

Transmission licensees,  
generators, suppliers, consumer  
groups and any other party who  
has an interest in the  
transmission arrangements

Date: 18 December 2013

Dear colleague,

**Notice under Section 11A(2) of the Electricity Act 1989: Consultation on the proposed licence modifications for the Kintyre Hunterston reinforcement under the Strategic Wider Works (SWW) arrangements**

The purpose of this letter is to consult on the proposed licence changes to Scottish Hydro Electric Transmission plc (SHE Transmission's) electricity transmission licence following on from a decision published by the Authority<sup>1</sup> on 15 November 2013.<sup>2</sup> That decision concerned the proposed reinforcement of the transmission system around the Kintyre peninsula in the South West of Scotland ("the Kintyre Hunterston project"). The Kintyre Hunterston project was submitted by SHE Transmission and assessed by us under the SWW arrangements put in place in the RIIO-T1 electricity transmission price control.<sup>3</sup> In order to put that decision into effect, we propose the following modifications to SHE Transmission's electricity transmission licence:

1. Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) ("the SWW Condition") - insertion of the approved SWW Output and an adjustment to SHE Transmission's RIIO-T1 Allowed Expenditure for the project as set out in the November decision letter.
2. Special Condition 1B (Transmission Area) - inclusion of the Kintyre Hunterston transmission cable up to and including the transition joint lying within the West Kilbride Golf Course as part of SHE Transmission's Transmission Area.

A Notice under section 11A(2) of the Electricity Act 1989 ("the Act") and the proposed modifications to each of the Conditions mentioned above have been published alongside this letter.<sup>4</sup>

Further details of the project and the determination of the SWW Output and adjustments to SHE Transmission's RIIO-T1 Allowed Expenditure are set out in our July 2013 consultation

<sup>1</sup> The terms "Authority", "Ofgem", "we", "us" and "our" are used interchangeably in this document

<sup>2</sup> A copy of the decision on the Kintyre Hunterston transmission project proposal can be found here: <https://www.ofgem.gov.uk/ofgem-publications/84439/finaldecisionletter-kintyrehunterston.pdf>

<sup>3</sup> The RIIO-T1 price control sets out the outputs that the electricity and gas transmission network companies need to deliver for their consumers, and the associated revenues they are allowed to collect, for the eight-year period from 1 April 2013 until 31 March 2021. The SWW arrangements form part of the price control and govern adjustments to expenditure for projects which significantly increase transmission capacity.

<sup>4</sup> Notice under section 11A(2) of the Electricity Act 1989 and accompanying Schedules 1 and 2

letter on the Kintyre-Hunterston Project Assessment<sup>5</sup> and related decision letter of November 2013 – these are summarised below.

Details of how to respond to this statutory consultation are set out below. If you wish to respond to this consultation, please do so by 27th January 2014.

## Background

As part of the RIIO-T1 price control, we put in place arrangements for considering and determining potential Allowed Expenditure adjustments during the price control period to enable the delivery of SWW Outputs<sup>6</sup> that significantly increase transmission capacity. In order to put forward a project for consideration under the SWW arrangements, the Transmission Owner (TO) must provide a notice under Special Condition 6I of the electricity transmission licence, with supporting information that demonstrates how the project meets the SWW eligibility criteria.<sup>7</sup>

In order to accommodate significant growth of renewable generation in Scotland, SHE Transmission put forward the Kintyre-Hunterston project for consideration under the SWW arrangements in January 2013. The project will reinforce the B3 boundary (Argyll and Kintyre peninsula).

The project comprises:

- 2x200kv 240MVA AC subsea cables from Crossaig to SP Transmissions Limited's (SPT) existing substation at Hunterston;
- A new 132/200kv substation, including Quad Boosters, at Crossaig;
- Construction of 13km of new 132kv double circuit overhead line between Crossaig and Carradale (and dismantling of the existing 132kv overhead line)<sup>8</sup>

SHE Transmission submitted a Needs Case for the Kintyre-Hunterston project and subsequently a Project Assessment – we consulted on both the Needs Case<sup>9</sup> and the Project Assessment.<sup>10</sup> Based on our analysis of these submissions, our consultant's views and the responses to our consultations on both the Needs Case and the Project Assessment, we determined that there was a well justified need for the reinforcement of the transmission system in the Kintyre Area. The Project Assessment also enabled us to specify the SWW Output by way of increased transmission capacity that the project must deliver and the associated adjustment to be made to SHE Transmission's RIIO-T1 Allowed Expenditure in respect of the Kintyre-Hunterston Project.

