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All interested parties

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Date: 12<sup>th</sup> September 2019

Dear colleagues,

## **Update on the proposed Shetland and Western Isles electricity transmission projects**

This letter provides an update on the proposed Shetland Isles and Western Isles electricity transmission projects, including an update on the anticipated timing of our decisions.

### **Background**

#### *Proposed Shetland Isles electricity transmission project*

In September 2018 Scottish Hydro Electricity Transmission (SHE-T<sup>1</sup>) submitted a Final Needs Case to Ofgem for its proposed Shetland Isles project – a proposed 600MW electricity transmission project to connect the electricity system on the Shetland Isles to the electricity system on mainland Scotland by March 2024 (the “**Shetland project**”). SHE-T’s Final Needs Case proposes that Ofgem approve funding for the Shetland project, on the condition that Viking Energy Wind Farm (which could be up to 457MW) is successfully awarded a Contract for Difference (CfD) in the 2019 allocation round.

We consulted on our minded-to position on the Final Needs Case for the Shetland project<sup>2</sup> between 19<sup>th</sup> March 2019 and 31<sup>st</sup> May 2019. Our minded-to position on the Final Needs Case stated: “*For Ofgem to approve the Final Needs Case for the proposed 600MW Shetland transmission connection, SHE-T must demonstrate, by the end of 2019, that Viking Energy Wind Farm has been awarded a Contract for Difference in the 2019 CfD Auction.*”

We also set out in that consultation that “*we expect to publish our decision on the Final Needs Case for the Shetland transmission project in mid-2019. This will confirm our view on the Final Needs Case for the project including any associated conditions for approval, and our view on the delivery model.*”

Responses to the Final Needs Case consultation have been published on our website. We will consider the responses substantively as part of our decision making process and reflect this in any published decision document.<sup>3</sup>

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<sup>1</sup> SHE-T is part of Scottish and Southern Energy Networks (SSEN) which is a subsidiary of Scottish and Southern Energy (SSE).

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/04/shetland\\_consultation\\_updated\\_30042019.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/04/shetland_consultation_updated_30042019.pdf)

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/07/shetland\\_consultation\\_responses.zip](https://www.ofgem.gov.uk/system/files/docs/2019/07/shetland_consultation_responses.zip)

## *Proposed Western Isles electricity transmission project*

In August 2018, SHE-T submitted a Final Needs Case submission to Ofgem for its proposed Western Isles project – a proposed 600MW electricity transmission project to connect the electricity system on the Western Isles to the electricity system on mainland Scotland by October 2023 (the “**Western Isles project**”). SHE-T’s Final Needs Case proposes that Ofgem approve funding for the Western Isles project, on the condition that two large onshore windfarm projects (which could be up to 369MW in total)<sup>4</sup> are successfully awarded a CfD in the 2019 allocation round.

We consulted on our minded-to position on the Final Needs Case for the Western Isles project<sup>5</sup> between 19<sup>th</sup> March 2019 and 31<sup>st</sup> May 2019. Our consultation position on the Final Needs Case stated: “*We are minded to reject SHE-T’s Final Needs Case submission for a 600MW HVDC transmission link to the Western Isles based on only the two Lewis Wind Power projects being successfully awarded a CfD in the 2019 allocation round. Subject to no material changes to the information we have reviewed during our assessment, we would approve a resubmitted proposal for a 450MW transmission link to the Western Isles based on the two Lewis Wind Power projects being successfully awarded a CfD in the 2019 allocation round. We would consider the case for a 600MW transmission link to the Western Isles if consumers were more appropriately protected from the additional costs of funding a potentially significantly oversized link.*”

We also set out in that consultation that “*subject to the outcome of this consultation, we expect to publish a decision on the Final Needs Case for the Western Isles transmission project in summer 2019. We expect this to include our view on whether to approve or reject the Final Needs Case for the project including, if relevant, any associated conditions for final approval. Depending on our views on the Final Needs Case, we may confirm our minded-to decision on the delivery model at the same time.*”

Responses to the Final Needs Case consultation have been published on our website<sup>6</sup>. We will consider the responses substantively as part of our decision making process and reflect this in any published decision document.

