Gareth Atkins
Offshore Transmission
Ofgem
9 Millbank,
London
SW1P 3GE

1 March 2013

Dear Gareth,

Consultation on a proposed framework to enable coordination of offshore transmission

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

Our key comments are as follows:

- EDF Energy supports the proposed high level framework for the development of coordinated offshore transmission assets and believes this will improve the certainty around cost recovery required by developers undertaking GFAI, developer led and non developer led WNBI.

- The role of NETSO will be important towards achieving the aims of this proposed framework to support coordinated network development. We believe the NETSO role could be expanded such that they become a central system design body to oversee the future development of the GB transmission system, whether both onshore or offshore.

- We believe appropriate changes should be made to the NETSO licence to formally obligate the NETSO to take a more proactive role to identify coordination opportunities and support the needs case for developer and non developer led WNBI.

- We agree that, in the interim, there would need to be user commitment (or equivalent), provided from a single developer, before the connection of the later generator where GFAI is transferred to the OFTO. We also agree that, for multiple parties, the user commitment would need to be provided from the later generator.

- EDF Energy agrees with the proposed criteria against which Ofgem can assess proposals for developer led WNBI. Construction of any additional generation specific assets needs to be considered in light of risk of the anticipated generating assets not actually being constructed as originally planned leading to asset stranding.

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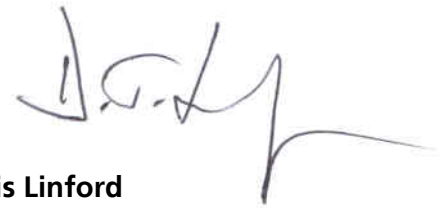
Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 07875115499, or myself

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,



Denis Linford
Corporate Policy and Regulation Director

Attachment

Offshore Electricity Transmission: Consultation on licence policy for future tenders

EDF Energy's response to your questions

CHAPTER 2: Overview of our proposed framework for the delivery of coordinated offshore transmission assets

Q2.1 Do you agree with our high-level framework for the development of coordinated offshore transmission assets?

We agree this framework appears to both capture the likely project investment scenarios, and can improve the certainty on the route to cost recovery required by developers undertaking Generator-Focused Anticipatory Investment (GFAI) and developer led Wider Network Benefit Investment (WNBI). We believe it has particular relevance for WNBI that not developer led.

Q2.2 Do you agree with our expectations of how coordination opportunities will be identified for parties to progress? Are they consistent with existing roles and responsibilities of parties with regards to the development of the network?

We agree that the most likely venue for the identification of opportunities will be the connection and offer process undertaken by National Grid as NETSO, as it is at this point that the relevant factors can be considered. Appropriate consideration can also be given to how these opportunities can be progressed and funded within the 3 proposed categories.

With Generator Build for offshore networks, it is important that there is an overview of these developments to ensure that they are efficient in the wider transmission network. It is important that offshore developers are protected in this process, so that they will still benefit from a cost effective and timely connection. We believe a single party should have overall responsibility for the high level network design, and ensure cost efficient coordination opportunities are identified.

EDF Energy believes that National Grid, as the current System Operator, has the appropriate skills and resources to fulfil a broader system planning role to become a central body that has responsibility for the overall high level network design. To date the NETSO has carried out the role of system planning along with other Transmission Owners TOs) OFTOs. This has worked effectively and integrated developments are being planned to the transmission system.

Subject to the right framework (e.g., licence change) and incentives being in place, the new role could allow the System Operator to take a more holistic view of generation and

transmission development potentially resulting in a better or timely identification of potential future offshore coordinated network development opportunities. This should help facilitate more efficient planning of system investment and would be to the ultimate benefit of the end customer.

Q2.3 Do respondents consider that changes to the CION process are needed, for example, should the CION be developed further to support coordination? If so, what changes are needed to the process or document? Would an improved CION assist in building developers' confidence in accepting coordinated connection offers?

Given the increased focus on coordination opportunities it would appear sensible to allow for increased developer input into the production of the CION to help ensure that all such opportunities are considered and where necessary acted upon. However, this may lead to an extension of the time required for the connection offer process, in which case we would recommend an introduction of an additional stage whereby developers are able to lodge their observations and specific project recommendations. This should increase developer confidence that suitable consideration has been given to any potential coordination opportunities.

Q2.4 Are there any barriers to improving the CION, if so, what barriers exist and how could they be addressed?

Further to our response to Q2.3, we suggest that one of the main issues would be the extra time required to complete the process in view of the multiple parties that could be involved.

Q2.5 Do respondents anticipate issues with the design or delivery of transmission assets where generation projects are reliant on works to be undertaken by another developer? If so, what would be the appropriate mechanism to address such issues?

