

Ofgem (FAO Andrew Bullimore)  
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E14 4PU

16 July 2021

## **EDF response to Interconnector policy review: Working Paper 1 – Review of the cap and floor regime**

Dear Andrew

Thank you for the opportunity to allow us to respond to the review of the cap and floor regime to date and considering future direction that may allow for a more efficient framework.

We have only provided answers to those questions where we have specific observations and suggestions to make.

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 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.

### **Question 1: Do you agree with the approach we have taken to workstream 1?**

We believe that the combination of qualitative and quantitative analysis accompanied by stakeholder approach has been the right approach. Assessment of the cap and floor regime is complex to evaluate given its many faceted interactions, some which cannot easily be captured in these types of assessments. For that reason, it is always difficult to reach the right conclusions.

### **Question 3: Do you agree with our conclusion that the cap and floor regime has met its objectives to date? Is there any other information you think we should take into consideration in our analysis?**

We agree that the cap and floor regime has bought forward investment in new interconnection. It is likely that this investment will bring benefits to consumers, however, some of the wider implications, such as the impact on capacity market and security of supply, the impact on carbon intensity of GB energy, and some of the system operability challenges are less well understood. Also, it is likely that the regime could have realised even more benefit if the regime was less focused on a developer led model and a more coordinated approach with direction from the ESO.

**Question 4: Do you agree that the principles of the cap and floor regime remain fit for purpose and suitable to potentially incentivise further GB interconnection?**

Whilst we believe there is still a place for an effective cap and floor regime one which is informed and supported by planning from an Independent System Operator (ISO) is likely to be much more effective.

We agree with the conclusions reached in Workstream 1 that more engagement between the regulator and/or System Operator with other National Regulatory Authorities would bring greater alignment between connecting countries.

**Question 5: Do you agree with our initial proposals with respect to potential changes to the assessment framework of the cap and floor regime? Specifically: To consider a more coordinated and system-wide approach to application windows, potentially informed by a more proactive role for NGESO. Do you have any views on the options presented for our approach to potential future application windows?**

We support the conclusion that a greater coordinated and system-wide approach to application windows is required and of the 4 options presented we detail our preferences below.

We believe for the regime to be effective going forward it needs to be less developed led and have a greater role for an independent System Operator to help provide planning to maximise benefits overall. The scale of network development needed over the coming decade to support decarbonisation of the power sector and then transport, heating and industry means rapid growth in network infrastructure is needed. Coordination and planning with potential new interconnectors are needed to mitigate overall delivery risk and maximise efficiency.

In option 3 we welcome a greater responsibility set by a System Operator, which we believe should be fully independent, to identify the potential system benefits which may be geographically specific and in option 4 a cyclical cycle of investment is likely to better align the regulatory timelines of each NRA involved; stakeholder feedback has suggested that uncertainty over the timing of cap and floor windows has made planning more difficult, potentially leading to sub-optimal outcomes.

We also support the initial proposal views from workstream 1 on not relying exclusively on market price signals to identify future interconnector projects in a fully developer-led approach as it might lead to sub-optimal outcomes in the future – which is explored more in Workstream 2 under a Net Zero policy backdrop.

**Question 10: Do you agree with our conclusions? If not, please concisely explain why and provide supporting information if available.**

We broadly agree with the review of the windows-based approaches and as detailed in our answer to question 4 we believe a hybrid approach to the application windows best meets future requirements.

This hybrid approach would combine the predictability of regular cap and floor windows from Option 4 with clear advance guidance from the system operator about potential system benefits and constraints. We also support greater coordination between Ofgem, system operator and their counterparts in neighbouring countries.

If you wish to discuss this response in any further detail please do not hesitate to contact me at [mark.cox@edfenergy.com](mailto:mark.cox@edfenergy.com) or Binoy Dharsi at [binoy.dharsi@edfenergy.com](mailto:binoy.dharsi@edfenergy.com).

Yours sincerely

A handwritten signature in black ink that reads 'Mark Cox'.

Mark Cox  
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