

# Consultation

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## **RIIO-ED2 Hebrides and Orkney Re-opener Draft Determinations 2024**

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Response deadline:	13 February 2025
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We are consulting on our Draft Determinations (DDs) on a re-opener submission by Scottish and Southern Electricity Networks (SSEN)<sup>1</sup>. SSEN submitted four projects under Special Condition (SpC) 3.2, Part O: Hebrides and Orkney Re-opener (HOT) in January 2024. We have consulted and decided on three of them in our RIIO-2 Re-opener Applications 2024 Draft Determinations ([2024 Re-opener DDs](#)) and Final Determinations ([2024 Re-opener FDs](#)) published respectively on 3 September 2024 and 9 December 2024. We proposed in our 2024 Re-opener DDs to take a phased assessment approach for the fourth project, the Skye-Uist project, by accepting the updated cost information in July 2024 and therefore we are now consulting on this fourth project.

We particularly welcome responses from those with an interest in electricity transmission and distribution networks. We also welcome responses from other stakeholders and the public. This document outlines the scope and purpose of the consultation, the consultation questions, and explains how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be

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<sup>1</sup> The submission was from SSEN Distribution (SSEN) the trading name of Scottish Hydro Electrical Power Distribution plc (SSEH) and Southern Electric Power Distribution plc (SSES). The project under this re-opener were submitted on behalf of SSEH.

confidential, and if possible, put the confidential material in separate appendices to your response.

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## Contents

<b>RIIO-ED2 Hebrides and Orkney Re-opener Draft Determinations 2024 ..</b>	<b>1</b>
<b>1. Introduction .....</b>	<b>5</b>
Hebrides and Orkney Re-opener .....	6
What are we consulting on? .....	6
Context and related publications .....	7
Consultation stages .....	7
How to respond .....	8
Your response, data and confidentiality .....	8
General feedback .....	9
How to track the progress of the consultation .....	9
<b>2. Summary of our Draft Determinations .....</b>	<b>10</b>
<b>3. The Skye-Uist project .....</b>	<b>11</b>
Needs case and optioneering assessment .....	11
Cost Assessment of the preferred options .....	15
Additional Views .....	16
<b>4. Draft Direction and Notice of Licence Modification .....</b>	<b>18</b>
Hebrides and Orkney Re-opener .....	18
<b>5. Next steps .....</b>	<b>19</b>
<b>Appendices .....</b>	<b>20</b>
<b>Appendix 1 SpC 3.2.105 - List of Activities under Hebrides and Orkney Re-opener .....</b>	<b>21</b>
<b>Appendix 2 Consultation Questions .....</b>	<b>22</b>
<b>Appendix 3 Draft Direction for Hebrides and Orkney Re-opener .....</b>	<b>23</b>
<b>Appendix 4 List of options .....</b>	<b>25</b>
<b>Appendix 5 Privacy notice on consultations .....</b>	<b>26</b>

## 1. Introduction

- 1.1 Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. This is particularly important in the case of essential utilities, such as energy, where consumers have no choice on whether or not to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers. Ofgem does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for current and future energy consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.
- 1.2 The current price control model is known as RIIO (Revenue = Incentives + Innovation + Outputs). RIIO-2 is the second electricity and gas price control under the RIIO model. The price control period for electricity distribution (ED) sector runs from 01 April 2023 to 31 March 2028. It includes a range of Uncertainty Mechanisms (UMs) that allow us to assess network companies' applications for further funding during RIIO-ED2 and adjust their allowances in response to changing developments during the price control period. This prevents setting network companies' allowances higher or lower than required.
- 1.3 UMs ensure that consumers fund projects only when there is clear evidence of benefit, and once we have clarity on likely costs and cost efficiency. Without UMs, consumers may be facing higher costs than necessary and network companies may be exposed to an unreasonable level of financial risk. These mechanisms also ensure that the RIIO-ED2 price control has flexibility to adapt as the pathways to Net Zero become clearer.
- 1.4 Where possible, we<sup>2</sup> have set automatic UMs, known as Volume Driver mechanisms, such as the Generation and Demand Connection Volume Drivers, which provide network companies with immediate funding when they are required to undertake new customer connection works.
- 1.5 In other areas, where the degree of uncertainty is too great to allow for an automatic mechanism, we set "re-openers" which allow us to assess network

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<sup>2</sup> The terms 'the Authority', 'Ofgem', 'we' and 'us' are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

companies' proposals robustly, once sufficiently accurate information is made available.

