

Decision

Argyll and Kintyre project - Final Needs Case decision

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Following our 11 August 2023 Final Needs Case consultation, this document confirms our decision to approve the Final Needs Case for the Argyll and Kintyre 275kV Reinforcement Strategy project under the Large Onshore Transmission Investment mechanism conditional on Scottish & Southern Electricity Networks (trading as Scottish Hydro Electric Transmission plc) (SHET) subsequently securing all material planning consents thereby demonstrating its readiness to proceed with the subsequent Project Assessment stage.

This document also includes an update on the regulatory delivery model for the Argyll and Kintyre 275kV Reinforcement Strategy project and an update on the large project delivery arrangements.

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Executive summary

Argyll and Kintyre 275kV reinforcement project

In August 2023 we consulted¹ on our minded-to position to approve the Final Needs Case (FNC) submission from Scottish & Southern Electricity Networks (trading as Scottish Hydro Electric Transmission plc) (SHET) regarding the proposed Argyll and Kintyre 275kV Reinforcement Strategy (Argyll) project. The project's Initial Needs Case (INC) was submitted for our assessment under the Large Onshore Transmission Investment (LOTI) mechanism in March 2022.

The project is driven by the need for the electricity transmission network to accommodate increased renewable energy generation expected to connect in the local area while ensuring security of supply is maintained across the network. SHET estimates that the project will cost c.£600m.

In accordance with our RIIO-2 price control arrangements, we have assessed the need for the project under our LOTI re-opener mechanism² and on the suitability of applying a late model of competition to the project. This document summarises the outcome of that assessment, our decision on the FNC assessment, and the next steps for the project.

Final Needs Case assessment

We are satisfied that there is sufficient evidence of a clear needs case for the Argyll project on the basis that there is the need to accommodate increased renewable energy generation expected to connect in the local area and that to enable this, the network rating will need to be increased. Having considered the consultation responses, we remain satisfied with our FNC consultation³ position and our decision is that SHET has made the case that its proposed intervention is required.

We consider that the cost benefit analysis (CBA) undertaken by SHET is robust and supports the need for the project. We are also satisfied that the CBA has considered the most relevant technical options and that option 05 is the optimal option.

¹ [Argyll and Kintyre project - Final Needs Case consultation](#)

² [Special condition 3.13 of the Electricity Transmission licence](#) and the [LOTI Guidance](#)

³ [Argyll and Kintyre project - Final Needs Case consultation](#), paragraph 2.19

Delivery via a competition model

The Argyll project is being considered under the LOTI mechanism as part of the RIIO-2 price control and in line with our Final Determinations for RIIO-2, we have also assessed the suitability of the Argyll project for 'late model' competition⁴. We consider that the Argyll project would meet the criteria for delivery via a late model of competition⁵. Notwithstanding that, however, we have decided not to apply a late model of competition and to retain the Argyll project within the LOTI mechanism as part of the RIIO-2 price control. Our reasoning is that we do not envisage being able to implement either the Competitively Appointed Transmission Owner (CATO) or the Special Purpose Vehicle (SPV) model for this project without causing significant delay to delivery. In addition, we do not have sufficient confidence in the benefits that would be delivered to consumers by applying the Competition Proxy Model (CPM).

Large project delivery

In our RIIO-2 Final Determinations⁶ we set out our approach to late delivery of large projects (>£100m) with the aim to ensure companies do not benefit from delay and to protect consumers from the impact of such a delay.

We are not deciding at this stage which large project delay mechanism should apply to the project but we will consult on which mechanism to apply at the Project Assessment (PA) stage.

Decision and next steps

This document confirms our decision to approve SHET's FNC for the Argyll project under the LOTI mechanism. Our decision is conditional upon SHET securing all material planning consents required for the project to proceed⁷.

⁴ 'Late model' of competition refers to the late models of competition (i.e. run for delivery once a project is sufficiently developed) identified for consideration for LOTI projects within the RIIO-2 Period (the Competitively Appointed Transmission Owner (CATO) model, the Special Purpose Vehicle (SPV) model, and the Competition Proxy Model (CPM)). For further information, see [RIIO-2 Final Determinations](#)

⁵ The criteria are new, separable, and high value (£100m or above)

⁶ [RIIO-2 Final Determinations](#), ET Annex (REVISED), page 32 onwards

⁷ In accordance with Special Condition 3.13.14, we issued a direction relieving SHET of the need to secure all material planning consents prior to seeking approval to submit its FNC. See [Argyll and Kintyre 275kV Reinforcement project: Direction to allow Final Needs Case submission](#)

SHET indicated to us via a bi-lateral presentation in June 2023 that the current Public Local Inquiry (PLI) and decision on all material planning consents will not be completed until April 2024.