We believe that the main issue concerns the potential differing priorities and project timescales between different developers and their individual projects, for example a developer may be less incentivised on concentrating on delivery of those transmission assets which are linked to a different project rather than their own. This could be managed with appropriate incentives and/or the use of penalty payments applicable to any delays in delivery. These costs would appropriately impact the revenue stream of the developer responsible.

Q2.6 To what extent could NETSO intermediation mitigate data confidentiality issues between developers? Are any further measures required?

We do not believe data confidentiality agreements would be sufficient to fully address parties' concerns in relation to data confidentiality. This is because the developer would still be required to disclose their confidential project's specific data to their competitors. We would therefore propose that the NETSO act as the data warehouse so that participants would provide their data solely to the NETSO. The NETSO would then use this

data to facilitate coordination and assessment of related works which should mitigate the sharing of data between individual participants.

CHAPTER 3: Category 1: Generator-Focused Anticipatory Investment

Q3.1 Do respondents agree with our preferred option, to support the transfer of GFAI assets to the OFTO if security is provided to protect consumers against stranding risk?

We agree with the preferred option being the transfer of the GFAI assets to the OFTO on the basis that sufficient security is provided. We believe that the stranding risk should rest with the developer as this would ensure that the risk is borne by the appropriate entity and not allocated to the consumer. This should also incentivise the developer to ensure there is a robust economic justification to proceed with any additional capacity or asset build over and above that required directly for the needs of the project.

Q3.2 To what extent do the current user commitment arrangements address the scenarios set out in table 3.1 and paragraph 3.13?

We agree that in the interim, there would need to be user commitment (or equivalent) provided from a single developer before the connection of the later generator where GFAI is transferred to the OFTO. We also agree that for multiple parties, the user commitment would need to be provided from the later generator.

CMP192, a CUSC amendment in full effect from next month (April), is based on incentivising generation projects to give good notice of cancellation of a new generator (or closure or capacity reduction of an existing generator). The aim is to avoid the consumer having to pay for stranded transmission assets, in a way that does not comprise a barrier to entry.

CMP192 features a generic £/kW liability to cover wider system investment, and a specific liability to cover "attributable works". The definition in CMP192 of "attributable works", is intended to capture investment that is directly attributable to the connection of each generator. The attributable works part of the CMP192 formulation is applicable to new projects, but wider liability, allocated by way of a new zonal table, applies to new and existing generators. The liability, which is payable only if the project cancels, can differ from the securitisation required. Indeed, no securitisation at all is required from existing generators. Calculation under CMP192 of both the liability (payable only if the project cancels), and (for new generators) the securitisation required, for a new project is slightly complex. There are specifications of allocations of percentages of the various base figures depending on when a project gains key planning consent in relation to its actual intended (contracted) connection date.

CMP192 user commitment only applies where TOs are building assets (including under OFTO build once the OFTO has been appointed). It does not include the offshore developer Generator self build option, for the valid reason that the potential user (the generator) is 'self-securitising' by funding the capital expenditure. If the developer aborts their project the costs of the stranded assets fall on the developer, and not on the consumer.

In the case where GFAI assets are being constructed by a developer, user commitment should be extended. The key issue is to ensure that the user commitment covers the stranded assets that the consumer would otherwise bear the cost if CMP192 were not to be extended. We agree that it would appear merited for National Grid to raise a CUSC modification to give effect to this extension of CMP192 to cover Offshore Transmission Coordination (generation self-build issues).

We agree that the three key areas that need to be covered are as described in the bullets in paragraph 3.13 of the consultation.

Q3.3 Are there any barriers to extending user commitment arrangements to address any gaps identified in question 3.2?

EDF Energy believes that any potential barriers would, if there were any, become more apparent during the thinking process that would proceed both in the drafting of an actual CUSC modification, and at the industry workgroup assessment of the deemed modification. The modification may be raised in a way that sets out the intended net effect, but which leaves scope for the generation during the national workgroup assessment process, of alternatives (WACMs) should some specific difficulties or issues arise around the detailed specifications of the modification.

CHAPTER 4: Category 2: Developer-Led Wider Network Benefit Investment

Q4.1 Do you agree that the NETSO should support the needs case for developer-led WNBI, drawing on relevant TO(s) as necessary? Do you consider changes to the NETSO licence or industry codes are needed to support this?

We agree that it is appropriate that the NETSO supports the needs case for developer-led WNBI and drawing on relevant TO(s) as necessary. Similar principles and synergies between the System Operator function and TOs which apply to onshore network development may be applicable to offshore and therefore support drawing on this relevant experience to maximise the potential coordination opportunities in terms of identifying likely development opportunities and therefore maximising or putting the strongest needs case forward.

