



Charlotte Ramsay
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ITPR team
Ofgem
9 Millbank
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2 August 2013

Dear Charlotte

Integrated Transmission Planning and Regulation (ITPR) Project: Emerging Thinking

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.

EDF Energy welcomes the opportunity to comment on Ofgem's emerging thinking on the Integrated Transmission Planning and Regulation (ITPR) project. We are supportive of Ofgem's emerging thinking on ITPR and our detailed responses are set out in the attachment to this letter. However, we wish to highlight the following aspects that we do support:

- We support an enhanced role for the System Operator in planning development of the transmission system.
- If the enhanced SO role is pursued then potential conflicts of interest in National Grid's roles will need to be addressed effectively.
- We consider that more work needs to be undertaken in order to ensure that the development of interconnection to the GB market is economic and efficient; and
- We support Ofgem's proposal to introduce increased flexibility for the delivery options for transmission infrastructure investment if it is based on a transparent and clear criteria.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 01452 658415, or me.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read "Angela Pearce".

Angela Pearce
Corporate Policy and Regulation Director

Attachment

Integrated Transmission Planning and Regulation (ITPR) Project: Emerging Thinking

EDF Energy's response to your questions

CHAPTER: Two

Q1. Do you think we have appropriately characterised the future challenges to network development? Where do you see the main challenges? What are the long-term strategic and sustainability implications of these challenges?

EDF Energy agrees that the individual frameworks for onshore, offshore and GB interconnectors has enabled significant electricity transmission network development previously. However, new technological and legislative demands placed upon the GB electricity regime have meant that these separate frameworks and approaches to infrastructure investment are not appropriate going forward.

We consider that the main challenges to network development will be the increased number of multipurpose projects, e.g. offshore wind connections being used to reinforce the main transmission system or interconnect, and the adoption and incorporation of new technological advancements into the GB electricity transmission system, e.g. HVDC circuits and series compensation. With the potential for greater interoperability between onshore, offshore and interconnector developments, individual regulatory framework regimes do not provide the necessary flexibility to accommodate future network development. If there is not sufficient oversight of the development of the transmission system as a whole, then fragmentation will occur and inefficient and uneconomic decisions will be made.

Q2. Are any of the review areas under ITPR more relevant than others?

The four areas for review (detailed in paragraph 2.13 of Ofgem's document) within the ITPR project are appropriate.

CHAPTER: Three

Q3. What are your views on the options for system planning discussed in this chapter? Are there other approaches to system planning that you think we should be considering within the ITPR project?

We believe that the proposed Enhanced SO role for system planning has significant advantages over the other two options (shallow and directive coordinator role).

We do not believe that the TO-led shallow coordinator role will deliver the required support for complex integrated infrastructure projects. We believe that Ofgem's proposed enhanced SO model could reduce the current level of fragmented TO infrastructure development. The directive coordinator role would provide an improvement to the current regimes as there would be a clear and consistent (where appropriate) approach for

developers in onshore, offshore and interconnectors. However, the directive coordinator role would require significant legislative and regulatory changes that would be time consuming and costly. The introduction of the Enhanced SO role will improve the current system planning processes and should provide a number of benefits over the status quo in a shorter timeframe.

Q4. Do you think that it would be beneficial to strengthen the role of a coordinating body working with relevant parties to facilitate efficient decision-making? In what areas could this coordinating body add most value to the process?

Yes. If the coordinating body has visibility of the full range of developments needed to the transmission they are likely to be able to identify better outcomes for all concerned. With the scale of change to the transmission system expected this level of oversight and coordination is important.

However, further consideration needs to be given as to which party makes the final project decision and that individual generation projects are not exposed to unnecessary costs for wider-benefit system development, when these costs should potentially be shared across the wider industry.

This co-ordinating body could add value to the process by ensuring consistent application of technical standards and technical designs. A coordinating body will have the oversight to ensure efficient and effective interoperability by reducing the likelihood of fragmented development. This would also contribute to ensuring that better needs case submissions are put forward to Ofgem for consideration.

Q5. What are your views on the (real or perceived) conflicts of interest that could occur from parties holding dual responsibility in system planning and asset delivery and ownership? What are your views on potential options for institutional arrangements, separation and transparency measures to mitigate this?

We believe there could be potential conflicts of interest with NGET's role as TO onshore and the proposed Enhanced SO role. In the current framework NGET may have a perverse incentive to propose Transmission infrastructure investments such that it suits their TO business.

NGET has affiliated businesses in offshore transmission and interconnectors. In addition, NGET is becoming increasingly involved in other initiatives such as EMR, ENTSO-E and act as advisors to DECC and OFGEM on other matters. All these issues have been considered in previous consultations led by Ofgem and within DECC's consultation on EMR - Potential synergies and conflicts of interest. Ofgem will need to satisfy itself that there is sufficient ring-fencing of National Grid's businesses particularly the affiliated businesses.

