



Ofgem: Consultation on Scottish Hydro Electric Power Distribution's proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney

The Shetland Islands Council supports a 'whole system' approach that considers the future energy solution for Shetland along with the proposed HVDC transmission link. This deals with the issues of security of supply and electricity demand on Shetland whilst enabling the export of renewable energy. It is important that Ofgem can provide remote island wind projects the necessary clarity on the approved contribution from SHEPD towards the HVDC link and how this will influence the level of TNUoS charges that they will be required to pay in utilising the HVDC link. These remote island wind projects require this information in order to formulate the best possible competitive bids into the 2019 CFD auction. A successful CFD bid for Shetland remote island wind projects is key to the 'whole system' approach as it enables them to access the electricity market and sell the power generated, underpinning SHET's needs case for the HVDC link.

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?

We support the principle of a DNO contribution to transmission projects generally and the contribution proposed by SHEPD to the cost of the Shetland HVDC transmission link, that is justifiable by the reflected value this transmission link has on a future energy solution for Shetland and its distribution, demand customers.

The needs case for the Shetland HVDC link and the proposed SHEPD energy solution is a very good example of where both projects gain clear mutual benefits and cost savings in sharing the transmission link infrastructure and taking a 'whole system approach'. This benefits the business case and needs cases for both projects, in turn making a significant savings for consumers. The technical solution of the HVDC transmission link is also a more efficient technology in transmitting the power than the previously proposed distribution level, supply cable. The alternative link was an import only proposal that did not allow for renewable export from Shetland, or growth in on island demand. This would have limited the ability for Shetland to attain net zero carbon emissions.

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 and Western Isles/Orkney, as set out in Annex 2?

We accept SHEPD's methodology as a robust method of calculating the estimated value of its contribution to the HVDC link. The cost of the alternative Shetland energy solution is well understood.

Ofgem's challenges to the methodology and SHEPD's explanation of their reasoning behind the methodology satisfies us that what is proposed by SHEPD is a reasonable contribution towards the HVDC link, whilst protecting the consumer. The current cost of power production on Shetland is reliant predominantly on fossil fuels and from a single source. The interconnector will allow a broader mix of generation sources and reduce the long term

generation costs in Shetland, this should counter any perceived over contribution, if exports are higher than predicted over the HVDC link. The capacity factors used in the needs cases and proposals for wind generation on Shetland are in line with existing wind projects operating on Shetland and look to be a reasonable estimate of power production from Shetland remote island wind projects.

SHEPD's methodology and proposed contribution delivers a considerably more cost effective option than the Shetland Energy Solution previously consulted on.

- 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?**

Shetland Islands Council believes that the contribution could be implemented as an integral part of the licensed financial settlement to the Transmission Operator under the Needs Case and Project Assessments.

- 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?**

It is important that this decision making process confirms the level of contribution on the Shetland HVDC link and does not cause a delay that will unravel the proposed options. The HVDC link needs case relies on a successful CFD bid from remote island wind. The SHEPD contribution will impact on the TNUoS charging. Together the SHEPD and SHET projects improve the needs case for the HVDC link, Shetland energy solution and the viability of remote island wind.

We support Ofgem in making a decision to approve the proposed contribution from SHEPD towards the Shetland HVDC link in time for the 2019 CFD auction and provide the necessary clarity on TNUoS charging for developers of remote island wind projects. This information is vital in projects being able to put forward the most competitive bids in the upcoming 2019 CFD auction. A successful CFD is currently required to achieving a 'whole system' approach. The agreement on payment method and methodology for implementing this payment can be drawn up on the back of the agreement of the level of contribution and TNUoS charging across a HVDC link to Shetland.

- 5. What are your views on any wider implications that should be considered? How can any wider implications best be managed?**

SHEPD have indicated that if there is delay beyond March 2020 in the decision making process they will have no other option that to go back to the previous plans for a Shetland Energy Solution in order to maintain their obligation for security of supply on Shetland. This scenario of an extended timeline is looking at considerable additional costs of around £120m and the implementation of a solution that is not their preferred engineering option. Such a solution would also make no contribution to the wider economic diversification of the Shetland economy based on its abundant renewable energy resources. A "whole system" approach achieves best value for electricity customers and would deliver vital economic diversification, economic growth with significant benefits to the Shetland economy.