Mrs Fay Geitona
ERGEG
28 rue le Titien
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Belgique

29 March 2010

Dear Fay,

Incentive Schemes to promote Cross-Border Trade in electricity – call for evidence

EDF Energy welcomes the call for evidence on Incentive Schemes to promote Cross-Border Trade in electricity. Most of the benefits of the European electricity market are contingent on the existence of a robust and transparent interconnection regime. Reinforcing and building new interconnectors has captured the attention of governments, regulators and other stakeholders. This is appropriate given the high stakes involved and the corresponding implications in terms of financial resources and public support. However, improvements in cross-border trade, through more efficient use of existing transmission networks should also be an important target, since the improvements can be easily achievable and deliver immediate benefits.

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, renewables, coal and gas-fired electricity generation, combined heat and power, electricity networks and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy strongly supports the idea that interconnectors are important facilities for any system and that their owners (either TO/TSOs or independent companies) must ensure that their availability and utilisation are maximised in the most efficient manner possible. We consider that interconnector capacity should not be stranded at any time and should deliver the full benefit expected for both the connected transmission systems and energy markets. In order to achieve this aim, it is important that there should be no artificial or undue barriers to trade or support.

Furthermore, EDF Energy believes that the industry infrastructure, and the regulatory regime that underpins it, should recognise and fully accommodate the existence of both TO/TSO owned interconnector assets and Merchant Interconnectors.

EDF Energy noted throughout the document the references to TSOs, their responsibilities and the application of incentives. We regret that this document does not mention the existence of Merchant Interconnectors and whether incentive proposals were applicable to them or, indeed, whether they needed them. It may be that the decision to consider only "short term" incentive schemes may have led to a conscious decision not to refer to the Merchant Interconnector model, but this is not apparent.

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The “long-term” incentives and the decision to build an interconnector are either economically or politically driven. Ignoring the latter, the biggest driver behind interconnector developments is whether the investment will deliver a sufficient rate of return over a given period. It can be argued that when the interconnector is of an HVAC design and relatively short in distance, then the commercial decision might be straightforward or not that significant. Other factors (putting external issues such as planning permission aside) may become more important, such as the management with any other interconnectors or wider system control or loop flows. This is the situation for the majority of European systems and therefore their applicable regulatory regime is more suited to the interconnectors being owned and operated by the TO/TSOs, and with their costs and revenues being socialised.

However, for the UK and Irish systems, electrical interconnection between the two and other European systems has to be by long HVDC submarine cables. Such facilities are inevitably expensive and the commercial viability of the project is paramount before they can be built. It could be considered inappropriate to socialise such costs, especially as they are relatively significant. It would mean that the TO/TSO (socialisation of costs implies TO/TSO ownership) is making long term investment decisions on behalf of all generators and suppliers without necessarily their full consent , when in fact they will bear all the costs. In the UK, according to their licence obligations, the TO/TSOs invest in assets needed to respond to load and generation developments whilst conforming to system security and quality of supply. They are not required to go beyond this remit. In that sense, we believe that the expensive and risky HVDC submarine cable interconnections are more appropriate under a Merchant Interconnector model. Under this model, the ‘independent’ owner seeks contracts with a number of generators and suppliers to underwrite the project for a number of years, and/or the owner takes the risk that the interconnector will be used sufficiently to provide a reasonable rate of return. Nevertheless, the existence of both models provides regulatory flexibility and investor choice in how the interconnector project is structured.

Consequently, EDF Energy believes there is no requirement to provide explicit incentives to Merchant Interconnectors to maximise the use of their assets. Their commercial driver is to achieve as high a return as possible, and this implies providing maximum availability of their assets and offering access to the capacity to as many parties as possible. To do otherwise would be contrary to their business rationale. It then follows that their returns should not be regulated, as this would be inconsistent with the risks and uncertainties involved.

As regards the proposals put forward for monitoring TO/TSOs, EDF Energy believes that they have merit provided none of the information is commercially sensitive. For example, some cost or price information could fall into this category. We fully support the approach proposed by ERGEG, whereby it would determine a number of performance indicators and information requirements for the interconnectors (all interconnectors in this instance) and then in due course, having assessed their appropriateness, determine a possible incentive scheme. This is on the understanding that such incentive schemes would only be applied to the TO/TSO interconnectors. As previously stated, we believe that Merchant Interconnectors would not warrant or indeed benefit from their application.

As to whether single or multiple indicators of performance to promote cross-border trade should be developed and used, EDF Energy is of the opinion that a “composite” indicator or a set of indicators, some of which may not be quantitative, would be more appropriate. Given the complex issues that the TO/TSOs have to deal with, especially in highly meshed HVAC networks where trade at one border interacts with flows at another border, a single indicator is not likely to capture all the virtuous behaviours the National Regulatory Authorities would like them to have.

We hope you find our comments useful. If you have any queries regarding this response, please contact my colleague Nigel Edwards on +44 20 3126 2506, or myself.

Yours sincerely

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Corporate Policy and Regulation Director