We expect SHET to inform us regarding the outcome of the PLI. If SHET successfully secures all material planning consents, we will then be able to proceed to the next stage of the LOTI assessment which is the PA stage.

1. Introduction

Context

- 1.1 Great Britain’s (GB) onshore electricity transmission network is currently planned, constructed, owned, and operated by three Transmission Owners (TOs): National Grid Electricity Transmission (NGET) in England and Wales, Scottish Power Transmission (SPT) in the south of Scotland, and Scottish Hydro Electric Transmission (SHET) in the north of Scotland. We regulate these TOs through the RIIO (Revenue = Incentives + Innovation + Outputs) price control framework. For offshore transmission, we appoint Offshore Transmission Owners (OFTOs) using competitive tenders.
- 1.2 The incumbent onshore TOs are currently regulated under the RIIO-2 price control which started on 1 April 2021 and will run for 5 years. Under this price control we developed a mechanism for assessing the need for, and efficient cost of, large electricity transmission reinforcement projects. This mechanism is called ‘Large Onshore Transmission Investment’ (LOTI). Once the need for and the costs of projects have become more certain, the TOs submit construction proposals and seek funding for them. As explained in chapter 9 of the RIIO-2 Final Determinations⁸, all projects that come forward for assessment via the LOTI re-opener mechanism during RIIO-2 will be considered for their suitability for delivery through one of the late models of competition.
- 1.3 Network investment is informed by the Future Energy Scenarios (FES)⁹ and the Network Options Assessment (NOA)¹⁰ which are developed and published annually by the Electricity System Operator (ESO). A key focus of the FES 2020 is the inclusion of the Government’s ambition¹¹ to deliver up to 50GW by 2030 and the legally binding¹² UK Government Net Zero targets which are to be achieved by 2050. The transition to a Net Zero economy will see increased demand on transmission boundary capability which will need to be facilitated by critical network reinforcements.

⁸ [RIIO-2 Final Determinations](#), Core Document (REVISED), chapter 9

⁹ ESO [Future Energy Scenarios \(FES\)](#)

¹⁰ ESO [Network Option Assessment \(NOA\)](#)

¹¹ Government’s [British energy security strategy](#)

¹² [The Climate Change Act 2008 \(2050 Target Amendment\) Order 2019](#)

Overview of LOTI re-opener mechanism

- 1.4 The LOTI re-opener mechanism provides TOs with a route to apply for funding for large investment projects that can be shown to deliver benefits to consumers, but that were uncertain or not sufficiently developed at the time we set costs and outputs for the RIIO-2 price control period. The LOTI mechanism provides a robust assessment process through which we can ensure that TO proposals represent value for money for existing and future consumers.
- 1.5 To qualify for the LOTI mechanism, TO proposals must meet the following criteria:
- a) be expected to cost £100m or more of capital expenditure; and
 - b) be, in whole or in part, load related¹³.
- 1.6 We are satisfied that the Argyll project meets the criteria and is eligible¹⁴ as a LOTI project. We are therefore assessing the Argyll project in accordance with the LOTI mechanism as detailed in the LOTI Guidance¹⁵.

Stages of our LOTI assessment

- 1.7 Following the approval of eligibility, our LOTI mechanism is made up of three main stages:
1. **Initial Needs Case (INC)** – The usual focus of our assessment at this stage is to review the technical and/or economic need for the project, the technical options under consideration, and the TO's justification for taking forward its preferred option for further development.

¹³ Part (b) of this criterion used to be either "wholly or partly load related" or "shared-use or sole-use generator connection project related". As a result of a licence modification, which came into effect on 24 July 2021, the "shared-use or sole-use generator connection project" criterion no longer applies. However, this does not impact the project as this is in part a load related project. For further information on the licence modification, see the [Decision on the proposed modifications to the RIIO-2 Transmission, Gas Distribution and Electricity System Operator licence conditions](#)

¹⁴ [RIIO-2 Final Determinations](#), NGET Annex (REVISED), section 3.60

¹⁵ [Large Onshore Transmission Investments \(LOTI\) Re-opener Guidance](#)

2. **Final Needs Case (FNC)** – Following all material planning consents being secured for the project, the TO is then required to submit a FNC¹⁶. The focus of our assessment at this stage is to confirm the need for the project by checking that there have been no material changes in technical and/or economic drivers that were established in the INC.

3. **Project Assessment (PA)** – If the FNC is approved, the TO will then need to apply for a PA direction. The focus of our assessment at this stage is the assessment of the proposed costs and delivery plan that the TO has in place for the project, with a view to potentially specifying in the TO’s licence a new LOTI Output, a LOTI delivery date, and setting the efficient cost allowances that can be recovered from consumers for delivery of the project.