## **Hebrides and Orkney Re-opener**

- 1.6 When we made our [RIIO-ED2 Final Determinations](#) (ED2 FDs) in November 2022, we remained unclear about customer needs for proposed projects in Hebrides and Orkney<sup>3</sup> due to the possible impact of outstanding third-party decisions that were likely to affect demand.
- 1.7 We agreed with SSEN's proposal to utilise a re-opener that could be triggered after SSEN had finalised a whole system review of needs that takes into account these external decisions.<sup>4</sup> As such, we decided not to fully fund those projects and introduced the Hebrides and Orkney Re-opener<sup>5</sup> for SSEN to request additional funding for the costs associated with the outcomes of additional whole system analysis in the Scottish Islands to contribute to Net Zero Carbon Targets and ensure long-term security of supply to the Hebrides and Orkney islands in Scotland.
- 1.8 In order to allow SSEN to undertake the pre-requisite pre-construction works required to deliver the whole system solution for the Hebrides and Orkney in an efficient and timely manner, we decided to provide £20.6m in ex ante funding.<sup>6</sup>
- 1.9 Following the third-party decisions being made, SSEN have conducted additional whole system analysis and applied for funding under this re-opener for four projects in the January 2024 re-opener application. We have previously published the [decision](#) on our assessment of the needs case, optioneering, and efficient costs for three of these projects.

## **What are we consulting on?**

- 1.10 We proposed in the 2024 Re-opener DDs to take a phased assessment approach for the fourth project by accepting the updated cost information in July 2024 and therefore we are now consulting on the fourth project, the Skye-Uist project.

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<sup>3</sup> For a list of the projects, see 3.2.105(a) in Appendix 1.

<sup>4</sup> [RIIO-ED2 Final Determinations SSEN Annex \(ofgem.gov.uk\)](#) at paragraph 4.6

<sup>5</sup> SpC 3.2.105(c). A copy of SSEH's SpCs as made in February 2023 can be found at [Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem](#)

<sup>6</sup> [RIIO-ED2 Final Determinations SSEN Annex \(ofgem.gov.uk\)](#), at paragraph 3.24.

1.11 We are consulting on our assessment of the needs case, optioneering, and efficient costs for this project. We welcome views from stakeholders on our DDs concerning Skye-Uist outlined in Chapter 2, and the detailed assessment in Chapter 3.

## Context and related publications

1.12 The scope of this consultation is limited to the Skye-Uist project submitted by SSEN in the 2024 application window. Additional information on this project can be found in the re-opener submission documents on SSEN's [website](#).

1.13 This document is intended to be read alongside:

- 1) [RIIO-ED2 SSEN Final Determination](#)
- 2) [Draft Determination on RIIO-2 Re-opener Applications 2024](#)
- 3) [Final Determinations on RIIO-2 Re-opener Applications 2024](#)
- 4) [RIIO-ED2 Re-opener Guidance and Application Requirements Document](#)
- 5) SpCs (and SpC 3.2 Parts O and R in particular) of the [Licence](#).

## Consultation stages

1.10 This consultation on the DDs for the Skye – Uist project under Hebrides and Orkney re-opener application will run for 28 days and will close on 13 Feb 2025. We will review and publish the responses a few weeks after the consultation closes. We will endeavour to publish our FDs in spring 2025.

