

Hannah Nixon
Partner, Transmission
Ofgem
9 Millbank
London
SW1P 3GE

3 May 2011

Dear Hannah,

Project TransmiT – next steps on connections issues

EDF Energy is one of the UK's largest energy companies and provides 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the opportunity to respond to this consultation. The key points of our response are as follows:

- We believe it is possible for the UK to meet its carbon targets in a manner which is both affordable and does not represent a risk to security of supply.
- To facilitate this there must be efficient arrangements for generators' entry and exit to and from the transmission system.
- There is theoretical attractiveness in trying to ensure that risks associated with the transmission system are shared equitably between different industry parties, including consumers, transmission owners, existing generators and those parties planning to connect to the system.
- However, one current proposal is to increase the exit liability for existing generators from two to four years and we have deep concerns that in doing so there may be serious, unintended consequences for the wider energy markets.
- Many arguments have been presented against raising this user commitment, including that it might force early closure of plant and make plant life extension decisions increasingly difficult. This relates to the difficulties generators experience in forecasting future power, fuel and carbon prices over a longer period, which are critical in determining continued investment in an existing asset.
- Prior to making any significant changes to user commitment it is imperative that the potential consequences of doing so, particularly notice periods for generator exit, are properly reviewed.
- There are many areas to consider in such a review, including the potentially different risk profiles of generators and historical arrangements for connection and use of system which have applied to many generators in the past.
- We are contributing to the working group security arrangement discussions under CUSC Modification Proposal (CMP)192. We urge Ofgem to insist that these important issues are appropriately accounted for and evidenced in the working group report and consultation.

Further comments

We agree with Ofgem's high level principles for user commitment, including that arrangements should be transparent and proportionate. However, we note that Ofgem is specifically concerned with the balance of risk between different industry parties; your letter highlights the need for efficient allocation of stranding risk between new and existing network users. We consider that this may be an important consideration for transmission but that it is imperative that the wider consequences of any changes to user commitment arrangements are properly reviewed.

We welcome the focus given by Ofgem, in this letter, to the industry workgroup for CUSC Modification Proposal (CMP) 192. EDF Energy is actively participating in this workgroup and agrees that it is imperative for stakeholders to engage fully with the industry change process. Some of our initial views on this proposal are below.

We consider that increasing the notice period and liabilities associated with generator exit from the transmission system is likely to have serious consequences for the efficiency of the energy markets. This goes beyond the primary concern regarding risks associated with transmission investment but is an important consideration for the CMP192 workgroup, specifically because the proposer, as a transmission licensee, has duties in respect of the facilitation of competitive markets. In particular, there are potential risks to security of supply (and system operation), as it is likely that marginal plant may choose to exit the system earlier than anticipated as a result of the additional risk exposure they might face through this modification proposal. The current CMP192 proposes that an existing generator should hold up to four years of transmission liabilities, which is likely to exceed the duration of forward energy and carbon prices, with the potential consequence being early exit. In these circumstances it is difficult for generators to invest in life extensions for existing connections, which may be more efficient for the wider market and end consumer than the building of a new generation project and transfer of transmission capacity.

The electricity industry is witnessing unprecedented change in order to meet challenging targets for low-carbon and renewable generation. We believe that there are a number of future scenarios which will allow the UK to meet our low-carbon targets but that in order to ensure that these are met in the most efficient way there must be both efficient entry and exit from the transmission system. This can be best met by improving the way in which generators connect to the system, as was implemented in 2010 under the Connect & Manage arrangements for access, and ensuring that system exit arrangements are flexible enough to allow generators to respond to market signals.

We acknowledge that industry parties have concerns about the user commitment process acting as a barrier to new generation projects and note Ofgem's recognition of this in their letter of 22 March 2011. Specifically, we believe that industry comments relate to the large sums of financial security which are required for liabilities associated with transmission owner investment. At a time when a developer is making significant cost expenditure in their own project, these requirements are considered to be particularly onerous. We would welcome a mechanism which addresses this issue and understand the

proposals under discussion under CMP192 include consideration of this. We do not consider that industry parties view other aspects of user commitment as urgent. We would welcome a focus on pre-commissioning arrangements, not within TransmiT, but within the ongoing work of CMP192.

In reviewing user commitment within CMP192 we would question whether it is appropriate to introduce identical arrangements for all generators and request that any changes be accompanied by appropriate transitional arrangements. Historically, some generators may have contributed to the costs and risks of the transmission system under different connection and use of system charging arrangements. It might be appropriate to consider this in developing new arrangements.

Ofgem has requested views from industry parties on the possible triggers for an SCR, identifying that their own concerns about the industry process might be appropriate. We would welcome detailed engagement by Ofgem on the likelihood of these concerns and how the industry process might be best used to overcome them. This does not seem unreasonable, given that Ofgem is actively engaging in the CMP192 workgroup.

We welcome Ofgem's proposal for a TO reporting obligation. This seems a proportionate step to evaluate progress in respect of timely connection prior to any decision on the implementation of new licence changes.

Finally, we continue to consider that it might be feasible for some compensation arrangements to be introduced where the late delivery of a connection date can be directly linked to the actions of a TO. We welcome the recognition by Ofgem of industry views in this regard and acknowledge that it would be difficult to quantify an appropriate arrangement. We would hope that this is something the TOs might consider as part of their customer-focused business plans under RIIO-T1.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Rob Rome on 01452 653170, or myself.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "D. Linford".

Denis Linford
Corporate Policy and Regulation Director