

Sheona MacKenzie  
Electricity Transmission  
Ofgem  
Cornerstone  
107 West Regent Street  
Glasgow  
G2 2BA

23 September 2011

Dear Sheona,

### **Minimum transmission capacity requirements in the Security and Quality of Supply Standard (SQSS)**

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 five million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to this consultation. The key points of our response are as follows:

- We would have welcomed some additional transparency and industry involvement in the change processes employed by the Review Group.
- We are disappointed that the revised analysis for this impact assessment has not yet been published in full and we would welcome publication of this now.
- While we support, in principle, an approach which ensures the system can meet both peak demand and year-round requirements we have some reservations regarding the assumptions which have been used to develop the proxy for cost benefit analysis.
- We believe it is important to recognise these proposals are being used by National Grid under Project TransmiT to propose amendments to transmission charging.

In responding to the previous consultation from the SQSS Review Group in 2010, we recognised the significant analysis and effort employed by the SQSS Review Group in developing their proposals. There may have been a benefit from benchmarking this impact assessment against other countries or with external consultants but we have no evidence that this has been carried out. We also understand that there has been little contribution from industry parties in the process of developing proposals; specifically it was not clear if the Review Group engaged with intermittent generator companies. Greater transparency in this respect would have been beneficial; in particular the change process for the SQSS would have been enhanced by the publication of industry responses to the Review Group's consultations from 2010 but we have yet to see these.

More specifically we would also highlight that the Review Group has updated analysis for this impact assessment at the request of Ofgem. It would have been beneficial for all stakeholders if the results had been published in full. Our comments at the time the

original proposals were raised focused on the limited number of transmission boundaries for which data had been studied. It is reassuring to understand that the analysis has been updated for all 17 SQSS boundaries; however, the full results should have been included as an appendix to this impact assessment to aid responses. We would be very interested to see this completed analysis.

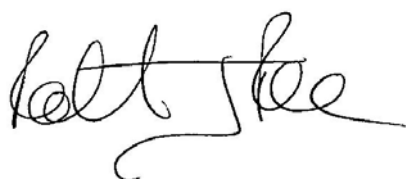
Regarding the approach which has been taken to revise the SQSS we note that these deterministic criteria are not the sole basis for a decision on transmission investment. The approach, in concept, appears reasonable, i.e. one which ensures that peak demand can continue to be met while also ensuring sufficient transmission investment to meet the needs of the changing generation mix. We welcome the confirmation within this consultation that there remains a need for full cost benefit analysis of major transmission investment to measure the efficiency of strategic investments.

Finally, we note that there are potential unintended consequences which warrant a more thorough consideration as part of this impact assessment: namely the immediate impact on ongoing short to medium term transmission investments and the intention to use GSR009 as a basis for National Grid to propose changes to the way in which transmission system charges are calculated as an option under Project TransmiT.

Our responses to your questions can be seen in the attached Appendix.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Louise Schmitz on 01452 656370, or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Rome".

**Rob Rome**  
**Head of Transmission and Trading Arrangements**  
**Corporate Policy and Regulation**

## Appendix

### Minimum transmission capacity requirements in the Security and Quality of Supply Standard (SQSS)

#### EDF Energy's response to your questions

##### Chapter Three

##### **Question 1: Do respondents support the proposed dual criteria approach?**

Demand security is of paramount importance in transmission system planning and the new criterion may help to ensure that security of supply is maintained. The approach, in concept, appears effective on the assumption that there will always be enough conventional generation to meet peak demand i.e. intermittent generation will be built in addition to conventional generation. However, the cost of such a generation mix is likely to be much higher than a mix with low carbon plant which is also capable of meeting demand security.

The use of a single scenario to better represent the amount of transmission needed to meet the needs of the transmission system on a year round basis is a proxy for full CBA and we consider that this is only possible on the assumption that intermittent generation is able to share capacity with conventional generation and export onto the wider transmission system.

Consequently while we support the proposed approach, in principle, we have some reservations regarding the assumptions which have been made to develop the proxy for CBA and discuss below our concerns regarding the potential consequences of the change.

##### Chapter Four

##### **Question 1: Do respondents consider that we have identified, and where appropriate, quantified the impacts of the GSR009 proposal?**

It seems that the impacts of the proposal have been appropriately identified; however, we comment below on the potential consequences which may warrant a more thorough examination.

When responding to the Review Group's consultations in 2010 regarding the quantification of the impacts we noted that their original analysis only presented results for six transmission boundaries. It was noticeable that the far north of Scotland where a higher penetration of wind is anticipated was not published as part of this work. We welcome the updated analysis for this impact assessment using a more recent version of Gone Green and that this has been completed for all 17 boundaries. However, this work should be published to enable industry parties to make a more informed decision on the possible impacts of the proposals.

We consider that the cost information which has been published is very high level; however, from this we do note that the Economy criterion results in additional investment over and above that required for winter peak and that this reduces the anticipated constraint costs. The graphs suggest that, compared to the current approach in the SQSS, the savings could be up to £75m (annualised costs for 2020/21) and that the Economy criterion is within a few million pounds of the optimal approach, as analysed using a full CBA. This seems to demonstrate there is merit in implementing these new criteria.

**Question 2: Do respondents consider that there are any additional impacts that we have not fully considered?**

While we have no specific additional impacts which we wish to highlight it could be argued that the risks and unintended consequences of these proposals warrant a more thorough consideration by the Authority.

In particular the effect on proposed transmission investment works in the near term deserves greater transparency. It is notable that the proposals, on the whole, indicate that they will result in more transmission investment than the current SQSS as this better mitigates the cost impact of constraints. However, the information published to industry in the Seven Year Statement, transmission works register and other data sources may in our view be subject to change. This is particularly relevant given that the business plans submitted by the transmission owners for the next price control review period have recently been published. A clearer summary of planned investments and delivery dates would be welcomed.

It is important to recognise that these proposals are being used by National Grid under Project TransmiT to propose amendments to transmission charging which may have notable cost and commercial consequences for transmission system users.

**Question 3: Do respondents wish to present any additional analysis that they consider would be relevant to our assessment of the GSR009 proposal?**

We consider that additional analysis on these proposals by parties other than the transmission owners is difficult given that the development of the proposals and the modelling of the impacts have been completed exclusively by the Review Group. While industry has had access to the National Grid Electricity Scenarios Illustrator (ELSI) Model this does not provide the granularity of information which would be required to be presented to inform Ofgem's assessment of the proposal.

We would reiterate our belief that the updated analysis for this impact assessment for each of the transmission system boundaries should be made public.

**EDF Energy  
September 2011**