**Figure 3 - Consultation stages**

<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>
Consultation open (DDs)	Consultation closes (awaiting decision). Deadline for responses	Responses reviewed and published	FDs
16 Jan 2025	13 Feb 2025	27 Feb 2025	Spring 2025

## How to respond

- 1.11 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- 1.2 We've asked for your feedback on our assessment of the re-opener application. The consultation questions are set out in chapter 3 and consolidated in Appendix 2 of this document. Please respond to each one as fully as you can.
- 1.13 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

## Your response, data and confidentiality

- 1.14 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.15 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.16 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 5.
- 1.17 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.



## General feedback

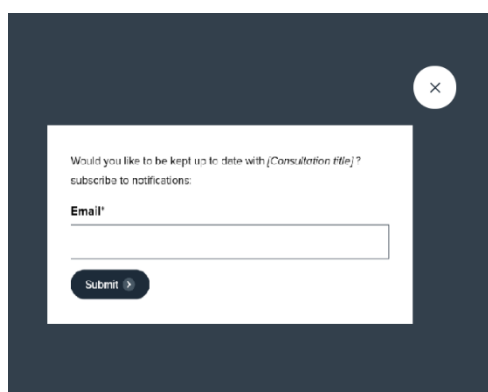
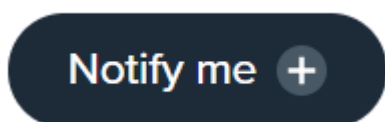
1.18 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

1.19 Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

1.20 You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. [Ofgem.gov.uk/consultations](https://Ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

**Upcoming** > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

## 2. Summary of our Draft Determinations

2.1 **The Table ED1 below** summarises our DDs for the Skye – Uist project under Hebrides and Orkney Re-opener and Chapter 3 below discuss this project in greater detail. All monetary figures in this document are in 2020/21 prices to align with the RIIO-ED2 FDs price base.

**Table ED1 Draft Determination on the Hebrides and Orkney Re-opener submissions in 2024**

<b>Sector Group</b>	<b>Network</b>	<b>Company Proposed Project</b>	<b>Company requested - Forecast costs (£m)</b>	<b>Ofgem’s DD - Cost adjustment (£m)</b>	<b>Ofgem’s DD - Allowances (£m)</b>
Scottish and Southern Energy	SSEH	SSEN-D Skye-Uist (project cost)	63.65	-13.63	50.02
		Risk allowance	4.71	-0.92	3.79
		<b>Total</b>	<b>68.36</b>	<b>-14.55</b>	<b>53.81</b>

### 3. The Skye-Uist project

Questions
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ED.Q1. Do you agree with our assessment of the needs case for the Skye-Uist project under Hebrides and Orkney Re-opener submission?
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ED.Q2. Do you agree with our assessment of the optimal solution for the Skye-Uist project under the Hebrides and Orkney Re-opener submission?
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ED.Q3. Do you agree with our assessment of the efficient option to mitigate consenting risk related to the onshore section of the proposed project?
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ED.Q4. Do you agree with our assessment of the efficient costs of the Skye-Uist project under the Hebrides and Orkney Re-opener submission?
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ED.Q5. Do you agree with our proposal to not introduce an additional mechanism to adjust allowances to cover costs under the Payment Adjustment Mechanism?
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#### Needs case and optioneering assessment

- 3.1 The project involves replacing the existing subsea cable between Ardmore on Skye and Loch Carnan on South Uist, which has been in service for over 30 years and is assessed to be at risk of failure due to its poor asset health condition. A replacement solution is needed to maintain supply on South Uist.
- 3.2 As part of its submission, SSEN set out the detail behind its proposals, including the engineering justification supporting its needs case, details of its optioneering, and cost benefit analysis (CBA) that it had carried out to support its proposed option choice.
- 3.3 In accordance with the Re-opener Guidance, SSEN also set out the detail on how the proposed expenditure aligns with their future business strategy, including consideration of how it relates to their RIIO-2 licence and other statutory obligations. For instance, the projects submitted should consider the whole system solution for meeting the long-term energy requirements of the island groups.
- 3.4 Having reviewed SSEN's submission, we are satisfied that there is a need for the Skye-Uist project, i.e. to replace the existing subsea cable from Ardmore to Loch Carnan, due to the asset health of the cable. We are also satisfied that SSEN has considered all viable options and that the construction of a new subsea cable from Loch Pooltiel (on the Isle of Skye) to Loch Carnan to replace the existing one from Ardmore to Loch Carnan is the correct solution. However, in our assessment the

option that SSEN has proposed to take forward this solution is not the most optimal from a consumer perspective.