The proposed reinforcement is largely located in SHE Transmission's licensed Transmission Area, but 3.5km of cable and associated substation works are located in SP Transmission Limited's ("SPT's") licensed Transmission Area. SPT will be completing the required works in its licensed Transmission Area. SPT's share of the works has been included in its RIIO-T1 baseline allowance, and therefore will not be subject to the SWW arrangements. However, in order to ensure efficient delivery and subsequent operation of the Kintyre-Hunterston

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<sup>5</sup> A copy of the consultation relating to the Kintyre Hunterston transmission project proposals can be found here: <https://www.ofgem.gov.uk/publications-and-updates/consultation-our-project-assessment-under-riio-t1-strategic-wider-works-arrangements-proposed-kintyre-hunterston-reinforcement>

<sup>6</sup> SWW Outputs are defined as increases in boundary transfer capability or equivalent additional capacity where there is no boundary.

<sup>7</sup> Further information on the SWW arrangements and eligibility criteria is set out in our document entitled Guidance on the Strategic Wider Works Arrangements in the Electricity Transmission Price Control, RIIO-T1 published on 21 October 2013 which is found here: <https://www.ofgem.gov.uk/publications-and-updates/guidance-strategic-wider-works-arrangements-electricity-transmission-price-control-riio-t1-0>

<sup>8</sup> Additional information about the project can be found on the SHE Transmission website: <http://www.sse.com/KintyreHunterston/ProjectInformation/>

<sup>9</sup> Our minded to letter on the Kintyre Hunterston Needs Case can be found here: <https://www.ofgem.gov.uk/publications-and-updates/authority%E2%80%99s-%E2%80%9Cminded-to%E2%80%9D-position-needs-case-proposed-kintyre-hunterston-reinforcement-under-strategic-wider-works-process>

<sup>10</sup> See footnote 2&4.

line, SHE Transmission has requested a small extension to the Transmission Area specified in their licence. This is considered further below.

### **Proposed licence modifications to reflect our decision on SWW Outputs and Allowed Expenditure**

Taking into account the evidence submitted by SHE Transmission, the analysis of both the Needs Case and the Project Assessment, our consultants' views and the points raised in response to our July consultation, the Authority's decision, as set out in the November 2013 decision, was to:

- require SHE Transmission to deliver a SWW Output from the project of 270MW additional transmission capacity across the B3 transmission boundary in the South West of Scotland in the final quarter of 2015/16; and
- to increase SHE Transmission's Allowed Expenditure in the price control, RIIO-T1, by £197.4 million (in 2013 prices<sup>11</sup>).

The above decision on the SWW Output and Allowed Expenditure adjustment was made subject to further consideration of a request from SHE Transmission for a modification to its Transmission Area specified in its electricity transmission licence and a statutory consultation on the proposed modifications.

The SWW Condition sets out the mechanism for approving SWW Outputs and changes to the Allowed Expenditure in respect of the SWW Outputs. The SWW Output and the annual profile for the Allowed Expenditure are to be specified in Table 2 of SHE Transmission's SWW Condition – this requires a licence modification. The proposed modifications to Table 2 are set out in Schedule 1 attached to the Notice<sup>12</sup>. Table 2 is currently blank in SHE Transmission's electricity transmission licence – we have shown the proposed changes in red tracked text.

### **Proposed licence modification to the Transmission Area specified in SHE Transmission electricity transmission licence**

In order to deliver the project in an efficient way, SHE Transmission has made a request for an amendment to be made to the Transmission Area specified in its electricity transmission licence. Special Condition 1B of SHE Transmission's electricity transmission licence sets out its Transmission Area, which is the area within which it is allowed to own or operate a transmission system. Currently, this is defined as "The area specified in the Electricity Act 1989 (North of Scotland Specified Area) Order 1990 made on 7 March 1990 but excluding the Cruachan Transmission Line".

