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

Date: 4 July 2014

Dear colleague,

Notice under Section 11A(2) of the Electricity Act 1989: Statutory consultation on proposed licence modifications for the Beaulieu Mossford reinforcement under the Strategic Wider Works (SWW) arrangements

This letter is a statutory consultation on a proposed licence modification to Scottish Hydro Electric Transmission plc's (SHE Transmission) electricity transmission licence following on from our decision of 16 April 2014 (April decision).¹ In our April decision, we approved £53.2m of additional Allowed Expenditure (in 2013/14 prices) for SHE Transmission to reinforce the transmission system to the northwest of Inverness in Scotland (the Beaulieu Mossford project). To implement our decision, we propose to modify SHE Transmission's electricity transmission licence by inserting the SWW Output and Annual Allowed Expenditure for the project set out in our April decision letter into Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure).

A Notice under section 11A(2) of the Electricity Act 1989 (the Act) and the proposed modification to the Condition above is published alongside this letter.²

Further details of the project and the determination of the SWW Outputs and Annual Allowed Expenditure are set out in our December 2013 consultation letter,³ and subsequent decision letter of April 2014⁴ – however, the main points are summarised below.

If you wish to respond to this consultation, please do so on or before 4 August 2014. Please email your response to Peter Russell at Peter.Russell@ofgem.gov.uk or post your response to Ofgem, 9 Millbank, London, SW1P 3GE.

Summary of the Beaulieu Mossford project and our April decision

In 2013, SHE Transmission made a Project Assessment submission for consideration under the SWW arrangements⁵ for the final stage of the Beaulieu Mossford reinforcement project.

¹ A copy of the decision on the Beaulieu Mossford transmission project proposal can be found here: www.ofgem.gov.uk/publications-and-updates/decision-proposed-beaulieu-mossford-reinforcement-under-riio-t1-strategic-wider-works-arrangements.

² Notice under section 11A(2) of the Electricity Act 1989 and accompanying Schedule 1.

³ A copy of the consultation relating to the Beaulieu Mossford transmission project proposals can be found here: www.ofgem.gov.uk/publications-and-updates/consultation-our-project-assessment-proposed-beaulieu-mossford-reinforcement-under-riio-t1-strategic-wider-works-arrangements

⁴ <https://www.ofgem.gov.uk/ofgem-publications/87262/decisiononthebeaulieumossfordreinforcementunderrio-t1strategicwiderworksarrangements.pdf>

⁵ 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

The works involve the upgrade of the overhead line between Beauly and Mossford. The Project Assessment submission details works and project costs to construct 94 new double circuit towers over a length of 26km, the dismantling of 177 existing towers and the installation of 3.5km of underground cable.

The installation of the 3.5km underground cable is needed for a related project, known as Beauly Denny to fulfil the "Balblair Wirescape Rationalisation" planning consent condition attached to that project. Under the planning condition, SHE Transmission is required to remove part of the existing Beauly Mossford overhead transmission line between Beauly and Dunmore and replace it with an underground cable. However, the Beauly Mossford project has increased the capacity, and also the cost, of the underground cable works. As a result, SHE Transmission requested that the cost of completing the works to underground the cable are included as part of the Beauly Mossford project and identified the funding approved for the Beauly Denny project to meet the planning condition as a contribution to these works under the Beauly Mossford project.

Taking into account the evidence submitted by SHE Transmission, the analysis of the Project Assessment, our consultants' views and the points raised in response to our December consultation, our April decision was to:

- To make an Allowed Expenditure adjustment and specify a new SWW Output in Special Condition 6I of SHE Transmission's electricity transmission licence for the Beauly Mossford project.
- To require SHE Transmission to deliver a SWW Output from the project of 252MW additional transmission capacity at sub-boundary b10 to the northwest of Inverness, by the end of Q3 2015/16.
- To transfer £4.027 million (2013/14 prices) of allowances from the Beauly Denny project to the Beauly Mossford project for the Balblair Wirescape Rationalisation.
- To increase SHE Transmission's Allowed Expenditure in the price control, RIIO-T1, by £53.2 million (in 2013/14 prices⁶).

Update on funding approach for the Balblair Wirescape Rationalisation planning condition

In our April decision letter, we agreed the works to complete the Balblair Wirescape Rationalisation planning condition should be undertaken as part of the Beauly Mossford project, as it is increasing the original planned capacity of the cable, and the cost of the undergrounding works. We also said that we considered it appropriate to transfer £4.027m (in 2013/14 prices) approved as part of the Beauly Denny project for the Balblair Wirescape Rationalisation to the Beauly Mossford project to ensure no double recovery of revenue.

Following discussion with SHE Transmission and further consideration of this issue, we don't think the transfer is needed. SHE Transmission has said it will report the £4.027m that was originally approved to meet the planning condition imposed on the Beauly Denny project under that project. It would then report its actual expenditure against the Beauly Mossford project as the net amount after deducting the £4.027m contribution from the Beauly Denny project. We are satisfied that the efficient costs included in the allowance adjustment for the Beauly Mossford project in our April decision are already net of £4.027m for the underground cable works included in the Beauly Denny project. Therefore, no double recovery of the costs will occur. As a result, all that is needed to give effect to our decision is to specify into SHE Transmission's licence the SWW Output and adjustment to Allowed Expenditure for the Beauly Mossford project as set out in our April decision letter.

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>.

⁶ The Allowed Expenditure is expressed in 09/10 prices in SHE Transmission's electricity transmission licence. The total allowed expenditure in respect of the project in 09/10 prices is £45.61 million.

Proposed licence modification

To reflect our final views on the funding approach for the Balblair Wirescape Rationalisation planning condition we have modified the third bullet in our April decision as follows:

- To make an Allowed Expenditure adjustment and specify a new SWW Output in Special Condition 6I of SHE Transmission's electricity transmission licence for the Beauly Mossford project.
- To require SHE Transmission to deliver a SWW Output from the project of 252MW additional transmission capacity at sub-boundary b10 to the northwest of Inverness, by the end of Q3 2015/16.
- *To include the cost of the underground cable works as part of the Beauly Mossford project after deducting £4.027m that has already been approved for the Beauly Denny project to meet the Balblair Wirescape Rationalisation planning condition.*
- To increase SHE Transmission's Allowed Expenditure in the price control, RIIO-T1, by £53.2 million (in 2013/14 prices⁷).

In order to put the above decision into effect, we propose to modify Table 2 of SHE Transmission's SWW licence condition. The proposed modifications to Table 2 for Beauly Mossford are set out in Schedule 1 to the Notice accompanying this letter. In December 2013 we consulted on proposed changes to Table 2 of the licence for the Allowed Expenditure and SWW Output of the Kintyre Hunterston SWW project.⁸ In the accompanying notice to this letter we have only included the proposed changes for Beauly Mossford (marked as red tracked changes). We will publish our decision on the statutory consultation to modify SHE Transmission's licence for the Kintyre Hunterston SWW project shortly.

Next Steps

Responses to the proposed licence modification must be received by us on or before 4 August 2014. 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.

Unless marked confidential, all responses will be published by placing them on our website at 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 Peter Russell (Peter.Russell@ofgem.gov.uk).

Yours faithfully



Kersti Berge
Partner – Electricity Transmission

⁷ The Allowed Expenditure is expressed in 09/10 prices in SHE Transmission's electricity transmission licence. The total allowed expenditure in respect of the project in 09/10 prices is £45.61 million.

⁸ <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-licence-modification-kintyre-hunterston-reinforcement-under-strategic-wider-works-arrangements>.