

Grant McEachran, Head of RIIO-ED1
Ofgem
32 Albion Street
Glasgow
G1 1LH

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Statutory consultation on proposed changes to Scottish Hydro Electric Power Distribution plc's licence associated with the costs of the Extended Interim Energy Solution for Shetland from 2019/20 to 2022/23

Dear Grant,

We welcome the publication of the statutory consultation on proposed changes to Scottish Hydro Electric Power Distribution (SHEPD) plc's licence associated with the costs of the Extended Interim Energy Solution for Shetland from 2019/20 to 2022/23.

As you are aware, there is currently an arrangement in place in whereby SHEPD nets off income from the sale of electricity generated through the arrangements in place to maintain security of supply on Shetland from the costs it incurs for fuel and associated items.

SHEPD's licence includes a calculation which reflects this arrangement by defining that SHEPD's recovery of the pass-through allowance for estimated fuel and associated costs is set net of this estimate of income. This reduces annual allowance values by the annual estimated value of electricity to be sold (with the pass-through adjustment mechanism in CRC 2B correcting for outturn costs and income). This calculation is set out at CRC 2P for the current pass-through term SECE, and at CRC 2R for the new pass-through term SEVECE, with the associated allowance values set out at CRC 2B Appendices 7 and 8.

We note that in the [statutory consultation published on 29 June 2018](#), the allowance values at CRC 2B Appendix 8 reflect the estimated costs to SHEPD of fuel and associated costs before the estimated value of the electricity is deducted. We believe Ofgem's intent is to maintain consistency with this netting off arrangement; therefore we note that the values in Appendix 8 should be amended to reflect the netting off of the income from electricity.

We have set out our view of the amended values in the following table:

APPENDIX 8

Values for the SEVECE term (£m, 2012/13 prices) by licensee (see Part I of this condition)

Licensee	Regulatory Year							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SSEH	0.00	0.00	0.00	0.00	1.57	1.99	1.92	2.09

This mechanism has been in effect in the licence for a number of years. Our view is that there is no further effect on the licence drafting set out in the statutory consultation other than the correction of the pass-through allowance values at CRC 2B Appendix 8, as set out in this response.

We have provided a separate appendix (confidential) which sets out the background calculations determining this amendment.

Yours sincerely,

Michael Ferguson
Head of Regulation, RII02 and Competition