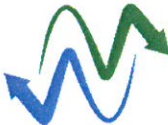

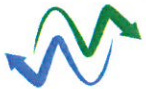


NORTHCONNECT
CONNECTING RENEWABLES

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Revision	Issue Date	Reason for Issue / Change	Author	Reviewer	Approver

**REQUEST FOR EXEMPTION
UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003
FOR THE
ELECTRICITY INTERCONNECTOR NORTHCONNECT**

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NorthConnect KS	NCT Document Number	
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	NORTHCONNECT PROJECT	Page	2 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

REVISION RECORD

Rev. No.	Date	Section(s)	Page(s)	Change



	NORTHCONNECT PROJECT	Page	3 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

TABLE OF CONTENTS

REVISION RECORD.....	2
TABLE OF CONTENTS	3
1. EXECUTIVE SUMMARY.....	4
2. NORTHCONNECT WILL BENEFIT THE EUROPEAN ELECTRICITY MARKET	6
2.1 NorthConnect	6
2.2 Description of NorthConnect.....	7
3. DIFFERENT REGULATION IN NORWAY AND UK.....	10
3.1 Introduction	10
3.2 Regulation in UK	10
3.3 NorthConnect will not request exemption in UK.....	12
3.4 Regulation in Norway.....	12
3.5 Split-regulation, different regulation on each side of the connector	13
4. REQUEST FOR EXEMPTION FOR THE NORWEGIAN PART OF NORTHCONNECT	14
4.1 Introduction	14
4.2 Request for Exemption.....	14
4.3 The Need of Exemption from the Revenue Requirements.....	14
4.4 Duration of Exemption	15
5. DOCUMENTATION OF FULLFILMENT OF EXEMPTION CRITERIA	16
5.1 Requirements for Exemption	16
5.1.1 Criteria a) The investment must enhance competition in electricity supply	16
5.1.2 Criteria b) the level of risk attached to the investment is such that the investment would not take place unless an exemption is granted	17
5.1.3 Criteria c) the interconnector must be owned by a natural or legal person which is separate at least in terms of its legal form from the system operators.....	19
5.1.4 Criteria d) charges are levied on users of that interconnector.....	19
5.1.5 Criteria e) no part of the capital or operating costs of the interconnector has been recovered from any component of charges made for the use of transmission or distribution systems linked by the interconnector.....	19
5.1.6 Criteria f) the exemption must not be to the detriment of competition or the effective functioning of the internal market in electricity, or the efficient functioning of the regulated system to which the interconnector is linked	19
5.2 NorthConnect has PCI Status.....	20
6. APPENDIXES	21

	NORTHCONNECT PROJECT	Page	4 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

1. EXECUTIVE SUMMARY

The NorthConnect project is a proposed 1400 MW interconnector connecting the hydro based system in Norway and the thermal and renewable system in UK. The planned interconnector will increase the transmission capacity between Norway and UK with 100% and will be the only connector between the price area of NO5 in Norway and Scotland. NorthConnect is a consortium consisting of Lyse Produksjon AS, E-CO Energi AS, Vattenfall AB and Agder Energi AS which developing the project.

NorthConnect KS (NorthConnect) request for exemption pursuant to Article 7 of Regulation (EC) 1228/2003 (the Regulation) for the HVDC interconnector between Norway and UK. EU regulation 1228/2003 has been replaced by Regulation 714/2009. However, due to postponement of the EEA implementation process NorthConnect exemption application is pursuant to 1228/2003 as this is still the valid legislation in Norway. NorthConnect has applied for cap and floor regulation on the British side of the IC. Thus, NorthConnect has a split regulation, and this request only applies to the Norwegian part of the connector i.e. 50% of the revenues and the Norwegian regulation. However, we foresee a coordination between the regulators in UK and Norway, but this is outside the scope of this application.

NorthConnect applied 14th of June 2017 for Foreign Trade License according to the current Norwegian Energy Act § 4-2. Meanwhile, the parliament has recently decided to implement the EU third energy package in to the Norwegian legislation. According to the Norwegian regulator NVE, the further development of the NorthConnect project must comply with the requirements of the third package.

Since NorthConnect is a non-TSO interconnector project and no general preapproved national regulation of revenues for such projects exists in Norway. Hence, we request an exemption pursuant to article 7 of Regulation (EC) 1228/2003 with derogation:

- *from the revenue requirements (use of revenues) in Regulation (EC) No 1228/2003 (article 6.6)*

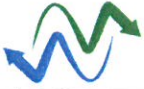
Article 7 of Regulation (EC) 1228/2003 provides that investments in new direct current interconnectors may be exempted for a limited period of time from certain legal provisions of the Regulation in particular concerning use of revenues and of the Directive 2003/54/EC (the Directive). However, as NorthConnect will not apply for third party access exemption, exemptions from the requirements of the Directive will not be needed. NorthConnect apply for 25 years duration of the revenue exemption referred from the date of commissioning, alternatively harmonised with the duration of the cap and floor regulation period.

In UK NorthConnect applied for cap and floor regulation October 2016. Ofgem decided to grant the NorthConnect projects a cap and floor regime (in principle) 8th of January 2018 through the Initial Project Assessment. Since the UK cap and floor regime is the standard preapproved national regulation in UK for interconnectors there is no need for exemption regarding article 16.6 in Regulation 714/2009 which is the relevant regulation in UK. On the other hand, projects with cap and floor should comply with all the relevant European law requirements. Instead of following the exemption route in UK regarding unbundling, the owners of NorthConnect will rather change the owner structure on the UK part of the connector. New structure, which comply with all relevant requirements i.e. unbundling must be at place before Commercial Operation Date expected to be in Q1-2024. The result is that we do not request for exemption in the UK.

To qualify for an exemption an interconnector project must meet a number of conditions (a) to (f) stated in Article 7 of the EU Regulation 1228/2003 broadly aimed at ensuring the exemption is not undesirable to competition and development of the single European market.

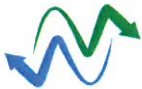
Generally, the development of interconnector capacity would increase competition in the connected markets. For NorthConnect connecting Scotland and NO5 (separate price area and future separate LFC block in Norway) this is particularly true due to the following reasons:

- Generation portfolio in Scotland and Norway are very different but complementary. By utilising the storage capacity and the flexibility of the Norwegian system could avoid expensive storage and back-up capacity in Scotland.
- NO5 area in Norway has the highest local power surplus, the production is more than twice the consumption.
- This would lead to high traded volumes on the interconnector thus reducing prices in Scotland / UK and an increased competition in the UK markets.

	NORTHCONNECT PROJECT	Page	5 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

In addition, NorthConnect has received status as Project of Common Interest (PCI) and thus has met the criteria referred to in article 4 according to EU regulation 347/2013¹.

¹ Not yet implemented in Norwegian legislation

	NORTHCONNECT PROJECT	Page	6 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

2. NORTHCONNECT WILL BENEFIT THE EUROPEAN ELECTRICITY MARKET

2.1 NorthConnect

NorthConnect connects markets with the highest price-differential in Europe – Norway and UK. NorthConnect together with NSL is ranked top on the PCI-list. However, the problem is that the Norwegian TSO Statnett has so far shown no willingness to initiate the project. Statnett has claimed that new interconnectors from Norway could not be initiated before sufficient experience with the two ongoing Statnett interconnector projects, NSL and NordLink, is available. Consequently, with an expected date of operation in 2021 for NSL, and if Statnett should be the responsible party for the project, NorthConnect will not be in operation before 2028 at the earliest.