- 3.5 Accordingly, we are proposing to set allowances at £53.81m which reflects our assessment of the efficient delivery of the replacement cable. As we have provided a development cost for this re-opener in the ED2 FDs, this amount has already been netted off from the proposed allowances. Our detailed analysis is given in the paragraphs below.

### **Options considered**

- 3.6 SSEN's CBA considered several options<sup>7</sup> for replacing the Ardmore – Loch Carnan subsea cable.

#### Optimal solution

- 3.7 Based on the results of the CBA, the installation of a subsea cable from of Loch Pooltiel to Loch Carnan with a new overhead line (OHL) from the existing grid supply point (GSP) at Dunvegan to Loch Pooltiel (**Option 18**) would appear to be the most optimal to meet the needs case as it is the lowest cost option (Capex of [Redacted]).
- 3.8 However, the planning consent process for the overhead line section is likely to be complex and therefore risks delays to project delivery timelines. The project delay would result in the supply to Uist consumers be at risk and significant costs will be incurred for running the backup diesel generation in the island if the existing cable fails. Consequently, SSEN has considered options to avoid the need to construct the OHL section and therefore mitigate the associated risk of project delay.

#### SSEN's proposed solution to mitigate consenting risk

- 3.9 SSEN's proposal (**Option 30**) is to install an additional subsea cable from Ardmore to Loch Pooltiel as well as the OHL section from Dunvegan to Loch Pooltiel. The installation of the additional subsea cable, which SSEN refers to as the "**Optimisation Loop**", is likely to be less complex from a consenting perspective and therefore its installation would mitigate the risk of any delay to the overall project in the event of a delay in the construction of the onshore OHL section. This option therefore entails the installation of three network sections:
- i. Subsea cable from Loch Carnan to Loch Pooltiel

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<sup>7</sup> The list of options is given in Appendix 4.

ii. Subsea cable from Ardmore to Loch Pooltiel (Optimisation Loop)

iii. OHL from Dunvegan to Loch Pooltiel

3.10 SSEN estimates that this option adds [Redacted] approximately 35% to the total project cost.

Alternative options to mitigate consenting risk

3.11 SSEN considered two alternative options that effectively mitigate project delay risk.

3.12 **Option 32** is to add the Optimisation Loop (as per option 30), without the construction of the OHL section. As this option does not involve the construction of the OHL section it avoids the risk of any delays to the overall project due to potential consenting issues. This option therefore entails the installation of two network sections:

i. Subsea cable from Loch Carnan to Loch Pooltiel

ii. Subsea cable from Ardmore to Loch Pooltiel (Optimisation Loop)

SSEN estimates that this option adds [Redacted] approximately 25% to the total project cost.

3.13 **Option 19** is to install an underground cable between Dunvegan and Loch Pooltiel. An underground cable is much less complex than an OHL from a planning consent perspective and the risk of associated project delays are therefore much less. This option therefore entails the installation of two network sections:

i. Subsea cable from Loch Carnan to Loch Pooltiel

ii. Underground cable from Dunvegan to Loch Pooltiel

SSEN estimates that this option adds [Redacted] approximately 10% to the total project cost.

SSEN's proposal

3.14 SSEN proposal is for Option 30 (i.e. including installation of the OHL section plus the Optimisation Loop to mitigate consenting risk). It has proposed this option ahead of Options 32 and 19, which would also mitigate the consenting risk, and at lower cost due to the additional benefits that the OHL will deliver in the future.

