

Michael Ferguson
Scottish Hydro Electric Power Distribution Plc
Head of Regulation, Distribution
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Direct Dial: 0141 354 5416
Email: steven.mcmahon@ofgem.gov.uk

Date: 29 September 2017

Dear Michael,

Notice of decision to revise Scottish Hydro Electric Power Distribution (SHEPD) allowed expenditure for the Shetland New Energy Solution Competitive Process Costs (CPC) under special licence condition CRC 3F

Ofgem introduced a number of uncertainty mechanisms for costs that were uncertain at the time of establishing the first RIIO electricity distribution price control (RIIO-ED1), which runs from 1 April 2015 to 31 March 2023. This includes re-opener mechanisms, which enable adjustments (up or down) to electricity distribution network operators' allowances to accommodate costs associated with specific uncertain cost categories. These mechanisms are set out in Special Condition CRC 3F¹ of the Electricity Distribution Licence.

The costs associated with designing and implementing a competitive process to identify an enduring New Energy Solution (NES)² in Shetland, known as Shetland Competitive Process Costs, was one such uncertain cost category specific to the SHEPD licence.³ The term Shetland Competitive Process Costs means costs incurred, or expected to be incurred in implementing the competitive process referred to in the Authority's open letter dated 22 April 2014⁴, to the extent that those costs are not otherwise recoverable under the licence. The costs relate to:

- a. the appointment and tasking of an independent auditor;
- b. a public consultation process; and
- c. a competitive tender process for the design of the enduring solution for Shetland.

SHEPD applied to Ofgem for an adjustment of £1.88m to its allowance, stating that it will incur costs that are above the set materiality threshold (£0.1 million)⁵. Total costs

¹ Charge Restriction Condition 3F: Arrangements for the recovery of uncertain costs.

² Details on the Shetland NES can be found here: <https://www.ofgem.gov.uk/publications-and-updates/consultation-cost-new-energy-solution-shetland>

³ The process was established by Ofgem in our Determination Letter <https://www.ofgem.gov.uk/ofgem-publications/87381/ofgemdeterminationofshepds submissionundercrc18a.pdf>

⁴ <https://www.ofgem.gov.uk/ofgem-publications/87381/ofgemdeterminationofshepds submissionundercrc18a.pdf>

⁵ As specified in Appendix 7 to CRC 3F of the special licence conditions.

incurred from 2015/16 to 2017/18 will be £2.91 million (in 2012/13 prices), £1.88m above its baseline allowance of £1.03m.

We recently consulted on our minded-to position concerning the application received.⁶ This letter sets out our decision for the adjustment to the SHEPD's revenues.

There were no responses to this consultation and no further evidence has come to light since its publication. Based on our satisfaction with the evidence presented by SHEPD in its application, we have decided to maintain our minded-to position and adjust SHEPD's allowances by £1.88m as set out below (2012/13 prices).

	2015/16	2016/17	2017/18	Total
Allowed	1.03	0.00	0.00	1.03
Actual	0.60	1.27	1.04	2.91
Adjustment	-0.43	1.27	1.04	1.88

The revised PCFM values will be directed by 30 November 2017.

Yours sincerely,

SIGNED on 29 September 2017

Steven McMahon
Associate Partner, RIIO Networks

⁶ <https://www.ofgem.gov.uk/electricity/distribution-networks/gb-electricity-distribution-network>