Q6. What are your views on potential future approaches to planning interconnection? Should there be increased central identification of potential interconnection that could benefit GB consumers?

We consider that there is a gap in the current hybrid arrangements for interconnectors. There are no clear incentives on the interconnector developer for their connection location which could lead to higher total infrastructure costs. If Ofgem's proposed enhanced SO role for NGET is extended to interconnectors it will change how potential interconnection developments across cross-borders are assessed and progressed. This will also more closely align with European arrangements and the role of ENTSO-E and the EU ten year development plan.

However, potential conflicts of interest will need to be considered given National Grid's interconnector business. It is also unclear whether the proposal is to consider the market / security of supply benefits of interconnection and an efficient level of capacity or just to provide oversight of the siting decisions.

Interconnectors can potentially substitute for peaking generation and other technologies. The extent, to which new interconnector investments could distort the market, if the investment decision is not market-based, needs to be fully understood.

CHAPTER: Four

Q7. What are your views on the options for delivery of transmission assets discussed in this chapter? Are there other options that you think we should be considering within the ITPR project to address the delivery drivers and challenges identified?

The strict application of the three current regime approaches does not lend itself to facilitating the development of multipurpose projects and may not bring best value to consumers. Equally enabling developers to consider alternative delivery routes may provide additional options for the delivery of transmission assets that have been previously unavailable.

We do not think that there are other options that Ofgem need to consider.

Q8. Do you think that it would be beneficial to introduce some flexibility in the existing regimes to provide for alternative delivery routes, where this is in the interests of consumers? If so, what criteria could be used to determine the delivery route for an investment? Does the drafting reflect our policy decisions?

The potential criteria proposed by Ofgem¹ does reflect its policy decision, we consider it appropriate.

¹ Paragraph 4.29

Q9. If we pursued additional flexibility in application of the regimes, what role should discretion play in identifying the delivery route for a particular investment?

A clear, well defined criteria is essential for users seeking to connect to the transmission system and those parties investing in transmission irrespective of whether the rules base or discretionary approach is applied. Effective criteria should provide a clear basis for all parties such that the difference between the approaches is limited. A rules-based approach may lead to a rigid application and therefore reduce flexibility. Discretion in decision making by either Ofgem or another decision making-body could lead to inconsistencies in decision making and create uncertainty for users.

EDF Energy believes that this issue needs to be considered further along with the proposed criteria.

CHAPTER: Five

Q10. Do you think that the case for change to current arrangements to enable more integration and coordination is material now, or may become so in the future? If the latter, when?

To date NGET has carried out the role of system planning along with other TOs/OFTOs. The scale of investment going forward and with multiple parties involved (TOs, offshore wind developers, OFTOs, interconnector developers) means the challenge of facilitating economic development of the transmission system is increasing rapidly. Some of the investments straddle multiple TOs, e.g. HVDC, some involve new technologies to the GB system, e.g. series compensation and HVDC that create new issues that need to be managed in a coordinated way, in addition to the large scale integration of offshore wind. All these things are happening now and need stronger coordination.

Q11. What are your views on our emerging thinking to consider further an enhancement of NGET's role as the SO in system planning to provide for a more coordinated and holistic approach across the GB system?

The GB electricity market can no longer rely solely on incumbent TOs to take forward transmission infrastructure investment for onshore and offshore developments. We believe that Ofgem's proposed enhanced SO model could reduce the current level of fragmented TO infrastructure development. We support enhancing NGET's role as long as appropriate ring-fencing and protections against perceived and actual conflicts of interest are addressed.

Q12. What are your views on the emerging thinking that introducing further flexibility and applying criteria to designate whether an investment should be delivered by incumbent delivery or competitive selection could address many of the challenges and drivers identified?

In principle we agree that introducing further flexibility for transmission infrastructure delivery has merit. The criteria to determine this must be transparent and the process

involved timely to ensure that transmission investment continues to be delivered in a timely and cost effective manner and avoids investor uncertainty.

Q13. What other options should we take forward for consideration in the next stage of our work on ITPR?

None

Q14. Do you have any views on our approach and timetable for our work on ITPR, or on interactions with related areas?

We recognise that changing the regulatory regime for infrastructure investment may require legislative changes. Provision of information on timelines should continue to be communicated to industry. Where 'quick-wins' are identified, these should be adopted as appropriate.

The consultation starts to consider planning and delivery options for interconnection. Given the potential interconnection developments being considered to GB, greater clarity and progress in this area is needed.

Q15. Do you have any other views on the ITPR project not covered by these questions?

None

**EDF Energy
August 2013**