

Lina Apostoli
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

31 March 2023

Dear Lina,

Orkney Transmission Project Minded to consultation on Needs Case and Delivery Model Consultation

We are pleased to enclose a response from SSEN Transmission¹ (SSENT) to Ofgem's consultation on the Orkney Transmission Project Final Needs Cases (FNC). We welcome Ofgem's minded-to position to approve the Transmission Link planned to connect Orkney to the mainland, with this being the last of the large island groups to be connected to the mainland transmission network.

Orkney is home to some of the world's greatest resources of renewable electricity, from established onshore wind, to emerging marine technologies. Orkney is at the forefront of global developments in marine energy generation and is critical to the country's net zero ambitions, delivering UK and Scottish Government renewable targets and reducing our reliance of wholesale gas markets by supporting indigenous low carbon electricity generation.

We have set out our response to the questions in Ofgem's consultation below.

Revoking the conditional decision and approving the FNC under LOTI

We welcome and agree with Ofgem's decision to revoke the conditional decision made in 2019 under the RIIO-T1 SWW mechanism and approve the FNC under the RIIO-T2 LOTI Large Onshore Transmission Investment (LOTI) mechanism. With over 135MW of generation secure and evidence of continued growth in Orkney generation, the generation threshold has already been met and the potential for asset stranding under low energy scenarios is no longer of concern.

The national energy ambition to connect 50GW offshore renewable generation by the early 2030's plus additional ambition for new onshore wind and solar PV creates challenges, particularly in the supply chain. We would encourage Ofgem to take every opportunity to advance key decisions within the regulatory process in order to provide investment certainty, secure manufacturing capacity and minimise overall cost to the consumer.

No requirement for a new FNC submission

We support Ofgem's view that a new FNC is not required, as the overarching scope of the preferred solution has not materially changed from that conditionally approved in 2018. The Orkney project will still deliver a 220MW HVAC cable between Dounreay and Finstown, with the creation of a Grid Supply Point (GSP) at Finstown.

¹ References to SSEN Transmission encompass the licenced entity Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461.

Scottish and Southern Electricity Networks is a trading name of: Scottish and Southern Energy Power Distribution Limited Registered in Scotland No. SC213459; Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461; Scottish Hydro Electric Power Distribution plc Registered in Scotland No. SC213460; (all having their Registered Offices at Inveralmond House 200 Dunkeld Road Perth PH1 3AQ); and Southern Electric Power Distribution plc Registered in England & Wales No. 04094290 having their Registered Office at No.1 Forbury Place, 43 Forbury Road, Reading, RG1 3JH which are members of the SSE Group www.ssen.co.uk

The requirement for a new FNC submission could also add significant delay to the project programme. The updated CBA analysis provided by ourselves and the ESO shows that the 220MW subsea cable solution remains economic and is the preferred solution, based on updated cost estimates and constraint savings.

Not applying competition models

We welcome the confirmation that Ofgem will not apply either the Competitively Appointed Transmission Owner (CATO) or Special Purpose Vehicle (SPV) delivery models to the project. We agree that the implementation of these late competition models would result in significant delays to the delivery of the project. We are also pleased that Ofgem is not minded to apply the Competition Proxy model (CPM) and recommends that the project is delivered through the RII0-T2 LOTI mechanism. With Ofgem providing much needed certainty on delivery, we can now engage with confidence with the supply chain, reducing further delay to delivery timelines.

Assessing potential cost increases at the Project Assessment stage

We agree with Ofgem that there is still a clear need to deliver this project and in line with the LOTI guidance, Ofgem will assess the efficient cost allowance for the delivery of the project through the Project Assessment submission. We acknowledge there has been an increase in the cost estimate of the project since the original FNC was submitted in 2018. However, the supply chain and project costs are currently in a very different place compared to three years ago when the original FNC was submitted. Through our ongoing project engagement with Ofgem we have flagged that these potential increases are driven by macroeconomic factors outwith our control. The impacts of the war in Ukraine constraining the supply of materials, and the significant global demand for the supply and installation of transmission infrastructure as the world strives to meet net zero targets and reduce reliance on importing gas, means that the estimated increase in project costs are not specific to this project alone.

It is important to note the updated cost estimate provided as part of the updated CBA is an early and indicative cost estimate. These costs are not tendered, and the project cannot be executed on the basis of these costs.

We trust that our feedback is helpful but please do not hesitate to contact us if you have any questions or comments. We look forward to working with Ofgem, Government and wider stakeholders to accelerate the necessary investments in strategic grid reinforcements required to support our future energy needs.

Yours sincerely

David Manson
SSEN Transmission