

Kersti Berge,
Partner - Electricity Transmission,
Ofgem,
9 Millbank,
London SW1P 3GE

28 May 2014

Dear Ms Berge,

Consultation on Scottish Hydro Electric Transmission's proposed transmission project between Caithness and Moray in northern Scotland

This letter provides a response from Viking Energy Partnership (VEP) to the above consultation. VEP has a grid connection contract with National Grid, which is currently dependent upon SHE-T's proposed subsea HVDC transmission project between Caithness and Moray. VEP has a TEC of 412MW and this commercially underpins the development of SHE-T's proposed 600MW subsea HVDC "Shetland link" transmission project. The proposed "Shetland link" has been intertwined, by SHE-T, with the Caithness to Moray (CM) project.

A 600 MW Shetland link could provide 2.4TWh of electricity annually to UK electricity customers, at a CfD strike price of £115/MWh.

VEP welcomes the opportunity to contribute to this consultation and to the achievement of an outcome that represents best long term value for electricity customers.

Consultation questions

Do you consider SHE Transmission's proposed standalone subsea cable project to reinforce the transmission system in northern Scotland is an appropriate option for consumers at this stage? Please explain the reasons behind your views.

VEP is not in a position to provide a detailed answer as to whether the current design is the most economic and efficient option. VEP has not been party to any detailed consultation at any stage in the development of possible CM options. The Shetland link was originally proposed as a single circuit, point to point, option into Blackhillock. This was superseded by a design that saw the Shetland link incorporated into an offshore hub in the Moray Firth and, thereafter, into an onshore hub at the Caithness end of the current CM proposal.

What are your views on the timing and scale of SHE Transmission's proposed subsea link to reinforce the transmission system in the Caithness Moray area?

Any option to connect Shetland to the wider UK system requires certainty of delivery within the EMR delivery period immediately following on from 31 March 2019. Investor expectation is for the next EMR delivery period to extend out for around two years, taking us to 31 March 2021. Any option that is not consistent with this timescale is likely to prove un-bankable and would create a barrier to the entry of Shetland projects into the market and a barrier to Shetland onshore wind projects benefitting from an extended "island" CfD strike price. Any option that is not consistent with this timescale would also act to thwart the objectives of the advanced work, jointly organized and commissioned by the UK and Scottish Governments, to achieve the connection of the Scottish islands to the wider UK network.

Grid programme certainty and stability is a must-have in achieving bankability for the generation projects that rely on them. Any proposals that create a barrier to the project financing of generation projects reduces competition and the ability of non-balance sheet funded generation projects to enter the market.

A 600MW connection from Shetland could deliver 2.4TWh of generation into the wider UK network. This is perfectly feasible within the timescales highlighted above.

What are your views on the future costs of generation constraints in northern Scotland?

We note SHET's current proposals for a multi-terminal VSC HVDC switchyard between the Shetland connection and its current CM proposal. Ofgem has noted the risks around adoption of such new technology, including lack of international standards and system integration, which we have previously expressed concern to SHET given the prevailing regulatory and commercial framework (e.g. definition of MITS substation: compensation for single circuit unavailability). Any unmitigated risk could potentially complicate the bankability of the Viking wind farm project. However, we will continue to review our mitigation plans and seek to work closely with SHE transmission over the design of the Shetland connection and engage with Ofgem and DECC on the commercial issues. We note that the deployment and the ability to prove multi-terminal HVDC technology in a UK context would have significant wider network and long term consumer benefits for the UK.

If the current CM proposal is to proceed then there is a strong, and we believe unequivocal, case for the Shetland connection's MITS point to be defined as Spittal rather than Blackhillock. This would ensure Shetland users

were treated equitably with other projects exporting via CM.

If the current CM proposal does not proceed then there is a strong case for the original point to point design between Shetland and Blackhillock to be revisited. We would be extremely concerned about this outcome and the knock on consequences for the timescale of our project.

What are your views on the potential wider benefits of SHE Transmission's proposed subsea link? How should wider benefits be measured and evaluated in the Needs Case assessment for a proposed transmission project?

We note that the current needs case relates to a transmission project aimed at connecting on-shore wind and island wind projects. The needs case assessment should therefore consider how the renewable energy realised through the project would otherwise be provided if it were not to proceed. The evaluation should not just focus on constraint costs, but should also take account of the additional costs that consumers would face if, in order to meet national targets, the Government has to meet an increased proportion of renewable energy requirements from more expensive offshore wind sources.

Do you consider we (and our consultants) have identified the relevant issues to the Needs Case assessment for SHE Transmission's proposal? Are there any other factors you think we should examine in order to inform our views on the proposed reinforcement?

The consultation could benefit from a much greater understanding of the proposed interaction between CM and the related proposals for the Shetland link.

Do you have any other comments on our initial views set out in this letter?

VEP supports certainty and speed around the delivery of any CM option. Any alternative option chosen must be deliverable within an equivalent timeframe otherwise a barrier to entry to Shetland projects could result. Barriers to entry into the market, by definition, are anti-competitive.

Yours Sincerely,

Aaron Priest

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