Interconnector projects which are connecting UK, has been offered significant risk relief through the cap and floor arrangement. NorthConnect, has as mentioned obtained a positive “minded to” decision from Ofgem in the “Window 2” announcement of cap and floor. When NorthConnect has been granted such an Initial Project Assessment, which is expected to lead to a later final FPA, the projects British part could be fundable even with project finance provided that FPA conditions reflect the increased financial costs compared to less costly balance financing. The preliminary results from the dialogue between project financed FabLink (British part) and Ofgem indicates that Ofgem is willing to adjust the conditions in the FPA according to actual financial cost.

Both Ofgem, National Grid and Acer have indicated that there will be no further announcements (no Window 3) of cap and floor support. This means that if NorthConnect is not realised now, it will probably not be realised at all because the risk profile would be worsened significantly. Without a cap and floor risk relief on the British part, Statnett will face difficulties in finding a partner for the British part willing to take the significant investments risk.

If NorthConnect is not being realised now, other from a European perspective less attractive projects could be realised like Viking Link which has significantly lower SEW/CBA numbers.²

A unique feature of NorthConnect is that no grid investments, neither in UK and Norway, would be necessary. In UK NorthConnect relieves the congestion at the Anglo-Scottish border (B6), decreases losses and avoid expensive peak curbing in periods of high wind generation in Scotland. In Norway, NorthConnect drains surplus from price-area NO5 which leads to avoided future investments and reduced losses. There will not be any grid investments in Norway.

EU Regulation 347/2013 Article 4. Paragraph 2a set forward the general criteria where a Project of Common Interest is to contribute significantly to at least one of the specific criteria:

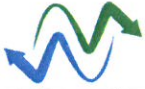
- **Market integration**, inter alia through lifting the isolation of at least one Member State and reducing the energy infrastructure bottlenecks, competition and system flexibility;
- **Sustainability**, inter alia through the integration of renewable energy into the grid and the transmission of renewable generation to major consumption centres and storage sites;
- **Security of supply**, inter alia through interoperability. Appropriate connections and reliable operation.

NorthConnect is a unique interconnector as it is compliant not only with one criteria, but with all three criteria listed.

Market integration

Scotland at present has only one interconnector to Ireland (Moyle, 500 MW). The realisation of NorthConnect would almost triple the interconnector capacity to wind-dominated Scotland. NorthConnect drains Scottish surplus wind generation to Norway during windy periods in Scotland (up to 15% of the wind generation in major wind parks in Scotland (2017) was curbed and hence the energy spoiled) before Western Bootstrap came into operation in 2018. The capacity on the Anglo-Scottish border (B6) represents a major bottleneck in the British transmission system, and redispatch costs have been significant. Despite upgrading of the capacity limits between Scotland and England (upgrading of the overhead transmission lines and the establishing of the Western link resulting in an increased capacity limit from 3.9 to 6.5 GW) the annual wind generation capacity growth in Scotland (800 – 1000 MW) would imply that transmission capacity limit would soon be exceeded again. During heavy wind periods in Scotland the current capacity limit across B6 (the Anglo-Scottish

² <https://tyndp.entsoe.eu/tyndp2018/>

	NORTHCONNECT PROJECT	Page	7 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

Border) has already been reached. One of the great advantages of NorthConnect for UK customers is that NorthConnect relieves constraints at the Anglo-Scottish border, compared to interconnectors further south.

Generally power prices in Norway tend to be much lower than in UK. A connection to Norway thus increase the competition in the UK markets. In Norway, price area NO5 which is characterised by very high surplus and highly flexible hydro generation, is the only price area in Norway without connection to other countries. Scotland has up to recently been characterised by constant surplus. The situation in Scotland is now changing. During periods with high wind generation the surplus is very high, whereas Scotland during periods with low wind generation would be importing. The foreseen closure of nuclear powerplants Hunderston B and Torness which to day represent approx. 40% of Scottish annual generation would lead to even more import to Scotland during low wind periods, and the need for draining capacity out of Scotland. NorthConnect could help both balance this situation. Export to Norway during high wind periods and import from Norway in low wind periods.

In Norway more specific in price area NO5, some of the flexible Pelton turbines could be stopped or operate with reduced output during imports and restarted during periods of low or moderate wind generation, when the power flow would be reversed. The hydro reservoirs in Norway thus serve as storage for Scottish wind generation as well as back-up capacity. The available flexibility and storage capacity in NO5 could manage to partly outbalance the variation in the Scottish power generation locally (mainly handled within NO5) without significant impact on the total Nordic system. NorthConnect thus utilized the Norwegian hydro flexibility in a wider context leading to reduced need of storage and back-up capacity in Scotland.

Sustainability

The current back-up and balancing capacity in UK consist of gas- and coal-fired generation. According to decisions all coalfired generation should be phased out in 2025. After 2025 we expect back-up and balancing capacity to be provided from gas-fired units. We think both CCGT and OCGT units would be needed, the latter leading to increased CO2 emissions compared to CCGTs. Significantly lower Capex and faster construction could however outbalance higher CO2 emission cost due to expected shorter operation periods. Ofgem's cap and floor evaluation of NorthConnect (Pöyry report³) has stated that NorthConnect could avoid investment of a 1000 MW CCGT powerplant. It is however, difficult to estimate what this means in avoided CO2 emissions as the number of expected operational hours is not clear to us.

National Grid Electricity Transmission Economic Team on behalf of NorthConnect has givenan estimate of the CO2 emission savings due to NorthConnect. The CO2 savings is estimated by Nation Grid to be between 1- 5 million tons annually over a 30-year operating period depending on the scenarios. NorthConnect thus underpins the sustainability goals of EU/UK.

Security of supply

In Scotland all the previous coal fired generation has been shut down, and the only remaining CCGT in Scotland, Peterhead, is operating with significantly reduced output. In 2023/2024 one of the two remaining nuclear power plants (Hunterston B, 1228 MW) is planned to shut down in 2024. In 2030 closure of the remaining nuclear plant in Scotland, Torness is planned. The nuclear power generation in 2017 was approx. 20 TWh which represent 40% of total annual Scottish generation. The planned closure of firm baseload generation and the replacement from indispatchable renewable generation (mainly wind generation) would challenge the future security of supply situation in Scotland.

According to National Grids current grid restoration plans, Scotland is heavy reliant on import from England to restore supply. NorthConnect is offering both an opportunity for black start service and significant and fast acting back-up capacity thus contributing significantly to security of supply in Scotland. NorthConnect is the only interconnector in Ofgem's "Window 2 announcement", to be regarded as an appropriate provider of Black Start services in Scotland. In Ofgem's and National Grid's evaluations of the de-rating factor of interconnectors, the interconnectors to Norway have the highest availability thus leading to increased security of supply to the British power system. Interconnectors to Norway gives UK access to Norwegian hydro flexibility and storage capacity.

2.2 Description of NorthConnect

Current ownership, shareholder and legal structure of NorthConnect

The current project vehicle is NorthConnect KS (incorporated in Norway with organisasjonsnummer NO 996 625 001).

³ https://www.ofgem.gov.uk/system/files/docs/2018/01/near-term_interconnector_cost_and_benefit_analysis_-_independent_report_.pdf

	NORTHCONNECT PROJECT	Page	8 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

NorthConnect KS is a joint venture partnership with four limited partners and one general partner. The general partner is NorthConnect AS (incorporated in Norway with organisasjonsnummer NO 995 878 550), which holds 10% of the capital in NorthConnect KS.

