

**To: Scottish Hydro Electric Transmission plc**

**Electricity Act 1989  
Section 11A(1)(a)**

**MODIFICATION OF THE LICENCE OF SCOTTISH HYDRO ELECTRIC TRANSMISSION  
PLC WHICH HOLDS AN ELECTRICITY TRANSMISSION LICENCE GRANTED OR  
TREATED AS GRANTED UNDER SECTION 6(1)(b) OF THE ELECTRICITY ACT 1989**

**Whereas –**

1. Scottish Hydro Electric Transmission plc (the Licence Holder) 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).
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (the Authority) gave notice on 16 December 2014 (the Notice) that it proposed to modify:
  - (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 Expenditureof the Licence and required any representations to the modifications to be made on or before 16 January 2015.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received one response. This response has been placed on Ofgem's website.<sup>1</sup>
5. The Authority has carefully considered the representation received in relation to the proposed modifications. Further detail of the response and the Authority's consideration can be found in the decision letter published alongside this decision notice.
6. The Authority gives the following reasons for making the licence modifications:
  - (a) to ensure the Transmission Area in Special Condition 1B of the Licence covers all the areas which any part of the Caithness Moray HVDC Link will pass through;
  - (b) to specify the Strategic Wider Works ("SWW") outputs in Special Condition 6I that the Licence Holder is to deliver and the Allowed Expenditure it can recover from consumers;
  - (c) to manage uncertainty around the efficient costs of the project by reducing the threshold at which the Licence Holder can request us to reconsider the efficient costs if a specific risk causes project costs to increase; and
  - (d) to make 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 overlooked updating Table 4 when we directed the licence modifications for each of those projects.<sup>2</sup>

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<sup>1</sup> <https://www.ofgem.gov.uk/electricity/transmission-networks/critical-investments/strategic-wider-works/caithness-moray>

<sup>2</sup> <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>

7. The effect of the modifications will be to:

- (a) extend the Transmission Area specified in Special Condition 1B of the 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 the Licence Holder passes through;
  - (b) increase the Licence Holder's Allowed Expenditure under the price control by £958.6 million (in 09/10 prices)<sup>3</sup> to build the Caithness Moray project. The Licence Holder 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) set a threshold for the SWW Cost and Output Adjusting Event (COAE) to 5% of the expenditure allowance for the Caithness Moray project to help manage the potential cost uncertainty and to enable the Licence Holder to recover material additional costs of the project that it efficiently incurs; and
  - (d) specify the SWW projects to which the relevant COAE provisions specified in paragraph 6I.12 of the licence condition apply.
8. Schedules 1 and 2 to this decision notice set out the modifications to Special Condition 1B and Special Condition 6I. These schedules are unchanged from the consultation.
9. Where an application for permission to appeal the Authority's decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules<sup>4</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The relevant licence holder in relation to this modification decision is Scottish Hydro Electric Transmission plc. The meaning of 'relevant licence holder' is set out in section 11A(10) of the Act.

**Now therefore**

In accordance with the powers contained in section 11A(1)(a) of the Act, the Authority hereby modifies the licence of Scottish Hydro Electric Transmission plc in the manner specified in the accompanying Schedules 1 and 2. This decision will take effect on and from 20 March 2015.

This document constitutes notice of the reason for the decision to modify the electricity transmission licence as required by section 49A of the Act.

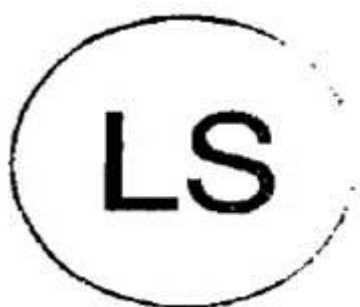
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<sup>3</sup> The Allowed Expenditure is expressed in 09/10 prices in SHE Transmission's electricity transmission licence. The total allowed expenditure in respect of the project in 2013/14 prices is £1,118 million.

<sup>4</sup> The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the Competition and Markets Authority (CMA).

**The Official Seal of the Gas and Electricity Markets Authority  
here affixed is authenticated by the signature of**



.....  
**Kersti Berge (Partner, Electricity Transmission),  
duly authorised on behalf of the  
Gas and Electricity Markets Authority**

**22 January 2015**

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## **Schedule 1 - 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 Ardnail 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 Ardnail 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 – 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)									
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
<b>The Kintyre Hunterston Project</b>  Boundary (sub boundary): B3B  Transfer capability before output: 150 MW  Output to be delivered: 270 MW additional thermal capability  Transfer capability after output: 420MW	Q4 2015/16	-	18.810	48.175	91.058	14.936	0.278	0.278	0.278	0.277	<b>174.090</b>
<b>The Beaulieu Mossford Project</b>  Sub-boundary: b10  Transfer capability before output: 86MW  Output to be Delivered: 252MW  Transfer capability after output: 338MW  Note – the sub-boundary b10 transfer capabilities are based on Summer pre-fault ratings	End Q3 2015/16	0.59	12.23	20.04	10.57	2.06	0.03	0.03	0.03	0.03	<b>45.61</b>
<u>The Caithness Moray Project</u> <u>Boundary: B0</u>	<u>End of Q3</u> <u>2018/19</u>	=	<u>4.29</u>	<u>95.89</u>	<u>314.07</u>	<u>342.29</u>	<u>172.04</u>	<u>17.74</u>	<u>6.80</u>	<u>5.51</u>	<b><u>958.61</u></b>

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

**Table 4: Outputs specified in this condition eligible for COAE**

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

### **Modification 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