

Decision

Assessment of 2023 SHET's MSIP initial needs case submission

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This document sets out our¹ initial decision following a consultation on the assessment of Scottish Hydro Electric Transmission's plc (SHET's²) initial needs case submission for the installation of a harmonic filter in the southwest (Kintyre Peninsula) region (the Harmonic Filter project) 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 needs case and the efficient costs for the relevant projects together.

We published a consultation on 18 September 2023, setting out our assessment and draft determinations concerning initial needs case submission submitted by SHET. The consultation closed on 16 October 2023. This document summarises the responses received and our initial decision after careful consideration of these responses. We have published non-confidential responses³ 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 Scottish Hydro Electric Transmission plc (SHET) is an electricity transmission licensee that trades under the name Scottish & Southern Electricity Networks Transmission (SSENT).

³ <https://www.ofgem.gov.uk/publications/shets-2023-msip-initial-needs-case-submission>

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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. Ofgem⁴ 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 gas and electricity consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.

1.2. SHET 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 SHET, with an opportunity to request additional funding during a price control period 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 during the reopener windows specified in SpC 3.14.

1.4. In the January 2023 reopener window, SHET submitted three applications, one of them was an initial needs case submission and the other two were full applications. On 18 September 2023, we published the consultation on the assessment and our draft determination relating to the initial needs case submission of the Harmonic Filter project.

1.5. This document is intended to be read alongside:

- Consultation on the assessment of SHET's 2023 MSIP initial needs case submission⁵
- SHET's MSIP re-opener submission documents⁶ on SHET's website

⁴ 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.

⁵ <https://www.ofgem.gov.uk/publications/shets-2023-msip-initial-needs-case-submission>

⁶ <https://www.ssen-transmission.co.uk/information-centre/medium-sized-investment-projects-msip/lt466-south-west-harmonic-filter/>

Our decision-making process

Responses to the consultation

1.6. We received two responses to the consultation from SHET and from SP Transmission (SPT). We have carefully considered both of these responses and taken them into account in making our initial decision. A summary of the responses in relation to the Harmonic Filter project is provided in chapter 2 of this document.

Our decision-making

1.7. The decision-making stages are detailed below:

Date	Stage description
18/09/2023	Stage 1: Consultation opens
16/10/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
27/10/2023	Stage 3: Responses reviewed and published
17/11/2023	Stage 4: Initial decision published

General feedback

1.8. We believe that consultation is at the heart of good policy development. We would welcome your comments about this document. 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. Do you have any further comments?

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

2. The Harmonic Filter project from SHET

Background

2.1. In the January 2023 MSIP Re-opener submission window, SHET set out its plan for carrying out the Harmonic Filter project, ie. the installation of a harmonic filter in the southwest (Kintyre Peninsula) region to resolve the harmonic issues identified around the relevant area.

Our draft determination

2.2. Having considered the evidence provided in SHET’s submission, we published the consultation on 18 September 2023,⁷ setting out our assessment and initial view on the project. Our initial view is that the initial needs case for the project put forward by SHET is valid. Based on the information in the initial needs case submission, we are satisfied that there is a need for the project, that SHET has considered all viable options, and that it has correctly rejected all options but one.

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

- SHET, as an ETO, is obligated to ensure that the power quality on the system including (but not limited to) the deviation of voltage, frequency, and waveform of a power system from the established, standard values – is kept under control and remains within acceptable and manageable levels.
- The results of a series of system tests undertaken show that the background fifth harmonic in the SPT area at Hunterston is being amplified over the Kintyre-Hunterston High Voltage Alternating Current (HVAC) link into the southwest region of SHET’s network.
- Installation of harmonic filters to resolve harmonic issues is common practice where major power cables are installed as it is not feasible to change the design of the cable system (without incurring significant cost and consenting challenges). The mitigation of the harmonic issues in the southwest region must address the impact of the physical characteristics of the cable if the solution is to be enduring and independent of other wider system constraints.

2.4. We therefore proposed in the consultation to accept the initial needs case for this project and the preferred option presented by SHET in addressing the needs case.

⁷ <https://www.ofgem.gov.uk/publications/shets-2023-msip-initial-needs-case-submission>

Consultation responses

2.5. We received two responses to the consultation. These were from SHET⁸ and from SPT⁹, and we have published them alongside this document.

2.6. SHET agreed with our views set out in the draft determination for the project, which are summarised in paragraphs 2.2 to 2.4. SHET also mentioned that, due to the change in forecast background generation, ongoing developments with the Argyll and Kintyre 275kV strategy and supply chain issues, its view was that it would be most appropriate to make a final funding submission for this project in the 2025 MSIP window to ensure it has the best level of information available in terms of filter specification, site selection and maturity of cost estimate.

2.7. SPT did not provide any view on the project.

2.8. SPT’s response related to paragraph 1.12 of the consultation document,¹⁰ which states: *“It should be noted that although we accepted and assessed some initial needs case submissions during the 2022 and 2023 MSIP submission windows, we expect that future MSIP submissions will include all the information necessary for us to assess both the need for a project and the efficient costs together.”* Its main concern is the availability and certainty of the project cost at the time of MSIP Re-opener submission. SPT proposed that Ofgem retains the option to have a staged MSIP application approach.

Our views

2.9. Having considered both of the consultation responses, and as there is no view opposing our initial assessment set out in the consultation, our provisional decision is to confirm the acceptance of the initial needs case for the Harmonic Filter project, and the preferred initial option presented by SHET in addressing the needs case.

2.10. We have not determined the efficient costs of these projects at this stage because the costs which have been provided as part of the application are only indicative. Efficient costs will be determined following our review of the full application (if submitted) when there will be sufficient information to allow us to assess the final needs

⁸ <https://www.ofgem.gov.uk/sites/default/files/2023-10/SSENT%20Response%20to%20Ofgem%20South%20West%20Harmonic%20Filter%20MSIP%20Consultation.pdf>

⁹ <https://www.ofgem.gov.uk/sites/default/files/2023-10/SPT%20Response%20to%20Ofgem%20South%20West%20Harmonic%20Filter%20MSIP%20Consultation.pdf>

¹⁰ Paragraph 1.12 of the consultation: <https://www.ofgem.gov.uk/sites/default/files/2023-09/Harmonic%20Filtering%20MSIP.pdf>

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 Guidance¹¹.

2.11. We also require further study on optioneering to be presented by SHET in the full application, together with detailed cost information.

2.12. For the approach to MSIP submissions, we have considered and weighed up the anticipated number of re-opener submissions across different sectors through the various mechanisms, the need for process flexibility, and the levels of review necessary to ensure that consumers are properly protected. We maintain our view that although we accepted and assessed some initial needs case submissions during the 2022 and 2023 MSIP submission windows without final cost forecasts, we expect that future MSIP submissions will include all the information necessary for us to assess both the need for the projects and the efficient costs together. We are engaging directly with SPT and other ETOs on the flexibility within the MSIP application to address their concerns over the certainty of cost estimates at the time of MSIP Re-opener submission.

¹¹ 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>

3. Next Steps

3.1. We have taken full account of the consultation responses and made the provisional decisions 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 2025, we will assess and consult on the final needs case and efficiency of the proposed costs accordingly.