Short description of owners of NorthConnect:

Owner	Share	Description	Link
Agder Energi AS	22,25%	<ul style="list-style-type: none"> Agder Energi is owned by 30 municipalities in Agder (54.5%) and by Statkraft (45.5%). Agder Energi has a production capacity of approximately 1.800 MW and an annual power production of more than 8,1 TWh. 	www.ae.no
E-Co Energi AS	22,25%	<ul style="list-style-type: none"> E-CO is owned by the municipality of Oslo E-CO is the second largest power producer in Norway. The core business of E-CO is ownership, management and development of hydropower plants and business development. 	http://e-co.no/
Lyse Produksjon AS	22,25%	<ul style="list-style-type: none"> Lyse is owned by 16 municipalities Lyse Produksjon AS is a wholly-owned subsidiary company of Lyse Energi AS, which is an energy- and telecommunication company based in Stavanger. Main products and services: electricity, gas, district heating/cooling, broadband, internet, mobile and energy management. 	https://www.lysekonsern.no/om-konsernet/selskaper/lyse-produksjon/
Vattenfall AB	33,25%	<ul style="list-style-type: none"> Vattenfall is 100% owned by the Swedish state Vattenfall main products and services are production, distribution and sales of electricity, heat and gas as well distributed energy solutions 	https://www.vattenfall.se/

A copy of articles of association can be found in appendix 3.

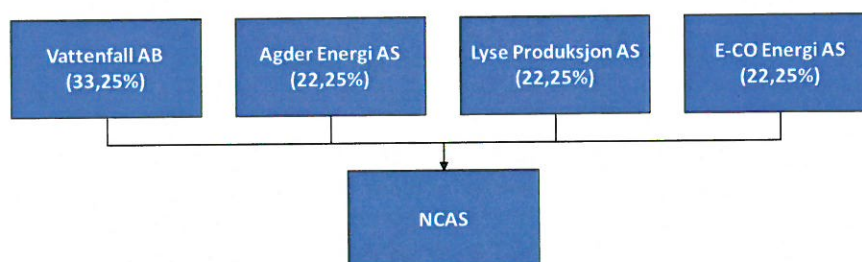


Figure 1: Structure of NorthConnect AS

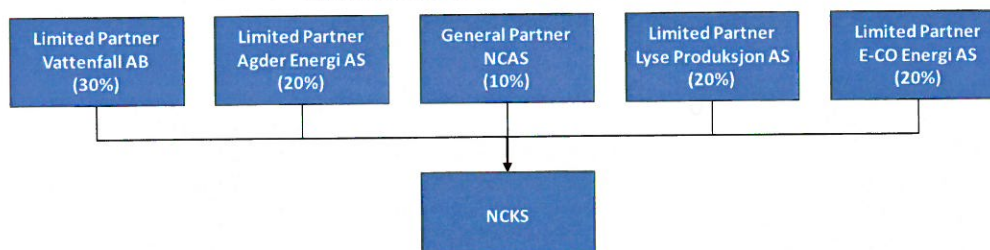
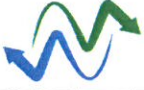
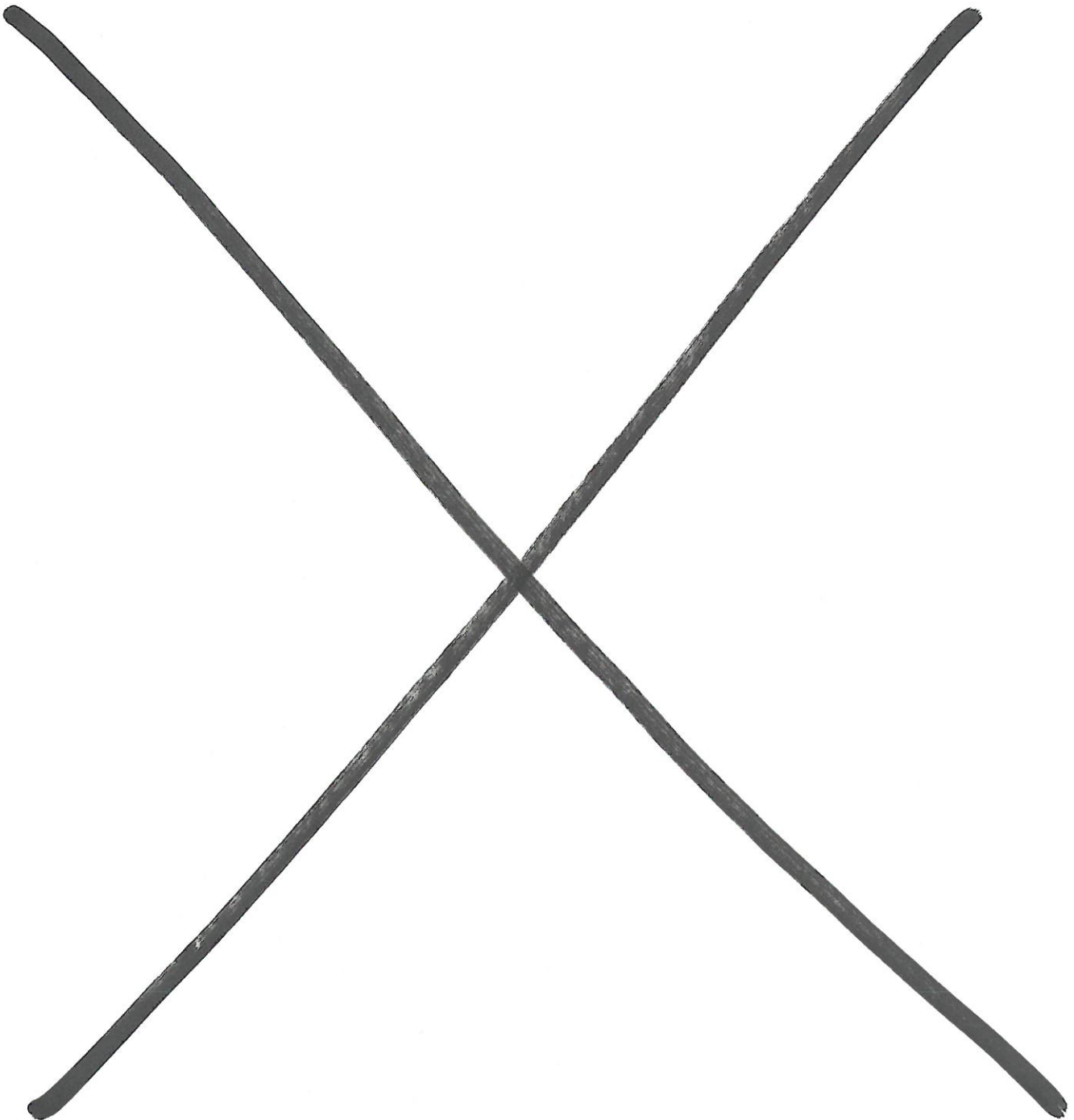



Figure 2: Structure of NorthConnect KS.

	NORTHCONNECT PROJECT	Page	9 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

The certificate of registration for NorthConnect AS and KS to be find in appendix 1 and 2 and Limited Partnership agreement in appendix 4.



	NORTHCONNECT PROJECT	Page	10 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

3. DIFFERENT REGULATION IN NORWAY AND UK

3.1 Introduction

The regulatory framework of interconnectors is different in UK and Norway. In UK there is either a preapproved and standardized regulation of the revenues, the cap and floor regulation or a full exemption route where the applicants have to comply with the full EU regulatory requirements. When following the cap and floor route there is no need or room for exemption.

In Norway there is no such preapproved regulation, only the standardised TSO regulation, where revenues and costs are incorporated in the TSO accounting. Non-TSO developers must rely on a tailored regulation. This implies a different regulation of each part of the interconnector (split regulation) - a standardized cap and floor regulation on the UK side and a cap only regulation on the Norwegian side. However, this regulation does not apply for non-TSO interconnectors and hence exemption regarding the regulation of revenues is needed.