The Kintyre-Hunterston project will be jointly constructed by SHE Transmission and SPT (with approximately 90 per cent of the cable falling within SHE Transmission's current Transmission Area). SHE Transmission (following discussions with SPT) have proposed that the cable demarcation point (where the ownership of the cable changes between the licensees) should be at the joint where the sub-sea cable and on-shore cable meet ("the transition joint"). This will enable the demarcation point to be easily identified. In addition, in order to make the construction of the transition joint simpler and ensure that the transition joint can be easily accessed and maintained in a cost efficient way during its life, it is proposed that the transition joint lie approximately 200m on shore rather than in the sea. Currently, the proposed location for the transition joint lies in SPT's Transmission Area. In order to for the transition joint to serve as the demarcation point, SHE Transmission's Transmission Area would need to be extended up to and including the transition joint. This requires a small increase in the Transmission Area specified in SHE Transmission's electricity transmission licence. The Allowed Expenditure for SHE

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<sup>11</sup> The Allowed Expenditure is expressed in 09/10 prices in SHE's electricity transmission licence. The total allowed expenditure in respect of the project in 09/10 prices is £174.090 million.

<sup>12</sup> The Notice under section 11A(2) of the Act published alongside this letter

Transmission reflects the costs of constructing the line and the transition joint up to this point.

In our November 2013 decision letter we explained that we would consider whether a change to the Transmission Area within SHE Transmission electricity transmission licence would be appropriate. We said we would consult on any proposed modification to the Transmission Area alongside the proposed changes to the SHE Transmission licence in respect of the RIIO-T1 Allowed Expenditure and SWW Output for the project.

We have now had an opportunity to consider SHE Transmission's proposal to amend its Transmission Area. We consider that it would be appropriate to extend SHE Transmission's Transmission Area to include the Kintyre Hunterston Line up to and including the transition joint. In coming to our view, we have considered the following:

- It is important that there is a clearly defined and separate ownership boundary for each Transmission Operator's ("TO's") transmission area. We consider that the transition joint provides a clearly defined boundary.
- Having the demarcation point between the two licensees' Transmission Areas on-shore rather than at sea will allow SHE Transmission to deliver and operate the project more efficiently.
- SHE Transmission will only be able to operate and maintain the line up to the transition joint if its Transmission Area is extended as it has requested.
- SPT responded to our July 2013 consultation stating that they are supportive of the proposed extension of the SHE Transmission's Transmission Area as specified in Schedule 2 to the Notice published alongside this letter.
- We note that there will be a separate commercial arrangement between SP and SHE governing issues, such as access rights to the transmission joint.

We also considered that the wording of any modification should reflect the provisions already made in the licenses of both SHE Transmission and SPT for the Cruachan Line<sup>13</sup> and the definition of Transmission Areas for offshore TOs.

The Notice published alongside this consultation attaches the proposed modification to Special Condition 1B: Transmission Area in Schedule 2.

We do not consider that a change is required to the SP Transmission Licence to accommodate the extension of SHE Transmission's Transmission Area as both TOs will continue to separate transmission systems<sup>14</sup> for the purposes of the Act and related licences and codes.

## **Next Steps**

Relevant licence holders and other interested parties have 28 days<sup>15</sup> to make representations on the proposed licence modifications before we reach a decision on whether or not to give effect to the proposed licence modifications. If the Authority decides to make the proposed modifications, they will take effect not less than 56 days after our decision to make the modifications is published.

If you wish to respond to this consultation, please do so by 27<sup>th</sup> January 2014. Please email your response to Catherine Williams at [Catherine.williams@ofgem.gov.uk](mailto:Catherine.williams@ofgem.gov.uk) or send your response by post to Ofgem, 9 Millbank, London, SW1P 3GE.

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<sup>13</sup> The Cruachan Line extends across SHE Transmission's Transmission Area but has been explicitly excluded from the Transmission Area in its electricity transmission licence but has been explicitly included in SPT's Transmission Area in their electricity transmission licence

<sup>14</sup> Section (4) of the Act defines a transmission system as "a system which consists (wholly or mainly) of high voltage lines and electrical plant and is used for conveying electricity from a generating station to a substation, from one generating station to another or from one substation to another".

<sup>15</sup> 28 days excludes bank holidays and the period between Christmas and New Year

Unless marked confidential, all responses will be published by placing them on our website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

If you wish to discuss any of the issues raised in this consultation letter and accompanying Notice, please contact Catherine Williams ([Catherine.williams@ofgem.gov.uk](mailto:Catherine.williams@ofgem.gov.uk))

Yours sincerely

Kersti Berge  
**Partner – Electricity Transmission**