We believe appropriate changes should be made to the NETSO licence in order to enable all parties to understand their responsibilities and obligations. For example, a licence change could formally obligate the NETSO to take a more proactive role to support the needs case for developer-led WNBI where it deems necessary.

We recognise that there could be conflicts of interests between National Grid's competitive businesses in offshore transmission and interconnectors and their role as NETSO in supporting needs cases for WNBI. There could be opportunity for the NETSO to favour its own competitive businesses over its competitors by the provision of information to support a project's needs case. Therefore, we support a review of this issue in the context of any new licence obligations and the development of solutions (e.g., appropriate business separation/ring fencing options) which could help address these impartiality aspects.

Q4.2 Are there any specific barriers to the NETSO sharing information required to support the needs case for developer led WNBI with the appropriate developer?

We believe specific barriers may arise from concerns about potential disclosure of third party confidential information in the NETSO's possession to support an individual developer's project needs case.

Q4.3 What are your views on the criteria that Ofgem could use when assessing proposals for developer-led WNBI?

EDF Energy agrees with the proposed criteria against which Ofgem can assess proposals for developer-led WNBI. Construction of any additional generation specific assets needs to be considered in light of risk of the anticipated generating assets not actually being constructed as originally planned leading to asset stranding.

Q4.4 Do you agree with our proposal for the timing of the Ofgem assessment gateways to support developer-led WNBI?

We agree with the timing of the gateway assessment process, but we believe that there some flexibility is allowed for. This is to help ensure developers feel they are able to approach Ofgem when they feel they have sufficient information to progress through gateway process and allow related considerations to be dealt with.

Q4.5 Are there some specific types of low regret WNBI that developers may be willing to take forward without a gateway assessment?

We agree that there will be occasions where projects can be taken forward without gateway assessment due to the straight forward and identifiable nature of the costs and benefits. In these cases it would appear an inefficient use of resource to undergo gateway assessments where the rationale behind such projects appears clear. Protection for the consumer is still provided in any event by the cost assessment process which must be undertaken regardless of whether further gateway assessments are or undertaken or not.

Q4.6 Do you consider that there should be a de minimis threshold for low regret developer-led WNBI? What are your views on how this should work, while ensuring consumers are not exposed to significant stranding risk? Where possible, please provide evidence of the types and costs of WNBI that you consider should be captured by the threshold.

We agree that the de minimis threshold may be appropriate in cases where the value of the proposed work is very low. We propose that the de minimis threshold should be set at the cost of undertaking the assessment of the proposed work in order to protect the consumer from any costs associated with asset stranding. For example, if the cost of assessing a specific WDBI project is 10K then any such projects with a total value less than this should fall below the threshold. Therefore, even if these assets are stranded,

consumers in affect will still be better off as the costs of assessing exceed any stranding cost.

CHAPTER 5: Category 3: Non Developer-led Wider Network Benefit Investment

Q5.1 To what extent do you think it would be appropriate for onshore TOs to take forward preliminary works for non developer-led WNBI?

We agree that is appropriate that the onshore TOs to take forward preliminary works for non developer-led WNBI as they have the necessary experience to deliver this and already have a suitable remuneration model in place.

Q5.2 What are your views on the criteria that Ofgem could use if assessing proposals at the first gateway for non developer-led WNBI?

EDF Energy agrees with the proposed criteria against which Ofgem can assess proposals for non-developer-led WNBI. Under this regime the preliminary works are at risk of stranding. This could result from either the remaining works not being taken forward by the deemed party, or as a result from the wider network not being constructed as originally anticipated and therefore the planned benefits not materialising. In line with criteria provided for onshore transmission investment we would expect that appropriate evidence be provided to demonstrate a developer's commitment to connection such as securities in place and consents granted.

Q5.3 What are your views on using two gateways for non developer-led wider network benefit investment?

In principle the use of two gateways appears to provide a useful opportunity to confirm that the proposed works are in the best interests of all affected when updated information becomes available.

Q5.4 What additional incentives and requirements should be placed on preliminary works funding for non-developer led wider network benefit investments?

We support the incentives and requirements recommended as they appear to provide appropriate mechanisms to determine the necessary funding for preliminary works.

Q5.5 What parties should onshore TOs be expected to engage, and what engagement processes should they follow before and during preliminary works?

We believe that fundamentally all affected parties should be expected to be engaged by the onshore TOs in respect of preliminary works. In particular importance will be the OFTOs or developers who are expected to take the works forward.

EDF Energy
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