

James Norman
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Date
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Contact / Extension
Lynne Bryceland
0141 614 3124

Dear James

Shetland HVDC Link – Project Assessment

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 the Project Assessment of Scottish Hydro Electric Transmission Plc's (SSEN Transmission) Shetland HVDC project (the Shetland Link) and the associated licence modifications proposals.

We support the proposals for a 600 MW HVDC link that will export renewable generation from the Shetland Isles to the mainland, whilst also providing a new secure supply connection to Shetland as the Lerwick Power Station reaches the end of its life.

We have responded to the consultation questions below:

Q1. Do you agree with our proposed cost allowances for the Shetland Link project?

We are surprised that Ofgem has not accepted to fund the costs of “*environmental mitigation, temporary platform and site enabling and access works*”¹, in relation to the converter station technology and civils. Ofgem states that it does not consider these costs, which come to a total of £12.4m, to have been sufficiently evidenced.

We understand that these costs, specific to the development of this particular project, are not accounted for anywhere else in the project costs, and as is standard practice for TOs, has been subject to rigorous procurement processes to ensure the costs offer best value to consumers.

Q2. Do you agree with our proposals on how to treat the following types of risk: high impact, low probability; difficult to quantify; and Covid risks?

SPT does not agree with Ofgem's proposals on the treatment of risk for this project.

Ofgem has removed risk costs associated with interfacing between contractors and those which Ofgem consider to be contractors' risks. It is difficult to follow the logic of this decision. The alternative, which SSEN Transmission could have pursued, is to place responsibility for these risks on one or more of their contractors, which would have simply been included in those contractors' prices. Ofgem note that SSEN Transmission's contracting approach has led to lower costs overall than an EPC model² but does not recognise that the risk provisions are materially different between the two models.

¹ Shetland HVDC Link – Project Assessment Consultation (Ofgem) para 2.15

² Shetland HVDC Link – Project Assessment Consultation (Ofgem) para 2.5

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Ofgem state³ that “the timeline between the Brexit trade deal and the risks occurring allows SSEN Transmission to effectively predict and mitigate them”. Recent events are a clear demonstration that there is significant upward pressure on costs and the availability of materials and resources, which show no signs of improvement. Given the extent of this ongoing uncertainty, approaching almost one year on from the agreement of the trade deal, we believe that Ofgem should treat Brexit costs in the same way as Covid, i.e. allow them to be submitted as Cost and Output Adjustment Event (COAE), subject to our comments, relating to the materiality threshold as outlined in the following section.

Cost and Output Adjustment Event (COAE)

We are concerned with Ofgem’s proposals for the treatment of High Impact, Low Probability (HILP) risks. Ofgem’s proposal means that there is no immediate means for SSEN-T to be funded for dealing with HILP risks until the 10% threshold is met, resulting in SSEN-T potentially accumulating a significant overspend, for risks which are outside of their control. A threshold of 10% means that SSEN-T will have to carry a significant financial burden of over £60m before such costs can be recovered. In our view, we believe it is in consumers’ best interests that TOs are funded to deal with risks, on an ex ante basis, to manage potential risks in the first instance and therefore a threshold should not be included.

Setting aside our opposition to the use of any threshold for the funding of any HILP risks, we question why Ofgem is proposing a threshold of 10% for the Shetland Link project, when it previously set a threshold of 5% for the Caithness Moray HVDC link, which is a similar type of project. There is no justification in this Project Assessment consultation document for a different approach being adopted for this particular project.

Interaction with the OPEX escalator mechanism

The consultation document states during Ofgem’s cost assessment for the Shetland Link, their view is that “the bespoke nature of LOTI projects makes them unsuited to a mechanistic uplift of both CAI costs and NOCs and we now intend to move the funding for these costs from the Opex Escalator mechanism to the LOTI mechanism”⁴. However, no detail is offered in this consultation, as to the detail of the issues that have been uncovered, with respect to this particular project.

As the proposed changes involve licence modifications, applying to all TOs, we are unable to support the proposed change, until we are provided with further details, to help us understand how Ofgem will determine CAI and NOC funding for LOTI projects in future. Ofgem must agree with all TOs how any bespoke assessment will be carried out, on a principles basis, before any licence modification is made. Otherwise, TOs do not know what they are effectively signing up to.

We therefore propose that a set of principles for assessing CAI and NOCs as part of LOTI projects is agreed between Ofgem and TOs, through guidance or an open letter, before a licence modification is triggered. Ofgem’s current proposals must be carefully considered to ensure regulatory stability.

Q3. Do you agree with our proposed output and delivery date for this project?

SPT agrees with the proposed outputs of the Shetland Link project, which we consider to be the key elements of the project. We also agree with the proposed delivery date of 31 December 2024 for this project.

³ Shetland HVDC Link – Project Assessment Consultation (Ofgem) para 2.23

⁴ Shetland HVDC Link – Project Assessment Consultation (Ofgem) para 2.32

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Q4. Do you agree with our view on the implementation of the Re-Profiling and Project Delay Charge Large Project Delivery (LPD) mechanisms on this project? In particular, do you have a view on the application and level of the Project Delay Charge?

SPT disagrees with Ofgem's proposal to introduce a, as yet undefined, Project Delay Charge as part of the Large Project Delivery mechanisms for RIIO-T2. As Ofgem is aware, the Project Delay Charge mechanism was not finalised as part of the RIIO-T2 Final Determination.

Introducing a Project Delay Charge to the Shetland project, at this late stage in the project's development, would amount to retrospectively introducing such a mechanism to the project. We consider such an approach to be unacceptable as such a provision will not have been taken into account by SSEN-T, when designing and executing their procurement and contracting strategy with suppliers.

SPT notes Ofgem's view that it may consider the impact and consequences of delay as part of any enforcement case, where there is late delivery of the Shetland Link. SPT strongly disagrees with this approach, to the extent that, it is used as an attempt to debase the principle that a TO must not be penalised twice for the same matter.

Proposed Licence Modifications

Q5. Do you agree with our proposed modifications to Special Condition 1.1 of SSEN Transmission's licence?

We agree with the introduction of the defined term "Shetland HVDC Link" into SSEN-T's RIIO-T2 Licence as a defined term. We also agree that the current definition of "Transmission Area" needs to be amended to include reference to the Shetland HVDC Link.

Q6. Do you agree with our proposed modifications to Special Condition 3.13 of SSEN Transmission's licence?

As per our comments in response to Q2 above, SPT does not agree with the modifications at Special Condition 3.13 to include a 10% COAE threshold. We also propose that Brexit costs should be added to the table of risks for COAE, allowing Brexit costs to be treated in the same way as Covid costs.

Please do not hesitate to get in touch, in relation to any of the points raised in this response.

Yours sincerely,



Lynne Bryceland
Policy and Licence Manager