

Ofgem

Costs of Extended Interim Energy Solution for Shetland

Consultation (Response Deadline 08 June 2018)

Viking Energy Shetland LLP Written Response

June 2018

Viking Energy Shetland is grateful for the opportunity to respond to this consultation on the costs of the interim energy solution for Shetland.

Background

Viking Energy Shetland LLP (VES) is a partnership between Shetland Charitable Trust (SCT) and the locally owned Viking Wind Limited and is the community owner of half of the Viking Wind Farm project. If the Viking Wind Farm is built, SCT's share would make it the largest community-owner of wind farm capacity in the UK.

The Viking wind farm is a joint venture between VES and SSE Viking Ltd, a subsidiary of SSE plc. It has consent from Scottish Ministers for a windfarm of up to 103 turbines with a capacity of up to 457MW. It is the "anchor" project in underpinning the economics of Scottish Hydro Electric Transmission's (SHET's) proposed 260km, 600MW HVDC transmission link between Shetland and Caithness. This link, once built, should have the ability, with suitable backup, to provide the required enduring energy solution for Shetland.

VES very much supports the UK Government's stated policy commitment, which is to secure remote island wind projects and electricity transmission links to all three Scottish island groups within the current Parliament. VES has invested significant capital to date to enable the Viking Wind Farm to compete in the next CfD Pot 2 allocation round and to participate in the first auction in the spring of 2019.

The UK Government's policy position to deliver remote island wind necessarily brings with it the benefits of securing enhanced grid infrastructure to Shetland. We believe value to GB electricity bill payers should be maximised through a holistic and joined up approach to delivering three key pillars of UK Government policy i.e. on Remote Island Wind, island transmission connections and in providing the enduring energy solution for Shetland highlighted within this consultation. Such an approach should lead to significant reductions in the burden otherwise placed on GB electricity customers, through the Shetland cross-subsidy scheme and should provide the mechanism to underpin long-term, enduring, security of electricity supply to Shetland.

VES also notes that this supports Shetland Islands Council's explicit policy to "support local efforts to establish an interconnector between Shetland and the UK Mainland".

Please find, appended, VES' responses to the consultation questions.

Yours sincerely,

Aaron Priest

Head of Development and Strategy, Viking Energy Shetland.

June 2018

Appendix 1 Responses to Consultation Questions

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

VES broadly supports Ofgem’s minded-to position on the cost of the interim energy solution for Shetland. However, such support is strictly on the basis that the interim solution is a logical stepping-stone to an enduring solution predicated upon SHET’s proposed 600MW HVDC import/export link between Shetland and Caithness. As things stand, that link can be in place to provide a cost-effective and enduring energy solution for Shetland, operational from March 2024 or earlier. An enduring solution based on the 600MW HVDC link will ensure best overall value for GB electricity customers. Ofgem has a central role to play in the timely delivery of this enduring solution, as the decision maker on the needs case and project assessment for the 600MW HVDC link. The enduring solution should be committed to as early as possible by the key decision makers to maximise the likelihood of delivery through the CfD auction in early 2019.

VES notes that Scottish Hydro Electric Power Distribution (SHEPD) is being funded to procure assets, such as battery capacity and a new diesel generator, which can be expected to contribute to the enduring solution. We would encourage Ofgem to agree allowances that are sufficient for SHEPD to procure equipment that optimises lifetime costs over a suitably long term design period, and to avoid any risk of incentivising them to opt for lower cost equipment on the premise that it need only last for the up to seven years of the interim solution.

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

VES welcomes the Enduring Solution Process approach set out in para 2.35. It is essential for this work to complete during 2018 to help inform the remote wind CfD auction bids, expected in early 2019, and the transmission link needs case, so that the enduring solution is delivered as soon as possible. We believe the proposed cost allowance of £3m represents fair value, but that it would be helpful to be set out an agreed delivery programme.

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

VES believes that the approach proposed to cover costs incurred by NGSLL is reasonable, although we do not have sufficient information to judge their level. We believe that the 2017 process has provided enduring value to consumers (as required by para 2.38 (fifth bullet point)), specifically through proving in market testing that a fixed cable link and standby generation is the most efficient solution for the replacement of Lerwick PS. This now provides SHEPD and Ofgem with a sound and comprehensive basis to consider fully the benefits to GB-wide customers of building the enduring solution around the proposed 600MW Transmission link.

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

No comments.