

Vattenfall AB
Staff Function Communications
Public & Regulatory Affairs
169 92 Stockholm

Ministry of Oil and Energy

Date:
2020-03-10

Contact: Kristian Gustafsson
E-mail: kristian.gustafsson@vattenfall.com

Phone: +46 705295217

Consultation response

“Høring av NVEs vurdering av søknader fra NorthConnect KS og utredning av rammebetingelser og prisutvikling i kraftmarkedet for Norge og Nord-Europa”

Vattenfall welcomes the opportunity to comment on NVE's recommendation to the department of Oil and Energy on the regulatory framework for the NorthConnect project.

Vattenfall is active in both the UK and Nordic market. Together with Hafslund E-CO AS, Agder Energi AS and Lyse Produksjon AS we are also co-owners of NorthConnect.

NorthConnect makes a fossil free living possible

At Vattenfall we have set an ambition to make fossil-free living within one generation possible, meaning that everything we do and all the decisions we take shall lead to this ultimate goal.

We are convinced that continued electrification based on fossil free electricity is a basic precondition for Vattenfall's customers to be fossil free. To this end Vattenfall is active across the whole value chain and expands both new renewable generation, electricity distribution grids and e-vehicle charging solutions. In addition we have engaged in a number of industry partnerships such as HYBRIT (fossil free steel production) to electrify industry processes, hereby reducing CO2 emissions.

The emerging energy system based on a growing share of variable renewable energy does not only need a stronger grid to connect the new sources of energy. In order to achieve a secure, cost efficient and sustainable system we also need storage and much more large scale flexibility. Transmission cables such as NorthConnect is a versatile source of flexibility and storage that can really make the difference. It brings flexibility to the Nordics and the UK. Moreover, it connects the hydro storages in Norway and Sweden with the ambitious transition targets of the UK electricity system.

No one alone can meet the challenges presented by climate change. Nations, cities, politicians, civil society and companies must all work together to achieve results. Apart from being a sound business case, Vattenfall is convinced that the NorthConnect project would benefit both the UK, Norway and our global climate. It is also an opportunity for the Nordic

region to further build competitiveness based on our natural resources and strong hydropower assets.

Interconnectors are key to balance fluctuations and make transition sustainable

This winter has not only reminded us that our climate may vary significantly from year to year, and that we seem to follow a trend towards warmer winters. It has also shown the impact on the electricity price in the Nordics due to the extreme weather and the very strong power balance mainly due to the increase wind power built out in the Nordics. The price level of this winter does not constitute a sustainable price level to make sustainable business and reinvestments in the Nordic electricity system. NorthConnect facilitates a more sustainable price level and thus make it possible to support a transition to a climate neutral and emission free future.

The investments in new renewable electricity production bring significant benefits to Nordic electricity consumers and is as such a competitive edge for the Nordic economies. With the clear political support of electrification as a mean to reduce emissions, society need to gradually expand the volumes of fossil free energy. Vattenfall is prepared to be a part of this development, but NorthConnect and other interconnectors from the Nordic are important to make this expansion sustainable and robust enough for investors to endure the full transition. Interconnectors may provide alternative roads for the early developments of surplus volumes that may be needed to transform our economy and society, but that also by its nature will fluctuate more than traditional conventional sources of electricity.

The socioeconomic surplus of NorthConnect is positive and robust

Vattenfall share NVE:s conclusion that NorthConnect is a robust and socioeconomically profitable project. This is also supported by Vattenfall's own assessment during the years of project development. In addition Vattenfall makes a slightly different assumption on market development which implies that the socioeconomic surplus could be even more positive for Norway than what is shown by NVEs analysis. NVE also concludes that the project has qualified and fulfilled the necessary requirements for a Norwegian concession. Vattenfall share this conclusions.

We would also like to highlight the conclusions in the Pöyry report *Rammevilkår og prisutvikling i kraftmarkedet i Norge og Nord-Europa*, stating that the competitive advantage of low electricity bills for the Norwegian consumers remains, and might even be strengthened despite that new interconnectors are connected to Norway.

The best timing to build NorthConnect is “now” – this way the socioeconomic surplus for Norway is maximized.

The UK regulator, Ofgem, has also concluded, that NorthConnect is a robust and profitable socioeconomic project and Ofgem are ready to finalize the Cap & Floor application when final Capex data are submitted. In principle all necessary permits are in place on the UK side.

Vattenfall share NVE's view that there is no need to wait for additional operational experiences from other interconnectors before Norwegian concession can be given. There are no technical, power system, commercial or regulatory issues that differ from today's and future challenges that cannot be managed for NorthConnect and other interconnectors. One of the

main challenges for the Nordic power system is the increased intermittent power production from wind and solar. The flows on the interconnectors can be controlled and thereby increase the flexibility to mitigate unwanted fluctuation in the power system due to wind and solar production. In addition, when NorthConnect is taken into commercial operation, expected in 2025, almost 5 years of additional experiences will be gained.

Vattenfall would like to emphasize that we are now at a critical point of the concession process. This stage is already long overdue which implies consequences for the project development. The window of opportunity to utilize the beneficial UK regulation Cap & Floor regulation and the following cable supply chain is narrowing rapidly. Thus, to secure the socioeconomic gains for Norway it is therefore crucial that this process has no further delay.

NorthConnect improves the security of supply, in both of the interconnected regions

Interconnectors have a positive effect on security of supply also in the Nordics. Basically an interconnector project to/from a new bidding zone of the Norwegian/Nordic grid makes the system more robust as it increases the alternative sources of import during rare or extreme scenarios for the energy system. This increased robustness has both economic implications (reduce magnitude of extreme prices) and enhances the system's physical ability to meet demand at all times (import from the UK to cover Nordic demand).

NorthConnect has a sound standalone business case

Vattenfall's business strategy is to enable fossil free living and NorthConnect clearly facilitate this. However, being a large producer of electricity in the Nordics and the UK we cannot venture project that does not stand on a firm standalone business case. Our ambition and direction is be a direct or indirect facilitator of interconnector projects that supports Vattenfall's business strategy and is beneficial for the society.

Vattenfall's assessment and involvement concludes that NorthConnect is a separate business case that is profitable and commercially viable on its own merits. Additionally we consider the NVE proposal to hand over the assets free of charge to Statnett and with remaining obligations for restoration disproportionate. On that note we strongly believe an asset of this class should at least be allowed to be operated under conditions close to the "hjemfall" rules which would allow Norwegian state (Statnett) to take over after 40 years or earlier if the parties agrees to.

Ownership structure should not be decisive when setting allowed return on a merchant interconnector asset

Vattenfall recognize the Norwegian discussion of ownership structure of infrastructure assets such as NorthConnect and are willing to support pragmatic solutions. As the concession process is based on the merchant standalone interconnector approach. The operation of the interconnector will be based on transparent market outcomes and deliver market value of the capacity to "passive" owners. With this in mind, we cannot see any reason that the ownership structure as such should impact allowed revenue. Any considerations or discrimination of different ownership companies (involved in generation or not) should thus be addressed separate from the allowed revenue for the interconnector.

We do however understand the discussion in Norway to mitigate the possibility of “super profits” from interconnectors not owned and operated by Statnett. That said, the proposed cap is neither well balanced between risk and reward and not on a viable level to become commercially attractive for a standalone business case. On this Vattenfall share the analysis and views presented by several independent consultants, whom which a few were referenced to in the NVE report.

Best regards,



Cecilia Hellner
Public & Regulatory Affairs

Vattenfall AB