

Sai Wing Lo
ReopenerConsultations@ofgem.gov.uk

SSEN Transmission

Nicki Reed
Nicki.reed@sse.com

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Dear Sai Wing,

Draft Determinations on RIIO-2 re-opener applications 2024: Electricity Transmission, Electricity Distribution and Gas Distribution

We are pleased to enclose a response from SSEN Transmission¹ (SSENT) to Ofgem's Draft Determinations on RIIO-2 re-opener applications 2024. We acknowledge that this publication is consulting on a wide range of re-opener applications across all sectors of the Energy Industry, however our response is pre-dominantly responding to Chapter 4 of the ET Annex which sets out Ofgem's consultation on the Final Needs Case (FNC) for our Gremista GSP project under SpC 3.13. However, we also acknowledge paragraph 3.34 of the ED Annex where Ofgem has indicated that there is a "lack of options including larger 33kV subsea cable or higher voltage solution is likely to result in an inadequate optioneering and inefficiently sized cable" for the Skye-Harris 33kV subsea cable. We will work closely with Scottish Hydro Electric Power Distribution (SHEPD) to identify the most economic and efficient solution for the cable to be installed between Skye and Harris.

We welcome Ofgem's proposal to approve the FNC for the Gremista GSP project. We recognise the importance of aligning this project with the wider regulatory framework and ensuring it continues to meet the evolving energy needs of Shetland while contributing to the UK's net-zero ambitions.

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

ET.Q4 – Do you agree with the need for investment in the SHET Gremista GSP project?

Yes, we agree with the need for investment in the SHET Gremista GSP project.

As outlined in previous submissions, this project is critical for meeting Shetland's electricity demand and facilitating the transition of Lerwick Power Station to standby mode. This will allow Shetland to rely on locally generated renewable energy, supplemented by imports via the HVDC link, while ensuring security of supply.

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

The key drivers for the Gremista GSP remain unchanged since our January 2022 needs case submission:

- To meet Shetland's electricity demand with renewable energy after the HVDC link's completion.
- To support SHEPD's demand customers by transitioning Lerwick Power Station to standby mode by 2025, avoiding significant investment in a new solution.
- To contribute to local and national Net Zero goals by reducing reliance on Lerwick Power Station and cutting diesel consumption.

ET.Q5 – Do you agree with our conclusion on the options considered and the CBA?

Yes, we agree with Ofgem's conclusions regarding the options considered and the CBA.

The Gremista GSP is a key component of the system connecting Shetland to the transmission network. The project's drivers have not changed, and despite changes in estimated costs, the CBA remains valid. The most recent cost estimate of £105.09 million is within the range of the original Class 1 estimate and continues to represent the most cost-effective solution.

The changes in anticipated costs do not have a significant impact on the CBA.

In January 2022, our MSIP needs case submission² was based on a Class 1 cost estimate of £83 million, with an accuracy range of -30% to +40% (i.e. £58.1 to £116.2 million). This estimate reflected the preferred technical design. The CBA analysis carried out compared the estimated project costs with several other network solutions (such as steel lattice towers, NeST towers, and a full underground cable option). The benefits of all options were deemed similar, with the cost differences influencing the NPV outcomes. Ultimately, the preferred technical design was identified as the most cost-effective solution.

As the current costs are still within the tolerance range of the original estimate and CBA, we conclude that the CBA remains unchanged, and the technical design we are pursuing continues to be the most cost-effective solution.

ET.Q6 – Do you agree with our proposal to retain the Gremista GSP project within the LOTI arrangements under RIIO-ET2 as opposed to funding through a late competition model?

We welcome Ofgem's decision to retain the Gremista GSP project within the LOTI arrangements under RIIO-ET2 as opposed to funding through a late competition model. Construction of the Gremista GSP started in July 2023 and the costs of the project are based on actual contractor costs. We agree that implementing a late competition model for the Gremista GSP project would cause significant delay to project delivery and result in additional costs to the consumer.

² [MSIP Decision SHET \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/msip/decision-shet)

ET.Q7: Do you agree with our proposed approach to Large Project Delivery for the Gremista GSP project?

We do not agree with the inclusion of a Project Delivery Charge (PDC) at this stage within the LOTI mechanism.

The application of Large Project Delivery (LPD) mechanisms, including PDCs, should be determined at the Project Assessment (PA) stage. Currently, there is no formal Ofgem policy on how PDCs will be calibrated, creating uncertainty for both the project and our business.

It is essential that we have clarity on the level of financial risk prior to the PA submission. Furthermore, for projects like Gremista GSP, where late delivery may not directly impact consumers, a PDC may not be suitable. Given the short timeframe to publish, consult, and implement any necessary amendments, we assume no PDC will be applied to this project.

ET.Q8: Do you agree with our draft determination to approve the Final Needs Case of the SHET Gremista GSP project?

Yes, we agree with Ofgem's draft determination to approve the Final Needs Case for the SHET Gremista GSP project.

Given the previous consultation as part of the MSIP process, the granting of full planning consents, and the fact that construction is well underway, we trust that Ofgem will begin reviewing the Project Assessment submitted in July 2024 as soon as possible.

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

Nicki Reed
Senior Regulation Analyst
SSEN Transmission