

All interested parties

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Dear stakeholder

Decision on the Final Needs Case for the Shetland electricity transmission project

Ofgem has decided to approve a 600MW High Voltage Direct Current (HVDC) subsea transmission link between mainland Scotland and the Shetland Isles, proposed by Scottish Hydro Electric Transmission (SHE-T). We have decided to approve the link on the condition that Ofgem is satisfied, by the end of 2020 that the Viking Energy Wind Farm (VEWF) is likely to go ahead.

This letter sets out the context and high level reasons for our decision and provides an overview of the next steps. We are providing notification of this decision at this stage as we consider it is in the interests of existing and future consumers, due to the specific circumstances of this case, to ensure the timely and efficient progress of works that are required in order to deliver the link and VEWF. Delays to the works may lead to additional costs for GB consumers to ensure long-term security of supply on the Shetland Isles and risks non delivery of significant levels of low carbon generation which would contribute towards meeting the Net Zero target at the lowest cost to GB consumers. Our full and detailed reasons for our decision will be published by the end of July.

Background

The full background to these proposals may be found in our document entitled “Shetland Transmission Project: Consultation on proposed Final Needs Case and Delivery Model” published on 23 April 2020 (the Consultation).¹ In that Consultation, we set out our minded-to position on both the Final Needs Case and Delivery Model.

We received over 180 responses to the Consultation. Since the Consultation closed, we have been engaged in carefully considering the representations made, together with other relevant considerations. Further detail on the responses will be published with our full decision at the end of July.

We have received three requests for information under the Environmental Information Regulations (2004) (“EIR”). We do not consider that stakeholder views on any information that has been or may potentially be released in relation to those EIR requests would change our decision on the Final Needs Case.

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https://www.ofgem.gov.uk/system/files/docs/2020/04/shetland_isles_fnc_consultation_accessibility_version_final_1.pdf

Decision to conditionally approve the Final Needs case

We have decided to confirm our “minded to” position, as set out in the Consultation on the Final Needs Case. We have therefore decided to approve the 600MW HVDC subsea transmission link between mainland Scotland and the Shetland Isles, proposed by SHE-T, to be delivered in quarter 1 2024, on the condition that Ofgem is satisfied, by the end of 2020, that the VEWf is likely to go ahead. As set out in the Consultation, we consider that the type of evidence that would confirm that VEWf is likely to go ahead includes:

1. Evidence of the Final Investment Decision (FID) being reached (this may be in the form of board minutes);
2. Evidence of project information on the basis of which that FID has been taken (this may be in the form of the board submission pack and supporting information); and
3. Evidence of the FID triggering a major development milestone, which indicates project commencement (this may be in the form of entry into a major supply contract or commitment of significant development spend).

We consider this decision to be in the interests of existing and future GB consumers. Subject to all of the conditions for approval being satisfied, we consider, based on our assessment of SHE-T’s Final Needs Case for the Shetland transmission project, and having considered consultation responses and all other relevant considerations, that: i) there is clear technical need for the reinforcement; and ii) the link is likely to represent an economic and efficient outcome (in terms of long-term value for money) for existing and future GB consumers. This is because the link, once operational, will ensure long term security of supply on the Shetland Isles, whilst also allowing significant levels of low carbon generation to connect to the electricity network that can contribute towards meeting the Net Zero target at the lowest cost to GB consumers.

Most of the responses to the Consultation did not agree with our minded-to position. Key issues noted by those respondents included: i) the perceived negative environmental impact of the VEWf and the transmission link on the local area; and ii) a view that long term security of supply could be ensured on Shetland at a significantly lower cost via new on-island gas-fired generation.

We will address these key issues, amongst other relevant considerations in our full decision that will be published by the end of July. In summary, with regards to key issue i) we acknowledge the concerns expressed by respondents. However, as set out in the Consultation, Ofgem does not design new transmission projects, plan how they should be built, or decide which routes they should take. This is the responsibility of the developing Transmission Owner and the relevant planning authorities. We also do not design or plan where generation should be sited. The design and location of generation projects must be taken forward in accordance with planning requirements, which is the responsibility of the planning authorities.

With regards to ii) we note that on-island gas-fired generation, while helping ensure long term security of supply, would not allow significant levels of new renewable generation to connect on Shetland.

Next steps

We will publish the full and detailed reasons for our decision by the end of July. This will provide a full summary of responses to the Consultation that address both the Final Needs Case, and Delivery Model, discuss the main points that were raised and how we considered these before coming to our decision.

If we are satisfied, that the VEFW is likely to go ahead, indicated by satisfaction of the limbs of conditionality set out above, we will confirm and publish that, putting into effect our final approval of the Final Needs Case for the Shetland transmission project.

Yours faithfully

Rebecca Barnett
Deputy Director, Commercial and Assurance