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YOUR REF./DATE:	OUR REF.:	PLACE/DATE:
29/05/2019	Shetland Energy Isles	10/07/2019

Consultation response on SHEPD proposals to contribute towards the proposed electricity transmission links to Shetland, Western Isles and Orkney.

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?

Statkraft's view is that the principle of DNO contributions is sound, as is the resulting reduction in TNUOS charges for generators. For Shetland, the construction of a transmission link, as opposed to a distribution link, is vastly more cost efficient[1] and therefore the shared benefit between transmission and distribution users should be recognised.

Regarding Western Isles and Orkney, we agree with the principle that cost savings in the local backup power stations should be accounted for in reducing the cost of transmission.

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

Regarding the methodology for Shetland, our view is that the value is not properly reflected in the methodology and that the value is higher than calculated using the SHEPD method.

For example, if a larger HVDC link is approved, which allowed the connection of 801MW of renewable generation[2], that level of generation would reduce the periods when peak demand exceeded wind generation to less than the 17.4% calculated in the consultation;

[1] £394m for 60MW is £6.6m/MW vs £0.8m/MW for 1000MW link - See Appendix 3

[2] See Appendix 1 and Statkraft's response to Ofgem's consultation on the HVDC transmission link needs case.

and would imply a lower value of the distribution contribution. We fail to see the logic of a lower value given that the cost of the distribution link at £394m is the same in either case.

We note that if the contribution is set too low, then TNUOS charges will be higher and as a result generation on Shetland may not compete in a CFD, with the knock-on risk that the transmission link will not be approved and therefore that the distribution link would be required with a cost of £394m to distribution customers. With regard to their duties to consumers, Ofgem have a duty to weigh this risk in order to secure a saving for distribution customers.

One option for a reasonable contribution from distribution is the cost of the distribution link (given as £394m) less 10% i.e. a contribution of £355m and a saving to distribution customers of £39m.

However, if Ofgem take the view that this is not an appropriate share of the savings between the parties, Ofgem in any case should consider a level that is not so much lower, so that it may undermine the CfD competitiveness of Shetland projects and thereby undermine the case for the larger interconnector (and with this also the scope for any additional benefit and savings for the distribution customers).

In this regard, a larger transmission link of 1000 or 800MW would result in lower TNUOS charges, which would allow Ofgem to reduce the distribution contribution without affecting the competitive position of the generation.

Additionally, we would also ask Ofgem to note the implications of SHET's proposed second 600MW link (see Question 4 below) on generation TNUOS charges and the risk that distribution customers will not see any benefit if the transmission link is not built.

Regarding Shetland, we agree with a cap on the contribution equal to the £394m cost of the distribution link, which has been discovered through a competitive process.

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?

The cost saving to distribution customers (i.e. all GB customers due to the Hydro Benefit Replacement Scheme) is substantial from this proposal, therefore Ofgem should take a proactive approach to delivering that benefit e.g. by a SCR[3] and/ or licence changes and should not leave it to SSE, SHEPD or SHET to resolve.

It is Statkraft's view that Ofgem should direct the process, and if industry code changes are required Ofgem should undertake these under an SCR to maintain control and timetable of the process.

[3] Significant Code Review

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?

Statkraft does not see why the value of the contribution cannot be established now with the evidence presented and especially given that the value is capped at the cost of the distribution link which has been subject to market testing / competition.

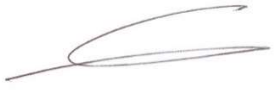
With regard to Shetland, SHET have proposed a second 600MW link to connect Energy Isles additional 80MW of generation (to take the capacity to 200MW). If this link were built, we understand that the TNUOS charges on Shetland could rise significantly due to a) the increased security factor[4] and b) that the distribution contribution would be split across two HVDC links and therefore have a lower benefit on TNUOS. Given that SHET has undertaken this design, it should be considered by SHEPD in its proposals for a distribution contribution, so that the risks to generators from changing TNUOS charges, can be factored in the generators' CFD bids.

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

In Statkraft's view efficiencies from other transmission investments that might reduce distribution costs or have other distribution benefits should be considered on a "case-by-case" basis as suggested in the Consultation document.

Statkraft welcomes any proposal that reduces network costs and improves efficiency of network investments.

