Matthew Grant
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17 January 2014

Dear Matthew

Regulation of transmission connecting non-GB generation to the GB transmission system

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.

We welcome the opportunity to comment on Ofgem's consultation on the regulation of transmission connecting non-GB generation to the GB transmission system. Our detailed responses are set out in the attachment to this letter. However, we wish to highlight the following aspects:

- Non-GB generation plant connected to the GB transmission system should be subject to the same regulatory arrangements as GB generation. The application of differing transmission charges or different market arrangements amongst non-GB generation and GB generation will confer an unfair competitive advantage to a particular generator.

- It is essential that any regulatory arrangements developed for non-GB generation are holistic. There is a risk, given the nature of these connections and the relevant legal frameworks, that minor changes to the asset design will create very different regulatory obligations. This could lead to sub-optimal asset configuration and geographical location of plant, which could lead to increased costs for GB consumers.

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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.

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

Yours sincerely,

Angela Piearce
Corporate Policy and Regulation Director

Attachment

Regulation of transmission connecting non-GB generation to the GB transmission system

EDF Energy's response to your questions

Chapter 1

Question 1: What are the key milestones for the delivery of non-GB generation and connections pre-2020? How does the decision on the regulation and licensing of non-GB connection fit into this timeline?

If there is an economic case for non-GB generation and connection parties to connect to the GB transmission system pre-2020 with or without requiring renewable support, the key milestone would be to develop, consult upon and embed the regulatory and licensing arrangements in GB. To facilitate this Ofgem and any other relevant National Regulatory Authority (NRA) would need to set out clearly their own roles and responsibilities. This would be in addition to also defining the roles and responsibilities of non-GB generation and connection parties.

Where a non-GB generation and connection project financing requires UK renewable support to proceed another key milestone would be implementation of the supporting regulations by Government.

Question 2: From the perspective of a non-GB project developer, how does the decision on the regulatory arrangements interact with Government decisions on renewable support (such as the award of a Contract for Difference (CfD))?

The current regulatory arrangements for GB generators enable parties to apply for renewable support, where appropriate. Therefore, it is imperative that regulatory arrangements for generators should be applied consistently, irrespective of whether the generator is located within GB or not. This would ensure a level playing field for both non-GB and GB generators.

Furthermore, we note that under the Energy Act 2013 it may be possible to award renewable support (such as the award of a CfD) to a non-GB project developer. Currently, there is no secondary legislation from the Government to test how this would interact with the decision on the regulatory arrangements.

Question 3: Are there other factors that Ofgem should be aware of relating to the timing and development of non-GB connections?

These projects in general will be large scale wind which supplies the GB market. Given this their regulatory arrangements should be such so as to create the same obligations as if they were a GB generator. However, Ofgem needs to ensure that changes to the

project to allow interconnection with any country have been considered so as to not create perverse incentives on developers and distort the market.

In addition the impacts of any new large generation projects will need to be considered from a security of supply perspective and Ofgem will need to consider how these projects should be treated from a security of supply perspective particularly where they do or can simply be connected to another market.

Chapter 2

Question 4: Do you agree these are appropriate principles to take into account in relation to non-GB connections?

We agree that the principles as laid out in the consultation document are appropriate to take into account in relation to non-GB connections. Any arrangements should avoid inappropriately undermining or distorting any investment in renewables or other generation within GB.

Question 5: Are there other principles that we should also we consider?

We believe that non-GB generators that are connecting to the GB transmission system should be treated the same as GB generators in all respects, including full recovery of system costs from the non-GB generator and the same market arrangements, such as balancing costs. We would expect the arrangements to be similar or equivalent to the OFTO regime.

Chapter 3

Question 6: We invite views on our interpretation of the different asset definitions/boundaries and interpretation of the legislation provided in this chapter.
What implications does this have for the regulatory options presented in the next chapter?

The EU law[1] is very clear that interconnection refers to a transmission line that *connects* the national transmission systems of the Member States. Therefore, we would welcome further clarification as to how a direct and exclusive connection between non-GB generators and the GB transmission system could be considered as an interconnection.

Whilst the Electricity Act may make it feasible for an interconnector licence to be awarded, intuitively we do not think that this is an appropriate regulatory option for something that is not an interconnector (if it is not connecting two markets). We consider GB offshore regulatory arrangements to be much more appropriate to be applied to a direct and

[1] Article 2(1) of the Electricity Regulation - "a transmission line which crosses or spans a border between Member States and which connects the national transmission systems of the Member States"

exclusive non-GB connection as essentially the projects being considered are very similar albeit not in GB waters.