This affect the need of exemption in UK and Norway respectively. When following the exemption route, the project must apply for an exemption which will be assessed on a "case by case" basis.

3.2 Regulation in UK

In UK where the third package is implemented, two alternative routes of regulation for interconnectors exist:

- Cap and floor
- Exemption

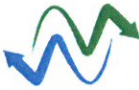
Cap and floor

The cap and floor regime is the regulated route and is the preapproved and standardized regulation and there is no need for exemption regarding the revenues. The current owners according to unbundling requirements would not be granted certification as TSO. Hence, new owners on the UK side must be in place at COD (commercial operational date) at the latest. Through the cap and floor approach developers identify, propose and build interconnectors and there is a cap and floor mechanism to regulate the revenue a developer can earn once in operation. The cap and floor regulation is a relatively new regime and first used by Ofgem in 2014. The purpose of this new regulation has been to encourage additional new electricity interconnectors to be built in the near term that will deliver value for consumers.

Exemption

As an alternative to the cap and floor model, developers can still seek exemptions from regulatory requirements. Under this route developers would face the full upside and downside of the investment and would usually apply for an exemption from certain aspects of European legislation in order to increase the safeguards for the business case of their investment. This was the only option before the introduction of the cap and floor regime in 2014.

The Figure 4 under views the regulatory status for the current and planned interconnectors to UK:

	NORTHCONNECT PROJECT	Page	11 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

PROJECT NAME	DEVELOPERS	CONNECTING COUNTRY	CAPACITY	CAP AND FLOOR REGIME?	EXEMPTION?	DELIVERY DATE/ ESTIMATED DELIVERY DATE
IFA	National Grid Interconnector Holdings (NGIH) and RTE	France	2000MW	No	No	1986
Moyle	Mutual Energy	Ireland	500MW*	No	No	2002
BritNed	NGIH and TenneT	Netherlands	1000MW	No	Yes (Second Package)	2011
EWIC	EirGrid	Ireland	500MW	No	No	2012
ElecLink	Star Capital Partners Limited and Groupe Eurotunnel	France	1000MW	No	Yes (Third Package)	2019
NEMO	NGIH and Elia	Belgium	1000MW	Yes	No	2019
NSN	NGIH and Statnett	Norway	1400MW	Yes	No	2020
FAB Link	Transmission Investment and RTE	France	1400MW	Yes	No	2022
IFA2	NGIH and RTE	France	1000MW	Yes	No	2020
Viking	NGIH and Energinet.dk	Denmark	1400MW	Yes	No	2022
Greenlink	Element Power	Ireland	500MW	Yes	No	2021

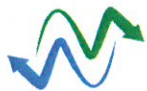
Figure 4: List of existing and future interconnectors and their regulatory status. (Source: <https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>)

As can be seen from Figure 4 all current interconnectors in operation used the exemption track as they got in to operation before the cap and floor regime. However, all planned projects which applied for concession in the so-called "Window 1" (October 2014) are following the cap and floor route except ELECLINK, which has chosen the exemption route. It should be noted that BritNed is the only example which was granted a full exemption, all the later projects have got partly exemption.

In addition to the projects listed in Figure 4 the following projects have applied for cap and floor regulation in UK during the so-called "Window 2", October 2016:

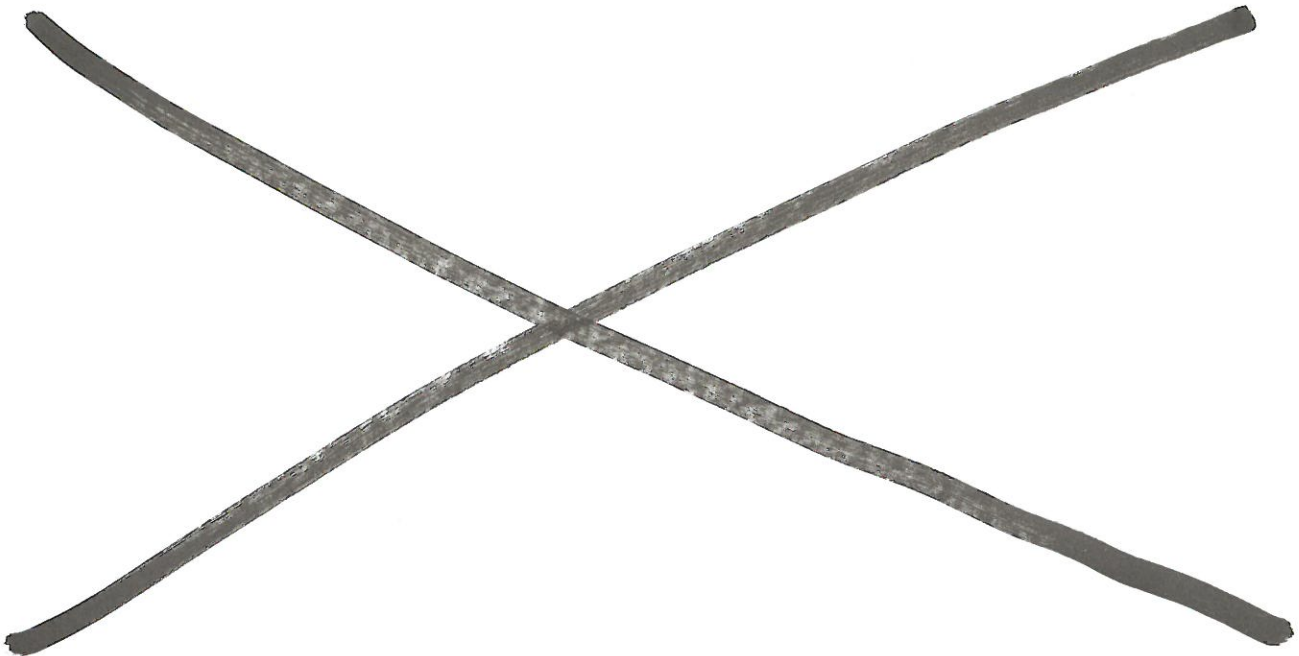
- NeuConnect - 1,400MW link between Great Britain and Germany
- GridLink - 1,000MW link between Great Britain and France
- NorthConnect

These projects have got the initial cap and floor regulation based on the first step in the cap and floor process, Initial Project Assessment (IPA). In addition, the Aquind project between France and UK has applied for IC-license and will following the exemption route. Aquind requested for full revenue exemption in 2017, but the application was refused. The main reason for ACER to refuse the Aquind's exemption application was that an exemption was not needed for the realisation of the project. Aquind like the other interconnector developers to UK, could apply for the standard cap and

	NORTHCONNECT PROJECT	Page	12 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

floor regulation. For NorthConnect however, no such standard risk mitigation exists for the Norwegian part. The refusal of Aquind exemption request is not comparable with or relevant for NorthConnect exemption application.

The introduction of cap and floor has triggered many projects, see Figure 4. This was the intention of the introduction of this regulation. The regulation is well defined and attractive for investors. A consequence of the number of new projects this is that there will probably be no "Window 3" announcement as described in 2.1.



3.4 Regulation in Norway

All existing interconnectors (HVDC-connectors) from Norway are owned by Statnett and is part of Statnett TSO-regulation. The same situation will apply for the planned connectors NorLink to Germany and NSL to UK, where the Norwegian part (50%) of the connector will owned by Statnett and be part of the Norwegian TSO-regulation. However, during the change of the Norwegian Energy Act § 4-2, which opened for non-TSO interconnectors the regulation of NorthConnect will be different.

