

Stuart Borland
Electricity Transmission
9 Millbank, London. SW1P 3GE.
0207 901 7134
Cap.Floor@ofgem.gov.uk

DONG Energy A/S
Nesa Allé 1
2820 Gentofte
Denmark

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

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

Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors

29 April 2015

Our ref. lasss

We welcome this opportunity to comment on the Initial Project Assessment for applications entered in the 2014 window and Ofgem's minded-to decision on the Initial Project Assessment of four interconnector projects - FAB Link (to France), IFA2 (France), Viking Link (Denmark) and Greenlink (Ireland). Our comments and answers will focus on the general approach taken by Ofgem in the assessment and the specific assessment of the Viking Link. Please find our comments below. This note contains no confidential information.

lasss@dongenergy.dk
Tel +4599559126

DONG Energy is one of the leading offshore wind farm developers in the world and have extensive experience in converting thermal power plants into biomass. We operate offshore wind farms or thermal power plants in GB, Germany, Denmark and the Netherlands. As a market participant in the Nordic power market, we have a long history of trading and risk hedging in a highly integrated market involving several countries and bidding zones.

On this basis, we see market coupling and international trade of electricity as a prerequisite for a cost efficient decarbonisation of the European Economy. Market coupling allows electricity to flow towards the areas with the highest prices; however, infrastructure is a prerequisite for trade.

In our view, electricity transmission capacity is lacking in Europe including interconnection between countries. It has proven much harder to bring forward infrastructure than renewable generation capacity. We, therefore, appreciate the efforts made by Ofgem to gain new traction.

Question 1: Do you agree with our minded-to positions on the four projects considered in this consultation?

We agree to the minded-to position on the Viking Link. The approach taken in the consultation document to assess the projects is well explained and results on the Viking Link in line with our analyses, see answer to question three.

Question 2: Is there any additional information that you think we should take into account when reaching our decision on the IPA of the projects?

Our ref. lasss

The analysis of GB socio economic impact of interconnector participation in capacity markets focusses on the capacity market revenue leaving GB and the resulting lost profit for generators in GB. This is a reasonable short-term result. If, however, more efficient (cheaper) overseas capacity over time is expected to replace GB capacity, GB avoids costs for maintaining domestic capacity. This should lead to a socio economic benefit to GB, which does seem not to be included in the analysis.

Question 3: What are your views on the approach Pöyry has taken to modelling the impact of cross-border interconnector flows?

The Poyry modelling tool is based on an established and well-reputed model framework. We have no reason to doubt the conclusions.

Our internal modelling and analysis of the effect of the Viking Link gives similar results and conclusions; (i) the link is likely to allow for better use of wind power in both Denmark and GB due to the low correlation of wind. As a result, the price wind power generation can expect to be able to sell to in the market will increase in both markets, (ii) the generally lower prices in Denmark suggest that the flow will be primarily towards GB, and (iii) the Viking Link connects GB to both the Nordic and the German market resulting in likely strong system security benefits and resilience towards effects of other “competing” interconnectors.

Question 4: Do you have any additional evidence in this area that we should take into account?

Cf. question 2 and 3.

Question 5: Do you have any views on the information presented in this chapter?

Since Denmark is strongly connected to both the Nordic market (Norway, Sweden and Finland) in the Northeast and to Germany in the South, the Viking link offers the possibility of connecting GB to two large electricity systems simultaneously via one interconnector bringing system security benefits to GB.

Question 6: Are there any additional factors that you think we should have considered?

No.

Question 7: Have we appropriately assessed the hard-to-monetise impacts of the interconnectors?

Given our knowledge of the GB and especially the Danish market, we find the hard-to-monetise effects attached to the Viking Link in line with our expectations.

Question 8: Are there any additional impacts of the interconnectors that we should consider qualitatively?

To our knowledge, the analysis includes the most important aspects. We have no relevant additional impacts to bring forward.

Question 9: Do you have any views on the information presented in this chapter?

No.

Question 10: Do you have any comments on our assessment of the project plans?

No.

Please do not hesitate to contact us if you have any questions to our answers above.

Yours sincerely
DONG Energy

Lasse Sundahl
Project manager