However, whatever the legal route that is used to licence and impose obligations on parties, it is imperative that the framework creates the same obligations as if those generators were within GB. For instance, interconnector licensees are currently exempted from certain obligations such as transmission charging. If this gap was not addressed legally in some other way then inefficient and distortive outcomes are likely. We note that Ofgem does not have jurisdiction cross border but it should be possible through licensing the transmission asset or through the terms of any renewable support and in conjunction with the cross border NRA to create this framework.

Question 7: We are interested in views from stakeholders on what impact alternative interpretations would have on potential projects? Please provide detail where possible.

As stated above the legal interpretation chosen will have particular implications on the regulatory framework. This needs to be considered carefully and addressed as far as possible to avoid distorting the market. More widely terms will need to be placed on parties beyond Ofgem jurisdiction to address and manage and future changes to the assets to avoid future perverse outcomes.

Question 8: We seek input from stakeholders on how generation licensing for non-GB generation could ensure appropriate safeguards for the export of renewables to the GB transmission system?

We would expect that the non-GB connections should be subject to the same standards and requirements as other new generation connections, such as an OFTO connection, to ensure the safe operation of the GB system. It is important that the legal and regulatory framework delivers this protection to the GB market. We note that any different treatment in this respect for non-GB generation connections may be discriminatory, and would need to be fully justified, to ensure no adverse impact on the operation of the GB system.

Chapter 4

Question 9: Are non-GB connections deliverable by 2020 via direct and exclusive connections?

The simpler configurations, i.e. direct connections appear to be feasible in the timescales subject to the legal and regulatory framework being in place to support this as an early stage.

Question 10: What are the technology challenges of delivering direct and exclusive connections? What are the technology challenges of delivering multi-purpose assets?

No comment

Question 11: What are the potential benefits and challenges of enabling flexibility for a non-GB connection to also be used for a) market-to-market trading; and b) GB network reinforcement? What are the implications for investment certainty?

The main driver for these investments has been the 2020 renewable target, and so the theoretical wider benefits of more complex configurations appear second order given the challenges of developing a regulatory framework. In any case Ofgem would need to explore the potential impact on the proposed regulatory framework of non-GB generators choosing to connect to other Member States electricity systems. Ofgem needs to take care in resolving this issue.

We believe that the concept of market-to-market connections and the various scenarios that this may entail needs to be developed further.

Chapter 5

Question 12: Is the interconnector licence with exemptions(s), as currently available, a feasible option for non-GB connections? If not, what are the key challenges of applying this route to non-GB connections? How could these challenges be addressed?

We do not believe that the interconnector licence with exemption (s) is an appropriate option. Electricity interconnection generally refers to cross-border transmission capacity connecting transmission systems of different European member states. Non-GB generation projects specifically those classed as 'direct and exclusive connections' will export electricity from non-GB generators directly onto the GB transmission system. Therefore, there is no interconnection with another electricity transmission system.

The non-GB generation projects and associated connections are simply located outside of GB and do not deliver the benefits identified that new interconnection may provide. The receipt of those benefits by GB is one driver behind the positive structure of the interconnection licensing and approvals regime. These benefits may include price arbitrage opportunities; greater price transparency; improved security of supply; sharing of balancing facilities between interconnected systems; and improved liquidity and competition.

If an interconnector licence approach is adopted then it will be important that obligations that Ofgem would normally impose on a GB generator are reflected through the interconnector licence to the non-GB generator, such as charging and market arrangements mentioned above. We also consider that the exemption route is the only appropriate model as this requires no consumer underwriting which again should minimise market distortions.

Question 13: Under this route would an exemption (under Article 17 of the Electricity Regulation) be required? If so, which provisions would you seek exemption from? How would your project be affected if exemptions could not be applied for?

No comment

Question 14: Given that an application of the regulated Cap and Floor or fixedrevenue model would take time to implement for non-GB connections, should these still be explored further?

We do not consider these models to be appropriate for direct connection of non-GB generation.

We note for projects involving member state interconnection, the application of either the Cap and Floor or fixed revenue model would require Ofgem and CRE to have developed and consulted upon which model should apply to non-GB connections. Furthermore, any non-GB connection project will have to provide detailed information to both NRAs to demonstrate the business case for new non-GB connection to GB. In addition, Ofgem would need to undertake an impact assessment of applying the Cap and Floor or fixed revenue model. This transparent process would need to have taken place before Ofgem and CRE publish their decision on whether to allow non-GB connection.

