of flexibility. It is clear that some of the network companies are considering (and in the case of ENW<sup>1</sup> already are) investing in non-conventional network assets to provide flexibility and system services.

While we can see a case that in some instances this approach might provide least cost solutions for consumers, there are real consumer risks from regulated network businesses using regulated network assets to provide services in competitive markets. Participation has the potential for market distortion; conflict of interest; cross subsidy and transfer of risk to consumers; and deterrent to new entrants.

We request that Ofgem undertake a review of the roles and activities of the network companies to include the use of existing regulated assets to provide system services, investment in new assets to provide services in place of market providers, unbundling and participation in markets using regulated assets.

### **Predictability of charges**

Consumers and businesses benefit from predictability of network charges. Structural changes at the beginning or end of a price control introduce a 'cliff-edge' risk with the potential for significant impact. We therefore reiterate our request for assurances that mitigation, such as a 'glide path' is put in place if there is a significant material impact to enable businesses to plan ahead and adjust their business models.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 01452 658415 or myself.

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

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Angela Hepworth'.

**Angela Hepworth**  
**Corporate Policy & Regulation Director**

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<sup>1</sup> ENW is participating in FFR market tenders utilising assets developed under Project CLASS