

grant.meachran@ofgem.gov.uk

7 June 2018

Dear Grant,

Costs of Extended Interim Energy Solution for Shetland

Thank you for the opportunity to respond to the above consultation.

HIE is the Scottish Government agency responsible for economic and community development across the northern half of Scotland. Along with our Local Authority partners, we make representations to key participants on behalf of industry to influence the way in which regulation of the energy industry is managed to ensure the needs and interests of the Highlands and Islands are understood and taken into consideration. HIE also works closely with Scottish Government in relation to regulatory matters.

HIE has responded to previous consultations on energy solutions for Shetland and welcomes the opportunity to comment on the current consultation. We are submitting this response in partnership with Shetland Islands Council.

We are keen that consumers in Shetland can benefit from cost effective, secure, low carbon generation as soon as possible. We wish to ensure that consumers on the GB mainland can access cost-effective, low carbon generation available from the abundant natural resources available to renewable generators located in Shetland.

It should be understood that an interconnector between Shetland and the UK mainland is supported by both Shetland Islands Council policy and the Shetland Partnership in which HIE is a core member. The Shetland Partnership is made up of wide range of partners and community bodies who work together to deliver collective ambitions for Shetland's future. It is the Community Planning Partnership for Shetland.

Shetland Partnership - Our Community Plan 2013-2020

Support the Shetland community to lobby National Grid to install 650MW (or larger) interconnector by 2018.

Shetland Islands Council

Economic Development Policy Statement

4.2 Support local efforts to establish an interconnector between Shetland and the UK mainland.

Reduce the dependence on imported fossil fuels through increasing local installed renewable energy capacity.

We note the following in the context of this consultation:

- We would like to see grid capacity made available to renewable energy providers in Shetland as soon as possible. Shetland is statistically the windiest place in Great Britain but there is effectively an indefinite moratorium on connecting new renewable energy generation within the islands. We are concerned that there is not a clear focus within the proposed cost recovery settlement to provide additional network access for renewable energy generators until at least 2025.
- We consider that the interim solution presents an opportunity to connect more renewable generation onto the network ahead of any enduring solution coming online. Further penetration of renewable energy generation in Shetland would offset the loading on the thermal power stations currently servicing 90% of all demand in Shetland. This could reduce the duty on these generators, significantly reduce passed through fuel costs and minimise the requirement for new generation capacity at Lerwick Power Station.
- Shetland has an extremely strong and consistent wind regime, year-round, which results in high capacity factor output from installed wind power generation. The islands also have a digitally enabled network that was developed with funding from the Low Carbon Networks Fund – the Northern Isles Network Energy Solution (NINES) project. Further penetration of wind generation (and other renewables) could be facilitated through additional energy storage capacity in Shetland (over and above the proposed 8MW battery), further reducing the requirement for investment in new generation capacity at Lerwick Power Station.
- The proposed end of the interim solution (2025), and the commencement of the enduring solution does not appear to be robustly justified. We consider that the enduring solution should be brought forward as soon as possible and in conjunction with the requirements of the needs case assessment for the 600MW HVDC link. Therefore, we are concerned that there should be more certainty regarding the development timeframe for the enduring solution.
- We are concerned that spend approved under this settlement could influence the nature or timing of any future process to determine an enduring energy solution for Shetland. We therefore encourage Ofgem to consider the potentially unintended consequences that the interim solution may have on the enduring solution, founded upon the proposed 600MW Shetland-Caithness HVDC link.

Please find below, our responses to the specific question from the consultation document.
We look forward to seeing the results of the consultation.

Yours sincerely

A handwritten signature in black ink that reads "Elaine Hanton". The signature is written in a cursive style.

Elaine Hanton

Head of Energy: Emerging Technologies and Regulation

In partnership with Shetland Islands Council

Q1. Do you agree with our minded-to position on the costs – level and treatment – for the extended interim energy solution?

We consider that there are likely to be interim alternatives that could provide greater penetration of low carbon generation as well as cost effective, secure and reliable supplies for Shetland. For example, could additional wind generation be accommodated with further spend on battery storage rather than the new engine at Lerwick Power Station, plus any related fuel cost savings?

Further, we are concerned that funding made available to SHEPD under the interim solution should not distort any future process to determine an enduring solution based on the proposed 600MW HVDC link to Caithness. Funding for refurbishment of existing equipment and investment in new generation capacity should not favour a longer-term solution using the existing thermal generation assets rather than supporting a smarter, more flexible and lower carbon enduring solution based on the HVDC link.

There is not a clear justification to support the proposed length of the interim solution, in terms of the need to establish a solution until 2025. It is not clear from the consultation why the enduring energy solution has been delayed until 2025. We are keen to ensure that the long-term energy strategy for Shetland (i.e. the proposed 600MW HVDC link) is developed and committed to as soon as practically possible and that the interrelationship with the timescales for the needs case assessment on the 600MW link is properly recognised.

We have several specific points to make relating to the proposed interim solution:

- We would like to see further confirmation from SHEPD on how it intends to treat onshore wind generation (and other renewable generation) that seeks to connect to its network under the interim solution and how much additional generation can be accommodated under the proposals. We would also like to see consideration of additional storage capacity beyond the proposed 8MW battery.
- It is not clear why the cost submission from SHEPD for the new engine at Lerwick Power Station was only supported by a single quotation, from SSE. It is normal industry practice to seek multiple quotations for such work.

Q2. Do you agree with our minded-to position on the level and treatment of the Shetland Enduring Solution Process costs?

- We support the proposed allowance to SHEPD to undertake feasibility and stakeholder engagement exercises over the next few years to confirm and underpin the viability of a transmission link solution. The proposed transmission link must be delivered and it would appear to be highly inefficient and wasteful of electricity customers' money not to use it to also supply and secure demand in Shetland.

Q3. Do you agree with our minded-to position on the level and treatment of the SNES Residual Costs?

- We broadly agree with the justification for the level of these costs. However, we are concerned that this will be recovered through SHEPD's 2019/20 pass through costs and that these costs will therefore be recovered by SHEPD's customer base. We consider that it is more appropriate that these costs should be recovered across all GB consumers.

Q4. Do you have any comments on the associated information licence drafting in Supplementary Annex 1?

- No comments.