

James Norman
Head of Electricity Transmission Development, Ofgem
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04 October 2021

Dear James,

Consultation on Shetland HVDC Link Project Assessment

This response is provided on behalf of Scottish Hydro Electric Power Distribution plc (SHEPD), defined in this response as Scottish and Southern Electricity Networks Distribution (SSEN Distribution).

Ofgem has approved SSEN Distribution's proposals to contribute towards the Shetland HVDC Link, with the contribution expected to be made in 2024. Our responses to the consultation are provided primarily in the context of the interaction between the contribution and SSEN Transmission's link costs, and the need to finalise the implementation arrangements associated with the contribution for both SSEN Distribution and SSE Transmission.

As noted in our response, we propose that engagement is arranged in the near term with Ofgem to review the implementation arrangements and discuss how these will be taken forward.

If you require any further information please do not hesitate to contact us. Our response is not confidential.

Yours sincerely,

Rachel Kettles
Regulation, SSEN Distribution

Questions

Proposed Cost Allowances for the Shetland Link Project

Question 1: Do you agree with our proposed cost allowances for the Shetland Link project?

SSEN Distribution has not reviewed or commented on the assessment of the proposed cost allowances. However, we note that the calculation of SSEN Distribution's contribution towards the Shetland transmission link incorporates the final capital cost of the transmission link as a key input, as part of the 'Capacity Support' component.¹

As part of our contribution proposals we recommended that SSEN Distribution's contribution is made when the transmission system meets SSEN Distribution's distribution system requirements and an effective supply is in place, and that the final contribution is based on the final outturn cost value available at that point (rather than at an earlier stage, e.g. as defined through Project Assessment) on the basis that this will ensure the fair sharing of outturn costs between customer groups benefitting from the new Shetland transmission arrangements.² Specifically, we noted in our proposals that it would be appropriate to confirm an updated contribution value following Project Assessment and that this value, or a later update before RIIO-ED2 arrangements are set, could be the value used to set SHEPD's contribution for the purpose of the start of RIIO-ED2. The adjustment to reflect the final contribution value, once the final link costs are known, would be enabled at that point in time (currently expected in 2025).

We assume that SSEN Distribution's final contribution will be based on the final outturn cost of the link post-construction as recommended in our contribution proposals, rather than on the Project Assessment-based allowance alone, and we would welcome confirmation from Ofgem on this point. Reflecting on the interconnected nature of the SSEN Distribution RIIO-ED2 and SSEN Transmission Shetland link cost recovery, RAV and wider arrangements in relation to the contribution proposals, we would welcome engagement with Ofgem on the timeline, process and specific arrangements for the implementation of the contribution as a whole. In addition to progressing this through bilateral engagement with Ofgem we will also set out in our RIIO-ED2 Business Plan how the contribution should be treated over the period using capitalisation rates and asset lives to ensure the most appropriate spread of costs for consumers and our financeability assessment.

Question 2: 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?

¹ [Confirmation of approval of SHEPD proposal to contribute to the Shetland electricity transmission project](#), July 2020

² [SHEPD DSO Recommendation – Updated Addendum](#), December 2019

We have not made any comment on the specific treatment of risks, but we consider that Ofgem's minded-to position to provide mechanisms for recovery of costs driven by defined risk areas under the LOTI reopener underlines the point that additional costs are possible, and the rationale to base SSEN Distribution's final contribution on the final outturn costs of the link.

Proposed Output and Delivery Date for the Shetland Link Project

Question 3: Do you agree with our proposed output and delivery date for this project?

We understand that the proposed output and delivery dates will not have any impact on the Shetland Grid Supply Point delivery date of November 2024, or SSEN Transmission's ability to meet the criteria of the technical test associated with supply to the distribution system which will trigger SSEN Distribution's contribution towards the transmission system. On this basis, we have no comments on the proposed output and delivery date.

Question 4: 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?

Large-scale investment associated with large capital projects or significant programmes of work required to deliver on our governments' net zero ambition may be subject to delays resulting from a number of potential factors, most of which outside company control. We do not consider it appropriate for network operators to be automatically penalised for such delays. Further, Ofgem already has the ability to review delivery of outputs during or at the end of a price control, including through the PCD framework.

Proposed Licence Modifications for Delivery of the Shetland Link Project

Question 5: Do you agree with our proposed modifications to Special Condition 1.1 of SSEN Transmission's licence?

Question 6: Do you agree with our proposed modifications to Special Condition 3.31 of SSEN Transmission's licence?

We have no comment to make on these specific modifications. However, reflecting on the contribution proposals and considering the interconnected nature of the contribution and SSEN Distribution's RIIO-ED2 arrangements with SSEN Transmission's Shetland HVDC link allowance, RAV and TNUoS charges, implementation arrangements to implement the contribution should now be progressed. SSEN Distribution shared proposals on these

arrangements in detail in 2019 and 2020³, which may include licence, PCFH and PCFM modifications, and we propose engagement with Ofgem is arranged now to review these and agree on how they will be taken forward.

Other points of note

We note that Ofgem has agreed the general principle of DNO contributions towards island transmission links where shown to benefit consumers, and that SSEN Distribution has also proposed contributions towards the Western Isles and Orkney links, should these links progress, on the basis of the expectation that the links would lead to avoided costs on the distribution network and provide additional quantifiable benefits for customers.⁴ We look forward to working with Ofgem on these proposals where appropriate in future.

Finally, the consultation sets out that “The link will be a 600MW single circuit connection that serves the dual purpose of exporting renewable generation from windfarms on and around the Shetland Isles to the mainland and providing a new secure supply connection to Shetland as the Lerwick Power Station reaches its end of life”. It would be correct to say “as LPS reaches the end of its life as a full duty power station”, given that the station will phase into a standby role during RIIO-ED2.

³ [2020-07-02 SHEPD contribution implementation - Ofgem decision](#)

⁴ [Decision on Scottish Hydro Electric Power Distribution’s proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney](#), December 2019