As stated in the consultation document, neither model details how to include wider system requirements in the design of interconnector assets. Under both models this should be considered, as the development of non-GB connections should be undertaken in an efficient and economic manner, particularly in the case of the fixed revenue model where all the projects' costs will be fully underwritten by consumers.

Question 15: If so, what are the main challenges and benefits of applying a regulated Cap and Floor or fixed revenue model to non-GB connections? How could these be addressed?

We have previously stated in our response to Ofgem's project Nemo consultation[2] that we are concerned at the potential of the Cap-and-Floor regime to be distortive to the electricity market and that assessments need to be transparent. Any benefits that could potentially be identified for interconnectors are not unique; demand side response, peaking generation and storage, are all alternative, and potentially more reliable, balancing options. Developing the licensing framework and potential regulatory arrangements for non-GB connections should not be to the detriment of existing and future GB generation.

We do not believe a Cap and Floor or fixed revenue model is appropriate for a non-interconnector, exclusive, connection to non-GB generation.

[2] Cap and Floor Regime for Regulated Electricity Interconnector Investment for application to project NEMO

Chapter 6

Question 16: What is the appropriate mechanism for ensuring access to capacity for non-GB generation?

We believe that arrangements need to be developed that create an equivalent effect as the arrangements for access to the system for GB generators. In terms of access to the "interconnector" this could be through a private agreement subject to the exemptions necessary as described in the consultation.

Question17: What are the implications of following the current connections process for non-GB connections? Should non-GB generators be treated differently to GB based generation? Should non-GB generators be treated differently to other interconnector users? If so, please provide your reasoning.

It is appropriate for non-GB generation to have economic, efficient and non-discriminatory treatment compared with GB generation. If non-GB generators are treated as an interconnection connection, then the absence of financial signals directing the location of interconnector connections within GB could lead to inefficient choices of connection location and subsequent operation. This could exacerbate rather than alleviate congestion in the GB system. Consequently, it is important to ensure that there are effective arrangements for coordinating existing GB transmission system activities with those of non-GB connections.

Question 18: How would the role of the interconnector operator need to adapt if a direct-connect asset was used for additional purposes – such as a) market-to-market interconnection; or b) GB network reinforcement? Should the GB or non-GB NETSO have a role in operating these assets? If yes, what role?

In principle if the "interconnection" assets become part of the GB system from an operational point of view, then we agree that the NETSO or equivalent should have a role in operating these assets. We can envisage a model similar to the arrangements in Scotland or Offshore.

Question 19: Can the existing charging/cost allocation approaches used onshore or for interconnection be applied to non-GB connections? If not why not and what alternatives are available?

Failure to provide transparency on the full costs will distort the perception of the true costs of the imports (and also distort investment signals), particularly if transmission costs are socialised across all consumers. Appropriate cost-reflective charging approaches need to be developed to take these factors into account.

Question 20: How can capacity allocation for direct and exclusive connections ensure consistency with European legislation and European Network Codes? How could this be achieved with the introduction of market-to-market connections?

No comment but we note that the concept of market-to-market connections, and the various scenarios that that may entail, needs to be developed further and adds a significant level of complexity.

Question 21: Are there other challenges we should be considering when looking at non-GB connections?

We believe that Ofgem needs to consider a scenario whereby a non-GB generator with a direct and exclusive connection to the GB transmission system then subsequently connects to another transmission network to create a market to market connection, i.e. an evolution of the project. In developing necessary regulatory arrangements now it is important to consider how these may need to evolve and build in safeguards given the cross border issues.

In Ofgem's Emerging Thinking on Integrated Transmission Planning and Regulation (ITPR), Ofgem considered that there may be merit in enhancing National Grid's role as system operator, which could include new responsibilities for coordination of system planning, such as identifying strategic system needs and working with relevant parties to identify potential coordination opportunities. Under the current regulatory arrangements for interconnection there is a limited role for National Grid to be able to alleviate the risks of piecemeal, uncoordinated or underutilised investments in the network that could unnecessarily increase costs to GB consumers. We would like explanation of how far Ofgem's proposed treatment of non-GB plant and connections as interconnectors will go to deliver Ofgem 'Emerging Thinking'.

EDF Energy
January 2014