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Oslo, 18th of December 2008

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

Dear Sirs,

Please find below StatoilHydro's initial comments in response to the consultation as issued on 20th November 2008.

StatoilHydro is the 100% owner of Scira Offshore Energy Ltd. that holds the Agreement to Lease and all consents related to the 315 MW Sheringham Shoal offshore wind farm in the Greater Wash area. Section 36 Consent was granted in August 2008, final investment decision is planned March 2009 and production start up in 2011. Construction contracts for the project have been awarded. Sheringham Shoal Wind Farm is thereby one of the transitional projects. StatoilHydro is aiming to increase its offshore wind activities in the UK by participating in future rounds of offshore wind farm licensing.

As a general comment, StatoilHydro's concerns regarding the new regime have increased significantly after the last consultation, by the removal of the opportunity to be our own OFTO. Our initial high level comments are along two lines. Firstly, we give our principle view on the proposed regime. Thereafter we have specific comments related to transitional projects and specifically related to Sheringham Shoal.

In our view it is difficult to see that the new regime will have the intended positive effect for the current offshore wind farm developments as most are looking at point-to point connection solutions where 33kV or 132 kV give sufficient capacity. These connection solutions are more to be seen as production radials within an integrated production system rather than transmission systems. There is a very limited potential for economic efficiency improvements by splitting the system into two, leading to added administrative and operational costs.

Furthermore, the design of the Sheringham Shoal project clearly demonstrates a cost optimal design which we believe will not be allowed for in the new regime, as it is based on an integration of the generation system and the transmission system. A full compliance with the new regime would add an

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estimated 15 M£ in investments for the transmission system alone, which we see as an unintentional, but nevertheless a real consequence of the new regime. We do therefore question if the segregated approach allow for the optimal design solution for offshore wind farms.

Hence, StatoilHydro would recommend changing the definition of "Offshore Transmission to "above 132 kV", thereby omitting the point-to-point production radial solutions where we fail to see any benefit of the OFTO system, but allowing for a regulated OFTO regime for regional offshore net work solutions or bigger transmission lines from the coming huge 3rd round areas where AC/DC or system voltages above 132 kV solutions are more realistic.

The new requirement for unbundling removes the previous opportunity the generator had to be its own OFTO and thereby the opportunity to limit the generator's risk of high tariffs through the operational phase; and for the transitional projects, their opportunity to reduce risks of a new, immature and untested system to be implemented on the critical path of the project development. Excluding 132kV lines from the definition of transmission lines would solve this concern.

The remaining comments are specifically related to introducing OFTOs for transitional projects such as the Sheringham Shoal project which already has decided the technical concept and signed the main contracts.

The following elements are considered very critical:

- The schedule for the OFTO regime and appointment of an OFTO does not match the schedule of the development projects and will cause delayed commissioning and start up of the plant unless the generator is given a license to operate the transmission system until the OFTO is operable. Sheringham Shoal will need an OFTO operational by May 2010 for commissioning. If the schedule for Go Live and the tendering process for an OFTO is followed, an OFTO can at earliest be appointed in July 2010, but with inherent potential for delay of an additional year if an acceptable OFTO is not selected in the first tender process or if the implementation of the regime for any reason is delayed. Furthermore, it is not reasonable that the OFTO for a specific plant will be operable from the day the OFTO is appointed, as they need time to develop operating procedures and build an organisation at the specific site. In the new regime, the generator will not be able to start production until the OFTO is in operation.
- Sheringham Shoal is planned and designed according to the existing code, and it will meet the output requirements at distribution network connection of the new code if operated as an integrated system, while the technical solution for the individual systems (generation and transmission) is strictly not in compliance with the new OFTO requirement. We would need an assurance that the current technical solution is acceptable also after introduction of OFTO. As developer we have tried to get such assurance, but has met arguments that it is either not possible to get derogations from a regime that is not approved, or it is not possible for the developer to get derogations granted because the developer is not a licensed transmission operator. This needs to be solved in reasonable short time as the consequences otherwise will be significant cost increase and schedule effect.

Our initial recommendation is that transitional projects should be excluded from the regime because the new regime adds too high risks to the developer and has the potential to jeopardize the projects.

If transitional projects can't be excluded from the regime on a general basis, we recommend that they should be given a temporary transmission licence in order to be able to build the system, conduct all commissioning and start generation before the tendering process for OFTO is initiated. If the generator is licensed to operate the entire system in this intermediate period after GoLive, the risk for late design changes and the schedule risk will be minimized.

For Sheringham Shoal it is important that there is given a satisfactory response to the two above mentioned project risks and we request such response within medio February 2009 in order to achieve a final investment decision by March 2009.

Please do not hesitate to contact us if you require further information or clarifications.

Yours sincerely

for 
Anne Strømmen Lycke
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