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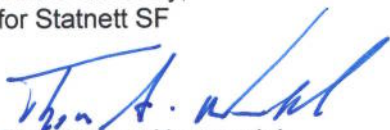
Stuart Borland
Ofgem
Electricity Transmission Investment
9 Millbank,
London, SW1P 3GE
Via email: Cap.Floor@ofgem.gov.uk

Dear Mr. Borland,

We refer to the live consultation "Cap and Floor Regime: Initial Project Assessment for the NSN Link Interconnector to Norway", issued 17 December 2014.

Please find attached Statnett's response.

Yours sincerely,
for Statnett SF



Thor Anders Nummedal
Project Director, NSN Link Project

Response to: Cap and Floor Regime: Initial Project Assessment for the NSN Interconnector to Norway

Statnett welcome this opportunity to respond to the above consultation. We have responded to several previous Ofgem consultations, lastly on 3 May 2014 and on 18 July 2014, the latter together with our NSN Link project partner National Grid Interconnector Holdings Ltd (NGIH).

Background

Statnett is the Transmission System Operator in Norway and a partner to National Grid NSN Link Ltd (a subsidiary of National Grid Interconnector Holdings) in the NSN Link interconnector project. NSN Link is a 1,400 MW HVDC link spanning 720 km between Kvilldal in Norway and Blyth in United Kingdom. The NSN Link is scheduled for commissioning in 2020.

Statnett currently operates four subsea DC interconnectors to Denmark (Skagerrak 1 – 4) with a combined capacity of 1,700 MW and one 700 MW subsea DC interconnector to the Netherlands (NorNed). Additionally, there are strong AC interconnectors with Sweden and minor AC interconnectors with Finland (100 MW) and Russia (50 MW). In addition to NSN Link, Statnett is currently involved in developing a 1400 MW interconnector to Germany (Nord.Link).

General comments

Statnett's share of the cost and revenue from the NSN Link is regulated by the Norwegian regulator NVE (the Norwegian Water Resources and Energy Directorate). In Norway, interconnectors are viewed as part of the main grid, and revenue from the Norwegian share of the NSN Link interconnector will therefore be used to adjust future tariffs. This is in accordance with the EU regulations on cross-border exchange of electricity. NVE uses an incentive based benchmarking model when computing Statnett's "allowed revenue" for a given year, where Statnett's costs are benchmarked against the costs of a number of European TSOs. The approach taken by NVE¹ is to benchmark on a portfolio level, not on a project-by-project level.

Statnett has received all necessary licences. The most important approval for the NSN Link was given by the Norwegian Ministry of Petroleum and Energy (NMPE) through the Interconnector Licence from October 2014. Statnett has also obtained various other consents relating to the NSN Link Project.

Statnett has identified that the NSN Link interconnector will provide significant wider benefits in Norway. Poyry's economic modelling, as well as the qualitative assessment of NSN Link (Chapter 3 and 5 of Ofgem's current consultation document), concludes that this is the case also in GB. Statnett's view is that interconnectors with a net positive benefits case, i.e. that delivers a net benefit to society, should be realised. A regulatory regime should encourage the realisation of these projects to ensure that these wider benefits are captured by society.

A key prerequisite to Statnett in a project the size of NSN Link is to find a motivated, industrially competent and financially secure partner that has a long-term view on its participation in the project. It is therefore of great importance to Statnett that our partner's business case is robust, so that there is both a willingness to invest and to stay with the investment long term. The project partners plan to make a financial investment decision (FID) in March 2015, and among other things, we believe a high degree of regulatory certainty is necessary for our project partner to make this decision. The GB regulatory regime needs to be sufficiently clear, transparent and predictable.

We understand from our partner that there are some uncertainties that may still be present at FID. Statnett is concerned that this might jeopardise a positive investment decision, and requests that these uncertainties are clarified. This includes a firm award of cap and floor to NSN Link, a better understanding of the cost assessment process and post construction review, and a firm approval of technology choice, connection point, landing locations, landfall site and cable route. Statnett presumes Ofgem is aware

¹ For further information, please refer to www.nve.no

conditions exist underlying the Norwegian interconnector licence related to the foregoing, and takes account of these in their assessment.

We would expect that Ofgem recognises that the Norwegian regulatory system is properly assuring efficient solutions for Norwegian grid customers, and that these efficiency evaluations falls outside Ofgem's scope and authority.

Replies to Questions

Question 9: Do you agree with the conclusions on the IPA for NSN?