Related publications

- 1.8 RIIO-2 Final Determinations – Core Document and NGET Annex – both REVISED: [Ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator](https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator)
- 1.9 LOTI Re-opener Guidance document: [Ofgem.gov.uk/publications-and-updates/large-onshore-transmission-investments-loti-re-opener-guidance](https://www.ofgem.gov.uk/publications-and-updates/large-onshore-transmission-investments-loti-re-opener-guidance)
- 1.10 Argyll and Kintyre project - Final Needs Case consultation: [Ofgem.gov.uk/publications/argyll-and-kintyre-project-final-needs-case-consultation](https://www.ofgem.gov.uk/publications/argyll-and-kintyre-project-final-needs-case-consultation)

¹⁶ In accordance with Special Condition 3.13.14, we may issue a direction relieving the TO from the requirement to obtain all material planning consents prior to submitting the FNC. We [issued a direction](#) for SHET in accordance with Special Condition 3.13.14 relieving them from that requirement. We also said in our FNC consultation that any decision to approve the FNC would be conditional on SHET obtaining all material planning consents: [Argyll and Kintyre project - Final Needs Case consultation](#), Executive summary - Final Needs Case assessment

2. Argyll and Kintyre Final Needs Case assessment

Section summary

This chapter summarises our August 2023 consultation position regarding the design choices SHET has made to date and the CBA underpinning the need and design of the project, as well as the consultation responses and our decision following consideration of those responses.

Overview of NGET's proposal

2.1 SHET proposes to upgrade the existing network to 275kV operation from Crossaig in the south to a connection point located to the east of the village of Dalmally on the SPT Dalmally – Windyhill 275kV Overhead Line (OHL). The project is driven by the need for the transmission network to accommodate increased renewable energy generation expected to connect in the local area whilst ensuring security of supply is maintained across the network.

2.2 The scope of work for the Argyll project consists of:

- Establishing a new 275/132kV substation at Creag Dhubh to enable connection to SPT's Dalmally-Windyhill 275kV OHL circuits. These are to be connected by c.14km of new 275kV Double Circuit OHL.
- c.10km of new 275kV Double Circuit OHL between Creag Dhubh and a tee point on the existing Inveraray-Crossaig circuits to enable 275kV operation of this section.
- Construction of replacement An Suidhe and Crarae substations to enable them to maintain connection to the new 275kV network – to be delivered for November 2028.
- Establishing a new 275kV substation at Craig Murrail and relocation of the Port Ann Grid Supply Point (GSP) to this site.
- Establishing a new 275/132kV substation in the vicinity of the existing Crossaig substation.

2.3 Our August 2023 FNC consultation¹⁷ explains why the project has been brought forward, how SHET arrived at its preferred option, and the options that were

¹⁷ [Argyll and Kintyre project - Final Needs Case consultation](#), chapter 2

considered in the CBA. The CBA results along with justification for SHET's preferred option were also explained.

Consultation position, responses, and decision

- 2.4 Two stakeholders responded to our FNC consultation. All responses were non-confidential, and we have published the full consultation responses on our website¹⁸.
- 2.5 The remainder of this chapter sets out our consultation position, stakeholder responses, and our decision on the project's drivers, optioneering and CBA.

Project driver

Consultation position

- 1.1 We agreed that SHET has demonstrated that additional capacity is needed to allow new generation to connect to the Argyll and Kintyre network, and that to enable this the network rating will need to be increased.

Consultation responses and our views on them

- 2.6 Both consultation responses agreed with our consultation position.

Decision following consultation

- 2.7 Having considered the consultation responses, our decision is that the project driver evidences a clear need for the project.

Options considered

Consultation position

- 2.8 Our consultation position was that SHET had considered an appropriate range of options and that the five options taken forward are appropriate.
- 2.9 We noted that SHET's capital expenditure costs had increased by £249m. SHET's reasons for this increase were its undertaking of extensive surveys and assessments which refined the project's scope, and global market conditions that

¹⁸ [Argyll and Kintyre project - Final Needs Case consultation](#), 'Response documents' – Argyll and Kintyre FNC consultation responses

caused a materials shortage and constrained procurement periods resulting in above inflation cost increases. We acknowledged the reasoning behind these increases; however, we noted that with respect to the increase in costs due to material shortages and procurement activities, we stated that we would scrutinise these at the PA stage.

- 2.10 We agreed with SHET that options 05 and 06 were preferential over options 07 to 09 given that they would allow the circuit to be operated at 275kV and given the minimal disparity in costs. We also acknowledged that option 05 is SHET's preferred solution as it has the benefit of system interconnectivity and operational flexibility over option 06.

Consultation responses and our views on them

- 2.11 Both consultation responses agreed with our consultation position.

