

Decision

Decision on the assessment of five 2023 SPT's MSIP initial needs case submissions

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This document sets out our¹ provisional decision following a consultation on the assessment of five of SP Transmission's (SPT's) initial needs case submissions under the Medium Sized Investment Projects (MSIP) re-opener mechanism. Although we accepted and assessed some initial needs case submissions during the 2022 and 2023 MSIP submission windows without cost assessment information, we expect that future MSIP submissions will include all the information necessary for us to assess both the need and the efficient costs together.

We published a consultation on 28 June 2023, setting out our assessment and draft determinations concerning five initial needs case submissions submitted by SPT. The consultation closed on 26 July 2023. This document summarises the responses received and our provisional decision after careful consideration of these responses. We have published non-confidential responses² to the consultation alongside this document.

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² <https://www.ofgem.gov.uk/publications/consultation-5-sp-transmissions-2023-msip-applications>

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1. Introduction

Context and related publications

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. Ofgem³ 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. SPT is the holder of an electricity transmission licence (the Licence) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').

1.3. Special Condition (SpC) 3.14 Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPRE_t) (MSIP Re-opener) of the Licence is a mechanism that provides Electricity Transmission Owners (ETOs), such as SPT, with an opportunity to request additional funding on projects with a value of less than £100m. Applications may only be made on projects where Baseline Allowances have not already been provided, and subject to other qualifying criteria as set out in SpC 3.14.

1.4. In the January 2023 reopener window, SPT submitted eight applications, of which five are initial needs case submissions and the remaining three are full applications. On 28 June 2023, we published the consultation on the assessment and our draft determinations of the five initial needs case submissions as listed below.

- Kincardine North 400kV Substation
- Kincardine - Wishaw (Clyde's Mill) 400kV Reinforcement
- XH and XJ Routes OHL Upgrading Works
- Glenglass 132kV Substation
- Enoch Hill Collector Substation and Associated 132kV Circuit

³ The terms 'the Authority', 'Ofgem', 'we', 'us' and 'our' are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

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1.5. This document is intended to be read alongside:

- Consultation: 5 SP Transmission's 2023 MSIP applications⁴
- SPT’s MSIP re-opener submission documents⁵ on SPT’s website

Our decision-making process

Responses to the consultation

1.6. We received only one response to the consultation from SPT. We have carefully considered all comments in the response and taken them into account. A summary of the responses in relation to each MSIP project is provided in chapter 2 of this document.

Our decision-making

1.7. The decision-making stages are detailed below:

Date	Stage description
28/06/2023	Stage 1: Consultation opens
26/07/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
23/08/2023	Stage 3: Responses reviewed and published
20/09/2023	Stage 4: Provisional decision published

General feedback

1.8. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We’d also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
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. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@Ofgem.gov.uk.

⁴ [Consultation: 5 SP Transmission's 2023 MSIP applications | Ofgem](#)

⁵ [MSIP Reopeners - SP Energy Networks](#)

2. The five MSIP initial needs case submissions from SPT

Background

2.1. In the January 2023 MSIP Re-opener submission, SPT set out its plan for carrying out the following projects:

- 1) Kincardine North 400kV Substation: construction of a new 400kV substation near Kincardine and the decommissioning of Longannet 275kV Substation, which is now approaching its end of life.
- 2) Kincardine - Wishaw (Clyde’s Mill) 400kV Reinforcement: construction of a new 400kV substation at Clyde’s Mill and a single circuit from Kincardine North to Clyde’s Mill.
- 3) XH and XJ Routes Overhead Line (OHL) Upgrading Works: upgrading of the existing 73.6km OHL conductor system on the strategic east-west Strathaven–Smeaton corridor.
- 4) Glenglass 132kV Substation: reinforcement of the existing Glenglass 132kV substation for the connection of 2 x 132/33kV grid transformers, 4 circuits and 3 wind farms.
- 5) Enoch Hill Collector Substation and Associated 132kV Circuit: construction of a new 132/33kV substation at Enoch Hill (equipped with one 132/33kV transformer), installation of a new 132kV feeder bay at New Cumnock 132kV substation and an approximately 5km 132kV cable circuit from New Cumnock to Enoch Hill.

Our draft determination

2.2. Having considered the evidence given in SPT’s submissions, we have published the consultation in June 2023,⁶ setting out our assessment and initial view on each of the projects. Our initial view is that the initial needs case for each of the five projects put forward by SPT is valid. Based on the information in the initial needs case submission, we are satisfied that there is a need for each project, that SPT has considered all viable options, and that it has correctly rejected all options but one.

