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YOUR REF./DATE:

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PLACE/DATE:

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Response from Statkraft UK: Electricity Balancing Significant Code Review and request for comments on proposed new process to review future trading arrangements

On behalf of Statkraft UK I would like to thank you for the opportunity to respond to your open letter on the Electricity Balancing Significant Code Review and the proposed new process for reviewing Future Trading Arrangements.

For background, Statkraft is Europe's largest renewable energy generator. Headquartered in Norway, we have chosen the UK as our strategic base for offshore wind development.

Our first major offshore wind farm in the UK opened on 27th September 2012 at Sheringham Shoal, Norfolk. We are also involved in developing the world's largest wind farm at Dogger Bank which will represent a total investment of £30bn, generate thousands of jobs on-site and across the supply chain, and deliver 9GW of low carbon energy for the UK.

Most recently, Statkraft acquired, in partnership with Statoil, the North Norfolk Dudgeon offshore wind power project on 17th October 2012, a project which is expected to deliver hundreds of jobs during construction phase and up to 560MW of renewable energy once in operation.

As a significant player in the UK electricity market within trading and origination, and a large Power Purchasing Agreement provider, we are reliant upon liquid and well-functioning short- and long term electricity and ROC markets.

Overall we support of the proposed reduced scope of the EBSCR workstream. However, sharpening of the marginal cash out price has been left in the scope, and indeed is a key focus. This proposal disproportionately impacts variable generation such as onshore and offshore wind. At the other hand we think the move to a single cash out price could be a significant improvement. We also believe that emphasis should be placed on the potential for reducing the time between gate closure and real time generation, as this is could reduce balancing risks for variable generators.

Our position on the three consultation questions set out in the consultation letter is as follows:

[1] Do you agree Ofgem should launch a project to create a high level design for the future electricity trading arrangements?

Broadly we welcome the proposal to set up a new project on the Future Electricity Trading Design. A holistic approach is required to manage the interactions between the multiple drivers of change in the electricity market and ensure no adverse reactions to any reforms.

Ofgem proposes to build on the successful characteristics of the New Electricity Trading Arrangements, and ensure that any potential changes align with 'pre-defined' future arrangements such as Electricity Market Reform Contracts for Difference and the EU Target Model Network Codes. This should enhance investor certainty rather than create regulatory risk. In particular, addressing the balancing is very important and would be welcomed.

As a significant player in the UK electricity market and a large Power Purchasing Agreement provider, Statkraft UK is reliant upon liquid and well-functioning short and long term electricity and ROC markets. We are also keen to ensure that any policy changes do not trigger the renegotiations of long term PPAs unless it is strictly necessary in order to overall improve trading arrangements. We would welcome Ofgem seeking advice on whether any changes to arrangement are likely to trigger renegotiations of a large number of long term PPAs and report back to PPA providers.

However, Ofgem must not lose sight of the project's primary objective which is to make the broad energy reforms (EMR, EU TM etc.) work as intended and not to inadvertently redesign them. Scoping of the project must be carefully considered. Ofgem must take care to clearly define the objectives and key issues this project aims to address. It will also be crucial to secure broad stakeholder agreement, even if this results in the project taking longer than envisaged.

To summarise the following four principles should apply:

1. The first phase of the project's objective should be to identify problems rather than to solve them immediately;
2. Once problems have been identified, we believe it is important to take stock and carefully consider the potential options;
3. Options taken forward should be developed on a "minimum necessary change" basis;
4. Support from DECC will be necessary throughout the project.

[2] What key issues should be examined as part of a work stream on future GB trading arrangements?

We agree with the seven work areas identified by Ofgem.

[3] What form should the process take?

Your open letter states that if the decision is made to go ahead with the project, Ofgem will set out the project scope, timeline and engagement process at the launch. The letter further states that the project would commence in 2013 with a design phase aimed at drawing a high level picture of future trading arrangements within one year.

However, Statkraft UK believe the actual scoping exercise, including the problem identification stage, will take longer than proposed in the open letter. Identifying the problem and understanding the problem fully may be much more complex than initially assumed, and care should be taken that the project begins on strong footing.

Once any problems or issues in need of addressing have been identified, there should be careful consideration of the next steps, with close consultation with industry along the way. Only after dialogue with stakeholders will it be possible to develop a high level design for future trading arrangements. A roadmap should also be developed and agreed in order to offer investors clarity and confidence in the process.

Thank you again for the opportunity to respond to this open letter. We are keen to maintain this dialogue and look forward to further discussion.

Yours sincerely,

Bjørn Drangsholt
Managing Director
Statkraft UK Ltd.