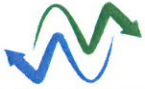
As part of the parliamentary process, the Norwegian Parliament decided to authorise the Government to decide on how possible extraordinary revenues from the interconnectors could be passed on to the Norwegian society. The exact wording of the request (No: *anmodningsvedtak nr. 23 (2016-2017)* 18th October 2016) is as follows:

The Parliament requests the Government to, in a suitable manner, decide for how possible extraordinary revenue from interconnectors owned and operated by other actors than the TSO, can benefit the wider society.⁴

In the proposition to Stortinget (Norwegian Parliament), Prop. 129 S of 11 May 2017, the Government noted the following regarding interconnectors and the above request from Parliament, pages 155 to 156:

Parliament's request was adopted during the Parliamentary debate of Prop. 98 L (2016-2017) "changes in the Energy Act (interconnectors), cf Innst. 24. L (2016-2017). In the committee's recommendations the majority of the committee, members from the Right (No: Høyre), the Progress Party (FrP), the Christian Democrats (KrF) and

⁴ NorthConnect translation

	NORTHCONNECT PROJECT	Page	13 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

Left, had the following remark which is relevant for the assessment of the resolution: "the majority is of the opinion that the on-shore grid costs can be covered through connection costs, and the costs related to the interconnector should also not be charged the grid customers."

With a view to the remark made by the committee's majority it is assumed that the wider society shall be able to take part in the revenue from the interconnectors owned by other actors than the TSO, through possible extraordinary revenue. Furthermore, it is assumed that the grid customers at the same time shall not take part in covering the costs for the interconnector and possible connection costs.

The revenue from different interconnectors will vary, due to which countries and power systems that are connected. They will also have different costs and be planned at different times. Most likely, there will be a substantial lapse of time between each new interconnector established, and as a main rule these will be owned by the TSO. In relation to the licensing process of each separate interconnector the Government will set terms and determine specific regulation based on general considerations and the character of the connection.

One way in which to create a regulation where potential extraordinary revenue from interconnectors can benefit the wider society, is to set a maximum threshold for the revenue. If the revenue above the cap is supplied to the TSO Statnett, it will ensure that the transmission grid costs for the consumers will be lower. A revenue cap can be based on annual revenue, revenue over a period of several years, or total accrued revenue. The revenue cap can for example be established based on the investment costs, ensuring that it is the return above a certain level that will be included. A regulation should ensure that the owner of the interconnector has good investment and operational incentives at the same time as any potential extraordinary revenue benefits the wider society.⁵

The conclusion of the parliamentary process, which is confirmed of MOPE and NVE, is that the Norwegian part (50%) of the connector will get a cap regulation only. Some implication of the parliamentary process:

- There will be a cap regulation on NorthConnect set by MOPE, and revenues above the cap level should benefit the wider society (transferred to Statnett to reduce grid tariffs).
- No risk relief (floor) will be granted.
- MOPE (Olje- og energidepartementet) will set terms and determine specific regulation for each connector (case by case).

Hence, there is no preapproved national regulation of the revenues and NorthConnect thus needs a revenue exemption.

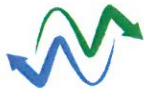
3.5 Split-regulation, different regulation on each side of the connector

Since the regulatory framework is different in Norway and UK the regulation of NorthConnect will be a split-regulation i.e. different regulation of the Norwegian and UK part of the connector. In UK, NorthConnect will be regulated according to cap & floor mechanism (50% of the revenues). In Norway NorthConnect will have a cap only regulation (on the other 50% of the total revenues of the interconnector). The decision of the cap level will be taken on a case by case basis. Revenue exemption is however needed.

The NSL project is in a similar situation regarding split-regulation, on the UK part they got a cap and floor regulation and on the Norwegian part the regulation will be an ordinary TSO-regulation. The split on revenues (Norway and UK) is 50%.

Since the regulation is different in Norway and UK and NorthConnect request exemption on the Norwegian part of the interconnector only. NorthConnect apply for exemption only to the Norwegian NRA (NVE / MOPE).

⁵ NorthConnect translation

	NORTHCONNECT PROJECT	Page	14 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

4. REQUEST FOR EXEMPTION FOR THE NORWEGIAN PART OF NORTHCONNECT

4.1 Introduction

NorthConnect is a non-TSO interconnector project and no general preapproved national regulation of revenues for such projects exists in Norway. Hence, we request an exemption pursuant to article 7 of Regulation (EC) 1228/2003 with derogation from:

- the revenue requirements (use of revenues) in Regulation (EC) No 1228/2003 (article 6.6)

Article 7 of Regulation (EC) 1228/2003 provides that investments in new direct current interconnectors may be exempted for a limited period of time from certain legal provisions of both the Regulation and of Directive 2003/54/EC (the Directive) concerning use of revenues from interconnectors. Article 7 of Regulation 1228/2003 reveals opportunities for exemptions from Articles 20 and 23(2), (3) and (4) of Directive 2003/54/EU. Article 20 concerns requirements for third party access. NorthConnect will be open for trading for all parties and hence an exemption from Article 20 is not relevant. Article 23 relates to regulation authorities and do not directly have any implications for NorthConnect. Hence no exemption from Article 23 is considered necessary for NorthConnect. The unbundling conditions in Directive 2003/54/EU are focused on the existing TSOs and NorthConnect with its current/planned organization and owners is fulfilling the relevant requirements related to unbundling in second package. NorthConnect will hence not apply for an exemption of the relevant requirements in Directive 2003/54/EU as listed in Article 7 of Regulation 1228/2003.

However, despite positive voting in the Parliament (Stortinget) the final outcome of the implementation of the third package is dependent of similar positive decisions of the other EEA members. The Icelandic outcome of this process is still uncertain. NorthConnect does not know which legislation will be relevant when our application is processed and finally decided. Hence, due to this uncertainty NorthConnect in must apply for exemption according to the current Norwegian legislation (second package).

4.2 Request for Exemption

NorthConnect requesting for the following exemptions from the EU regulation:

- from the revenue requirements (use of revenues) in Regulation (EC) No 1228/2003 (Article 6.6)*

with a duration of 25 years from the date of commissioning.

4.3 The Need of Exemption from the Revenue Requirements

Article 6.6 in the regulation 1228/2003:

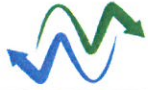
Any revenues resulting from the allocation of interconnection shall be used for the following purposes:

- guaranteeing the actual availability of the allocated capacity; and/or
- maintaining or increasing interconnection capacities through network investments, in particular in new interconnectors.
- as an income to be taken into account by regulatory authorities when approving the methodology for calculating network tariffs, and/or in assessing whether tariffs should be modified.

NorthConnect needs exemption from 6.6 in Norway:

- The Norwegian regulation will be a "cap only regulation", where revenues increasing specified cap-level (the cap) will be transferred to the TSO according to a model that will be determent of the Norwegian authorities (the "relevant authority"). Extraordinary revenues (above cap level) will be used to reduce transmission tariffs for the consumers.
- In order to make the project financeable, the cap level must be set sufficient high. It should be noted that this is of particular importance for projects based on project financing.
- The Norwegian regulation has no floor or risk relief for non-TSO owned interconnectors. The investors, and not the grid customers, are thus fully exposed for downside risk i.e. low earnings and losses.

