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Dear Michael,

Confirmation of receipt and review of the Scottish Hydro Electric Power Distribution (SHEPD) plc's Northern Isles New Energy Solutions (NINES) Project Close-down Report

Thank you for submitting the NINES Close-Down Report in line with the terms specified in the 'Northern Isles New Energy Solutions (NINES) Project – Funding Determination' issued by Ofgem on 25 November 2011¹. This letter sets out the background to this Report and provides an overview of our review of the Report, including confirmation that SHEPD has met the requirements of the Funding Determination.

Background

SHEPD proposed NINES as a pilot project and the first phase of your original Integrated Plan. The NINES project aimed to trial a set of alternative solutions (including demand side management and energy storage) that could be implemented to reduce the overall cost of meeting the electricity needs of Shetland.

In carrying out NINES, two principal effects had to be achieved:

- a reduction in maximum demand; and
- a reduction in the electricity units generated by fossil fuels.

On 15 September 2011, we issued a decision on funding² of the NINES. The subsequent Funding Determination issued on 25 November 2011 contains the specific conditions that you committed to in receiving funding for the NINES project.

The Funding Determination required you to comply with:

- Charge Restriction Condition (CRC) 18A of your Electricity Distribution Licence; and
- the NINES project funding conditions.

Amongst other things, SHEPD was required to: undertake the NINES project in accordance with the commitments you made in the full submission including Ofgem's

¹ Letter sent to Scottish Hydro Electric Power Distribution plc on 25 November 2011

² https://www.ofgem.gov.uk/sites/default/files/docs/2011/09/nines_decision_letter.pdf

approved changes; provide us with progress reports every six months; and inform us in writing of any events or circumstances likely to affect your ability to deliver the project as set out in your change request.

At the end of the project, SHEPD was also required to provide Ofgem with a Close-Down Report. In the event that the Authority considered that the Close-Down Report was of an unacceptable standard, it could ask the SHEPD to resubmit the Report.

Our review of the Close-Down Report

We received SHEPD's Close-Down Report on 31 March 2017. We have reviewed the Report and raised a number of supplementary questions. We are satisfied that SHEPD has now answered all of our questions. On that basis, we can confirm that SHEPD has met the requirement of the Funding Determination by providing, within three months of the project completion date, a Close-Down Report of sufficient detail to enable third parties to understand what has been learned from the project. We do not intend to ask SHEPD to resubmit the Report.

Publication of learnings

SHEPD has confirmed that the Report does not contain any confidential information. In the interests of transparency, we therefore request that SHEPD publish the project Close-Down Report alongside the other learning reports on its website.

If you would like to discuss any of the issues raised in this letter, please contact Laurynas Jurkonis at laurynas.jurkonis@ofgem.gov.uk or 0207 901 1891.

Yours sincerely,



Grant McEachran

Head of RIIO Electricity Distribution

Signed on behalf of the Authority and authorised for that purpose