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### **The regulation of future electricity interconnection: Proposal to roll out a cap and floor regime to near-term projects**

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.

In principle, we support making the cap and floor regime available to near term projects. It would provide the regulatory clarity that some investors have been seeking and could bring forward interconnection projects in the pipeline. However, these projects must be economically viable to ensure that consumers are not underwriting a project which has limited value. To this end, we are encouraged that, in addition to the cost assessment, Ofgem would only approve projects that would bring material benefit to GB consumers. The consultation does not, however, explain in any detail how Ofgem would assess the benefits of the projects, particularly given the submitted business cases for each project are very likely to interact. We believe this aspect of the project evaluation merits the same level of attention as the cost assessment of the individual projects.

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 01452 658415, or myself.

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**

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## Attachment

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

#### Chapter Two

##### **Q1. Do you agree that making the developer-led cap and floor regime available to near term projects would be in GB consumers' interests?**

In principle, we support further interconnection as we agree it is likely that further interconnection will bring benefits to consumers. Making the cap and floor regime available to near term projects (alongside the existing merchant approach) is likely to facilitate this. It would provide regulatory clarity that some investors have been seeking and could bring forward interconnection projects in the pipeline. However, whether the cap and floor regime would be in GB consumers' interests cannot be determined until the projects are assessed.

Ofgem states that *"granting a floor is therefore contingent on our assessment of the benefits a project confers to consumers"* and *"we propose to undertake a robust project assessment to ensure that only projects that are expected to bring material consumer benefit qualify for a cap and floor approach"*. However, the consultation does not explain what objective criteria Ofgem would use to ensure that the projects would bring material consumer benefit. In our view, projects that meet Ofgem's cost expectations and performance targets do not necessarily correlate to projects that would bring material benefit to consumers. Indeed a "developer led" approach may not be consistent with a process that selects projects based on consumer benefit.

#### Chapter Three

##### **Q2. What are your views on the cap and floor regime design?**

We are supportive of the development of interconnection if the investment is economic in its own right. As mentioned in our previous response, we are, however, concerned at the potential of the cap and floor regime to be distortive. The benefits that can potentially be identified for interconnectors are not unique; demand side response, peaking generation and storage, are all alternative, potentially more reliable, balancing options. With GB consumers underwriting some of the project risk, the project evaluation process must therefore include an impact assessment that includes other technologies and/or security/balancing options.

To this end, we are pleased to see that as part of the proposed project submissions and assessment, developers must demonstrate the likely social welfare benefit and

disaggregated consumer, interconnector developer and generator impacts for GB and other relevant countries. This information should help Ofgem conduct a holistic assessment prior to making its decision. However, as noted above, we think Ofgem would need to explain more fully what criteria it intends to use to ensure only projects that bring material consumer benefit qualify for a cap and floor approach. In the same vein, it would be useful if Ofgem could provide more information on its rejection criteria.

**Q3. What are your views on our proposed approach to the cost assessment process?**

We are satisfied that the cost assessment process is appropriate and pragmatic.

**Q4. Where do you think we may need to be flexible to accommodate the specifics of different projects and other national approaches?**

We do not have any comments.

**Chapter Four**

**Q5. What are your views on the framework and processes set out in this document?**

We support the approach of having an application window because all interested developers would have to submit their applications, together with sufficient information and analysis, within a predefined window. This means Ofgem should be able to assess multiple project submissions in parallel and consider the interactions between them. The length (8 weeks) of the application window seems reasonable.

During the initial project assessment (IPA), Ofgem proposes to assess the projects and their relative benefits, considering the impacts of different combinations of projects being built. This stage is expected to be followed by an 8 weeks consultation. It would be beneficial if the results of Ofgem's assessment on likely consumer benefit are included in the consultation.

**Q6. What are your views on the timing and the information that we would require developers to submit?**

In terms of the information that developers would be required to provide, in addition to the social welfare benefit and disaggregated consumer, interconnector and generator impacts for GB and other relevant countries the impact to other technology providers (such as demand side response) might be useful.

**Q7. What are your views on our proposed eligibility test and the specific provisions that we are minded to include in such a test?**

The proposed eligibility test and the specific provisions seem reasonable.

**Q8. What are your views on how we intend to assess projects at the initial and final project assessment stages?**

As mentioned above, it would be useful if the results of Ofgem's assessment on likely consumer benefit are included in the consultation following the IPA. An indication of which projects Ofgem intends to progress to the final project assessment (FPA) stage will be of interest.

Ofgem states that the FPA will assess a project's costs in detail to provide firm basis for making its final decision on providing a cap and floor and to inform the cap and floor levels. We are satisfied with this approach.

**Q9. What are your views on the need for and timing of future windows?**

Given that most, if not all, projects on the PCI have a commissioning date of before 2020, we think having one window is sufficient. We also think that the answer to this question will be affected by Ofgem's decision on ITPR.

**Q10. What are your views on the options to protect consumers from the risk of a needs case changing between our decision to award a cap and floor and a project's final investment decisions?**

We agree with Ofgem's proposal to introduce some sort of time limit to provide consumers with protection from the needs case changing. However, we do not have a strong view which option would be most effective.

**Chapter Five**

**Q11. What are your views regarding the next steps?**

We are satisfied with the next steps.

**EDF Energy  
July 2014**