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## **Extending competition in electricity transmission: arrangements to introduce onshore tenders**

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 your consultation on extending competition in electricity transmission. As a major developer of generation projects, including, a significant new nuclear build programme, we have a strong interest in the development of the arrangements to introduce onshore tenders. We believe it is vital to balance the incentives to drive down costs with the need to ensure the timely delivery of critical infrastructure (e.g. Hinkley Point C). We are supportive of Ofgem's intention to bring greater benefits to consumers through the introduction of onshore tenders for electricity transmission; however, we believe that there are some issues that need to be addressed:

**Risks of delays:** With either the early or late CATO process we believe that there are delay risks relative to the status quo delivery of transmission infrastructure by incumbents. The criticality of any given project needs to be considered carefully and the impact of any potential delays before deciding to adopt a competitive approach.

**Impact on existing RIIO-T1 projects:** Projects that have already significantly advanced through the planning process, such as the new Hinkley- Seabank line, should not be subject to these new arrangements. We do not believe that these projects can be incorporated into either of Ofgem's proposed early or late CATO build models. We believe that attempts to enforce the new onshore arrangements at this late stage could lead to delays to planned connections.

**Nuclear Sites:** One area that is not considered in the consultation is the impact on nuclear sites. There are existing provisions with the relevant transmission companies (the Nuclear Site Licence Provisions Agreement) which are designed to support the safe operation of the nuclear sites. With the introduction of new transmission companies, and indeed new nuclear sites, it is vital that there is a single consistent framework for governance and application of these nuclear safety arrangements. These need to be developed and understood by all transmission operators including by those bidding to be

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CATOs. For example, we would expect CATOs to have established the robustness and potential unavailability of off-site electrical supplies under severe hazard conditions<sup>1</sup>.

CATOs must be able to adhere to all relevant TO provisions under the STC to ensure that the provisions of the NSLPAs can be fulfilled by the party (or parties) which contracts with a nuclear power station. We believe that it would be more appropriate for the NSLPA arrangements to sit between nuclear power stations and the SO to ensure a consistent application particularly with an increasing numbers of TOs.

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

Yours sincerely,

A handwritten signature in blue ink that reads 'Angela Hepworth'.

**Angela Hepworth**  
**Corporate Policy and Regulation Director**

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<sup>1</sup> Office of Nuclear Regulation (ONR) on Japanese earthquake and tsunami: Implications for the UK nuclear industry  
<http://www.onr.org.uk/fukushima/final-report.pdf>

## Attachment

### Extending competition in electricity transmission: arrangements to introduce onshore tenders

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

#### CHAPTER: Two

#### **Q1. What are your views on the proposed detailed interpretations of new, separable and high value (the 'criteria')?**

It is important to set the financial threshold high enough to ensure that the benefits of competition outweigh the tender costs themselves which are not immaterial and the cost of increased system and participant interfaces. As we stated in our previous response, £100m is likely to be a sensible level but it is important that Ofgem provides evidence to demonstrate that this is justified by reference to the potential benefits, tender costs and risks. This needs to be clearly set out in Ofgem's impact assessment as this work is taken forward.

Furthermore, we believe that it is vital that onshore competition is only chosen for assets where there is sufficient time; competed assets will need additional time to encompass Ofgem's tendering process. Therefore, careful assessment needs to be undertaken as to how this interacts with needs case assessments and consideration should be given to the criticality of the transmission asset and its impact on parties who may be affected by the investment. The use of onshore competition should not introduce risks to the timely delivery of transmission and generation assets. At this stage Ofgem have not provided evidence of how they intend to ensure that these delay risks are minimised.

As a developer of significant generation projects, any delay risk to our transmission connection and route to market is a significant concern. Further assurance is needed to ensure that this does not increase generation development risks.

#### **Q2. Under what circumstances do you think asset transfer from an existing asset owner to a CATO would be required, recognising the principle that projects identified for tendering should be new?**

It may be reasonable where there is a complete replacement of an asset for this asset to be transferred from an existing asset owner to a CATO. However, we have concerns over the potential for delays to projects if this process is to be included within the scope of a tender. Delays to replacement of what will be critical transmission infrastructure increases risk of asset failures and potential for significant constraint costs. Such a process will need to be carefully managed alongside TO asset replacement plans to minimise risk and optimise replacement planning.

**Q3. What are your views on our proposal that electrical separability should not be required at each interface, but that the SO can propose it to us if it thinks there is a cost-benefit justification based on system operability?**

Irrespective of whether electrical separability is required at each interface we believe that the boundaries of ownership should be clearly delineated. This would ensure that each party has a clear understanding of what it is responsible for and ensure that assets are operated and managed appropriately to ensure reliable operation.

