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Ofgem - London
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Att: Emmanouela Angelida

Consultation - cap and floor regime for regulation of project NEMO and future sub-sea interconnector investment

In undertaking this consultation, Ofgem needs to ensure that the following objectives are met, whatever precise mechanism is chosen:

- To provide a clear, transparent and preferably simple regulatory framework which enables interconnectors to be developed, financed, built and operated on a commercial basis - i.e. so that the commercial risk of these interconnectors is largely undertaken by the developers/financiers and not by customers
- To maximize the potential for 3rd party financial sources to be attracted to the construction and operation of interconnectors
- To enable the investors in interconnectors (both equity and debt) to be confident of obtaining fair and reasonable returns on their investments.

With regard to the mechanism that Ofgem is proposing, we have the following comments:

- There needs to be a recognition that it is very unlikely that a “one size fits all” solution will be found which could apply to all potential interconnectors to GB, even over a relatively short time frame. This may mean that each interconnector will require variations on the model to meet the objectives set out above.

- There needs to be flexibility in the model chosen which ensures that as circumstances change (e.g. technological improvements) these are reflected in the model agreed prior to financing.
- There should not be opportunities for revision to the agreed regulatory conditions for an interconnector subsequent to the Financial Investment Date, unless there are extreme extenuating circumstances, unforeseen at the FID.
- In particular there should be a single regulatory signoff for a project which covers all relevant national and European regulators – which should be undertaken in a timely fashion to ensure such approval process does not unduly delay the FID.
- The emphasis in the cap and floor structure should be to allow market conditions to largely determine the return to the investors, with the floor and cap levels set to cover unusual circumstances and to maximize potential for 3rd party financing.

NorthConnect is a Joint Venture Project owned by:

- Scottish and Southern Energy (UK)
- Vattenfall (Sweden)
- Agder Energi (Norway)
- Lyse (Norway)
- E-CO (Norway)

NorthConnect aims to plan, build and operate an HVDC interconnector between Norway and the United Kingdom. For further information: www.northconnect.no

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