

Cathryn Scott
Director, Wholesale Markets and Commercial
Ofgem
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9th July 2019

SHEPD Contributions Consultation Response

Dear Ms. Scott,

We welcome the recent consultation on Scottish Hydro Electric Power Distribution's (SHEPD) proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney. We are pleased to hereby submit our response.

About The Peel Group

The Peel Group (Peel) was founded in 1920 and has its head office in Greater Manchester. Peel is one of the United Kingdom's foremost privately-owned investment enterprises, embracing a broad range of sectors including land and property; ports and airports; transport and logistics; retail and leisure and energy and media. Across the organisation, Peel employs over 2,500 full time employees. Since 2008, Peel have invested over £5.4bn of capital in the UK, delivering over 133,000 direct and indirect jobs including 66,000 within the Northern Powerhouse, and contributing Gross Value Add (GVA) of £27bn. Peel is proud of its legacy of delivering prosperous communities for the UK.

Remote Islands Wind (RIW)

Peel welcomed the Government's manifesto commitment to "support the development of wind projects in the remote islands of Scotland where they directly benefit local communities". We are committed to driving long-term growth in the Shetland Islands, whilst helping unlock benefits from RIW of up to £725m of GVA¹, which have the lowest estimated productivity levels of any region in the UK, trailing the national average by 23%².

Peel's Shetland Islands Projects

Peel Energy, a subsidiary of the Peel Group, has two established RIW projects on the Shetland Islands – Beaw Field Wind Farm and Mossy Hill Wind Farm. Beaw Field holds consent granted by Scottish Ministers under section 36 of the Electricity Act. Mossy Hill was granted planning permission on 15th April 2019.

Consultation Response

Please find our responses to the questions below. Our responses relate solely to the proposed contribution for Shetland. We have not commented on the options for Orkney and the Western Isles.

1 Source: Baringa – Economic Opportunities of Renewable Energy for Scottish Island Communities.

2 Source: Office of National Statistics, Regional and sub-regional productivity in the UK: Jan 2017

Question 1 – What are your views on the principle of DNO contributions to transmission projects generally, and contributions by SHEPD to the Shetland, Orkney and Western Isles transmission projects specifically?

High TNUOS charges are a substantial component of the price required for RIW projects to proceed. We wholeheartedly support the proposal to recognise the benefit of the cable to the consumer, and thus reduce the cost of the cable such that RIW projects can compete more rigorously in the CFD allocation round.

As you have expressed in your consultation response, we are similarly pleased to see this considered approach towards securing optimal solutions for consumers. We are equally pleased to see Ofgem encouraging such co-operation between licensees.

Question 2 – What are your views on the robustness of the methodology to determine the need for and value of the contribution? Do you agree with our views on the methodology proposed for Shetland, as set out in Annex 2?

We believe the methodology is sound. It looks at the needs of the customer and assesses the estimated value to consumers on Shetland of the HVDC and the cost of sourcing those services without the HVDC cable.

We feel the use of a cap is sensible. Likewise, the ability to confirm the level of the capacity support element once the Project Assessment is complete is a practical approach. Both of these measures provide certainty such that generation projects can progress, while also ensuring the customer is not burdened beyond what is required for the consumer and the costs of an alternative route.

Question 3 – What are your views on how the methodology could be most appropriately implemented? Do you agree that more detail is required on the proposed implementation of the contribution in SHEPD's licence and industry codes before we can approve any proposal? Would it be more appropriate for the SHEPD proposals to be formally considered through standard industry code governance arrangements?; and,

Question 4 – What are your views on timing for confirming the contribution? Are there other areas of uncertainty within the proposals or wider frameworks that we have not considered and which would impact the effectiveness of the SHEPD proposals?

The timing for the approval of this proposal and for confirming the contribution is critical to RIW projects currently in CFD Allocation Round 3. TNUOS is a key factor in determining the bid price for RIW projects and therefore has a significant impact on whether a bid will be successful or not.

Taking a step back to look at the arrangements for Shetland as a whole.

- i) Shetland has a need for a new energy supply to be in place by 2025
- ii) This was originally going to be provided by the 'Shetland New Energy Solution' (SNES)
- iii) The inclusion of RIW in the CFD and the extension of the energy need deadline to 2025, caused Ofgem to reject the SNES and look towards a solution from RIW and an HVDC cable.
- iv) Ofgem have proposed that approval of the HVDC cable to Shetland will be subject to the Viking Wind Farm successfully winning a CFD by the end of 2019.
- v) CFD Allocation Round 3 has RIW competing against offshore wind.

In short, there was a solution proposed for Shetland that was rejected in lieu of RIW, but RIW needs an HVDC cable (for which Viking must win a CFD) and it needs to compete with offshore wind. While we cannot speak for Viking, we can speak from our own experience that this contribution would put us in a position where we believe we could compete with offshore wind.

If Viking does not win a CFD by the end of 2019, then the HVDC cable will not be approved and it's 'back to the drawing board' for a solution for long-term energy supply on Shetland.

SHEPD recognised this and have been rightly, collectively applauded for taking a proactive approach to support the success of that cable. Conversations with stakeholders including Ofgem have been taking place for some time. It is disappointing to read that still now, parties to those discussions have questions regarding the formal implementation of the proposal. We feel given the consequences, that this level of detail should have been thoroughly investigated at the outset.

With specific regard to the timing of confirming the contribution, it is important to note that RIW is not competing with its administrative strike price (ASP) of £82/MWh, but with the offshore administrative strike prices of £56/53/MWh (2023/24; 2024/25). These strike prices are set by BEIS such that the most competitive projects in each technology group can achieve that price. There is a significant difference between the ASP for offshore wind and RIW. With TNUOS at current levels, it is extremely unlikely that projects will be able to compete with offshore wind. For the cable to proceed we need to win CFDs. For us to submit competitive CFD bids we need certainty that the proposal will be accepted and a degree of certainty over the quantum such that we can justifiably include it in our bid price calculations.

Question 5 – What are your views on any wider implications that should be considered? How can any wider implications best be managed?

The long-term energy security for Shetland has been discussed at length for many years, with options proposed and rejected. If RIW and the HVDC is seen as the best option for Shetland, then we need to provide certainty and stability for those RIW projects such that they can competitively bid into the CFD and thus provide a low-carbon, best value, sustainable energy solution for Shetland.

We would be pleased to discuss this in further detail and provide any further information you require.

Yours sincerely,



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