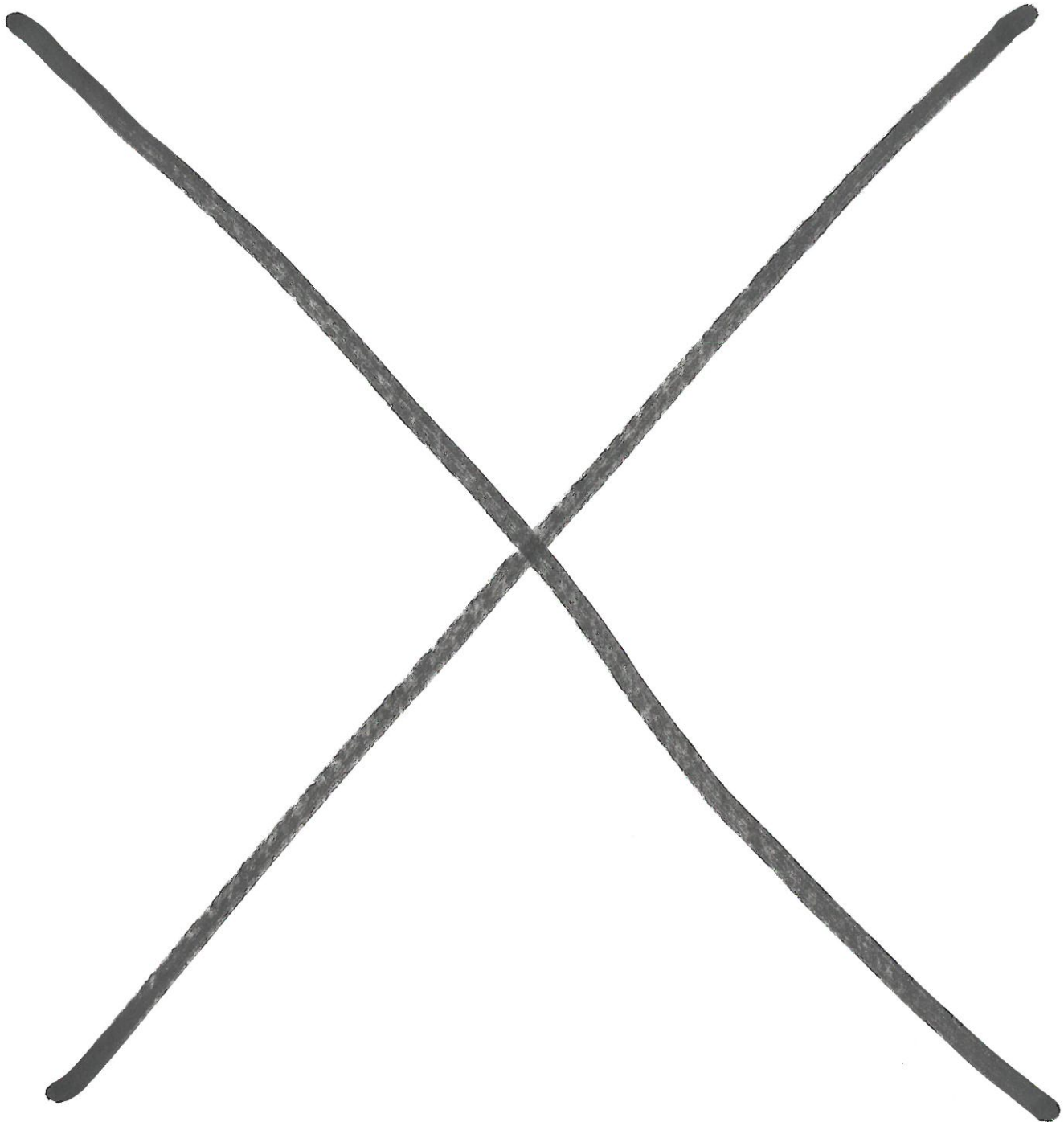
Herby, NorthConnect needs an exemption from 6.6 in Regulation 1228/2003

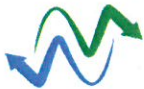


NORTHCONNECT PROJECT

Page	15 of 21
Date	12.12.2018
NCON Doc. No.	NCGEN-NCT-Z-GA-0002
Revision No	0

REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR



	NORTHCONNECT PROJECT	Page	16 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

5. DOCUMENTATION OF FULLFILMENT OF EXEMPTION CRITERIA

In the following chapter we give information of how the interconnector will enhance competition in the EU electricity market and how it meets the conditions stated in Article 7 of the Regulation 1228/2003.

5.1 Requirements for Exemption

Regulation 1228/2003 was implemented in Norwegian legislation 1st of January 2007. According to § 2 in "Forskrift om gjennomføring i norsk rett av EØS-avtalen vedlegg IV nr. 20 (forordning (EF) nr 1228/2003 om vilkår for adgang til nett for overføring av elektrisk kraft over landegrensene....)", "regulatory authority" in articles 2 (2) b, 5 (2), 6(6) c, 10 and 12 will mean "Norges vassdrags- og energidirektorat", NVE. However, in Article 7 the "regulatory authority" is "Olje- og energidepartementet", MOPE. Article 7 deals with new interconnectors and thus relates to NorthConnect.

Article 7.1 in Regulation No 1228/2003 list the following options regarding exemption for new direct current interconnectors:

New direct current interconnectors may, upon request, be exempted, for a limited period of time, from the provisions of Article 6(6) of this Regulation and Articles 20 and 23(2), (3) and (4) of Directive 2003/54/EC under the following conditions:

- the investment must enhance competition in electricity supply;*
- the level of risk attached to the investment is such that the investment would not take place unless an exemption is granted;*
- the interconnector must be owned by a natural or legal person which is separate at least in terms of its legal form from the system operators in whose systems that interconnector will be built;*
- charges are levied on users of that interconnector;*
- since the partial market opening referred to in Article 19 of Directive 96/92/EC, no part of the capital or operating costs of the interconnector has been recovered from any component of charges made for the use of transmission or distribution systems linked by the interconnector; and*
- the exemption must not be to the detriment of competition or the effective functioning of the internal market in electricity, or the efficient functioning of the regulated system to which the interconnector is linked.*

In the following we document the fulfilment of exemption criteria outlined in the referred Articles in Regulation 1228/2003.

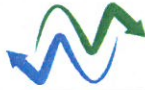
5.1.1 Criteria a) The investment must enhance competition in electricity supply

Generally, the development of interconnector capacity would increase competition in the connected markets. For NorthConnect connecting Scotland and NO5 (separate price area and future separate LFC block in Norway) this is particularly true due to the following reasons:

