



Ofgem

Email to: NTIMailbox@ofgem.gov.uk

9th November 2018

Extending competition in electricity transmission: commercial and regulatory framework for the SPV model

Dear Matthew Ball,

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, storage, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users. Our sister firm EDF Energy Renewables has a shareholding in a project with Wood, "Lewis Wind Power", to potentially develop wind capacity at two remote island windfarm sites on the Western Isles, which are currently subject of a Needs Case assessment by Ofgem. We are responding as EDF Energy.

While the consultation focusses largely on the detail of how the SPV model will work, and therefore on a matter primarily for the transmission owners and potential third parties who may be interested in becoming a SPV, we offer the following comments from the perspective of a generation developer who may be impacted by these arrangements:

We have previously set out that we support arrangements that can help in delivering transmission infrastructure on time and at lower cost for consumers. We have supported the development of both the Competition Proxy and the SPV model.

For developers it is critical that transmission infrastructure that provides the route to market is delivered on time to meet the generator's need. The costs to consumers of delays to connect generation will far outweigh potential savings achieved through potentially lower cost transmission. Relative to the Competition Proxy model, the SPV approach is more complex, needing increased oversight and engagement from Ofgem, with a requirement for additional tenders to appoint the SPV and the involvement of third parties increasing interface risks.

While the consultation is helpful in better defining how the SPV model is expected to work, we note that most of these high-value, onshore transmission links are unique with their own set of circumstances, timescales and likely optimal transmission technology. This means that the nature of the Delivery Agreement (DA) will need to flex to the circumstances as Ofgem recognise in the consultation - meaning that time will be needed for interplay between Ofgem, the TO and third parties. This impact on timescales needs to be very carefully considered from the outset if this route is followed to allow for development of the DA and, for example, the risk of tender failure. We note that Ofgem intends to decide on the applicable delivery model during the needs case assessment - the decision to proceed with SPV model would need to happen earlier than that required for Competition Proxy.

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In general we believe SPV approach could be helpful in reducing costs, but where the construction of the generation to be linked is dependent on the outcome of a CfD auction, thought needs to be given to timing of how processes interact, to enable developers to have certainty of and thus efficiently take account of reduced transmission costs in their CfD bids. Certainty of transmission costs ahead of CfD auction deadlines is ultimately in the consumer interest as it means that bids can be most competitively pitched.

Looking at our Lewis project, we have a strong concern that use of the SPV model looks likely to cause a delay in visibility of the transmission charges, adversely impacting our ability to construct our tendered CfD price. The use of the SPV approach and its design and timescales would therefore need to be considered very carefully in this case.

We are also concerned that the new approach should not cause a risk of slower physical infrastructure delivery timescales than the traditional approach, so that the connected projects are able to export power once constructed. Often the connection agreement for such projects will exclude the right to an accepted bid in cases where the cable is not operational – i.e. they are not financially-firm in relation to the local circuit.

We believe that further consideration should be given by Ofgem as to how the SPV model can work in these instances.

I confirm that this letter may be published on your website.

Yours sincerely,

Mark Cox,

Head of Trading and Transmission Arrangements,
EDF Energy