

Our date
2008-07-03

Our reference
torsj

Administrative officer
Torkel Sjøner

StatoilHydro

Your date

Your reference

StatoilHydro ASA

Ofgem

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Offshore Electricity Transmission – A joint Ofgem/BERR Regulatory Policy Update

Dear Sir

StatoilHydro would like to thank you for the opportunity to comment on this consultation as issued on 13th June 2008.

StatoilHydro is an integrated technology-based international energy company based in Norway. The company was established on 1 October 2007 following the merger between Statoil and Hydro's oil and gas activities. StatoilHydro is a main oil and gas producer and is also developing a renewable energy business. Offshore wind power is one of the main focus areas within our renewable strategy.

In the UK StatoilHydro is an owner and operator of the 315 MW Sheringham Shoal offshore wind farm in the Greater Wash area where we plan to make an investment decision later this year. Production start up is planned 2011. StatoilHydro is also aiming to increase its offshore wind activities in the UK by participating in future rounds of offshore wind farm licensing.

StatoilHydro acknowledge the objective behind establishing an offshore transmission regime as proposed, but is growing increasingly concerned about the complexity, uncertainty and cost of the system. We are also uncertain whether the proposal will help assist developers in planning their grid connections and ensuring a coordinated development of infrastructure.

Specifically we are concerned about the considerable uncertainty that the new regime introduces to the Sheringham Shoal project which has decided the technical concept and which is on a critical path with regards to placing the main contracts. The critical issues are:

- **Potential for cost increases due to changes to development concept**
As the new regulatory regime for offshore electricity transmission has not been finally decided, the contracts must be based on technical solutions which fulfils the prevailing requirements and at the same time are regarded the most cost efficient solutions for the wind farm development. Additional requirements or changes to the prevailing requirements, due to a new regulatory regime introduced after contract award, will result in additional cost which is not included for in the budget for the project.
- **Increase in complexity and risk for operation of an integrated onshore and offshore plant**
The Sheringham Shoal Wind farm is designed as an integrated wind farm consisting of wind turbines and substations located offshore and a substation located onshore. The onshore substation is used for control and monitoring of the farm. In order to minimize cost, reactive compensation equipment is located onshore. Further, the concept for reactive compensation is based on tuning of the WTGs in order to minimize the need for reactive compensation.

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equipment. It is therefore important for the Sheringham Shoal project to have a full control of the onshore and offshore equipment, and an OFTO operating parts of the chain will introduce a complicated interface and an increased risk for not meeting the commercial specifications of the sales product.

- **OFTO organisation has to be operational from Q2 2010**

The offshore substation will be completed Q2/Q3 2010 and from this date an OFTO must be ready to take over the responsibility for operation of the transmission system. With a tendering process starting spring 2009, we doubt that it will be possible for an OFTO to have an organisation ready for offshore operation from this date. We therefore see a risk for costly temporary solutions by having to build an organisation for intermediate operation of the transmission system in order to avoid schedule delays for the project.

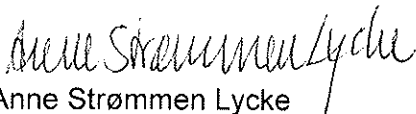
- **More costly operations**

Sheringham Shoal will build an organisation for operation and maintenance of the offshore wind farm with necessary facilities for transport of people, equipment and tools to the offshore units. If the OFTO is going to build a separate organisation for the Sheringham Shoal equipment that is related to the transmission equipment, this would in our view introduce both risk for increased operation and maintenance costs and risk for increased production downtime due to uncoordinated operation of the plant.

Due to the downside risk created by the uncertainty of the new system and as Sheringham Shoal does not have excess transmission capacity to offer other generators, we would recommend that as a principle mature transitional projects like Sheringham Shoal has an option to not being a part of the new regime and has the opportunity to operate the wind farm according to the existing development plans.

Please do not hesitate to contact me if you require further information or clarification.

Yours sincerely



Anne Strømmen Lycke
Vice President