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Impact assessment on CMP222: User Commitment for Non-Generation Users

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.

Summary

We believe that both the WACM1 variant of CMP222 and the original, better facilitate the three CUSC objectives a, b, and c. However, WACM1 does not do so to the same extent as CMP222 original.

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 Paul Mott on 0203 126 2314, or me.

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

Yours sincerely,

Mark Cox
Head of Transmission and Trading Arrangements

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Attachment

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EDF Energy's response to your questions

Q1. Do you agree with our assessment of the impacts of implementing WACM1?

Both the WACM1 variant of CMP222 and the original, better facilitate the three CUSC objectives a, b, and c. However, WACM1 does not do so to the same extent as CMP222 original.

The WACM1 and the original variant of CMP222 do not differ in their treatment of transmission-connected non-DNO demand, pumped storage, and connections from the transmission system to DNOs; the treatment of these is reasonable and uncontroversial. Our comments relate to the difference between WACM1 and the Original.

We do agree that pre-commissioning interconnector developments pose similar risks to new large generator development projects. This is because such developments are capital-intensive, and come, in today's GB market, with a range of regulatory and commercial risks, and may not ultimately be developed. There is thus a similar risk of "stranded assets" that the consumer may be left paying for via TNUoS charges to all other users, if such a project fails. These stranded assets take the form of onshore transmission system investments to accommodate new interconnector projects, which may fail to reach fruition.

We therefore agree with this proposal to apply the principles of CUSC Section 15 (arising from the carefully-developed generator user commitment mod "CMP192") to new proposed (i.e. pre-commissioning) interconnectors, as in the Original, from the point of view of the cost-efficient development of the transmission system - and to ensure, it could be argued, fair competition/treatment between interconnector projects and generation projects : CUSC applicable objectives a, b and c would thus all be to various degrees better facilitated by CMP222 Original.

In terms of evidence of new interconnector project failure/lapse rates, we note the CUSC workgroup's findings that of ten Interconnector projects which have applied for connection since privatisation (1990), only three have actually been commissioned, with one terminating formally and six simply "lapsing" under informal earlier arrangements (this excludes currently-physically-undeveloped interconnector projects with a live, signed connection agreement at this time – it is not yet known whether these will be realised, or lapse/cancel). These facts underscore our view that the original (and WACM1, as it applies to new interconnectors) better facilitates the three applicable CUSC objectives.

As to existing post-commissioning interconnectors, which is where the Original variant of CMP222 differs from the only variant, WACM 1 : we note that although there is some risk of cable failure as has occurred at Moyle, in general, an operating interconnector generally has a smaller risk profile than a generator of equivalent size, in terms of ceasing to operate. Most generator closures are not due to technical failure, but due to commercial considerations. Once an interconnector is constructed, its ongoing operating and maintenance costs should be small, absent the rare case of cable failure.

We therefore believe that the aspect of CMP222 (WACM 1) that applies CMP192 user commitment to post-commissioning interconnectors, does not result in WACM1 better-facilitating the three CUSC objectives a, b, and c. However, the aspect of CMP222 (WACM 1) that applies CMP192 user commitment to pre-commissioning interconnectors, does result in WACM1 better-facilitating the three CUSC objectives a, b, and c, just as does this element the original. Overall, we believe that WACM1 does better facilitate the CUSC objectives - but to a somewhat lesser extent than CMP222 original does.

Q2. Do you agree with our view on interconnectors?

See our answer to question 1 – nothing further to add

Q3. Have we appropriately considered the interactions with our cap and floor policy?

We agree that there is no identifiable interaction. The cap and floor framework gives a no-cost hedge (effectively paid for by consumers) to new interconnector projects,

removing some of the merchant development risk. It, in essence, gives interconnector development projects more certainty over their revenues. It is entirely different to CMP222 (original), which aims to give interconnector development projects incentives to stick to their connection dates. There is no inconsistency between the two; they are different.

Q4. Have we appropriately considered the interactions with EU law?

There are a number of differences between the treatment of interconnectors and other TSOs in GB – the licensing frameworks differ, with TSOs having broader obligations within their licence, regarding any new infrastructure that they may plan, or actually build. In principle investment in infrastructure should be co-ordinated in an effective manner – CMP222 provides the incentive to help effect this, and we note that Ofgem is considering these issues further under ITPR.

We note that the interactions have been considered by Ofgem; there is no reason not to apply the CUSC Section 15 Arrangements, based on good general principles, to users such as interconnectors.

EDF Energy
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