3.15 SSEN advised that there are additional benefits such as operational flexibility, future optionality and consumer security. For instance, under fault scenario on the line beyond Dunvegan, SSEN stated that it can reduce the use of diesel

generation as Ardmore demand could be met via the Optimisation Loop from Dunvegan.

Our assessment

- 3.16 We agree that in the absence of any consenting risk that Option 18 is the optimal solution to replace the existing Ardmore to Loch Carnan subsea cable. We also agree that the consenting process for the OHL section requires additional mitigation or alternative approach to the onshore section. We are therefore proposing to award allowances at the level of the efficient option. This does not tie SSEN to a particular solution. However, should it choose to pursue an alternative option then any over-spend or under-spend will be dealt with through the Totex Incentive Mechanism (TIM)<sup>8</sup>.
- 3.17 We have not seen adequate evidence that the Optimisation Loop is a cost-effective solution to mitigate the risk because:
- The benefits are short lived. Majority of the benefits will be realised before the energisation of the OHL section (ie. within 2 years).
  - The results of the CBA are uncertain and only very marginally indicating that the proposed option delivers the highest net benefits. Some assumptions, eg. the duration that requires full year running of the diesel generator, are not consistent among various options. This single assumption drives the result of the CBA.
  - The additional cost of [Redacted] is expensive (+35%) when compared to the original cost of the preferred Option 18 [Redacted] and the substantially lower extra cost of the alternative mitigating options [Redacted].
- 3.18 We therefore consider that Option 19 (i.e. including installation an underground cable instead of an OHL for the onshore section) is the efficient solution to replace the existing Ardmore to Loch Carnan subsea cable as it delivers the same benefits and consenting risk mitigation but at much lower cost than the other viable options.

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<sup>8</sup> The Totex Incentive Mechanism is a mechanism within RIIO-ED2 that provides for the sharing of the additional cost related to over-spend and the savings related to under-spend between the licensee and consumers.

## **Cost Assessment of the preferred options**

- 3.19 We assessed the maturity of submitted costs, ie. how well developed the project costings are, for example, whether they are supported by market tested tenders, or whether they are still just at desktop study stage.
- 3.20 After establishing our view of the justified investment work from each project plus a view on their cost maturity, we then assessed the efficient cost for this project.
- 3.21 For assessing the asset costs, our primary approach was to apply our benchmark of unit cost for each type of asset, where relevant data is available in the RIIO-ED2 FDs and other sources including other re-opener submissions.
- 3.22 SSEN has followed a competitive tender process for key elements of the project, including the subsea cable that constitutes the major portion of the project cost, and has sought to mitigate upward cost pressures associated with a highly competitive subsea and cable market. SSEN also provided cost breakdown for individual assets including OHL section, poles, underground cable, substation upgrade etc.
- 3.23 We have reviewed the contracting model for the subsea cable and are satisfied that the costs reflect the latest costs confirmed by the market. We understand the final cost is uncertain and the cost that SSEN will pay to contractors may be subject to Payment Adjustment Mechanism (PAM), which will be covered in detail in paragraphs 3.30 to 3.34.
- 3.24 We have reviewed the costs of individual assets and have also adjusted the costs for ongoing efficiency in line with RIIO-ED2 FDs.
- 3.25 With the assessments above, we are satisfied that the costs submitted by SSEN for the project for different options are efficient.
- 3.26 We therefore propose to award additional allowances of £50.02m (2020/21 prices), which is our assessed efficient cost of Option 19 with adjustment for ongoing efficiency [Redacted] minus [Redacted] related to allowances that SSEN has already received through RIIO-ED2 to cover development costs.

### Risk allowance

- 3.27 SSEN submitted the results of its internal quantitative risk analysis (QRA) and an extract of their project risk register. The QRA produced a proposed project risk allowance of £4.71m at the 50<sup>th</sup> percentile of the distribution (P50), based on the project proceeding with both the OHL and the optimisation loop.

