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Dear Mark

Access Reform in Electricity Transmission – Working Group report and next steps

EDF Energy is pleased to have the opportunity to comment on the Access Reform Options development group report.

We note Ofgem's observations with respect to any future change proposals being considered by industry parties and offer the following comments:

- We agree that greater certainty over the date that access will be available and the level of financial security required could be expected to promote competition in generation. The current volatility of final sums liabilities is a barrier to new investment in generation capacity and therefore detrimental to competition.
- We agree that consumers should be protected from the risk of investment being incurred unnecessarily but believe that the wider transmission user community could reasonably bear a greater proportion of the risk associated with facilitating new investment in generation capacity.
- We agree that measures that allow stronger generation projects to be progressed ahead of weaker projects would be beneficial to competition and to the efficiency of transmission investment.
- We do not oppose mechanisms that allow access products to be traded between parties but we are not convinced of the demand for such a market and therefore that the potential costs and complexity would be justified.

We have considered the access reform options identified by the working group and have provided more detailed comments on the key issues below.

Security

We consider that there are two high level principles that should be preserved in the setting of security requirements for new connections.

Firstly, that new connectees should be required to provide some financial security for their connection from the outset in order to provide a clear signal to the system operator and to provide some protection for transmission licensees, and ultimately all system users, against the risk of stranded assets.

Secondly, that the level security should be, at least partially, reflective of the profile of costs being incurred by the transmission licensees in providing the connection.

Of the options considered by the group, we believe that the Local FSL plus fixed sum approach would best meet these principles.

The local FSL would provide full security for the costs of local connection works which would be at highest risk of becoming stranded. The level of local FSL would also be reflective of the ease of providing the local connection to the transmission system – thereby signalling to the developer the relative costs of different sites within an area.

The fixed sum would represent the security for the wider system reinforcements for which there is a higher probability that any works could be reutilised in the event that a particular project did not proceed. One option would be to use TNUoS tariffs as the basis for the fixed element of the security as this would be reflective of the overall costs of reinforcing the network to accommodate connections in different regions. However, the use of TNUoS tariffs would not be appropriate in areas where there is a negative tariff. We therefore believe that a uniform fixed sum, perhaps based on the residual element of TNUoS, would be more suitable as it would recognise that some reinforcements are likely to be required for most locations.

We also believe that the fixed sum should be profiled over the term of the construction agreement to provide a core level of security at the beginning of the construction period rising to the full level of security by the end of the construction period. In particular we consider an initial security requirement on signing of connection agreements is important to ensure that connectees are reasonably confident of progressing the construction of their proposed new generation capacity.

We consider that the combination of local FSL and profiled fixed sum security arrangements would be much more transparent than current FSLs thereby allowing potential developers to more accurately predict the costs and liabilities of obtaining a connection at different sites.

Restricted Access

We believe that there is scope for generators to make better use of existing transmission capacity through restricted access products, particularly in situations where a local connection could be completed relatively quickly but wider system reinforcements would take longer. However, such products will only be of value to developers if such products can be contracted at an early stage to inform investment decisions and the timing of commencement of station construction. The current suite of restricted access products is not suited to projects that are not yet constructed and would therefore need to be revised in order to appeal to such projects.

Unrestricted Access

We would not favour changes to the access arrangements that would significantly increase the risk and cost of system constraints. In particular we have concerns about the various “Connect and Manage” approaches in the current GB transmission environment as we believe that there will continue to be significant difficulties for the transmission licensees in delivering transmission capacity in some areas for many years to come. These difficulties will not be simply overcome by increasing investment incentives through higher constraint costs, the burden of which will inevitably fall on consumers.

We believe that clearly defined security arrangements based on local final sums plus a profiled fixed sum with a minimum level from the date that connection agreements are signed would be sufficient to filter out the weaker projects from the GB queue such that connections can be progressed more quickly for those projects that are ready to proceed. This in itself could significantly reduce the length of time to connect many generators. In addition, further development of restricted access products could facilitate earlier connection of some projects.

Enduring commitment by generators

We do not believe that a longer term commitment to TEC beyond one year will provide any better quality of information on future requirements for transmission capacity than the present arrangements. This is because many generators will assess their ongoing business case each year but with a higher fixed cost for transmission charges. In most cases we believe that generators would continue to contract for TEC until they had absolute certainty of a closure date. In a small number of cases, in expensive TNUoS zones, the longer term commitment might encourage the generator to close sooner. However, in cheaper or negative TNUoS zones, the longer commitment would have no effect on the value of information provided at all.

Overall, we believe that a longer term commitment to TEC would increase the costs to generators and ultimately to consumers but with no corresponding improvement in the quality of information on future TEC requirements.

We hope that you will find these comments helpful.

If you have any queries please do not hesitate to contact me.

Yours sincerely

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Head of Energy Market Strategy