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Cap and floor regime for regulation of project NEMO and future subsea interconnectors

Amprion GmbH

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Dear Emmanouela Angelidaki, dear Brice Libert,

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we have been following the consultation process on the regulatory regime for the NEMO interconnector with particular interest.

Amprion owns and operates the electricity transmission grid in the western part of Germany. Several interconnectors form an integral part of our grid and we are currently developing new transmission links to different market areas¹.

Aufsichtsratsvorsitzender:
Heinz-Werner Ufer

Geschäftsführung:
Dr. Hans-Jürgen Brick
Dr. Klaus Kleinekorte

In this context, we are taking interest in regulatory regimes applied to interconnectors in other countries. We are grateful for this opportunity to provide the following remarks to the ongoing consultation on the regulatory regime of the NEMO project:

Sitz der Gesellschaft:
Dortmund
Eingetragen beim
Amtsgericht Dortmund
Handelsregister-Nr.
HR B 15940

- From our viewpoint, the suggested regulatory approach strikes a fair balance between risks and returns to project developers and their customers. In this sense and with reference to question 3.1 of the consultation document the principles of the proposed mechanism gain our full support.
- We particularly agree with the statement 2.3. on page 11 that "*...costs of equity and interest costs remunerate capex which is a legitimate use of revenues*". We consider this interpretation of Article 16 (6) of the Electricity Regulation - which defines the purposes for using congestion revenues - appropriate. TSOs are in-

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¹ <http://www.amprion.net/netzausbau/leitungsbauprojekte>

centivised to build new infrastructure by obtaining a remuneration on the invested equity. Congestion revenues are available financial resources to fund this remuneration which should ultimately lead to an increased investment activity.

- An option for investors to choose between different regulatory schemes during the project lifetime further enhances the economic viability of projects. The risk exposure of investors would decrease if they could on a regular basis select the regulatory parameters which best suit their risk profile². In this sense, providing the project developers with an option to choose between different parameters for the cap and floor scheme on a yearly basis might provide further investment incentives. Such an option may be exercisable before the beginning of each calendar year. It might encompass a very low risk setting (fully regulated regime) and some more risk exposed schemes.

We hope that the above suggestions are of value to the consultation process. We would be happy to discuss or provide further information on any of our statements.

Yours sincerely

Amprion GmbH



Dr. Carsten Lehmköster

Economic Grid Management
Head of Regulatory Management



Oliver John

Economic Grid Management
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² the scientific paper “Valuing a Flexible Regulatory Framework for Transmission Expansion Investments” provides further details on this conclusion. [published at the POWER TECH 2009 IEEE PES conference Bucharest, Romania by Gerardo A. Blanco, Rolando M. Pringles, Fernando G. Olsina, and Francisco F. Garcés]