

James Norman  
Head of New Transmission  
Investment  
Ofgem  
10 South Colonnade  
London  
E14 4PU

Date  
18 June 2020

Dear James

**Shetland transmission project: Consultation on proposed Final Needs Case and Delivery Model**

This response is from SP Transmission (SPT), the onshore transmission owner (TO) for the South of Scotland. As a TO, we have a duty to ensure that we develop and maintain an economic, efficient and coordinated onshore transmission system. We therefore welcome the opportunity to share our views on SHE-T's proposed 600MW subsea cable between Shetland and the mainland.

As we have already commented in detail on Ofgem's earlier assessment of the Shetland project's Final Needs Case, in our response dated 31 May 2019, we have restricted our views in this response to Ofgem's proposals for the type of evidence they consider necessary to prove development of the Viking Energy Wind Farm (VEWF) is likely to go ahead, as well as Ofgem's decision on the updated delivery model for the Shetland project.

Conditions specific to the Viking Energy Wind Farm development

We welcome the fact that Ofgem is 'minded to' approve the full 600MW HVDC link between the mainland and the Shetland Isles. As Scotland pursues a Net Zero target by 2045, strategic national infrastructure such as this subsea link, will be pivotal in continuing to unlock Scotland's substantial renewable potential, including the potential on Scotland's islands.

In our earlier May 2019 response, we agreed with Ofgem that the securing of a Contract for Difference (CfD) by the VEWF, in the 2019 CfD auction, was a strong indication of the project's likelihood of successful development. However, in light of the fact that the VEWF was unsuccessful in securing a CfD in the auction, it is right that Ofgem revisits this decision in light of the updated Final Needs Case submitted by SHE-T in January 2020.

We appreciate that Ofgem has an important role to play in ensuring that consumers are protected from the risks and costs associated with developing strategic infrastructure. In this instance, given VEWF's failure to secure a CfD, we consider it appropriate that Ofgem does identify alternative conditions that should be satisfied so they can be confident that the VEWF development will proceed, as planned, therefore justifying the case for the development of the full 600MW subsea link. We therefore consider that the following conditions proposed by Ofgem are fair and reasonable, given the particular circumstances in Shetland.

*"Ofgem will approve this link on the condition that Ofgem is satisfied by the end of 2020 that the Viking Energy Wind Farm (VEWF) is likely to go ahead."*

The type of evidence that would confirm that VEWf is likely to go ahead includes:

- (i) evidence of the Final Investment Decision being reached;
- (ii) evidence of project information on the basis of which that Final Investment Decision has been taken; and
- (iii) evidence of the Final Investment Decision triggering a major development milestone, which indicates project commencement (this may be in the form of entry into a major supply contract or commitment of significant development spend).<sup>1</sup>

#### Strategic Wider Works welcomed as delivery model

We strongly welcome Ofgem's updated decision to fund delivery of the Shetland subsea link through the Strategic Wider Works (SWW) mechanism, rather than through the CPM. With Ofgem stating in the case of this project, *"We consider this decision to be finely balanced. Nevertheless, having considered the updated consumer savings results, which are based on the information and analysis currently available to us, and all other relevant considerations, we do not consider that there is clear evidence that applying the CPM to the Shetland transmission project (and therefore departing from the existing SWW arrangements under RIIO) would be in the interests of consumers"*<sup>2</sup>.

We agree with Ofgem that SWW is the appropriate delivery framework for this important, strategic infrastructure, which was specifically designed to support large scale strategic infrastructure investments, such as this project, under the current price control framework.

#### Role of the CPM mechanism in RIIO-T2

In relation to the CPM as a future delivery mechanism, we note Ofgem's comments that, *"we consider that there may be benefits to using the CPM. We will continue to consider the application of the CPM to projects that are new, separable and high value during the remainder of RIIO-T1 and during RIIO-2 depending on the circumstances of those projects and the information available to us at the time"*.<sup>3</sup>

We would like to take this opportunity to reiterate our ongoing concerns with the use of the CPM as a delivery mechanism in RIIO-T1 or RIIO-T2. There continues to be no standalone CPM policy, more so now that the Hinkley Sea Bank (HSB) project, which was the main conduit for the development of the CPM mechanism, and now this Shetland project, are being delivered by the intended SWW mechanism. We also continue to have concerns with the unclear scope of the CPM mechanism.

We remain of the view that Ofgem should not be considering the CPM as an appropriate delivery model for large, strategic infrastructure projects in RIIO-T2. Given the CPM was the preferred delivery

---

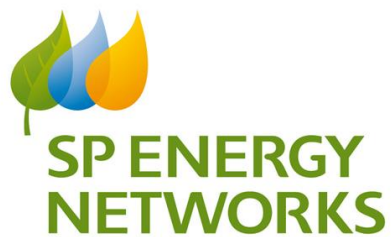
<sup>1</sup> Ofgem (April 2020), Shetland Transmission Project: Consultation on proposed Final Needs Case and Delivery Model (para 4.18)

<sup>2</sup> Ofgem (April 2020), Shetland Transmission Project: Consultation on proposed Final Needs Case and Delivery Model (para 5.4)

<sup>3</sup> Ofgem (April 2020), Shetland Transmission Project: Consultation on proposed Final Needs Case and Delivery Model (para 6.7)

model for the delivery of the HSB project, if consumer benefits cannot be delivered from this mechanism for this particular project, or in fact this Shetland project, we do not believe there is any reasonable prospect that the CPM can derive additional consumer benefits from other high value, strategic projects. We believe now is the appropriate time for Ofgem to stop the development of the CPM altogether and would suggest that Ofgem focuses on the development of the updated version of SWW for RIIO-T2, the proposed new Large Onshore Transmission Investment (LOTI) mechanism. We look forward to working with Ofgem to help further develop this new mechanism.

Yours sincerely



Network Planning & Regulation