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Dear Cathryn

Citizens Advice and Citizens Advice Scotland (CAS) response to Ofgem consultation: Scottish Hydro Electric Power Distribution's proposals to contribute towards proposed electricity transmission links to Shetland, Western Isles and Orkney

We are pleased to be able to respond to this consultation. Citizens Advice and Citizens Advice Scotland have statutory responsibilities to represent the interests of energy consumers in Great Britain. This response has been prepared with input from both Citizens Advice and Citizens Advice Scotland. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

In summary:

- We agree with the general principle that a Distributed Network Operator (DNO) could contribute towards Transmission Operator (TO) projects.
- We broadly agree with SHEPD's proposal to contribute towards the Shetland link, but have some concerns about implementation.
- We disagree with the need for SHEPD to contribute towards Orkney and Western Isles projects.
- It is not clear how these proposals will be implemented. In any case, implementation should not sidestep industry governance and any approach should be fit for other projects between other network companies.

We have outlined answers to the questions in your consultation below.

Question 1. What are your views on the principle of DNO contributions to transmission projects generally, and contributions by SHEPD to the Shetland, Orkney and Western Isles transmission projects specifically?

We agree with the principle that one network company could contribute towards another network company's project where there are clear benefits for consumers to do so. For Shetland, there does seem to be a consumer benefit for SHEPD to contribute towards SHE-T costs. There is less of a compelling case for the Orkney and Western Isles projects.

Question 2. What are your views on the robustness of the methodology to determine the need for and value of the contribution?

- Do you agree with our views on the methodology proposed for Shetland and Western Isles/Orkney, as set out in Annex 2?

We agree in principle that the SHEPD contribution is collected through the Hydro Benefit Replacement Scheme. This means that customers in the North of Scotland who already pay the highest distribution charges would not face a further cost burden as a result of the SHEPD contribution.

We agree that it is important that the Project Assessment (provisionally mid 2020) is robust and only then can the most accurate cost benefit analysis be made.

We recognise the importance of Ofgem assessing the needs case (again) for a transmission link at a later date before giving final approval.

We agree that there appear to be uncertainties regarding the likely level of demand on Shetland and therefore the necessary contribution levels but note the mitigation with respect to a further Project Assessment that would take place around mid 2020.

We support the principle of a cap to the cost of support for the transmission link for Shetland, however, we would not wish this cap to be seen as a target for costs. We welcome a further review by Ofgem to determine the level of the cap to ensure consumers are appropriately protected as we note that Ofgem are yet to determine an appropriate cap level.

We would be interested to see the costs of Energy storage as an alternative option.

Question 3. What are your views on how the methodology could be most appropriately implemented?

- Do you agree that more detail is required on the proposed implementation of the contribution in SHEPD's licence and industry codes before we can approve any proposal?

- Would it be more appropriate for the SHEPD proposals to be formally considered through standard industry code governance arrangements?

While option 3 (SHEPD payment under contract with relevant TO) might be the simplest to implement, it should be avoided. These proposals potentially reduce transparency of consumer costs. This approach also facilitates a direct payment between group

companies, and while this may not cause a problem in practice, the perception of one company passing money between subsidiaries is a negative one. We believe that an appropriate option would be that payment is facilitated through the existing ESO mechanisms. It is feasible that similar approaches to network planning will be taken in the future and therefore a mechanism should be put in place to deal with this. Therefore, it is appropriate for these proposals to follow standard industry governance and any changes to be made to industry codes and processes in the normal way.

Question 4. What are your views on timing for confirming the contribution?

- Are there other areas of uncertainty within the proposals or wider frameworks that we have not considered and which would impact the effectiveness of the SHEPD proposals?

We agree with Ofgem's view that it is not necessary or appropriate to place reliance on provisional contribution value at this point. As noted in the consultation document, there is uncertainty as to whether generators would require the contribution in order to be successful in the CfD allocation round. There is also uncertainty regarding the implementation approach, and it is reasonable to assume the methodology might be amended following a standard industry governance approach.

Question 5. What are your views on any wider implications that should be considered?

- How can any wider implications best be managed?

As discussed above, this approach has implications for future projects where one network company provides value to another network company's customers. Therefore, any implementation needs to enable and facilitate transparent whole system planning.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely

Stew Horne

Principal Policy Manager, Energy Networks and Systems