- 3.28 We have reviewed the risk register provided by SSEN and are satisfied that the risks considered by SSEN are appropriate.
- 3.29 Given the supporting information provided alongside the QRA results does not provide sufficient detail to adjust these results to reflect alternatives to the OHL and optimisation loop, we proposed to reduce the P50 value in proportion to the capital expenditure of the underground cable option without the optimisation loop. Scaling the P50 risk allowance to reflect the lower capital expenditure in ED2 results in a proposed risk allowance of £3.79m.

#### Payment Adjustment Mechanisms (PAMs)

- 3.30 As part of the July 2024 re-opener application SSEN noted that potential suppliers involved in the tender process have requested a Payment Adjustment Mechanism (PAM) for some cost items (for example vessel fuel prices, metals and materials, and exchange rate exposure). The PAM would mean that some costs will be treated as pass-through, meaning that SSEN will be required to pay the costs that the supplier incurs for the items. This is due to current market volatility that makes the final costs highly uncertain.
- 3.31 SSEN has requested a formal adjustment mechanism which would apply to cost areas covered by PAMs in the form of new re-opener. In its application, SSEN highlighted Ofgem's decision on the Eastern Green Link 2 (EGL2) project that included a similar mechanism.
- 3.32 In our view the circumstances of EGL2 or other transmission projects are not comparable to the Skye – Uist project due to the difference in project cost and the exposure due to PAMs.
- 3.33 We do not believe that it would be in the best interest of consumers and other stakeholders to introduce a new adjustment mechanism and change RIIO-ED2 mid-period. Hebrides and Orkney Re-opener applications should not be treated any differently from any other re-opener mechanism in terms of our FD on our treatment of risk and uncertainty under RIIO-ED2.
- 3.34 Therefore it would not be appropriate to introduce a new re-opener in RIIO-ED2 to allow future requests for funding linked to PAMs. Instead, we believe that any cost fluctuations would be more appropriately shared by licensee and consumers through the Totex incentive mechanism (TIM).

#### **Additional Views**

- 3.35 Although we recognise there is potential delay of the OHL section due to the consenting process, we consider that SSEN should assume most of the



responsibility for any extra cost for managing the risk. In our view SSEN could have better mitigated the potential for delay if it had taken effective action earlier. Given that the solution to supply South Uist was included in the original RIIO-ED2 business plan there was scope to identify the risk and commence mitigation actions earlier than it did.

- 3.36 For the whole system solution for the longer-term future beyond RIIO-ED2, we consider that options with larger 33kV subsea cable or higher voltage solution should be made available and evaluated. For example, within the optioneering for the proposed second Ardmore – Harris 33kV subsea cable, the size of the subsea cable is still limited to 500mm<sup>2</sup>. The lack of options including larger 33kV subsea cable or higher voltage solution is likely to result in an inadequate optioneering and inefficiently sized cable. We expect SSEN to review its plan and optioneering before the funding request for the long-term development.

## **4. Draft Direction and Notice of Licence Modification**

### **Hebrides and Orkney Re-opener**

- 4.1 In accordance with SpC 3.2.110 of the SSEH's license, we have included the draft text of a direction in Appendix 3 with our proposed modification to the term HOt in Appendix 1 to SpC 3.2 of SSEH's licence.

## **5. Next steps**

- 5.1 We welcome your responses to this consultation, both generally, and in particular on the specific questions in Chapter 3 for the Hebrides and Orkney Re-opener. Please send your response to: [ReopenerConsultations@ofgem.gov.uk](mailto:ReopenerConsultations@ofgem.gov.uk) . The deadline for response is 13 February 2025.
- 5.2 We will carefully consider all consultation responses and endeavour to conclude our assessment of the 2024 Hebrides and Orkney Re-opener applications with a decision by in spring 2025.

