

Ofgem
10 South Colonnade,
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London,
E14 4PU.

Email to: RIIO2@ofgem.gov.uk

4 September 2020

Dear Sir or Madam,

RIIO-2 Draft Determinations

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind and solar generation, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users.

EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to respond to Ofgem's proposals for the RIIO-2 Draft Determinations. 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 raise the following broad 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). We continue to believe that it is 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 the Draft Determinations, Ofgem are proposing to materially reduce returns allowed by network companies. While we do not have any specific comments on Ofgem's proposals for the allowed cost of capital, we believe it is important that Ofgem's final determination provides investor confidence to ensure that network companies continue to be financeable and facilitate critical investment to support transition to net zero.

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 including to decarbonise.

Network Resilience

Network security, reliability and resilience are fundamentally important to our businesses and to our customers. Our generation business, and particularly our nuclear generation fleet which provides ~ 20% of consumer demand, needs a secure and reliable route to market. There is a need to ensure the long-term safety, security and reliability of the networks and ensure that the current level of resilience is maintained through RII02. 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 note that Ofgem has reduced the total expenditure (Totex) allowances due to the network companies not providing sufficient justification for the increases in expenditure on replacement and asset health activity as well as moving some Totex to Uncertainty Mechanisms. We are concerned about the impact that these Totex reductions may have on maintaining network safety, reliability and resilience.

While we expect that the network companies will bring forward more acceptable funding submissions that will lead to an uplift in Totex; we urge Ofgem, when reaching its final decision, to work closely with the network companies to ensure it strikes the right balance between nearer term costs to consumers and ensuring investment to maintain resilience.

Supporting net zero 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.

There is a balance for consumers' interests in supporting enough 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 important to fully recognise the very significant 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. As an example: the electric vehicle market is now growing pretty rapidly (nearly 10% share of new car market in recent months, from around ~2-3% in the first half of 2019).

Timely network investment is needed to support this transition and delivery of Government policy. Uncertainty mechanisms are appropriate where policy and/or frameworks are still being developed and the requirements are still unknown. However, it is vital that the processes for the uncertainty

mechanisms are not slow, cumbersome or bureaucratic. Where a need for network investment has been identified and recommended, such as supporting offshore transmission co-ordination, the uncertainty mechanism process should facilitate the network companies' access to additional funding to meet requirements without delay. It is not clear from the draft determinations that this will be delivered in practice.

Level playing field

Providing funding that enables network companies to invest in assets in order to participate and compete with commercial providers in areas outside of their regulated activities can cause distortions in markets. Network companies are responsible for assessing their network needs; proposing the appropriate reinforcements; they hold the data relating to network needs and are able to tailor and re-design solutions.

In the context of RIIO2, this is an area where we believe that Ofgem need to provide much greater clarity on the role and vires of network companies. This is particularly the case in provision of ancillary services to the ESO including through pathfinders and how the ESO is effectively able to assess potential service providers on a level playing field.

Electricity System Operator (ESO)

Finally we believe that the ESO has a critical role to support system resilience and whole system thinking. This is a very important issue as highlighted above. The ESO needs to be given the right incentives (and funding) to look beyond their 2 year horizon to support actions to address these risks. The evidence from the 9 August and the spiralling costs of system balancing this spring and summer suggest a revised approach and focus is needed.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact me on 0208 1861460. I confirm that this letter may be published on Ofgem's website.

Yours faithfully

Mark Cox
Head of Transmission and Trading Arrangements