

TO: Scottish Hydro Electric Transmission plc

NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the Authority) hereby gives Notice pursuant to section 11A(2) of the Electricity Act 1989 ("the Act") as follows:

1. The Authority proposes to modify the electricity transmission licence held by Scottish Hydro Electric Transmission plc (SHE Transmission) granted or treated as granted under section 6(1)(b) of the Act by amending:
 - (a) Special Condition 1B: Transmission Area, and
 - (b) Special Condition 6I: Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure.

in the manner set out in Schedule 1 and Schedule 2 to this Notice. The proposed modifications are shown in tracked change.

2. The reason why the Authority proposes to make these licence modifications is explained in its decision letter dated 16 December 2014 which is published alongside this Notice.¹ In summary, the purpose of these licence modifications are to:
 - (a) to ensure the Transmission Area set out in SHE Transmission's electricity transmission licence covers the areas through which the Caithness Moray HVDC Link will pass through,
 - (b) to specify the Strategic Wider Works ("SWW") Outputs that SHE Transmission is required to deliver and the Allowed Expenditure it can recover from consumers to build the Caithness Moray project,
 - (c) to manage the uncertainty around the efficient costs of the project by reducing the threshold at which SHE Transmission can request us to reconsider the efficient costs if a specific risk causes project costs to increase. This will ensure SHE Transmission can fully recover material amounts of additional expenditure that it efficiently incurs,
 - (d) we are also making a housekeeping change to Table 4 in Special Condition 6I for the Kintyre Hunterston project and the Beaulieu Mossford project. Both projects have already been specified as SWW outputs in the licence. However, we omitted to update Table 4 when we directed the licence modifications for each of the projects.²
3. The effect of the proposed modifications has been set out in the Authority's decision letter which accompanies this Notice. In summary, the effect of these licence modifications are :
 - (a) To extend the Transmission Area specified in special condition 1B of SHE Transmission's electricity transmission licence to include the subsea corridor within the territorial sea adjacent to Great Britain or within any Renewable Energy Zone or within an area designated under section 1(7) of the Continental Shelf Act 1964 that any part of the Caithness Moray HVDC Link owned by SHE Transmission passes through. This area is currently not included in SHE Transmission's Transmission Area.

¹ www.ofgem.gov.uk/publications-and-updates/decision-our-assessment-caithness-moray-transmission-project

² <https://www.ofgem.gov.uk/publications-and-updates/decision-make-licence-modifications-proposed-kintyre-hunterston-reinforcement-under-strategic-wider-works-sww-arrangements> and <https://www.ofgem.gov.uk/publications-and-updates/decision-under-section-11a1a-electricity-act-1989-make-licence-modification-proposed-beaulieu-mossford-reinforcement-under-strategic-wider-works-sww-arrangements>

- (b) To increase the SHE Transmission's Allowed Expenditure under the price control by £958.6 million (in 09/10 prices)³ to build the Caithness Moray project. SHE Transmission is required to deliver SWW Outputs of 795 MW additional transmission capacity across the B0 transmission boundary and 850 MW across the B1 boundary in the north-east of Scotland by Q3 of 2018/19.
 - (c) To set the threshold for the SWW Cost and Output Adjusting Event to 5% of the expenditure allowance to help manage the potential cost uncertainty around the Caithness Moray project to enable SHE Transmission to recover material additional costs of the project that it efficiently incurs.
 - (d) To specify the SWW projects to which the relevant COAV provisions specified in paragraph 6I.12 of the licence condition apply.
4. The proposed modifications are set out Schedule 1 and Schedule 2 to this Notice and other documents published alongside this Notice are available on the Ofgem website (www.ofgem.gov.uk).
5. Any representations with respect to the proposed licence modifications must be made on or before 16 January 2015 to: Anna Kulhavy, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to SWW@ofgem.gov.uk.
6. All responses will normally be published on the Ofgem website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
7. If the Authority decides to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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Kersti Berge, Partner
Duly authorised on behalf of the
Gas and Electricity Markets Authority

16 December 2014

³ 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 2013/14 prices is £1,118 million.

Schedule 1 - Proposed modification of Special Condition 1B of SHE Transmission's electricity transmission licence

Special Condition 1B: Transmission Area

The area specified in the Electricity Act 1989 (Uniform Prices in the North of Scotland) Order 2005 made on 1 April 2005 and the Kintyre-Hunterston Transmission Line up to and including the transition joint lying within the West Kilbride Golf Course to the north of the landing point at Ardsneil Bay, **the subsea corridor within the territorial sea adjacent to Great Britain or within any Renewable Energy Zone or within an area designated under section 1(7) of the Continental Shelf Act 1964 that any part of the Caithness Moray HVDC Link owned by the licensee passes through**, but excluding the Cruachan Transmission Line.

