



Making a positive difference
for energy consumers

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To all interested parties,

Licensing Arrangements for the New Energy Solution for Shetland

In April 2014¹ we directed Scottish Hydro Electric Power Distribution (SHEPD) to undertake an open, fair and transparent competitive process to identify a new energy solution for Shetland. A new energy solution is required as Lerwick Power Station is nearing the end of its operational life and the availability of Sullom Voe Terminal Power Station is uncertain from 2017. In order to protect the interests of consumers, who will be subsidising the costs of generation², a condition was placed on SHEPD through its licence conditions to run a competitive tender to identify an efficient solution.

This letter aims to ensure the regulatory licensing process associated with the competition is clear and transparent for all parties.

Prospective Service Providers are currently preparing their bids in advance of submitting to SHEPD for tender compliance and commercial evaluation. Following this competitive process SHEPD will submit its Award Recommendation (its recommendation of preferred bidder(s) and associated costs) to us. This milestone is part of our ongoing process to determine and put in place a Relevant Incentive Mechanism and Relevant Adjustment to ensure that the costs of supplying electricity to SHEPD customers on Shetland are efficiently incurred. Once we have considered and agreed the costs proposed, we will work with the successful bidder(s) and SHEPD to agree an appropriate regulatory framework to protect consumers' interests. Certain gas and electricity activities can only be legally carried out if authorised by an appropriate licence or exemption. We have powers to grant licences to authorise these activities³ and to determine the content of gas and electricity licences.

Any licence necessary will contain conditions which licence holders must comply with⁴, including, for example, conditions in relation to becoming a party to, and complying with, industry codes and standards. These codes and standards establish rules that govern market operation and the terms for connection and access to energy networks. It may be necessary to draft licence conditions that take into account the particular requirements of

¹https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/ofgem_determination_of_shepd_submission_under_crc18a_0.pdf

² <https://www.ofgem.gov.uk/government/consultations/support-for-non-domestic-electricity-consumers-on-shetland>


³ We have published guidance on the licence application process we follow: <https://www.ofgem.gov.uk/ofgem-publications/59439/supplementaryappendix2-guidanceforgasnd0electricityapplications.pdf>

⁴ <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

the solution, and we will work with all parties to ensure this is legal and suitable, subject to our standard consultation process.

We are dedicated to working with all parties involved in this process to ensure that it is fair and transparent and that the most efficient solution for Shetland is identified and pursued. If you have any further questions, please contact Peter Russell at Peter.Russell@ofgem.gov.uk.

Yours faithfully



Kersti Berge
Partner
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