


Electricity Market Reform Project
Department of Energy & Climate Change
3 Whitehall Place
London
England



Our date: 9th March 2011

Consultation on The Electricity Market Reform

Statnett is the Transmission System Operator in Norway, and a partner with National Grid International Limited in the North Sea Network (NSN) project, a subsea interconnector between Norway and Great Britain. Statnett welcomes the opportunity to participate in DECCs consultation process on the Electricity Market Reform.

Statnett operates four subsea DC interconnectors and we are involved in several new projects for additional DC interconnection capacity, partnering with various TSOs.

In Norway around 95 percent of the electricity production is hydro power, and there is a storage capacity of approximately 213 of the yearly Norwegian consumption. Combining the flexible Norwegian hydro power system with the GB generation mix will increase the overall efficiency of the two power systems. The NSN interconnector can also contribute to reduce greenhouse gas emissions from the GB electricity market, by enabling more wind power to be introduced in the GB market.

The increased penetration of wind power in GB will reduce the thermal production and thus the possible providers of spinning and other reserves. It's likely that this will increase the cost of reserves. In addition to ordinary energy trade, we believe it can benefit British consumers if it is allowed to use part of the interconnector to transmit reserves from Norway to GB. This can reduce balancing costs since a low cost resource is introduced in to the market. Further, it will increase competition in the reserve market and thereby reduce the costs.

For the new interconnector between western Denmark and Norway, Statnett and Energinet.dk has agreed to trade automatic reserves. This trade will be very profitable, benefitting from the difference in the generation technology mix on each side of the interconnector. Analysis shows that the welfare economic value of this trade is significantly higher than that for ordinary energy trade. As the volumes in the balancing markets are much lower than in the total energy markets, it is however likely that only a smaller part of the capacity should be allocated to exchange reserves. Between Denmark and Norway, we plan to allocate 100 MW out of a total of 1700 MW to this purpose. This has been accepted by both the Norwegian and Danish regulator, with a yearly evaluation.

We are positive to the proposed reserve market. A more transparent market for reserves may enable a market test for the optimal allocation of transmission capacity between ordinary energy trade and trade with reserves.

It's important that a capacity mechanism doesn't remove the incentives for investing in an interconnector between Great Britain and Norway. If a targeted mechanism is introduced, it's essential to minimize the

impact on the market. Statnett believes that it can be difficult to avoid market distortion with a targeted capacity mechanism. This is a concern with the Swedish peak load reserve, and it has thus been the intention from the beginning that this mechanism will only be temporary. If a market-wide capacity mechanism is introduced, it will be suboptimal to discriminate interconnectors, as they may be competitive participants in this market.

Statnett believes that it's in the interest of Great Britain to facilitate realization of new interconnectors. An optimal use of the flexible Norwegian hydro power, both in the energy market and in reserve markets, can contribute in reaching the Governments objectives; Security of supply, decarbonisation and affordability.

Yours faithfully

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