Yours sincerely,
for Statkraft UK Ltd



Guy Nicholson CEng
Europe Grid Manager

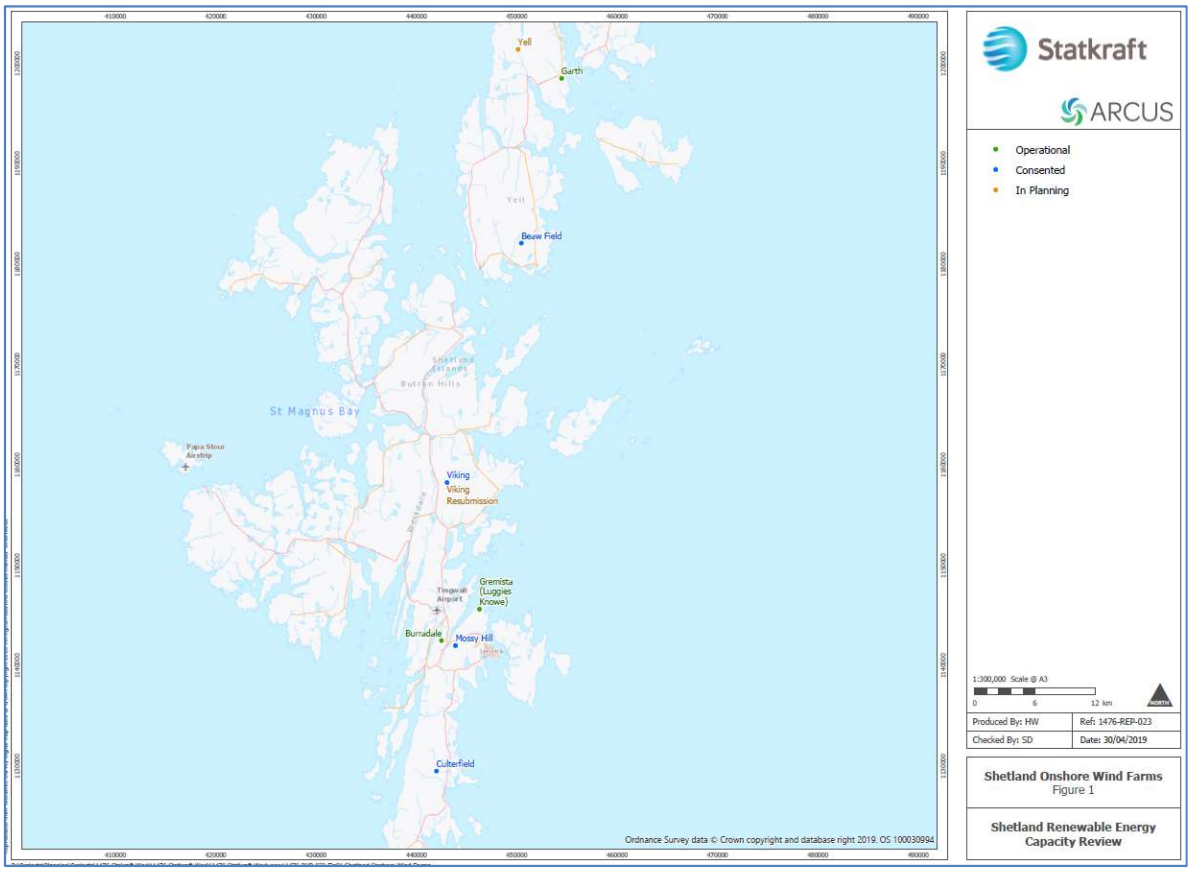
cc. David Flood, Managing Director, Statkraft UK Ltd.
Knut Drystad, Head Advisor Strategy

[4] we assume that this security factor would be similar to offshore (CUSC 14.15.93) and therefore would rise from 1 to 1.5 with 800MW generation and 1200MW transmission, increasing TNUOS charges for Shetland generators by 50% (prior to any application of a distribution contribution).

Appendix 1 - List of Shetland wind generation projects, status and capacities.

Shetland Wind Generation Cumulative Capacity MW				
		Cumulative		
TEC Registered		**MW**	**MW**	**Year**
	Viking		457	
	Beaw Field		72	
	Energy Isles (TEC)		120.3	
	Total	**649**	**649**	**2018**
With Planning				
	Mossy Hill		49.9	
	Luggies Knowe - ext		6	
	Culterfield		2.7	
	Total	**708**	**59**	**2019**
In planning				
	North Hoo Fields ext		0.9	
	Energy Isles extra capacity		80	
	Total	**789**	**81**	**2019**
Operating				
	Settter Croft		0.05	
	Hillhead		0.05	
	Brae		0.1	
	Olaberry		0.33	
	North Hoo Fields		0.05	
	Burradale		3.7	
	Garth		4.5	
	Luggies Knowe		3	
	Total	**801**	**12**	**2019**

Appendix 2 – Main wind projects map in Shetland



Appendix 3 - Infographic on Shetland link