As mentioned previously, the project plans to make a financial investment decision in March 2015, and a high degree of regulatory certainty is needed for National Grid to make this decision. The conclusion of the IPA is, however, caveated. NSN Link is awarded a cap and floor regime, but the award is subject to no material escalation in costs and no changes in project specification between now and the conclusion of the FPA.

Statnett would like to emphasise that we put a high emphasis on cost effectiveness, as do our owners, the Norwegian Ministry of Petroleum and Energy. Statnett is benchmarked against other European TSOs by the Norwegian regulator NVE, and these benchmarking analyses shows that Statnett is considered a cost effective organisation. Statnett has extensive procurement experience both from our onshore activities and subsea interconnectors, as does National Grid. Statnett believes the current procurement strategy and process will result in the best contracts achievable given the current market conditions.

Our expectation is that Ofgem will issue a firm cap and floor award in the March 2015 decision.

Question 10: Do you have any comments on our application of the regime to NSN?

Statnett notes that the cost assessment process and the post-construction review are described at a high level only. A project of NSN Link's complexity and size needs clarity around future processes. Statnett requests that the future processes, such as the cost assessment process and the post-construction review are clarified and described at a more detail level to ensure clarity and predictability for the project, allowing our partner to take the investment decision that is necessary to realize the NSN Link Project.

As we have commented in previous consultations, experience has shown Statnett that it is not possible to develop an interconnector on the basis that everything goes according to plan. There will always be factors beyond a developer's control. An example is weather risk, which might delay the laying of cable, as the laying cannot normally be executed in bad weather or in winter. Another example is soil risk. While the project has executed a wide range of surveys, factors such as soil risk can never be 100% known pre-laying. In hindsight, decisions that seemed right at the time might be shown to have been less appropriate when new data is available. We presume that Ofgem in their assessment will allow for a cost level that considers all relevant cost drivers, for example the contractor market situation, as well as the risks associated with these kinds of projects in the same way as any prudent developer would do. Statnett is also of the opinion that it is of key importance that the developers are in complete control of the organisational structure and level of resources necessary to manage and control the project in a prudent manner based on risk considerations and experience and in accordance with the requirements of both developer companies. This is critically important for a project of this magnitude and complexity.

The consultation states that project benchmarks will be used during the cost assessment process. Interconnector projects are of nature different and unique. Factors such as choice of technology, capacity, length and depth of cable, climate, and conditions at landing point all contribute to different solutions. Market conditions might vary considerably between different interconnectors, depending on factors including, but not limited to, commodity prices, number of available suppliers, number of other interconnector projects currently being developed, availability of resources such as ships etc. All this contribute to costs having the potential of varying considerably between interconnectors. Finding appropriate projects for benchmarking is therefore challenging, and a like-for-like comparison of prices not appropriate. Statnett presumes that Ofgem will treat any benchmarking with this in mind and where necessary adjust for these factors.

Question 12: *Do you have any comments on our initial assessment of technology choice or tendering strategy for the NSN interconnector?*

Statnett notes that Ofgem's current approval of technology choice is conditional and might be revisited if issues arise as part of the cost assessment process, which will take place after tendering is completed mid-2015. We would like to highlight that negotiated prices will be dependent on inter alia the current market situation, such as commodity prices and supplier market dynamics. Costs can therefore not be fully anticipated at the time an interconnector project needs to make a decision on technology choice. A project must therefore base the cost elements of its technology choice evaluation on best-informed assumptions. Consequently, the technology choice for NSN Link has been made a long time ago. We presume Ofgem will take account of this in their evaluation of technology choice.

Statnett considers itself to have world-leading competence on subsea HVDC technologies. All available technologies, including cable technologies, were evaluated as part of NSN Link's technology selection process, and the choice was based on an overall assessment of availability, technical suitability and commercial viability.

Our expectation is that Ofgem will issue a firm approval of technology choice in the March 2015 decision.

Other comments:

Statnett has informed National Grid NSN Link Ltd of planned reinforcements of the grid in Southern Norway, which will take place in the first few of years of operation of the NSN Link interconnector and which may require some restrictions on utilisation of the Interconnector. Statnett would expect Ofgem to take account of this in the setting of an availability target, so that our partner is not penalised for Statnett's planned outages through the availability incentive. Statnett has commented on this in previous consultations. Statnett also wants to make it clear that any availability incentive scheme potentially being introduced by Ofgem will not be apply to Statnett as Statnett is regulated by the Norwegian regulator, NVE.