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12 August 2008

Dear Andrew

Regulatory arrangements for East West Cable One Ltd's two proposed GB-Irish electricity interconnectors

EDF Energy is pleased to respond to the consultation dated 2 July 2008 on the regulatory arrangements for East West Cable One Ltd's (EWC) two proposed GB-Ireland electricity interconnectors.

EDF Energy agrees with Ofgem's initial view that an exemption (or exemptions) from regulated third party access and use of revenue requirements should be granted to EWC in relation to the EW1 and EW2 interconnectors, on the basis that the application meets all of the relevant criteria for an exemption under Article 7(1) of the Regulation and SLC 12(6) of the licence.

We have set out below our responses to Ofgem's three questions.

Question 1: *Do you agree with our proposal to treat the EW1 and EW2 interconnectors as a single project for the purpose of our evaluation of the exemption criteria?*

EDF Energy notes that Ofgem has conducted its analysis of whether the exemption criteria have been met by treating the investment in EW1 (Arklow, RoI – Pentir, North Wales) and EW2 (Great Island, Wexford, RoI – Pembroke, South Wales) as a single interconnection project, rather than as two separate projects, due consideration having been given to EWC's assurances that the construction contract has been awarded on the basis that they will cover both interconnectors.

However, we also noted that EWC applied for separate interconnector licences for EW1 and EW2 and that these have already been granted by GEMA. Furthermore, should exemptions be granted, it will be necessary to issue them separately under each interconnector licence granted.

Also, there will be a time delay between the two interconnectors and it will be possible to bid only for the capacity of EW1 in the first instance, while that EW2 will be available at a later date. There may well be just one construction contract, but that need not entail that it is just one project. Indeed, it is possible that EW1 could proceed but EW2 may not be implemented at all, or vice versa.

Therefore, it is difficult to see how the two proposed interconnectors can be seen as one project. There are to be two interconnectors from completely separate points on the two transmission systems, albeit that they will connect the same two markets. Despite this view, the arguments for granting exemption for one of the links are exactly the same as for the other and, as such, EDF Energy would have no objection to both being considered for exemption at the same time and on the same basis as each other.

Question 2: *Do you agree with our overall assessment that the exemption should be granted based on the examination of whether the exemption criteria have been met?*

EWG have provided arguments against each of the six exemption criteria, namely that:

- a) the investment in the interconnector enhances competition in electricity supply;
- b) the level of risk attached to the investment is such that the investment would not take place unless an exemption was granted;
- c) the interconnector will be owned by a natural or legal person which is separate at least in terms of its legal form from the relevant system operators to whose systems that infrastructure will be connected;
- d) charges will be levied on users of the interconnector;
- e) since the partial opening referred to in Article 19 of Directive 96/92/EC, no part of the capital or operating costs of the interconnector has been recovered from any component of charges made for the use of transmission or distribution systems linked by the licensee's interconnector;
- f) the exemption is not detrimental to competition or the effective functioning of the internal electricity market, or the efficient functioning of the regulated system to which the interconnector is connected.

It is EDF Energy's considered view that all the arguments put forward against each of the criteria are sound and, as such, we agree with Ofgem that the exemption should be granted.

The construction of the interconnectors will bring considerable benefits in terms of security of supply, competitiveness and sustainability of the electricity markets in both GB and Ireland, as indeed it would have on any two markets so interconnected. We agree that in general an interconnection will:

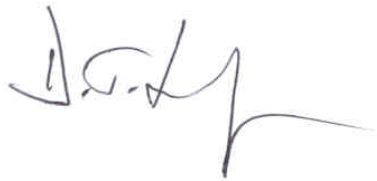
- a) increase import/export capacity and thus provide more market competition;
- b) exert a downward pressure on wholesale electricity prices;
- c) allow markets on both sides of the interconnection to have efficient economic access to existing and new generation sources;
- d) improve regional and national electric reliability in both country's systems;
- e) facilitate competition in balancing and ancillary services;
- f) promote the optimum allocation of generation resources;
- g) enhance security of supply of both systems from the addition of capacity to both.

Question 3: *Do you agree with the proposed scope and duration for the exemption, and the conditions for revocation?*

While EWC's economic modelling is not visible to us, we believe the proposed durations of 25 years (EW1) and 20 years (EW2) are not unreasonable, considering the nature of the facility, the longevity of the assets, their inability to be re-used economically elsewhere and the high value of investment needed. Investment in interconnectors is risky because of the construction, operational and commercial uncertainties and we have no doubt that without such exemption periods the investment would be unable to proceed.

We hope you will find these comments helpful. If you have any queries, please do not hesitate to contact either Nigel Edwards on 020 7759 6033 or myself.

Yours sincerely,

A handwritten signature in black ink, appearing to read "D. Linford", with a long horizontal stroke extending to the right.

Denis Linford
Director of Regulation