SUBMISSION FROM NORTHCONNECT

Northconnect would like to thank the Energy, Economy and Tourism Committee for the opportunity to give evidence on May 23, 2012 at the inquiry in the Scottish Government’s 2020 renewable energy targets. Northconnect would also like the committee to consider the following briefing in support of the information given by Dr Richard Blanchfield.

Opportunities for interconnectors and NorthConnect:

- Northconnect offers security of supply in power markets that will be much more volatile by 2020 with a much greater proportion of wind generation on stream, particularly in Scotland. Norwegian hydro provides storage for that power.

- It is not just about wind-hydro interoperability, there will also be daily cycles where the interconnectors allows us to supplement peaks in demand and seasonal cycles with dry summers or ice-bound winters in Scandinavia.

- The Northconnect interconnector will integrate energy markets, allowing the cheapest sources of power at any point in time, to flow to where it is required and preventing large price fluctuations.

- The project will also help with a move to a low carbon future, facilitating the penetration of new renewables to replace conventional sources of carbon-intensive thermal generation.

- NorthConnect is innovating in this market, with both the project design, the business case connecting wind and hydro, and the project finance in looking to attract new, external sources of funding and partners to the JV. With Europe’s current financial situation, the merchant (private funded) model provides a useful alternative to the TSO (socialized cost) model for these large schemes.

- Northconnect is affordable – subsea interconnection, even 600km to Norway, has a capital investment cost per MW on a par with new build thermal generation and less than other renewable power generation technologies.

- Skills Development – big opportunity for pull-through from offshore Oil & Gas industry. NorthConnect has just appointed AMEC as its EIA consultant and Xodus as its route engineering consultant, both with strong track records in Scotland’s North Sea Oil & Gas sector.

- NorthConnect is a significant and crucial project for assisting Scotland achieve its ambitions as a leader in renewable energy and the innovation it brings should be welcomed and supported by the Scottish Government.
Risks for NorthConnect:

- The Norwegian political situation is a big risk with the current administration against 3rd party involvement in interconnectors (i.e. anyone except state owned transmission company Stattnet).

- The UK regulation and grid access landscape is uncertain and also a risk to the project. The GB rules were not designed for interconnectors and the current interpretation does not encourage competition and access.

Other Info:

- The joint venture is made up of SSE Interconnector Ltd, Vattenfall the Swedish state-owned power company and three Norwegian regional, part-state, part-municipality owned power companies, Agder, Lyse and E-Co.

- NorthConnect would be in the large part financed by the partners, but there is a recognition that we have to attract some other sources of funding, either by inviting other equity finance partners into the JV, or by the existing partners seeking other sources of debt or equity finance for their own shares, i.e. effectively “sub-contracting” the financing.

- ‘Merchant’ means that all of the capital finance and risk, plus the revenue risk are borne by the private owners, but in return they can access all the returns if things go well. In a Regulated model the costs are “socialized” in the UK or state-funded in Scandinavia so the customers and society are ultimately underwriting the risk. For the UK’s private owners of Regulated assets, this means they can only access a limited (but guaranteed) level of return.

NorthConnect
May 2012