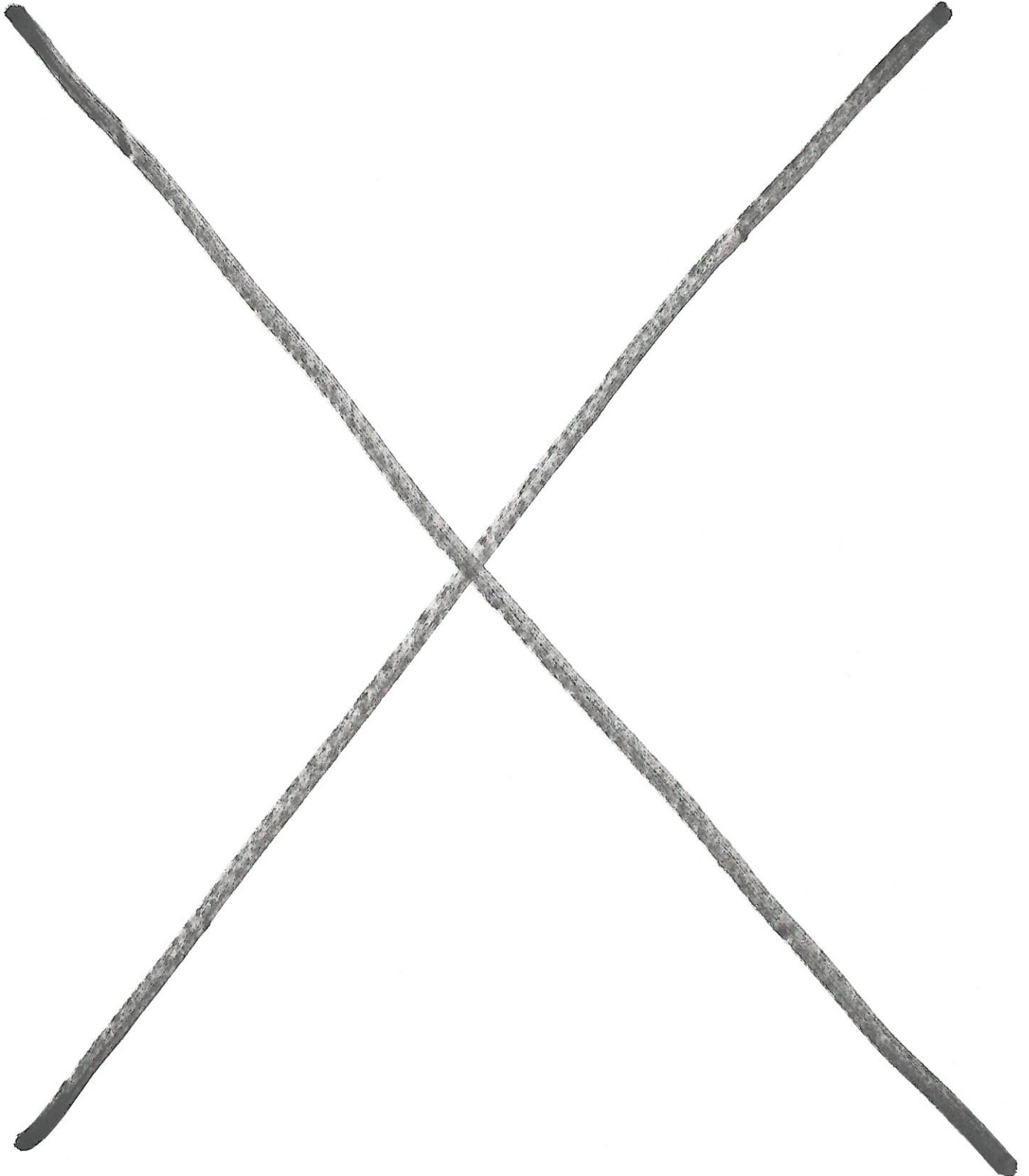
- Generally, UK and Norway have high price differentials (probably the highest in Europe). This would lead to high traded volumes on the interconnector thus reducing prices in Scotland / UK and an increased competition in the UK markets.
- Generation portfolio in Scotland and Norway are very different. In Scotland wind power increasing by nearly 1000 MW annually and nuclear base load generation is an ideal combination with flexible hydro generation in Norway. Excess wind power during windy periods in Scotland may be exported to Norway. In periods with low wind production balancing and back-up power may be imported from Norway. The systems are complementary and by utilising the flexibility of the Norwegian system could avoid expensive storage and back-up capacity in Scotland.
- NO5 area in Norway has the highest local power surplus, the production in NO5 is more than twice the consumption in the area. In addition, NO5 has a storage capacity of 15 TWh (existing hydro reservoirs). NorthConnect thus interconnect UK with Norwegian storage capacity.

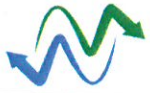
This is further outlined in the following reports:

- ENTSO-E Ten Years Grid Development Plan
- Pöyry, NEAR-TERM INTERCONNECTOR COST-BENEFIT ANALYSIS: (CAP & FLOOR WINDOW 2) January 2017. Independent report to Ofgem as part of the IPA of NorthConnect.

	NORTHCONNECT PROJECT	Page	17 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

- Thema and Baringa, NorthConnect welfare report June 2017.

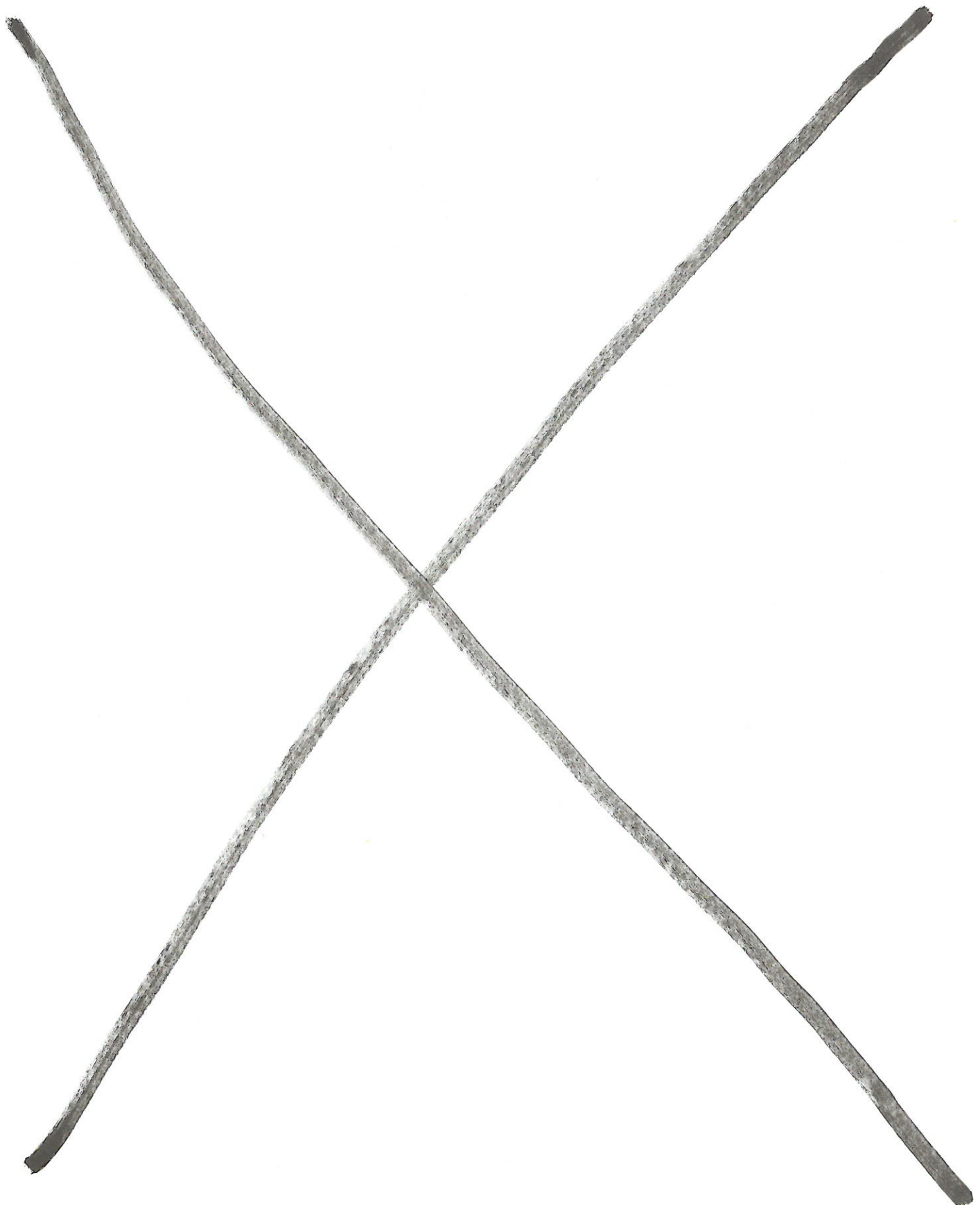




NORTHCONNECT PROJECT

Page	18 of 21
Date	12.12.2018
NCON Doc. No.	NCGEN-NCT-Z-GA-0002
Revision No	0

REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR



5.1.3 Criteria c) the interconnector must be owned by a natural or legal person which is separate at least in terms of its legal form from the system operators

