

Date: 15 June 2026

**To: Scottish Hydro Electric Power Distribution**

**Proposed Direction issued by the Gas and Electricity Markets Authority ('the Authority') under Special Condition 3.16 of the Electricity Distribution Licence held by Scottish Hydro Electric Power Distribution for contribution towards Shetland Transmission Link**

1. Scottish Hydro Electric Power Distribution ('the Licensee') is the holder of a licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act').
2. Special Condition (SpC) 3.16 of the Licensee's Electricity Distribution Licence provides for the process of deciding the value of the Shetland Link Contribution term (SLKC<sub>t</sub>), which contributes to the calculation of the Total Expenditure (Totex) Allowance. The effect is to fund the Licensee for the contribution the Authority decides the Licensee should pay towards the cost of constructing the Shetland Transmission Link.
3. The Licensee applied in 2019 under SpC 3.16 towards contributing financially to Shetland Transmission Link. The Authority published its decision on 17 December 2019 that, if it approved the Final Needs Case for the Shetland Transmission Link, it would approve the Licensee's contribution proposal, subject to the proposal being implemented properly. The Authority then approved the Final Needs Case and the delivery model on 30 July 2020.<sup>1</sup> Specifically, this confirmed that the capacity support component methodology shall be calculated as 17.4% of the final value of the link.
4. SpC 3.16.3 requires the Licensee to state the date the Shetland Transmission Link becomes operational; and the appropriate value of the SLKC<sub>t</sub> to enable the Authority to make a Direction regarding the Licensee's contribution, within one month of the Shetland Transmission Link becoming operational.

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<sup>1</sup> [Update on decision to approve SHEPD's proposed methodology to contribute to the Shetland transmission project | Ofgem](#)

5. The Licensee confirmed on 31 March 2026 that the Shetland Transmission Link became operational on 20 March 2026 and proposed an appropriate value for  $SLKC_t$  calculated in accordance with the Authority's previous decision on the Licensee's contribution.
6. We have reviewed the proposed value of the  $SLKC_t$  and decided to proceed with making this Direction for the value of  $SLKC_t$ .
7. This Direction is issued pursuant to SpCs 3.16.4, 3.16.5 and 3.16.7 setting out the approved funding, adjustments to the contribution value and timeline. These are set out in Appendix 1.
8. This Direction will take effect immediately. This Direction constitutes notice stating the reasons for the decision for the purposes of section 49A of the Act.

Yours sincerely,

**James Veaney**

Duly authorised on behalf of the  
Gas and Electricity Markets Authority

**The Office of Gas and Electricity Markets**

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## Appendix 1: Value of Shetland Link Contribution

| Contribution Component                                      | Value (2020/21 Prices) |
|---|------------------------|
| Capacity support  | £103.4m                |
| Control support   | £122.0m                |
| Losses reduction  | £10.6m                 |
| Total Shetland Link Contribution value (SLKC <sub>t</sub> ) | £236.0m                |

**Note:** The capacity support component of the Shetland Contribution is calculated as 17.4% of the final value of the mainland link. Scottish Hydro Electricity Transmission (SHET) provided this cost data to the Licensee on 24 February 2026 (more details in Appendix 2 below). In addition, the control support and losses reduction components were adjusted to reflect pre-approved value in 2019/20 determinations, inflated to the 2020/21 price base.

## Appendix 2 : SHET mainland Shetland HVDC link costs

|              | Actual         | Actual         | Actual         | Actual         | Actual         | Forecast       | Forecast       |             |              |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|--------------|
| <b>Year</b>  | <b>2020/21</b> | <b>2021/22</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> | <b>2026/27</b> | <b>100%</b> | <b>17.4%</b> |
| <b>Value</b> | 144.46         | 203.27         | 126.10         | 102.60         | 13.85          | 3.94           | 0.14           | 594.37      | 103.42       |