

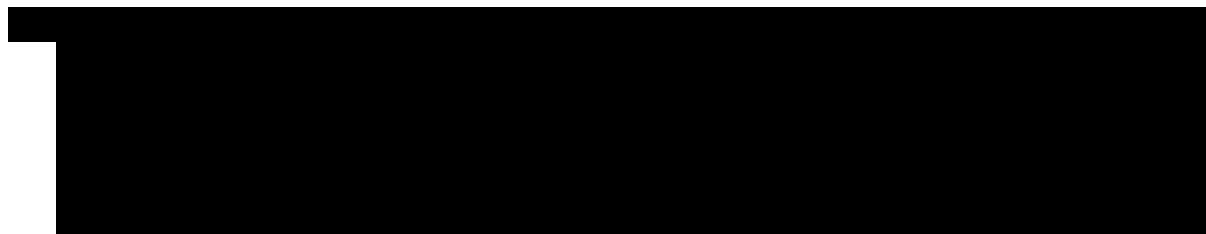
Steve McMahon  
Director Price Controls  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

25 January 2024

Dear Steve,

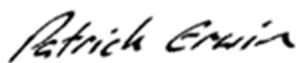
### Scottish Hydro Electric Power Distribution plc (SHEPD) Shetland Re-opener Application

- 1.1 The Shetland Islands are situated over 100 miles northeast of mainland Scotland and are the most northerly part of Great Britain (GB). They comprise a vibrant island community which is dependent on a reliable electricity supply for its key industries of oil and gas exploration, fishing, agriculture and tourism.
- 1.2 This reopener submission is the culmination of 13 years' work with stakeholders and Ofgem on the investments needed to secure electricity supplies on Shetland. It constitutes SHEPD's Shetland Enduring Solution Re-opener application under Part P of Special Licence Condition 3.2 of SHEPD's Special Licence Conditions. It is a key pillar of a long-term strategy which can ensure that Shetland continues to receive a similar security of supply as the rest of GB, as well as facilitating the substantial opportunities for renewable generation in and around the Shetland Islands.
- 1.3 Our joint 2050 planning work with SSEN Transmission indicates a strong pipeline of potential renewables and demand (including hydrolysis for hydrogen) around Shetland which could form the needs case for a second HVDC Transmission link in the next few years. However, given leads times for any second Transmission link (10 years plus), we have demonstrated our proposed standby solution is a no regret investment which:
  - (i) provides an important bridge to any future investments in order to maintain security of supply;
  - (ii) allows the remaining asset life of Lerwick Power Station (LPS) to be utilised; and
  - (iii) creates the opportunity to utilise any remaining asset life in the standby solution after 10 years to reduce costs elsewhere e.g. at LPS.
- 1.4 We welcome the constructive engagement with you and your teams over the last few months, including feedback on our draft submission and our conversation earlier this week. As highlighted in my letter of 13 December 2023, we have seen a shift in the commercial position of the preferred service provider in the last few months which has seen costs of the solution increase, reflecting the unique circumstances of procuring a standby solution on Shetland and general costs challenges within the global supply chain.



- [REDACTED]
- 1.6 Despite these challenges, our cost benefit analysis demonstrates that the 10-year service contract remains the best option available to secure supplies at lowest cost. Moving to any other solution would result in delays of a year or more and the increased time which we have to continue to run LPS at a net cost of around £21m a year. In turn, this would mean a delay in connecting the communities on Shetland to the mainland and allowing them to benefit from renewable energy.
- 1.7 We remain at a delicate point in finalising the contract with our preferred service provider while we await the outcome of this reopener submission and, as discussed with your team, have two key asks at this stage. Both of these are critical for the success of the project.
- (i) an interim letter of comfort by the **first week in February 2024** confirming that Ofgem continues to agree with our recommended solution  
[REDACTED] solution under the Special Licence Condition 3.2 Part P Shetland Enduring Solution reopener in 2028; and
  - (ii) that Ofgem reviews the Shetland re-opener submission as quickly as possible, **if at all possible by the end of April 2024** to allow us to sign a contract and secure the position.
- 1.8 This will allow us to continue to maintain the programme and energise the solution as close to the GSP energisation date as possible, avoiding delays to implementation which will increase costs for customers. In the absence of the above, as a minimum we would need reconfirmation of Ofgem's position in its letter of 19 September 2023, i.e. that any costs efficiently incurred in progressing the solution prior to a formal decision on the re-opener submission would be recoverable in accordance with the terms of the licence. This would allow the service provider to proceed with the ongoing development of the solution. Without this there is a substantiative risk that the preferred bidder pulls out of the process. This will require us to start a new procurement exercise, incurring delays and the impacts for customers outlined in paragraph 1.6. We will follow up separately with Ofgem on the expected level of these costs.
- 1.9 Finally, I'd like to confirm that our application has been prepared and submitted such that it is accurate and robust and that the proposed outcomes of the re-opener are financeable and represent good value for consumers. Our submission has been through our full quality assurance checks to ensure that the information provided is of a high quality to allow Ofgem to make decisions which are in the interests of consumers. The submission has been peer reviewed by me and other key members of SSEN Distribution's Executive Committee.
- 1.10 The single point of contact for this re-opener application is Mark Kelly, Project Director for Shetland [REDACTED]. Please do not hesitate to contact him with any questions.

Your sincerely,



Patrick Erwin

**Commercial Director, SSEN Distribution**