## **Update on analysis and decisions**

### *Decisions on Final Needs Cases for Shetland and Western Isles projects*

In light of the recently confirmed timetable<sup>7</sup> for the CfD allocation round 3, we have considered the impact of this on our future decisions on the Shetland and Western Isles projects and we consider it appropriate to make these decisions after the results of the allocation round are known. We note that various stakeholder responses encouraged delaying our decisions until after the outcome of the allocation round is known given the dependencies between the Needs Cases and the results of those allocation rounds.

We consider that this approach allows us to make decisions on the Shetland project and the Western Isles project with the benefit of knowing whether the conditions for approval set out in our March consultations have been met. It also allows those decisions to be made once there is increased certainty on the future levels of expected generation on Shetland and the Western Isles, and once our consideration of the updated Cost Benefit Analysis (CBA) for the projects has been completed (see ‘Consideration of CBAs’).

The latest timetable from the Low Carbon Contracts Company (LCCC) sets out that;

- CfD Notification (results go out) will take place between 19<sup>th</sup> and 20<sup>th</sup> September 2019; and
- Signed contracts will be returned to LCCC between 7<sup>th</sup> and 18<sup>th</sup> October 2019.

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<sup>4</sup> These were referred to as the “two Lewis Wind Power projects” in our March consultation; however, the ownership of one of the projects has changed since that consultation

<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/04/western\\_isles\\_consultation\\_updated\\_30042019.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/04/western_isles_consultation_updated_30042019.pdf)

<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/07/western\\_isles\\_consultation\\_responses.zip](https://www.ofgem.gov.uk/system/files/docs/2019/07/western_isles_consultation_responses.zip)

<sup>7</sup> <https://www.cfdallocationround.uk/announcements/update-cfd-ar3-timeline>

**As such, we expect to publish our decisions on the Final Needs Cases for the Shetland project and the Western Isles project in late Autumn 2019.** If the timeline for the CfD allocation round is delayed materially from that set out above, then this may impact our publication dates. We will consider this further if any delay occurs.

For the Orkney electricity transmission link (the "**Orkney project**"),<sup>8</sup> we intend to publish a conditional decision before the outcome of the CfD allocation round is known as there are only a small number of projects that have entered the CfD allocation round on Orkney and the need for the link is not dependent on generation securing contracts. If the generation projects competing are successful in securing CfDs in the 2019 allocation round, there would not be sufficient generation in and of itself to justify the need for the Orkney project. Further detail on this will be set out in our Orkney decision.

#### *Consideration of CBAs for Shetland and Western Isles projects*

Since our consultations on Shetland and Western Isles, the Electricity System Operator (ESO) and SHE-T have carried out updated CBAs for these projects in order to take in to account the availability of updated data since the original Final Needs Case submissions.

The updated CBAs are intended to capture the most up to date information available on the generation background on both the Western Isles and Shetland, as provided by SHE-T. The updated CBAs also take into account FES18/19<sup>9</sup> which reflect the most up to date view on future generation scenarios and future wholesale market prices from the ESO. In addition, the updated CBAs consider potential changes proposed by SHE-T to capital cost estimates and delivery estimates for several link options.

The updates to CBAs are still ongoing at this time. We expect this work to be finalised in sufficient time to enable our consideration of the CBAs ahead of reaching our decisions referred to above.

#### *Decision following consultation on SHEPD's financial contribution proposals*

In May we also consulted on a proposal from Scottish Hydro Electric Power Distribution (SHEPD), the owner of the distribution system in the north of Scotland region, for financial contributions (on behalf of its customers) to the Shetland project and the Western Isles project. It also submitted a similar proposal for a financial contribution towards the Orkney project. We are still considering the responses and expect to publish a decision in late Autumn.

If you have any queries regarding the update information in this letter, please contact us at the email address above.

Yours sincerely,



James Norman  
Head of New Transmission Investment

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<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/orkney-transmission-project-consultation-final-needs-case-and-potential-delivery-models>

<sup>9</sup> The CBA provided in the Final Needs Case submissions used FES 2017. The Future Energy Scenarios (FES) are developed annually by National Grid in its role as Electricity System Operator. The four Future Energy Scenarios presented by the ESO in 2017 were Steady State (SS), Consumer Power (CP), Slow Progression (SP) and Two Degrees (TD).