

Information Note

MONDAY 7 JUNE 2010

OFGEM MINDED TO IMPOSE £2 MILLION REVENUE PENALTY ON EDF ENERGY NETWORKS

Energy regulator Ofgem is consulting on imposing a £2 million revenue penalty on EDF Energy Networks following an independent audit into the company's handling of a power cut in the Dartford area of London last year. The incident affected 94,000 customers, many for more than 24 hours.*

Electricity distribution network owners (DNOs) such as EDF Energy Networks have incentives to reduce the number and length of power cuts. The DNOs can earn extra financial rewards or face financial penalties depending on how they perform against their target for the number and duration of interruptions.

Power cuts can occur for reasons outside the DNO's control and in these cases, the company can ask that Ofgem does not apply penalties for related power cuts. The company made an application in relation to the Dartford incident and to help assess EDF Energy Network's case Ofgem has followed our usual process of commissioning an independent auditor to look into the causes of the incident.

The auditor concluded that although the company responded well in restoring the supplies, it could have done more to prevent the power cut from occurring. Ofgem has reviewed the company's statement of fact, the auditor's report and other relevant information and agrees with the auditor's conclusion. Ofgem is therefore minded to impose a revenue penalty of £2 million on EDF Energy Networks under the incentive scheme. The industry and other interested parties now have until 7 July 2010 to respond with any views before Ofgem makes its final decision.

-ends-

Notes to Editors

*A fire at EDF Energy Network's Dartford Creek Cable Bridge on 20th July 2009 caused a major supply failure on its network which resulted in major supply interruptions to customers in the surrounding area over several days.

1. What more could EDF Energy Networks have done to prevent the incident?

The auditor's report concluded that the company should have made more frequent inspections of the Dartford Creek cable bridge site to detect and prevent vandalism. The company should also have learned lessons from a previous event in Barking in 2004 where power cuts arose due to vandalism of equipment that had not been properly inspected.

2. Compensation for customers who have experienced power cuts

DNOs have to meet guaranteed standards of performance for restoring supplies to customers. If they consider the customer has a valid claim, DNOs are required to pay £50 for domestic customers and £100 for non-domestic customers if they are off supply for 18 hours. Customers are also eligible to receive £25 for every successive 12 hours without supply. For a claim to be valid the customer must submit it to the DNO within three months of supply being restored. This period closed on 23 October 2009. However, claims for multiple interruption, where supply was interrupted on four occasions for more than three hours at a time, must be made by 30 June 2010.

In the case of the Dartford incident, EDF Energy Networks interprets and applies these guaranteed standards. The company can decide not to make payments under the standards if it considers that the event was exceptional and one outside their control. EDF Energy Networks invoked an exemption from making formal payments under the standards. Ofgem's understanding is that the company instead offered an ex-gratia payment of £50 for customers without supply for 24 hours or longer.

However, any customer affected by the power cuts can challenge EDF's interpretation of the standards by complaining to the company, and then to the Energy Ombudsman if they are not satisfied with the company's response. Ultimately if the complaint still goes unresolved the customer can appeal to Ofgem for a determination on whether the company should pay compensation or not. Ofgem's final decision on whether to impose the revenue penalty under the incentive scheme is likely to have a strong bearing on any decision it takes in these determinations.

Advice for customers on how the complaint process works is available here: <http://www.ofgem.gov.uk/Consumers/Pages/Consumer.aspx>

3. There are 14 major electricity distribution networks in Great Britain, each covering a geographical area and operated by a licensed company. The 14 DNO businesses are monopolies owned by seven corporate groups. They are price controlled by Ofgem.

4. The Energy Ombudsman is an independent service set up to deal with complaints against any energy supply company or network operator. The Energy Ombudsman is able to investigate complaints by domestic or micro-business customers. A micro business is defined as a company that; uses less than 200,000 kWh of gas per year, or less than 55,000 kWh of electricity per year, or has fewer than ten employees (or their full time equivalent) and an annual turnover or annual balance sheet total which doesn't exceed 2 million Euros. The Ombudsman is able to investigate if the customer has exhausted a company's complaints process or if their complaint is more than eight weeks old. It can ask the company to take practical action to resolve a dispute and, in some cases, make a financial award.

4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

For further press information contact:

Chris Lock: 020 7901 7225

Alison Wright: 020 7901 7217

Out of hours: 07766 511470