However, in an integrated transmission system even clear ownership and separability does not remove the risk of discrete assets failing or operating in unintended ways with knock on implications for the rest of the system. Our experience with the recent installation of innovative series compensation on the transmission system, designed to increase powerflows out of Scotland, has highlighted this risk. The consequence of unexpected operation will have wider implications for generators and the SO in managing constraints. It is important that onshore competition is developed in a way such that incentives are borne by the right parties and that knock-on effects are not borne solely by users and the SO.

**Q4. What are your views on the suggested process and roles for identifying projects for tendering? We have proposed specific roles for the SO – do you think there are any additional roles the SO could take on to support competition? - What’s the most appropriate way to ensure that the network options assessment (NOA) considers the widest range of network options, including those that would be tendered?**

The suggested process set out in the consultation looks reasonable but further detail is needed. We believe that Ofgem needs to provide further details on its proposed approach to RIIO-T1 SWW projects. We are concerned that subjecting these projects that have already progressed significantly and have received planning consent, to a competitive tendering will lead to additional delays that could lead to financial repercussions for generators. We also note the proposal that large generator connections in future would no longer be allowed to construct their connection assets. We do not support this change and Ofgem need to provide greater rationale for this.

**Q5. What incentives and obligations should the SO and TOs have for undertaking preliminary works for tendered projects, and is there any value in considering a success fee incentive?**

We agree that these works need to be undertaken in a timely and professional manner and parties should be incentivised effectively. We do not believe that Ofgem has fully considered the potential exposure generators would face if the SOs and TOs fail to deliver these works on time or to a high standard. Generators should not be unfairly exposed to losses as a result of not having access to the electricity market; we would expect any costs incurred by generators to be covered.

## **Q6. Should CATOs pay for the preliminary works at the point of transfer?**

It is important that extra costs associated with facilitating onshore competition are minimised. It is not clear that there is merit in CATOs paying for these works as these costs are sunk.

### **CHAPTER: Three**

## **Q1. What are your views on our proposed late CATO build tender model?**

### **Including:**

- the basis of bids;**
- the use of cost sharing factors; and**
- what risks, if any, it would not be efficient for a CATO to manage during construction.**

Under the proposed late CATO build tender model it is proposed that the SO has primary responsibilities for delivery of surveying, studies and consent application preparation and examination. For RII0-T1 Strategic Wider Works (SWW) projects the expectation is that the incumbent TO will undertake this activity. The expertise to undertake this work currently sits within the TO function. We would welcome clarification from Ofgem and National Grid as to how this will be managed under the late CATO build tender model, particularly with existing SO/TO separation rules and whether this will be efficient. There is a risk that this will increase the costs and size of the SO without a commensurate reduction in cost in the TO business.

More generally we note that the discreet processes that Ofgem set out in their model are often undertaken to an extent in parallel and do not always follow neatly, e.g. as a result of delays due to changing need or planning issues. Overlaying a competitive tender process onto this will bring practical difficulties.

## **Q 2. What are your views on our proposed early CATO build tender model?**

### **Including:**

- what tender specification would best facilitate innovative but deliverable bids; and**
- how we can best manage cost uncertainty after the tender.**

We believe that in principle this approach is likely to bring the greatest scope for innovation and competition. However, as noted above, changes can happen once a 'need' has been agreed and there will need to be mechanisms included in the process to deal with this uncertainty. Where a CATO is to tender against a functional specification, we believe that it is important that it would be the SO's responsibility to ensure that the tender meets all the required standards and will be reliable and operable.

**Q3. Do you have any views on the best way to tender projects using high voltage direct current (HVDC) technology?**

It is suggested that where there are challenges (such as converter station design), the SO could be required to procure the converter station before transferring it to the CATO. This may create conflict with the enhanced SO responsibility to coordinate and direct the flow of electricity over the GB transmission network and secure the benefits which result from coordinating the day-to-day operation of the transmission system. Ofgem has previously stated<sup>2</sup> that 'the ultimate decision to proceed with an investment remains with the same parties as today, i.e. TOs, and offshore and interconnector developers'. Overall we think this needs careful consideration, HVDC could be one of a number of options being considered and indeed AC solutions could require different consent applications.

**Q4. Do you have any views on our proposal to prioritise late CATO build? Do you have any views on specific circumstances where early CATO build might lead to better outcomes than late CATO build?**

Under the late CATO build model, it is proposed that the SO would lead the development of the initial solution design and undertake surveys/ studies in addition to obtaining consents. National Grid's TO function currently undertakes this work and has the relevant knowledge and expertise; we would welcome further clarification on how the expertise will transfer from the TO to the SO or whether further resource will be required. It could be argued that industry would be exposed to a lower risk if late build is introduced first to "trial" the new onshore arrangements, although the early CATO build may provide increased opportunities for innovation if new parties are able to develop initial solution designs.

