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Attn: Mr Martin Crouch

Ofgem
European Strategy

martin.crouch@ofgem.gov.uk

Response to the Consultation on Electricity Interconnector Policy

Further to your consultation document “Electricity Interconnector Policy”, Statoil is pleased to have the possibility to comment your proposals.

Interconnectors will become more and more important to the UK transmission system as more wind power gradually will be fed into the grid. The intermittent characteristics of wind power will require extra resources to balance the output. Interconnectors may provide a less expensive source for balancing and therefore have the possibility to lower the overall cost of electricity in the UK market.

In the consultation document it is briefly discussed the possible interaction between offshore wind farms and its offshore grid connections, a North Sea offshore grid and interconnectors. While we acknowledge that these issues are outside the scope of the consultation such developments may become a reality soon as the Round 3 developers starts to develop their zones. We therefore urge Ofgem to also consider this when the new interconnector framework is decided. We believe there are synergy effects which could, if the technology and the legal framework allow it, reduce cost for offshore wind farm developers and for UK consumers.

Question 1.1: Have we accurately captured the benefits of and demand for new interconnection? Are the projects under consideration all viable? Would they be sufficient? Are there other projects being developed?

In our opinion, an increased level of interconnection between GB and neighbouring markets will be beneficial to the UK market, and necessary to accommodate a larger share of intermittent production. Given the right framework, we expect to see a significant increase in interconnector capacity. To fully capture the value of the increased interconnection capacity, new capacity products might be needed to be able to use the interconnector for balancing purposes and indeed also other system ancillary services.

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Question 1.2: Are there other key aspects of the legal or regulatory framework that we should consider, or should some features be given a different emphasis?

We believe that the new interconnector framework should be harmonised with similar frameworks outside GB. The EU Third Package Electricity Directive and Regulation will be key to describing this. Ofgem in paragraph 1.19 writes “*It is clear from the legislation that the regulated approach is the default position*”. Most other countries in Europe already have taken this position. A harmonised approach from GB would therefore in our view be the best solution to secure a well functioning framework for interconnector investments.

Question 1.3: How can the Regional Initiative best contribute to development or implementation of policy? Do you agree with the priorities and approach outlined?

Interconnectors by nature require co-operation across borders. We support the Regional Initiative but would like to point out, like Ofgem also does, that interconnectors may connect to countries outside the FYI region. If so, either bi-lateral cooperation or co-operation within a larger forum is needed.

Question 2.1: Are the target models explained in this chapter appropriate for GB? What are the issues that need to be considered? Are there alternative approaches that would be better? Will the target models effectively accommodate increased intermittency?

In our opinion, it is important that the chosen capacity allocation model supports transparency and equal access to all market players. We believe that an implicit auction model, market coupling, is the best model to secure this. If longer-term explicit auctions of capacity is introduced as part of the chosen model, it is important that a UIOSI/UIOLI arrangement or similar is included to make sure that the whole capacity of the interconnector will be available in the day ahead market and the intraday market.

Question 2.2: What should be our approach to firmness of interconnector capacity? Should this vary between new and existing interconnectors, or between regulated and exempt? What are the categories of costs and benefits from changing approach, where should they fall and can they be quantified?

Our preferred solution is physical firmness on new interconnectors. Firmness of interconnector capacity is important to traders and market players who intend to utilise the interconnector capacity. When guaranteeing the capacity the interconnector owner/operator will face a certain risk, but in our opinion this is a risk the interconnector owners should be well positioned to mitigate.

We do not recommend that new regulated and exempted interconnectors are treated differently.

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Question 2.3: Should we seek regional solutions rather than individual project solutions for access rules, such as through a broader North West European solution for market coupling? What are the priority areas for greater regional co-ordination?

Generally a co-ordinated approach to the development of interconnectors is necessary. To achieve a common European power market, standardised market rules are necessary, and market coupling is our preferred solution for doing this. Ideally therefore a North West European (or indeed a European) solution is preferable. The risk is that it may take time to put in place a regional solution, and that good interconnector projects therefore may be delayed.

Through ENTSO-E and the regional initiatives, assess the need for interconnectors and put in place capacity allocation models and regulation models.

Question 3.1: Does this chapter capture the key issues in regulation of new electricity interconnectors? Should we assume that all new interconnectors will seek exemptions?

The framework should give the interconnector developers/owners enough assurance so that it should not be necessary to seek exemptions.

Question 3.2: Of the options set out, which are preferable and why? What are the key considerations in taking forward any of the options?

We believe that a regulated model (model 4) will secure the necessary interconnector capacity best. This is also the default model in the EU regulations and should be preferred also by GB to secure an efficient regulation across borders. The alternative would be the merchant model (model 1) as we do not see why the models in between should work better than the two more pure principal models.

Question 3.3: Is it feasible to have a mixture of different approaches for different interconnectors – such as some exempt and others regulated? If not, why and how should this be resolved?

While feasible, we do not see any advantages in a different framework for future interconnectors. Existing interconnectors may well continue to operate under their current license.

If you would like to discuss this further, we will be happy to do so in a meeting.

Yours faithfully,

Øyvind Bergvoll
oyber@statoil.com

Paolo Natali
pnat@statoil.com