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Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions

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 draft conclusions on the Integrated Transmission Planning and Regulation (ITPR) project. We are supportive of Ofgem's draft conclusions and our detailed responses are set out in the attachment to this letter. However, we wish to highlight the following aspects:

- EDF Energy support Ofgem's proposed enhancements to the SO role in system planning. This will improve the current level of fragmented TO infrastructure development and should provide a number of benefits over the status quo in a short timeframe.
- We welcome the introduction of obligations upon TOs to support National Grid in its enhanced SO role; this would include provisions to provide to and utilise information and data from the enhanced SO.
- With these changes, Ofgem needs to satisfy itself that there is adequate ring-fencing of National Grid's businesses, particularly its affiliated businesses. This is to ensure that National Grid does not discriminate against its competitors and favour any of its associated businesses.
- Further detail on Ofgem's competitive tendering proposals for new, high value, separable onshore assets is required.
- We support the development of further economic interconnection. Interconnection has a valuable role to play in contributing to system security, but must be properly assessed, including the environmental impact to ensure it is efficient and in best interests of consumers. We are though concerned how Ofgem's proposal to maintain a developer-led approach to interconnection will work alongside a stronger SO role in system planning for interconnection.

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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,

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: draft conclusions

EDF Energy's response to your questions

CHAPTER: Two

Q1. What are your views on our proposed enhancements to the SO role in system planning, including the specific roles we have proposed the SO would undertake for onshore, offshore and interconnection planning?

We support Ofgem's views on its proposed enhancements to the System Operator (SO) role in system planning. The current separation of the system operator role and identification of future asset investment role is not optimal for co-ordinated development. The SO has a good overview of the whole network and wider energy system and can therefore support the holistic development of the transmission system. The SO can also help to evaluate the operational aspects of any system development and ensure this is considered in the design.

Q2. Are there other roles that you think an enhanced SO could or should undertake in order to better support the development of an efficient transmission and interconnector network?

Ofgem has proposed that an enhanced SO would be required to identify system needs; develop options to meet system needs and co-ordinate other aspects of system planning. This will improve the current level of fragmented Transmission Owner (TO) infrastructure development and should provide a number of benefits over the status quo in a short timeframe.

In its 'Emerging Thinking' consultation in June 2013 Ofgem considered a directive coordinator role. We still believe that the directive coordinator role would provide a significant improvement to the current regimes as there would be a clear and consistent (where appropriate) approach for developers in onshore, offshore and interconnector infrastructure. However, we do recognise that at this stage this role would require significant legislative and regulatory changes that would be time consuming and costly.

Q3. What are your views on the specific obligations for TOs that might be needed to support our proposed enhanced SO role?

We would expect TOs to have specific obligations to ensure that information and data produced by the enhanced SO is effectively used to develop an efficient transmission and interconnector network. Furthermore, we believe that it is important for TOs to have a corresponding obligation to provide the enhanced SO with relevant information and data. We would welcome further detail from Ofgem to clarify how the TO processes should

work within the current framework and its own views in order to enable industry to support Ofgem to develop specific obligations for TOs where appropriate.

Q4. What are your views on our proposal that, as part of its enhanced role, the SO should lead gateway assessments for offshore projects that include investment to provide wider network benefit?

We support Ofgem's proposal that the enhanced SO should lead gateway assessments for offshore projects that include investment to provide wider network benefit.

CHAPTER: Three

Q5. What are your views on our proposal to extend competitive tendering to new, high value, separable onshore assets?

In principle we continue to support Ofgem's proposal to extend competitive tendering to new, high value, separable onshore assets. We note that Ofgem will be consulting on its detailed proposals for competitive tendering onshore; we welcome the opportunity to comment on this proposal when further details are released.

Q6. What are your views on our proposals to maintain a developer-led approach to interconnection and to extend the cap and floor regime?

We support Ofgem's proposal to allow developers to apply for a cap and floor arrangement. Consumer underwriting of a project should only be granted where a thorough cost/ benefit analysis has been carried out to confirm the project is economically efficient and in the best interests of consumers. It is important that this cost benefit analysis be subject to industry consultation. We believe that any cost/ benefit analysis should include an assessment of the environmental impact and the extent of its role in contributing to system security. We welcome the fact that the SO will submit information to Ofgem on the operational impact of proposed projects. It will be important that the environmental, system security, and operational impact of projects is fully taken into account in deciding whether projects should be granted "cap and floor" support.

We welcome Ofgem's proposal for the SO to undertake analysis to assess the key costs and benefits of additional interconnection to specific markets to indicate where new interconnectors could have value. As with the assessment of specific projects, the SO's analysis should include consideration of the environmental impacts of additional interconnection, its role in contributing to system security, and any operational impacts. The assessment should be subject to industry consultation.

We welcome Ofgem's proposal for the SO to both assess interconnector connection options and to provide high level modelling of potential interconnection needs between different markets. However, we are concerned that a "developer-led" approach may not be consistent with a process that selects projects based on consumer benefit. It is also not

clear how an enhanced SO role as described will work alongside a “developer-led” approach.

Q7. What are your views on our proposal that non-GB generators pay for their connections, without consumer underwriting?

We support Ofgem’s proposal that non-GB generators pay for their connections, without consumer underwriting. We note that Ofgem has proposed to leave open the option of consumer underwriting on a project by project basis; we would welcome further clarification as to how Ofgem would assess these projects.

Q8. What are your views on our proposal to provide regulatory continuity when the purpose of a transmission asset changes?

We support Ofgem’s proposal that assets should have continuity in regulatory approach wherever possible. There is very limited detail as to how this could be achieved and within which timescales; we would encourage Ofgem to move this aspect of work forward in order to provide industry with greater certainty.

CHAPTER: Four

Q9. What are your views on our assessment of conflicts of interest?

We believe that Ofgem has identified the main conflicts of interest that in its enhanced SO role National Grid:

- May have a perverse incentive to propose Transmission infrastructure investments such that it suits their TO business;
- May design tendered projects to favour its associated delivery interests; and
- The SO could also confer an advantage by sharing sensitive information with its associated delivery interests.

More importantly, in its role in supporting Ofgem’s interconnector cap and floor assessments, there is a risk that it could bias its advice to Ofgem to the advantage of its associated businesses and discriminate against its competitors.

Q10. What are your views on our proposals for mitigating conflicts of interest?

Ofgem will need to satisfy itself that there is sufficient ring-fencing of National Grid’s businesses particularly the affiliated businesses. We support Ofgem’s proposals to implement a new Special Condition in National Grid’s electricity transmission licence; ensure that National Grid consults on all its planning process methodologies and assumptions; and that National Grid publishes an annual report on its assessment of major reinforcement options for the network.

We support Ofgem's proposal for National Grid to produce annual compliance reporting to set out how the specific ITPR ring-fencing and business separation measures are being met.

Q11. Do you think independent scrutiny of the SO's activities (e.g. through an expert panel or auditors) would provide value for money?

National Grid's expanding role does require additional scrutiny from Ofgem. At this stage it may be more appropriate for Ofgem to produce an annual compliance report which is available for market scrutiny detailing how National Grid has met all its ring-fencing obligations.

EDF Energy
November 2014