

Our date
2010-11-17

Our reference
AU-TNE NE-00081

Administrative officer
Øyvind Bergvoll

Your date
2010-09-22

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119/10

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Project TransmiT: A call for Evidence

Statoil welcomes the possibility to give response to this call for evidence on Ofgem's independent and open review of transmission charging and associated connection arrangements.

In this response Statoil's focus is on issues related to electricity transmission charging.

Statoil believes that the review Ofgem now is undertaking of the transmission charging regime, is necessary in order to assess and evaluate whether the existing transmission charging regime is fit for purpose or whether changes needs to be done to achieve UK's ambitious plans to move to a low carbon energy sector.

Call for evidence - Charging

The charging regime is important to secure an efficient transition to a low carbon energy sector. When assessing whether or not the charging regime provides value for money to existing and future consumers it is important to take an holistic view on the power system as a whole and not focusing only on the grid. In addition to optimise transmission investments to minimise congestion costs and losses, the charging review should also evaluate a.o how to best promote new generation and compatibility with EU charging arrangements to ensure fair competition in the power market.

The current charging regime has provided a stable framework condition to the industry for many years. As a result the business climate and the security of supply have both gained form this. However when considering the challenges of introducing renewable energy sources into the energy system, the transmission charging regime may need reforming. Renewable energy sources are to a large degree located in areas far from consumption; offshore and northern Scotland being two examples. The present locational charging system may not be the best way to charge transmission services to promote the development of these vast energy resources. We believe that analysing and assessing a broad spectre of alternative charging models is necessary to make the best decision on the way forward. The charging review should include an evaluation of charging methodologies used in other markets and countries and the pros and cons of these methodologies in order to learn lessons for the GB market.

We would recommend that the charging review assesses, among others, energy based (as opposed to capacity based) transmission charges. One benefit from this is that this better reflect the generators use of the system. Other countries have implemented "postage stamp" charges where all generators pay the same charges. The charging review should analyse this approach and compare it with the alternatives. Postage stamp charges might be more compatible with neighbouring countries practises and could possibly have benefits with respect to increased market coupling and the competitiveness of UK generators vs. generators in other countries.

For offshore transmission we would recommend to also include in the review a charging model where the offshore grid is regarded as an integrated part (extension) of the onshore grid, and that no distinction thus is made between connecting onshore and offshore generators. Offshore wind will be essential for UK to reach its renewable energy targets. The transmission cost from the various offshore sites will differ significantly. A charging regime were the offshore transmission cost is socialised between all users on- and offshore will secure an even playing field and will reduce the need to

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differentiate the support level between offshore developers. Socialising of offshore transmission costs is also in line with the system that other EU countries are implementing. We would also like to point out that as an integrated offshore grid develops, the function of the offshore grid will look more and more like an onshore grid and onshore users will benefit significantly through lower congestion costs and lower transmission losses from operation of the offshore and onshore grid in parallel.

National Grid has presented a plan for a co-ordinated offshore and onshore grid development where significant savings can be made compared to how it is done today. As we see it this plan will require anticipatory investments on- and offshore to be viable. ENSG did also identify the need for anticipatory investments onshore to secure timely grid connections. The chosen charging model should be flexible enough to handle anticipatory investments without putting the risk and cost on a single user.

Call for evidence – Connection arrangements

Last summer the government decided to implement the enduring Connect and Manage approach for connection to the electricity transmission network. This decision together with National Grid (interim) decision not to require securities for wider works have been very positively received by the industry. Both decisions focus on solving one of the most important issues in the offshore wind industry today; namely how to ensure a timely and cost effective grid connection for projects.

The connection application process is well defined and transparent. We do however believe National Grid's user commitment requirements need to be revised in order not to halt offshore wind developments. The liability of developers to secure work performed by National Grid (and other TOs) in order to plan, consent and construct grid reinforcements necessary to connect the wind farm to the main grid, may become unmanageable. Developing and construction of the necessary onshore grid will often require longer time schedules than building an offshore wind farm. Furthermore this will require large securities prior to final investment decision by offshore wind developers. The amount and timing of the securities offshore wind developers have to put in place will become an investment barrier. In our opinion it is crucial that a solution to this question is found. In that respect the charging review should also take into account that offshore wind developers have committed themselves significantly through entering into development agreements with The Crown Estate.

As stated above we believe anticipatory investments are necessary to get an optimum system design. However this raises issues, in addition to those raised above, related to the requirement to secure planning and construction costs to avoid stranded assets. Anticipatory investments approved by Ofgem should not require any securitising from developers. The charging review should assess different approach to solve this issue. We propose to assess if National Grid should be incentivised to take on this risk or if Ofgem should deem these investments to be efficient and allow National Grid to recover these costs through the transmission charges.

Kind regards
Statoil ASA



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