## Appendices

### Index

<b>Appendix</b>	<b>Name of appendix</b>	<b>Page no.</b>
1	Appendix 1 SpC 3.2.105 - List of Activities under Hebrides and Orkney Re-opener	21
2	Appendix 2 Consultation Questions	22
3	Appendix 3 Draft Direction for Hebrides and Orkney Re-opener	23
4	Appendix 4 List of Options	25
5	Appendix 5 Privacy notice on consultations	26

## Appendix 1 SpC 3.2.105 - List of Activities under Hebrides and Orkney Re-opener

3.2.105 The Hebrides and Orkney Re-opener may be used where:

- a) the licensee has incurred or expects to incur costs as a result of changes to the scope or timing of work relating to twelve sub-sea cables:
  - i. Skye to Uist (North route);
  - ii. Skye to Uist (South route);
  - iii. Pentland Firth West;
  - iv. Pentland Firth East;
  - v. Mainland Orkney – Hoy South;
  - vi. Orkney (additional 66kV circuit)
  - vii. Eriskay – Barra 2;
  - viii. South Uist – Eriskay;
  - ix. Mull to Coll (double circuit);
  - x. Coll - Tiree (double circuit);
  - xi. Mainland - Jura (double circuit); and
  - xii. Jura - Islay (double circuit); or
- b) the licensee has incurred costs associated with ensuring security of supply in the Scottish islands, and can demonstrate efficient whole systems considerations have been taken into account, including considering alternative activities to installing the cables listed in paragraph (a); or
- c) the licensee has incurred or expects to incur costs associated with the outcomes of additional whole system analysis in the Scottish Islands to contribute to Net Zero Carbon Targets and ensure long-term security of supply, including any alternative activities to installing the cables outlined in (a); and
- d) the change in those costs in paragraphs (a) or (b) exceeds the Materiality Threshold and are not otherwise funded by the SpCs.

## **Appendix 2 Consultation Questions**

ED.Q1 Do you agree with our assessment of the needs case for the Skye-Uist project under Hebrides and Orkney Re-opener submission?

ED.Q2 Do you agree with our assessment of the optimal solution for the Skye-Uist project under the Hebrides and Orkney Re-opener submission?

ED.Q3 Do you agree with our assessment of the efficient option to mitigate consenting risk related to the onshore section of the proposed project?

ED.Q4 Do you agree with our assessment of the efficient costs of the Skye-Uist project under the Hebrides and Orkney Re-opener submission?

ED.Q5 Do you agree with our proposal to not introduce an additional mechanism to adjust allowances to cover costs under the Payment Adjustment Mechanism?

## Appendix 3 Draft Direction for Hebrides and Orkney Re-opener

### Introductory Note

Following our assessment of SSEH's January 2024 Hebrides and Orkney Re-opener application, we have set out our minded to view above for the fourth project for which we took a phased assessment approach, accepting the updated cost information in July 2024. Any decision to add additional allowances for a project, will be implemented into the Licence via a direction. This Appendix provides notice of the proposed direction that we intend to issue to implement our Re-opener Decision, as required by SpC 3.2.125. We intend to confirm the direction at the same time as setting out our decision, taking into account responses to our minded to view and representations on the proposed direction. Any representations with respect to the minded to view or associated draft direction below must be made on or before 13 Feb 2025.

### Draft Direction

To: Scottish Hydro Electric Power Distribution Plc

Date: [to be inserted] 2025

**Direction issued by the Gas and Electricity Markets Authority ("the Authority") under Special Condition ("SpC") 3.2.109 of the Electricity Distribution Licence ("the Licence") held by Scottish Hydro Electric Power Distribution Plc ("the Licensee") to modify the value of licence term HOT.**

1. The Licensee is the holder of a licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989.
2. SpC 3.2 Part O: Hebrides and Orkney Re-opener of the Licence provides a mechanism by which the licensee may apply for a direction modifying the value of term HOT in Appendix 1 to SpC 3.2.
3. In January 2024, the Licensee submitted a Re-opener application under SpC 3.2 Part O for modification to the term HOT.
4. Further details of the reasons for and effect of this direction can be found in our decision document published alongside this direction.
5. The Authority hereby issues a direction under SpC 3.2.109 to modify the value of HOT in Appendix 1 of SpC 3.2 as follows:

