

Ofgem

cap.floor@ofgem.gov.uk

Att. Emmanouela Angelidaki

DONG Energy A/S

Nesa Allé 1
2820 Gentofte
Denmark

Tel +45 99 55 11 11
Fax +45 99 55 00 01

www.dongenergy.com
Company no. 36 21 37 28

DONG Energy comments for consultation: Cap and Floor Regime for Regulated Electricity Interconnector Investment for application to project NEMO

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Our ref. LILLY

ulstr@dongenergy.dk
Tel + 45 99 55 81 53

Thank you for the opportunity to comment on the Ofgem proposal for a Cap and Floor Regime for Regulated Electricity Interconnector Investment for application to project NEMO.

DONG Energy welcomes Ofgem's initiative to develop a new regulatory regime for interconnector investments. DONG Energy recognizes that the proposed regime is as a pilot applicable only to UK-BE project NEMO, but also notes that the intention is for the proposed regime to be applicable to other projects in the future. The establishment of a regime with a more firm regulatory framework as an alternative to the pure merchant approach in the UK will be a major enabler of a realization of other interconnector projects with significant benefits to the UK society. It will allow investors in interconnectors, such as National Grid, to enter into projects that are pre-requisites for the on-going transformation of the UK energy system. Currently, there is a risk of ending in a Catch 22 situation, where a project that would be beneficial to UK economy is not being realized because it is dependent on policy certainty, and policy certainty is in turn dependent on the realization of such critical projects.

In that connection, DONG Energy would like to highlight the importance of the time aspect. Securing a timely build-out of new interconnectors is one of the main elements of a cost efficient transformation to a low carbon economy. Interconnectors increase the market value of wind and thereby decrease the need for subsidies. Furthermore, as the correlation of wind speed in e.g. Denmark and the UK is relatively low, connected systems enable the sharing of back-up capacity when production from renewable energy is scarce. Thereby, interconnections can increase the diversification and security of supply. If a timely build-out is not realized, the need for other measures to ensure security of supply will – at least in a transitory phase – be larger and more urgent. This will increase the socioeconomic costs of a green transformation.

Going forward, DONG Energy sees a need for further development of the regulatory framework in the UK. The overall aim should be to ensure adequate incentives for the realization of all interconnector projects with positive socioeconomic effects on a regional level in line with the recently adopted EC Regulation on guidelines for trans-European energy infrastructure (EC/347/2013). Also, DONG Energy finds it important that the solution allows for third party investments in interconnections which can play a key role in lifting the significant investment need in the coming years.

Ofgem could consider the following in designing future regulation:

Inclusion of socioeconomic effects

A future UK regulatory regime applied for interconnector projects should explicitly ensure the inclusion of socioeconomic effects in the investment decision in addition to the expected congestion rents, specifically effects on consumer and producer surplus stemming from increased interconnector capacity. Furthermore, it should be considered to take other effects such as i.e. improvement of security of supply into account in the evaluation of a project.

Inclusion of regional effects

A future UK regulatory regime applied for interconnector projects should take into account the regional socioeconomic effects in the cost-benefit analysis as outlined in article 11 and 12 of the recently adopted Regulation on guidelines for trans-European energy infrastructure (EC/347/2013).

Incentives to high risk projects

A future UK Cap and Floor Regime should ensure the provision of appropriate economic incentives to projects that are of socioeconomic value, but at the same time exposed to significantly higher risks than comparable infrastructure projects, as outlined in article 13 of the recently adopted Regulation on guidelines for trans-European energy infrastructure (EC/347/2013).

Please do not hesitate to contact us for further details.

Yours sincerely
DONG Energy

Ulrik Stridbæk

Head of Group Regulatory Affairs