



Making a positive difference
for energy consumers

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Dear Aileen,

Strategic Wider Works: SHE Transmission's submission on the Western Isles proposal

On 14 June, SHE Transmission submitted a proposal for a new transmission link between the Western Isles (WI) and mainland Scotland under the Strategic Wider Works (SWW) arrangements. We have reviewed the information provided in the WI submission. This letter explains the reasons why we are sending the submission back to you. The recent submission does not currently have the information we need to conduct a Needs Case assessment. Notably, the implications of uncertainty, such as the risk of asset stranding or unrealised economic benefits, have not been examined adequately.

The UK Government has now announced a timetable for consulting and taking a decision on additional financial support to address the economic challenges faced by developers of new generation on the Scottish islands. The outcome of this policy review will likely have an impact on developers' plans for building new generation on the Western Isles. We therefore expect you to provide, with relevant supporting evidence, the justification for initiating the assessment of the WI proposal at this time under the SWW arrangements as opposed to deferring the assessment until further information is available. This should include SHE Transmission's assessment of the benefits to consumers of doing so.

The submission of 14 June does not provide sufficient relevant information on the factors that are driving the timing of the proposed reinforcement. We note that there have been significant concerns previously around the supply chain including production slots, resource availability and the impact this could have on the overall delivery timing of the proposed link. We expect you to provide, with relevant supporting evidence, your assessment of the optimal timing, taking into account the need to balance potential supply chain issues and any potential risk for consumers associated with delivering the proposed WI link too early or too late.

Strategic Wider Works arrangements

As you will be aware, we put in place flexible arrangements as part of the electricity transmission price control, RIIO-T1, for Transmission Owners (TOs) to propose new large transmission network developments during the price control period (April 2013 to March 2021). Under these arrangements, it is for the TOs to decide when to submit proposals for a new network development for regulatory approval. Therefore, a TO can trigger an assessment at any time during the RIIO-T1 price control period by notifying us of a proposal and by providing relevant information to inform our assessment covering:

- a Needs Case submission for the expected system requirements and a well-justified case for the scope and timing of the proposed transmission investment relative to other available options and against a range of credible uncertainties; and
- a detailed Project submission which includes the detailed plans for the technical design, cost, delivery and risk management of the preferred transmission solution along with evidence that the proposed approach and costs are efficient.

When we receive a proposal under the SWW arrangements we undertake an initial review of the submission. The aim of this review is to gauge the content and quality of the submission, the issues which need to be considered, and to decide whether the submission includes all of the information required for us to carry out a Needs Case assessment of the proposal.

The objective of our Needs Case assessment is to establish whether the scope and timing of the proposal is in the interests of existing and future consumers relative to the other available options, including the status quo. We also need to be satisfied that the investment case is robust in the context of the current policy environment, and against a range of credible uncertainties.

Upon receipt of a complete submission we also decide our assessment approach and the assessment timetable under the SWW arrangements. Consistent with the RIIO-T1 price control review process, we will adopt an approach that based on the RIIO proportionate assessment principles. This will enable us to focus our efforts on the areas that need the most assessment to ensure the proposal is in the interests of existing and future consumers.

The Western Isles submission and requirement for further information

As SHE Transmission's recent submission requires further relevant information, and given the issues which need to be considered, we are unable to properly assess or consult on the Needs Case of this proposal at this time. Whilst some of these issues are specific to the WI proposal itself and to policy developments that are underway, some also relate to the general information requirements for reaching a position on the Needs Case. On the latter, we note that we have requested similar supplementary information on the other submissions that SHE Transmission has made this year. It is important that SHE Transmission is proactive in applying the lessons from earlier assessments to any future submissions that it makes in order that the assessment process becomes more efficient overtime. This will benefit not only SHE Transmission and us, but other stakeholders such as generators and consumers.

We set out more detail about the additional relevant information we require in the annex.

Given the shortcomings of the current submission, it is imperative that you undertake some further work now to provide us with the additional information that is needed to enable us to consider the WI Needs Case in a timely manner. This is particularly important given there is now a clear timetable for decisions on the issue of affordability for new generators on the Scottish islands. I am available to discuss in more detail the issues identified in this letter in relation to the WI submission or the SWW assessment process more generally.

Yours sincerely,

Kersti Berge
Partner, Electricity Transmisson

Annex

In addition to the key issues identified in the main body of the letter, we also require further relevant information, including the following:

- A detailed explanation of the significant increase in estimated costs of delivering the project compared to the estimated costs in the previous submission made in April 2012. Given the scale of the estimated costs overall, we expect you to provide a detailed explanation on the cause of the increase in order to show the proposal represents value for money for consumers.
- Information on SHE Transmission's assessment of whether there are any potential benefits for consumers from undertaking a new competitive tender process for the supply of the HVDC cable, with supporting evidence of the relevant factors considered.
- A cost breakdown and cost profile for the preferred transmission solution and the other options considered. We have requested this supplementary information in relation to the other submissions SHE Transmission has made this year. It is important that SHE Transmission is proactive in applying the lessons from earlier assessments to any future submissions that it makes in order that the assessment process becomes more efficient overtime. This will benefit not only SHE Transmission and us but other stakeholders such as generators and consumers.
- Information on SHE Transmission's assessment of the expected planning issues cited in relation to the optioneering analysis of the other options, with supporting evidence of the potential impact on deliverability and costs.
- A summary of your proposed delivery programme identifying the key dates and processes that make up the critical path for delivering the proposed development.
- A fuller explanation of the methodology underlying the quantitative analysis. In particular, please explain the rationale for using a different Cost Benefit Analysis (CBA) approach on the WI proposal than that used in other submissions on the Caithness-Moray and Kintyre-Hunterston proposals. In addition, please explain why the CBA analysis assesses only one of the available options to deliver the additional transmission capacity.
- Please also provide, and as a matter of routine for all submissions into the SWW arrangements, copies of SHE Transmission's modelling underlying the analysis and results.