

Mr. Martin Crouch
Ofgem
9 Millbank
London

Handled by:
Halvor Enok Bakke

Our date: 21st May 2012

Dear Mr. Crouch,

Implementing the European Electricity Target Model in Great Britain

As the Transmission System Operator in Norway and as a partner of National Grid in the interconnector project North Sea Network (NSN), Statnett welcomes the opportunity to respond to Ofgem's open letter on the implementation of the European Target Model in Great Britain.

Statnett supports the main principles in the European Electricity Target Model and thus the implementation of this model in Great Britain. It will remove obstacles for cross-border trading and support an efficient utilization of interconnector capacity.

The day-ahead market

Statnett believes that market coupling in the day-ahead market is the best way to allocate capacity in this time frame. On one hand, a prerequisite for this solution is a sufficiently liquid day-ahead market, and on the other hand introduction of market coupling will increase the liquidity. The liquidity in the GB day-ahead market is increasing, and we acknowledge the positive steps that are taking place to increase the liquidity further. If this positive development is not sustained, Statnett believes that the possibility to take further action should be assessed.

The intraday market

Statnett believes that it's important to have a market based allocation method in the intraday market. A market based solution would imply that the capacity will be used by those who value the capacity most, and that the market participants' willingness to pay for capacity in this time frame will be revealed. The latter is important both for short term optimization of the use of the interconnector as well as for incentives to invest in new interconnector capacity.

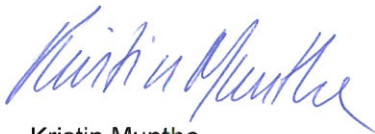
In our view, grid losses, in particular on DC-interconnectors, should be taken into account in both the day-ahead- and the intraday market. This is important to ensure an efficient utilization of interconnector capacity.

The balancing market

In our view it should be allowed to allocate some of the capacity for trade with reserves, given that it is welfare economic viable compared to trade in the day-ahead market. This view is in line with ACER's draft FG on Balancing and ENTOSO-E's position. Statnett believes that trade with reserves will benefit British consumers since a low cost resource is introduced in to the market. Further, it will increase competition in the reserve market and also thereby reduce the costs. In The Electricity Market Reform the introduction of a reserve market was proposed. Statnett supports this idea, as a more transparent market

for reserves may enable a market test of the optimal allocation of transmission capacity between the day-ahead market and trade with reserves.

Yours faithfully



Kristin Munthe
Head of Market Design
Commercial Development



Halvor Enok Bakke
Advisor
Commercial Development