

Statkraft UK response:

The regulation of future electricity interconnection: Proposal to roll out a cap and floor regime to near-term projects

Introduction

Statkraft welcomes the opportunity to respond to the consultation on regulation of new interconnection projects and the proposal to roll out a cap and floor regime to near-term projects.

Statkraft AS is the leading power company in Norway and Europe's largest generator of renewable energy, with extensive activities across hydropower, wind generation, and district heating in over twenty countries. Statkraft UK has been operating since 2003. In this period we have played an active role in developing low carbon capacity, facilitating routes to market for other independent generators, and playing an innovative, enabling role in supporting the development of emerging technologies. Our ambition is to contribute to the delivery of a secure and sustainable low-carbon energy future, whilst creating growth, jobs and value for UK consumers.

Our view of interconnectors in the UK

Statkraft is strongly supportive of increased cross-border capacity as a means to increasing the efficiency of the European power market. Our general view is that far too little cross-border capacity has been developed, and the need for and value of cross-border capacity will increase as more renewable generation capacity comes online over the coming years. Interconnection will help provide greater security of supply and enable greater penetration of intermittent renewables at a lower cost to consumers.

In particular, we see huge potential benefits from greater interconnection between Norway, the UK and the Continental power system. These benefits would include:

- Increased flexibility of supply
- Access to large reservoir capacity in the Norwegian hydropower system, including the expected power surplus in Norwegian and Nordic power market.
- Lower energy prices for British consumers resulting from access to an alternative supply of flexible power.
- The ability to export excess power from the UK during peak generation (and low consumption) windows helping to reduce curtailment. This will be particularly relevant with a market such as Norway, where weather and consumption patterns are less aligned.

In a future British energy market, with substantially more intermittent renewable power, greater interconnection with other energy markets will be key to achieving an affordable and secure power supply.

Answers to the consultation questions

We have limited our response to the following four consultation questions which are relevant to our market experience:

Question 1: Do you agree that making the developer-led cap and floor regime available to near term projects would be in GB consumers' interests?

Statkraft agrees that making the developer-led cap and floor regime available to near term projects will be in GB consumer's interest. In particular, a Norway-GB interconnector is one such near-term project that should have a connection date before the end of 2020, with scope for a significant investment decision in early 2015.

As already mentioned, we think that the interconnector to Norway will bring significant benefits to GB consumers. Making the cap and floor regime available to such a project would support an investment decision in 2015 and ensure these benefits are realised as early as possible.

Question 2: What are your views on the cap and floor regime design?

Statkraft believes that the cap and floor regime design currently proposed is an appropriate regulatory means to reducing risk exposure for investors whilst ensuring that excess revenues (above the regulated cap) are returned to NETSO and thus benefit GB consumers. Explicit consideration of cap and floor for only one half of the interconnector and allowing for the other half to potentially be subject to regulated recovery – the more common EU model - will help interconnection to the UK to proceed.

Question 5: What are your views on the framework and processes set out in this document?

In general we believe that the framework and processes as set out are workable. However, we are concerned about their implications for the Norway-GB interconnector project timeline.

The proposed processes appear complex with several consultations due to take place during the project assessment period. We understand that the goal of the cap and floor regime is to approve and give appropriate support to projects that will benefit British consumers. However we are concerned that conducting multiple consultations during the project assessment stage risks delays to decision-making on the UK-Norway interconnector.

However, whilst our preference would be for as short a process as possible, we understand that, given the current situation, a well-defined process is needed. Nonetheless, we hope that the GB regulatory regime will not prevent the start of operation for this interconnector in 2020.

Question 11: What are your views regarding the next steps?

We fully support Ofgem plans to open the first application window as soon as possible, following this consultation. Statkraft is keen to see the cap and floor regime progressed as fast as reasonably possible in order to support the delivery on a UK-Norway interconnector, and the benefits this will bring British consumers.