NorthConnect KS is owned 22,25% of Agder Energi AS, 22,25% by Lyse Produksjon AS, 22,25% by E-Co Energi AS and 33,25 by Vattenfall AB. The current owners are fully separated from the system operators, Statnett SF in Norway and National Grid ESO in UK

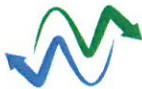
5.1.4 Criteria d) charges are levied on users of that interconnector

5.1.5 Criteria e) no part of the capital or operating costs of the interconnector has been recovered from any component of charges made for the use of transmission or distribution systems linked by the interconnector

5.1.6 Criteria f) the exemption must not be to the detriment of competition or the effective functioning of the internal market in electricity, or the efficient functioning of the regulated system to which the interconnector is linked

The nominal capacity of NorthConnect would be fully available in the day ahead market, through implicit auctions. If Brexit leads to UK leaving the integrated European electricity market, implicit auctions as described in our FTL-application would probably not be possible as the Euphemia algorithm would not include UK. In the same way UK would not be part of the European integrated cross border intraday market (XBID-platform will not be implemented in UK). This means that the trading on the interconnector would deviate from what was foreseen, but we consider that mitigating actions will be taken to maintain the significant revenues / values of the electricity trading (see "Trading electricity if there's no Brexit deal, BEIS")⁶.

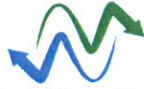
⁶ <https://www.gov.uk/government/publications/trading-electricity-if-theres-no-brexit-deal/trading-electricity-if-theres-no-brexit-deal>

	NORTHCONNECT PROJECT	Page	20 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

5.2 NorthConnect has PCI Status

According to Regulation 347/2013 PCI projects shall meet certain criteria, which are listed in Article 4. NorthConnect has passed the EU evaluation and got status as a PCI project. NorthConnect was one of the highest ranked projects in the list and thus is prioritised by the EU Commission, despite the current ENTSO-E modeling do not take into consideration the significant grid savings (investment and losses) NorthConnect would lead to in both the UK and the Norwegian transmission grids.

We consider hence that all the PCI requirements are met, and this positive outcome of the PCI application further underpins the rationale for the NorthConnect project.

	NORTHCONNECT PROJECT	Page	21 of 21
		Date	12.12.2018
		NCON Doc. No.	NCGEN-NCT-Z-GA-0002
		Revision No	0
REQUEST FOR EXEMPTION UNDER ARTICLE 7 OF REGULATION (EC) 1228/2003 FOR THE NORTHCONNECT ELECTRICITY INTERCONNECTOR			

6. APPENDIXES

- Appendix 1: The certificate of registration for NorthConnect AS
- Appendix 2: The certificate of registration for NorthConnect KS
- Appendix 3: Articles of association of NorthConnect AS
- Appendix 4: Limited Partnership agreement for NorthConnect KS



Firmaattest

Organisasjonsnr: 995 878 550
Navn/foretaksnavn: NORTHCONNECT AS
Forretningsadresse: Kjøita 18
4630 KRISTIANSAND S

Brønnøysundregistrene

12.11.2018



Organisasjonsnummer: 995 878 550

Organisasjonsform: Aksjeselskap

Stiftelsesdato: 23.08.2010

Registrert i
Foretaksregisteret: 31.08.2010

Foretaksnavn: NORTHCONNECT AS

Forretningsadresse: Kjøita 18
4630 KRISTIANSAND S

Kommune: 1001 KRISTIANSAND

Land: Norge

Postadresse: Postboks 603 Lundsiden
4606 KRISTIANSAND S

Aksjekapital NOK: 450 000,00

Daglig leder/
adm.direktør: Carl Martin Reinholdsson

Styre:
Styrets leder: Odd Øygarden
Briskebyveien 15
0259 OSLO

Styremedlem: Øyvind Stakkeland
Per Gösta Swenzen
Leiv Ingve Ørke

Varamedlem: Asbjørn Høivik
Steffen Syvertsen
Per Arne Torbjørnsdal

Signatur: To styremedlemmer i fellesskap.

Revisor: Godkjent revisjonsselskap
Organisasjonsnummer 976 389 387
ERNST & YOUNG AS
Dronning Eufemias gate 6
0191 OSLO

Vedtektsfestet formål: Være komplementar i det norske
kommandittselskapet NorthConnect
KS.



Firmaattest

Organisasjonsnr: 996 625 001
Navn/foretaksnavn: NORTHCONNECT KS
Forretningsadresse: Kjøita 18
4630 KRISTIANSAND S

Brønnøysundregistrene
12.11.2018



Organisasjonsnummer: 996 625 001

Organisasjonsform: Kommandittselskap

Stiftelsesdato: 01.02.2011

Registrert i
Foretaksregisteret: 26.02.2011

Foretaksnavn: NORTHCONNECT KS

Forretningsadresse: Kjøita 18
4630 KRISTIANSAND S

Kommune: 1001 KRISTIANSAND

Land: Norge

Postadresse: Postboks 603 Lundsiden
4606 KRISTIANSAND S

Selskapskapital NOK: 233 941 120,00
Kapitalen er fullt innbetalt

Bunden: 93 576 448,00

Komplementar: Org.nr.: 995 878 550
NORTHCONNECT AS
Kjøita 18
4630 KRISTIANSAND S

Daglig leder/
adm.direktør: Carl Martin Reinholdsson

Signatur: Komplementaren alene.

Revisor: Godkjent revisjonsselskap
Organisasjonsnummer 976 389 387
ERNST & YOUNG AS
Dronning Eufemias gate 6
0191 OSLO

Vedtektsfestet formål: Planlegge, finansiere, utvikle,
bygge, drive, forvalte og
vedlikeholde en direkte høyspent
likestrømskabel mellom Norge og
Storbritania, samt annen virksomhet
som står i naturlig forbindelse med
dette.

VEDTEKTER

FOR

NORTHCONNECT AS (org. nr. 995 878 550)

(oppdatert pr. 23. januar 2018)

§ 1

Selskapets foretaksnavn er NorthConnect AS.

§ 2

Selskapets forretningskontor er i Kristiansand kommune.

§ 3

Selskapets formål er å være komplementar i det norske kommandittselskapet NorthConnect KS.

§ 4

Selskapets aksjekapital er NOK 420 000 fordelt på 1 200 aksjer, hver pålydende kr 350.

§ 5

Selskapets styre skal ha fire medlemmer.

§ 6

Selskapets firma tegnes av to styremedlemmer i fellesskap.

§ 7

For å bli aksjeeier i Selskapet er det et vilkår at man er andelseier i NorthConnect KS. Videre er det et vilkår at aksjeeieren tiltrer kommandittselskapets Partnership Agreement (Selskapsavtale) og Co-operation Agreement (Samarbeidsavtale), slik disse avtalene er utformet til enhver tid.

§ 8

Selskapets aksjer er ikke fritt omsettelige, og enhver form for overdragelse av Selskapets aksjer er betinget av skriftlig samtykke fra generalforsamlingen.

§ 9

Aksjeeierne skal ikke ha forkjøpsrett til aksje som skal avhendes eller for øvrig skifte eier, jf. aksjeloven § 4-19 (1). Bestemmelsene i aksjeloven §§ 4-20 til 4-23 gjelder følgelig ikke.

§ 10

På ordinær generalforsamling i selskapet skal følgende behandles og avgjøres:

- a) godkjenne årsregnskapet og årsberetningen, herunder beslutte utdeling av utbytte, og
- b) behandle og avgjøre andre saker som etter aksjeloven eller vedtektene hører under den ordinære generalforsamlingen.