

James Santos-Mansur
10 S Colonnade
Canary Wharf
London
E14 4PU

9 June 2023

Dear James,

SSEN Transmission response to Isle of Skye project Final Needs Case consultation

This response is prepared on behalf of SSEN Transmission¹, part of the SSE Group, responsible for the electricity transmission network in the north of Scotland.

We welcome the opportunity to respond to Ofgem's final assessment of the need for the Skye 132kV reinforcement. The Skye project is a key piece of the net zero puzzle and supports the clear vision of both the UK and Scottish Governments to accelerate the transition away from fossil fuels towards low carbon generation. This ambition has only intensified since our Initial Needs Case (INC) was submitted in July 2021, with the requirement for secure GB low carbon generation and the need for additional capacity in reliable networks greater than ever.

The existing Skye 132kV circuit is already oversubscribed, with no new generation able to connect in over 10 years. Reinforcement of the line is now required to enable the connection of additional low carbon generation. Our approach to the Skye project from the beginning has been to develop an enduring solution which not only addresses the current asset condition issues, but also accounts for future growth in renewable generation whilst respecting the strong ask from our stakeholders to ensure disruption and lasting visual impact is minimised in one of Scotland's most valued wild landscapes. Our proposed solution, with the capacity to connect over 500MW of additional generation, does just that and we welcome Ofgem's assessment that our recommended option is likely to provide the optimal solution.

We have enclosed responses to the questions within Appendix 1. We look forward to continuing to engage with Ofgem on the Skye project as it progresses through the LOTI process. Should you wish to discuss any aspect of our response further then please do not hesitate to get in touch.

Yours sincerely,

Cara Dalziel
Senior Regulation Analyst

¹ Following a minority stake sale which completed in November 2022, SSEN Transmission is now owned 75% by SSE plc and 25% by Ontario Teachers' Pension Plan Board. SSEN Transmission encompass the licenced entity Scottish Hydro Electric Transmission Plc Registered in Scotland No. SC213461
Scottish and Southern Electricity Networks is a trading name of: Scottish and Southern Energy Power Distribution Limited Registered in Scotland No. SC213459; Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461; Scottish Hydro Electric Power Distribution plc Registered in Scotland No. SC213460; (all having their Registered Offices at Inveralmond House 200 Dunkeld Road Perth PH1 3AQ); and Southern Electric Power Distribution plc Registered in England & Wales No. 04094290 having their Registered Office at No.1 Forbury Place, 43 Forbury Road, Reading, RG1 3JH which are members of the SSE Group www.ssen.co.uk

Appendix 1: Consultation Questions

Q1. Do you agree with the need for investment on the transmission network?

Yes, we agree with the technical need for investment. The existing Fort-Augustus to Skye overhead line is fast approaching the end of its operational life and its planned replacement is essential to maintain network reliability and security of supply to homes and businesses along its route, as well as to the Western Isles. At the same time, the existing Skye 132kV circuit is already oversubscribed with no new generation able to connect to the Skye network in over 10 years. Reinforcement of the line is now required to enable the connection of additional generation and support the UK and Scottish Government's targets to transition to net zero.

Q2. Do you agree with our conclusions on the technical options considered?

Yes, we welcome Ofgem's conclusion that option 4a is reasonable and likely to provide the optimal solution. Between the INC and FNC, we have seen the generation pipeline nearly double against a backdrop of heightened policy ambition to accelerate the connection of low carbon generation. Our recommended option, Option 4a, is therefore the only viable option to deliver renewable growth on Skye whilst also addressing the non-load requirements.

Q3. Do you agree with our conclusions on the CBA?

We welcome and agree with the conclusion from the Cost Benefit Analysis (CBA) that option 4a is the option of least worst regret.

We also welcome Ofgem's recognition of the additional reports that supported the FNC submission demonstrating the socioeconomic and carbon benefits that the project is expected to deliver. The transition to net zero represents a fundamental change in the UK's energy system and with that we should expect the corresponding impacts and value creation of the network to also change. In order to make a holistic decision which respects and acknowledges the significant benefits that this investment will create, we would urge Ofgem to continue to review and include factors such as carbon displacement and socio-economic benefits in their consideration of future investment needs cases.

Q4. Do you agree with our minded-to proposal to retain the Skye project within the LOTI arrangements under RIIO-2?

Yes, we welcome Ofgem's proposal to retain the Skye project within the LOTI arrangements under RIIO-2. As Ofgem itself has recognised, implementing a late competition model at this stage would significantly delay the project and would not produce the best outcome for consumers.

The project is well progressed in engagement with the supply chain, with tendering processes already underway. Given the current market conditions in which the supply chain is facing unprecedented global demand, there is a clear need to provide supply chain certainty at the earliest possible opportunity to secure manufacturing slots and achieve the most economic and efficient price. Implementing a late competition model at this stage in the project's development would not allow this; instead, it would require the development and completion of additional long duration tendering processes, risking the ability to secure the supply chain and potential for increased costs to consumers as supply chain demand increases out towards the mid-2020s to 2030. Furthermore, these delays would prevent us from meeting our contractual connection dates with customers and increase the security of supply risk with existing infrastructure.

Late competition would also introduce complexity of accountability to communities and wider stakeholders when the network solution - developed and consented by SSEN Transmission in consultation with stakeholders, including communities and their elected members - is then delivered by a separate entity. On Skye, we have built productive

working relationships and trust with communities and wider stakeholders to ensure we can effectively and efficiently deliver the project, whilst also meeting the needs of the local community and ensuring that environmental standards are upheld. Applying a competition model to the Skye project would raise questions about commitments and liabilities agreed upon during the development phase and introduces fragmentation of responsibility and accountability. Additionally, without having input in preliminary works and design, there is a significant gap in whole project considerations and knowledge when delivering and operating an asset. This is particularly pertinent for Skye given it is such an environmentally sensitive area and works will be carried out over some of the most challenging terrain in the UK.

Q5. Do you agree with our proposed approach to LPD for the Skye project?

We note that there is currently no formal policy position from Ofgem on how Project Delay Charges (PDCs) will be calibrated and applied within the LOTI framework. The SSEN Transmission Skye project team understand from internal management information that discussions had been progressing between Ofgem, SSEN Transmission and NGET on the application of PDCs on the Eastern Green Link 2 (EGL2) project. However, these discussions did not conclude as EGL2 was moved into the ASTI framework and attention shifted to the calibration and application of the ASTI Output Delivery Incentive mechanism. We understand there were a number of outstanding points and queries which were not determined as part of those discussions.

Therefore, we agree it would be inappropriate for Ofgem to provide a view at this stage on how PDCs will apply to the Skye LOTI project prior to proper consultation with stakeholders on its PDC policy.

We understand that PDCs are designed to avoid consumer detriment and compensate GB consumers where late delivery occurs. As Ofgem is aware, there will be no directly measurable detriment to consumers due to hypothetical late delivery of the Skye project. This is because the project does not alleviate boundary constraint costs. We would therefore welcome further discussion with Ofgem on how and when PDCs would apply in cases in such instances.