Decision following consultation

- 2.12 Having considered the consultation responses, our decision is that the optioneering phase considered a suitable range of technical options and that option 05 is the optimal solution.

CBA results

Consultation position

- 2.13 We considered that the CBA supports the need for investment on this part of the network and that it justifies SHET's progression of option 05 as the preferred option.
- 2.14 We also considered that SHET's preferred option 05 is both reasonable and likely to provide the optimal solution given the project's drivers and background generation projections.

Consultation responses and our views on them

- 2.15 Both consultation responses agreed with our consultation position.

Decision following consultation

- 2.16 Having considered the consultation responses, our decision is that an appropriate range of viable options and sensitivities were tested in the CBA and that option 05 remains the most appropriate option.

3. Delivery via a competition model

Section summary

This chapter summarises our August 2023 consultation position, consultation responses regarding whether to apply a late model of competition, and our decision following consideration of those responses.

Background

3.1 Competition in the design and delivery of energy networks is a central aspect of the RIIO-2 price control. Competition can have a key role to play in driving innovative solutions and efficient delivery that can help meet the decarbonisation targets at the lowest cost to consumers. We set out in our Final Determinations¹⁹ for RIIO-2 that during the RIIO-2 period, all projects that meet the criteria for competition and are brought forward under an uncertainty mechanism²⁰ will be considered for potential delivery through a late model of competition.

Consultation position, responses, and decision

Consultation position

- 3.2 Our consultation position was that we considered the Argyll project to meet the criteria²¹ to qualify for a late model of competition.
- 3.3 We noted, however, that implementation of either the CATO or the SPV competition models for the Argyll project would not be possible without causing significant project delays.
- 3.4 We also noted that we did not have sufficient confidence in the benefits to consumers that could be delivered by applying the CPM.
- 3.5 For those reasons we proposed to retain the Argyll project within the LOTI mechanism so that the TO delivers the project as part of the RIIO-2 price control.

Consultation responses and our views on them

¹⁹ [RIIO-2 Final Determinations](#), Core Document (REVISED), chapter 9

²⁰ [Large Onshore Transmission Investments \(LOTI\) Re-opener Guidance](#), pages 9-11

²¹ [Guidance on the criteria for competition](#)

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3.6 Both consultation responses agreed with our consultation position.

Decision following consultation

3.7 Having considered the consultation responses, our decision is that the Argyll project should be retained within the LOTI mechanism and be delivered by SHET as part of the RIIO-2 price control.

4. Large project delivery

Section summary

This chapter summarises our August 2023 consultation position, consultation responses regarding large project delivery options, and our decision following consideration of those responses.

Background

4.1 In the RIIO-2 Final Determinations²², we set out our approach to late delivery of large projects (i.e. >£100m). The aim of our approach is to ensure that a network company does not benefit financially from a delay to project delivery and that consumers are protected from any delay in delivery. To this end, we have considered setting a Project Delivery Charge (PDC) which would apply for each day a project is delivered late.

Consultation position, responses, and decision

Consultation position

4.2 We stated that we would consider the appropriate project delivery mechanism and PDC level at the PA stage. We also noted that in setting the PDC level we will look to understand the impact of any delay in terms of costs to consumers.

Consultation responses and our views on them

4.3 Both consultation responses agreed with our consultation position.

Decision following consultation

4.4 Having considered the consultation responses, our decision is that it remains appropriate to consult and decide on the appropriate project delivery mechanism and PDC level at the PA stage.

²² [RIIO-2 Final Determinations](#), ET Annex (REVISED), page 32 onwards

5. Next steps

Section summary

This chapter sets out the next steps in our assessment of the Argyll project.

- 5.1 We issued a direction on 05 May 2023 in accordance with Special Condition 3.13.14 relieving SHET of the requirement to obtain all material planning consents prior to submitting their FNC. We noted in our FNC consultation that any decision to approve the FNC would be conditional upon SHET obtaining all material planning consents²³.
- 5.2 SHET explained that there is a current PLI regarding their proposed 275kV OHL between Creag Dhubh substation and Dalmally. Given this, SHET has yet to obtain all material planning consents and thus our decision to approve SHET's FNC for the Argyll project under the LOTI mechanism is conditional upon SHET securing all material planning consents. SHET has indicated to us via a bi-lateral presentation in June 2023 that the decision on all material planning consents will not be completed until April 2024. We expect SHET to inform us as soon as the consents are secured.
- 5.3 The next stage of the LOTI assessment process is the PA stage. We will not proceed to this stage until SHET presents us with confirmation that all material planning consents have been successfully obtained.

²³ [Argyll and Kintyre project - Final Needs Case consultation](#), Executive summary - Final Needs Case assessment