**Q5. Do you have any views on how we could mitigate the risk of a CATO not being in place?**

We welcome Ofgem's intent to use the guidance on OFTO of last resort as a basis to develop guidance on CATO of last resort; having this in place before these arrangements are rolled out is vital. This will provide regulatory stability to ensure that assets developed on a similar competitive basis are subject to similar measures in the unlikely situation that a CATO business fails and there is a risk of the generator becoming stranded and/or is unable to fully export electricity to the transmission network.

As noted above failure of the tender process itself before a CATO is appointed is also a key risk. The measures proposed by Ofgem to ensure that all bidders are committed seem appropriate but this is not without additional risk.

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<sup>2</sup>Integrated Transmission Planning and Regulation (ITPR) project: final conclusions:  
[https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/itpr\\_final\\_conclusions\\_decision\\_statement\\_publication\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/itpr_final_conclusions_decision_statement_publication_final.pdf)  
(1.9)

It is important that CATOs are obligated to provide information that could provide early warning signs that a CATO is in operational or financial difficulty. We would expect that measures would need to be in place similar to those that OFTOs provide such as availability performance reporting, enforcement action, ring fence conditions, regulatory reporting and market intelligence. We would therefore welcome further clarification.

**Q6. What are your views on our proposed revenue package for CATOs?**

**Including:**

- **the proposed duration of the revenue term, including how it links to the asset cost recovery period and whether operations and maintenance costs can be fixed over this period; and**
- **our proposed approach to indexation, refinancing and enabling new asset investment.**

We are keen that Ofgem puts in place appropriate measures to ensure that CATOs are properly incentivised to maintain their assets to enable full life operation. A 25 year term does not align with expected asset lives and so some form of asset health measure and incentive may be needed to balance short-term, operating-cost reductions against long-term additional capital costs.

**Q7. What are your views on our proposed package of financial incentives for CATOs? Including:**

- **how we could structure an availability-based incentive to ensure CATOs operate their assets with a 'whole network' view;**
- **the proportion of a CATO's annual revenue that should be at risk; and**
- **whether there are circumstances under which 'payment on completion' would not be appropriate to incentivise timely asset delivery.**

We do not believe that Ofgem has fully considered the potential exposure generators would face if the SOs and TOs fail to deliver these works on time or to a high standard. Generators should not be unfairly exposed to losses as a result of not having access to the electricity market or through the additional costs of constraints.

Once transmission assets are constructed it will be important that all TOs engage effectively in helping the SO to manage the system particularly around outage planning and coordination. Any new CATOs will need to consider a 'whole network' view during outage planning which may not be least costs/risk to them.

**Q8. Are there other types of incentives not covered in this chapter that you think should apply to CATOs?**

Outage coordination, once the assets are operational, will be important as noted above and Ofgem should consider whether incentives are needed above the general duty to develop an economic system.

## CHAPTER: Four

### **Q1. Are there any risks or conflicts of interest arising from the SO's role that we haven't identified?**

We believe that Ofgem needs to consider potential conflicts of interest arising from the SO being able to take a key role in the design of transmission works, e.g. at an extreme the procurement of equipment (such as a convertor station) before transferring it to a CATO. There is a risk that the SO could purchase equipment in a way that favours its associated bidding businesses.

Successful CATO implementation is very dependent on the new ITPR arrangements working well; these are as yet unproven. We have a number of Scottish examples of TO/SO interface issues (e.g. Series Capacitors installation by TO with no clarity on how the SO will operate them). The arrangements introduced by ITPR would have picked these issues up and therefore we believe that there is a case for proving ITPR before pushing on with CATO.

### **Q2. Are there any risks or conflicts of interest arising from the participation of incumbent onshore TOs that we haven't identified?**

No further risks or conflicts identified.

### **Q3. Are there any additional conflicts of interest that we haven't identified?**

No further risks or conflicts identified.

### **Q4. What measures do you think would be appropriate to mitigate the risks and conflicts of interest? What additional conflict mitigation measures would be needed if the SO takes on a broader role in supporting competition?**

As noted above we believe that further clarification from Ofgem is required on how the SO function will be able to deliver what has been historically a TO role (solution designs/ consents etc) particularly in relation to existing SO/TO separation rules. This is likely then to clarify whether further measures are needed.

**EDF Energy**  
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