In this condition, the "Kintyre-Hunterston Transmission Line" means both the onshore and subsea 240MVA AC transmission line extending from the Crossaig substation, through the Sound of Bute and up to and including the transition joint lying within the West Kilbride Golf Course to the north of the landing in Ardsneil Bay, North Ayrshire, together with all associated cables, transformers, switch gear and connections and all other plant and equipment making up or supporting said transmission line, with the benefit, subject to the applicable conditions therein, of all wayleaves and/or servitude rights relating thereto and where any expressions used in this definition are defined in a transfer scheme, the expressions shall have the same meaning as in such transfer scheme.

In this condition the "Caithness Moray HVDC Link":

- i. means the high voltage electric lines and electrical plant which comprise the following components:**
 - a. a High Voltage Direct Current (HVDC) cable, the sole purpose of which is to transmit electricity between converter stations at Spittal and Blackhillock, both within the area specified in the Electricity Act 1989 (Uniform Prices in the North of Scotland) Order 2005 made on 1 April 2005, via an onshore and subsea corridor route of which extends, in part, outwith Great Britain, within the territorial sea adjacent to Great Britain, any Renewable Energy Zone, and/or an area designated under section 1(7) of the Continental Shelf Act 1964;**
 - b. those converter stations at either end of the HVDC cable described in (a) above to facilitate the conversion of power from Direct Current in the HVDC cable to Alternating Current in the national electricity transmission system; and**
 - c. cables to connect each converter station described in (b) above to substations at Spittal and Blackhillock.**
- ii. does not transmit electricity for the purposes of offshore transmission as defined in the Electricity Act 1989 as a whole (as amended from time to time).**

In this condition "the Cruachan Transmission Line" means the double circuit 275kV transmission line extending from the Cruachan Station Works, to the Dalmally Switching Station and thereafter to the Windyhill Substation together with all lattice towers, conductors, insulators, associated cables and connections, and all other items of plant or equipment making up or supporting said transmission line, with the benefit, subject to the applicable conditions therein, of all wayleaves and/or servitude rights relating thereto and where any expressions used in this definition are defined in a transfer scheme, the expressions shall have the same meaning as in such transfer scheme.

Schedule 2 – Proposed modification of Special Condition 6I of SHE Transmission’s electricity transmission licence

Special Condition 6I: Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure

Table 2: Strategic Wider Works Outputs

Description of SWW Output	Scheduled Delivery date	Annual expenditure profile £m (2009/10 prices)									Total
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	
<p>The Kintyre Huntleston Project</p> <p>Boundary (sub boundary): B3B</p> <p>Transfer capability before output: 150 MW</p> <p>Output to be delivered: 270 MW additional thermal capability</p> <p>Transfer capability after output: 420MW</p>	Q4 2015/16	-	18.810	48.175	91.058	14.936	0.278	0.278	0.278	0.277	174.090
<p>The Beaully Mossford Project</p> <p>Sub-boundary: b10</p> <p>Transfer capability before output: 86MW</p> <p>Output to be Delivered: 252MW</p> <p>Transfer capability after output: 338MW</p> <p>Note – the sub-boundary b10 transfer capabilities are based on Summer pre-fault ratings</p>	End Q3 2015/16	0.59	12.23	20.04	10.57	2.06	0.03	0.03	0.03	0.03	45.61
<p>The Caithness Moray Project</p> <p>Boundary: B0</p>	End of Q3 2018/19	-	4.29	95.89	314.07	342.29	172.04	17.74	6.80	5.51	958.61

Transfer capability before output: 245MW Output to be Delivered: 795MW Transfer capability after output: 1040MW Boundary: B1 Transfer capability before output: 2000MW Output to be Delivered: 850MW Transfer capability after output: 2850MW Note – transfer capabilities are based on winter pre-fault ratings											
Total annual Allowed Expenditure £m (2009/10 prices)	0.59	31.04 35.33	68.215 164.105	101.628 415.698	16.996 359.286	0.308 172.348	0.308 18.048	0.308 7.108	0.307 5.817	219.7 1,178.31	

Table 4: Outputs specified in this condition eligible for COAE

Output name	Relevant total Allowed Expenditure (£m, 2009/2010 prices)	Joint or licensee only Delivery
Kintyre Hunterston project	174.090	Licensee only
Beauly Mossford project	45.61	Licensee only
Caithness Moray project	958.61	Licensee only

Proposed modifications to paragraph 6I.12 sub-clause (b)

(b) the single pre-defined exceptional event has resulted in a change to the scope of construction works and will cause expenditure relative to the relevant total Allowed Expenditure specified in Table 4 of this condition for a Strategic Wider Works Output to be incurred or saved and that the difference before the application of the Totex Incentive Strength Rate will be no less than:

(i) 20% for a Strategic Wider Works Output where the total Allowed Expenditure is less than £500 million (in nominal values); or

(ii) 10% in the case of the Western Isles project or where the total Allowed Expenditure for a Strategic Wider Works Output is greater than £500 million (in nominal values); ~~and~~ or

(iii) 5% in the case of the Caithness Moray project only; and