2.3. The reasons for our initial view are detailed in the consultation document and summarised below.

⁶ [Consultation: 5 SP Transmission's 2023 MSIP applications | Ofgem](#)

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- 1) Kincardine North 400kV Substation: this project enables significant reinforcement of transfer capacity through central Scotland. We agree that the reinforced transfer capacity is essential for the connection of the planned onshore and offshore wind generation. The project also integrated load investment drivers (ie the need for reinforcing transfer capacity) and non-load related investment drivers (ie the need for the replacement of Longannet 275kV substation) in an economic, efficient and co-ordinated manner.
 - 2) Kincardine - Wishaw (Clyde’s Mill) 400kV Reinforcement: this project is to facilitate increased power transfer into and through the SPT network from renewable developments across the north of Scotland. We agree that the reinforced transfer capacity is needed for the connection of the planned onshore and offshore wind generation.
 - 3) XH and XJ Routes Overhead Line (OHL) Upgrading Works: the purpose of this project is to facilitate increased power transfer from Scotland to England and to ensure timely modernisation of two strategic 400kV OHL routes. We agreed that completion of the XH and XJ OHL route upgrading and modernisation work is required for SPT to comply with its statutory and licence duties to maintain and operate an economic, efficient, and fit for purpose transmission system, and to satisfy network users’ requests for connections.
 - 4) Glenglass 132kV Substation: will facilitate the connection of new renewable generation and the future extension of the southwest Scotland 132kV OHL network from Glenglass 132kV substation to the proposed Glenmuckloch 400/132kV substation. We considered that SPT is required to provide a connection in accordance with the statutory and regulatory requirements under the terms of its licence, which requires it to offer to enter into an agreement with the ESO upon receipt of an application for connection.
 - 5) Enoch Hill Collector Substation and Associated 132kV Circuit: the project will enable the connection of 79MW of contracted onshore wind generation. We agreed that the timely connection of low carbon generation, such as onshore wind, plays a vital role in reaching legislated net zero targets.
- 2.4. We therefore proposed in the consultation to accept the initial needs case for each project and the preferred option presented by SPT in addressing the needs case.

Consultation responses

2.5. We received only one response to the consultation⁷. This was from SPT, and we have published alongside this document.

2.6. SPT agreed with our views set out in the draft determination for each of the projects, which are summarised in paragraphs 2.2 to 2.4.

2.7. SPT pointed out that for the Enoch Hill Collector and Associated 132kV Circuit project, paragraph 6.16 of the consultation document⁸ sets out the solution for SPT’s preferred option. Whilst there are references to the construction of a new 132kV underground cable circuit, there are no references made to the works required at Enoch Hill Substation. For clarity, SPT suggested including the works associated with Enoch Hill Substation within paragraph 6.16 of the consultation document.

2.8. SPT also mentioned the ongoing engagement with Ofgem at both working and senior levels as to the appropriate application of the Opex Escalator mechanism, including in relation to MSIP projects. SPT urged Ofgem to retain the agreed RIIO-T2 settlement conditions for the Opex Escalator⁹ for the remainder of the price control period.

Our views

2.9. Regarding the scope of the Enoch Hill Collector and Associated 132kV Circuit project, for clarity, we can confirm our understanding was that there will be works associated with Enoch Hill Substation, ie installation of the new 132/33kV 90MVA transformer and 33kV switchboard.

2.10. Having considered the consultation responses, as there are no opposite views, our provisional decision is to confirm the acceptance of the initial needs case for each of the five projects, and the preferred option presented by SPT in addressing the needs case.

2.11. We have not determined the efficient costs of these projects at this stage because the costs provided are only indicative. Efficient costs will be determined following our review of the full applications when there will be sufficient information to allow us to

⁷ <https://www.ofgem.gov.uk/sites/default/files/2023-08/SPT%20response%20to%20SPT%20RIIO-2%20MSIP%20Re-opener%20Consultation.pdf>

⁸ <https://www.ofgem.gov.uk/publications/consultation-5-sp-transmissions-2023-msip-applications>

⁹ The Opex Escalator is a mechanism in RIIO-ET2 that automatically adjusts indirect activity allowances when additional direct activity allowances are awarded through certain reopener mechanisms.

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assess the final needs case, project costs, associated outputs, and delivery dates. The licensee’s full applications must include all the information and evidence as set out in Chapter 3 of the Reopener Guidance¹⁰.

2.12. As the provisional decision is about the initial needs case and preferred option, the efficient costs of these projects will be subject to further assessment. The application of Opex Escalator is therefore not relevant at this stage.

2.13. As mentioned in the consultation¹¹, it should be noted that although we accepted and assessed some initial needs case submissions during the 2022 and 2023 MSIP submission windows without cost assessment information, we expect that future MSIP submissions will include all the information necessary for us to assess both the need and the efficient costs together.

¹⁰ Re-opener Guidance and Application Requirements Document (Version 3), 3rd April 2023: <https://www.ofgem.gov.uk/publications/re-opener-guidance-and-application-requirements-document-version-3>

¹¹ <https://www.ofgem.gov.uk/publications/consultation-5-sp-transmissions-2023-msip-applications> (Paragraph 1.12 of the consultation)

3. Next Steps

3.1. We have taken full account of the consultation response and made provisional decision as detailed in Chapter 2, subject to receipt of appropriate evidence regarding the project delivery and the associated costs.

3.2. Once the full applications including project costs with associated outputs, delivery dates and allowances to be detailed as Price Control Deliverables are submitted in January 2024, we will assess and consult on the final needs case and efficiency of the proposed costs accordingly.