## Appendix 1

### Uncertain Costs without Evaluative Price Control Deliverables allowances (£m)

	23/24	24/25	25/26	26/27	27/28	Total allowance (all years)
PSUP <sub>t</sub>	0	0	0	0	0	0
REC <sub>t</sub>	0	0	0	0	0	0
ESR <sub>t</sub>	0	0	0	0	0	0
EVR <sub>t</sub>	0	0	0	0	0	0
SWR <sub>t</sub>	0	0	0	0	0	0
DIG <sub>t</sub>	0	0	0	0	0	0
SAR <sub>t</sub>	0	0	0	0	0	0
LRE <sub>t</sub>	0	0	0	0	0	0
HVP <sub>t</sub>	0	0	0	0	0	0
WDV <sub>t</sub>	0	0	0	0	0	0
HO <sub>t</sub>	34.67	0	<del>00.01</del>	<del>11.56</del> 2.30	<del>03.01</del>	<del>46.17</del> 99.98
SES <sub>t</sub>	0	0	0	0	0	0
SEFEC <sub>t</sub>	0	0	0	0	0	0

New text is double underscored and deleted text is double struck through.

6. This direction will take effect immediately.

7. If you have any questions in relation to this direction, please contact:

[sai.lo@ofgem.gov.uk](mailto:sai.lo@ofgem.gov.uk).

Yours sincerely,

**[Name]**

**Duly authorised on behalf of the Gas and Electricity Markets Authority**



## Appendix 4 List of options

(A) SSEN have outlined the following key long-term options (out of a long list of 32 options) within their re-opener application submitted in January 2024 as whole system solution:

- Option 11: (i) Replacing the existing Ardmore – Loch Carnan subsea cable with larger cable and (ii) add a new larger size cable or OHL Ardmore – Clachan and (iii) new Ardmore – Harris subsea cables
- Option 14: (i) Replacing the existing Ardmore – Loch Carnan subsea cable with an OHL running from Dunvegan to a landing point at Loch Pooltiel, connecting to a new subsea cable running from Loch Pooltiel to Loch Carnan and (ii) add a new cable/OHL circuit from Ardmore – Clachan and (iii) new Ardmore – Harris subsea cables
- Option 18: (i) Replacing the existing Ardmore – Loch Carnan subsea cable with an OHL running from Dunvegan to a landing point at Loch Pooltiel, connecting to a new subsea cable running from Loch Pooltiel to Loch Carnan, (ii) additional Harris – Clachan subsea cable and OHL, and (iii) new secondary Ardmore – Harris subsea cable. [SSEN’s Preferred Option]
- Option 19: Refining Option 18 by replacing the OHL section from Dunvegan to Loch Pooltiel subsea landing point with an underground cable.
- Option 26: (i) New Ardmore – Loch Carnan subsea cable and (ii) new Ardmore – Harris subsea cable.

(B) Further options submitted in July 2024 when SSEN progressing phase (i) of Option 18, for mitigating the risk of potential project delay due to consenting process:

- Option 18: (i) Replacing the existing Ardmore – Loch Carnan subsea cable with an OHL running from Dunvegan to a landing point at Loch Pooltiel, connecting to a new subsea cable running from Loch Pooltiel to Loch Carnan
- Option 19: Refining Option 18 by replacing the OHL section from Dunvegan to Loch Pooltiel subsea landing point with an underground cable.
- Option 30: Adding an additional subsea cable section to Option 18, running from Ardmore to the Loch Pooltiel landing point (referred to as the “optimisation loop”).
- Option 32: Abandon the Dunvegan – Loch Pooltiel section and instead progress the Ardmore – Loch Pooltiel – Loch Carnan circuit using subsea cables.

## Appendix 5 Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### **4. With whom we will be sharing your personal data**

No external agencies.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for six months after the consultation is closed.

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data

- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas.**

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.**

**10. More information** For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".