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Date: 23 Feb 2021

Colleague,

Consultation on our assessment of Scottish Hydro Electric Transmission's proposals for reducing visual amenity impacts the Loch Lomond and the Trossachs National Park

We are consulting on our preliminary assessment of a funding request by Scottish Hydro Electric Transmission plc ('SHE Transmission') to deliver a new Enhancing Pre-existing Infrastructure (EPI) output under the RIIO-1 price control.

In September 2020, we received a submission from SHE Transmission to approve Allowed Expenditure for an EPI Output, which was submitted pursuant to Special Condition 6G.12 of the SHE Transmission electricity transmission licence ('the Licence'). SHE Transmission has requested £22.3m[1] in total to remove overhead lines ('OHL') and pylons near the township of Killin in the Loch Lomond and the Trossachs National Park and to replace these with underground cable.

SHE Transmission's submission proposes that the project replaces sections of two double circuit OHL with two 4.5km underground cables. This project will remove 7.8km of OHL and 32 steel lattice towers. SHE Transmission propose that they will deliver this project by April 2024.

In this letter, we have set out the background and context of RIIO-1 EPI Outputs, an overview of SHE Transmission's submission, and our assessment of the Killin mitigation project. In the Appendix, we have set out further details of the project and our assessment.

A non-confidential summary of SHE Transmission's project proposal is published alongside this consultation letter.

As part of our review of SHE Transmission's request, we have considered:

- SHE Transmission's fulfilment of the key commitments of its Visual Impact of Scottish Transmission Assets ('VISTA') policy[2]. This includes working with stakeholders to identify and prioritise the visual impact mitigation project to deliver an EPI output; and
- SHE Transmission's proposed total project costs of £22.3m.

[1] Unless otherwise stated, all values are in 2019/20 prices
[2] https://www.ssen-transmission.co.uk/sustainability-and-environment/vista/

Following our preliminary assessment, we consider SHE Transmission's project costs are economical, efficient, and justified based on evidence provided by SHE Transmission and our internal benchmarking exercises. As a result, we are not proposing a reduction to the project costs submitted by SHE Transmission.

Consultation questions

We are seeking stakeholders' views on our assessment and our proposed funding allowances for SHE Transmission to deliver the Killin mitigation project in Loch Lomond and the Trossachs National Park.

i) Based on the information in this consultation, do you agree with our assessment of SHE Transmission's approach in undertaking the Killin mitigation project? We are looking for feedback regarding our approach to assessing the following elements:

- implementation of the VISTA policy,
- benefits of the projects,
- technical scope,
- procurement process and delivery strategy,
- approach to risk management; and,
- costs

ii) Based on the information in this consultation, do you agree with our assessment and proposed funding allowances for the Killin mitigation project?

iii) Do you have any other comments or information relevant to our assessment?

Please email your response to the following questions to Saffron Shemsin at Saffron.Shemsin@ofgem.gov.uk by 24 March 2021.

Background on RIIO-1 Enhancing Pre-existing Infrastructure (EPI) outputs

In the RIIO-T1 price control[3], there is a scheme for electricity transmission owners ('TOs') to reduce the visual impact of pre-existing infrastructure in nationally designated areas: National Parks, Areas of Outstanding Natural Beauty and National Scenic Areas[4]. The expenditure cap for all mitigation projects that come forward under the scheme during the RIIO-T1 price control is £500m (2009/10 prices) in total[5]. The deliverables from these mitigation projects are known as EPI outputs.

To propose new EPI projects, and request funding for these through its price control, a TO must have in place an approved policy in relation to its method of working with stakeholders to select projects in its transmission areas[6]. We approved SHE Transmission's Visual Impact of Scottish Transmission Assets (VISTA) policy in 2016[7].

When we receive a funding request for a specific mitigation project we will determine:

[3] For more information, please see our RIIO-T1 Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd and accompanying documents: https://www.ofgem.gov.uk/publications-and-updates/riio-t1-final-proposals-sp-transmission-ltd-and-scottish-hydro-electric-transmission-ltd

[4] Pre-existing transmission infrastructure is defined as network equipment such as lines and towers that are part of the licensee's transmission network as of April 2013.

[5] The level of the expenditure cap was informed by a survey of households on the amount they would be willing to pay to reduce the effects of pre-existing transmission infrastructure on the visual amenity of designated areas.

[6] Special Condition 6G.5 of the Licence provides "Before making a request to the Authority to specify EPI Outputs under the provisions of Part B of this condition the licensee must submit to the Authority a Mitigating Pre-existing Infrastructure Policy ("Policy")". SHE Transmission's special licence conditions can be found on https://epr.ofgem.gov.uk/

[7] A copy of our decision letter is available on our website: https://www.ofgem.gov.uk/publications-and-updates/consultation-our-assessment-she-transmission-s-proposed-visual-impact-scottish-transmission-assets-policy

- whether the proposed mitigation project is compliant with the TO's visual impact policy; as part of this we may consider how the TO has engaged with stakeholders to identify, prioritise, and select projects; and

- whether the proposed costs for delivering the project are economical and efficient.

If applicable, we may apply an adjustment to the TOs allowed expenditure under the price control for the project costs in relation to the EPI Output. This is achieved by a modification made to the TO's licence.

Overview of the Killin mitigation project located in the Loch Lomond and the Trossachs National Park

The scope of the mitigation project encompasses the following within Loch Lomond and the Trossachs National Park boundary:

- Removal of a section of double-circuit 132kV OHL (NL1/NL2), and a double circuit comprising a 132kV OHL (LSS) on one side and a 33kV OHL (KS) on the other. A total of 7.8km of OHL will be removed.

- Removal 32 steel lattice towers (numbered 100 through to 116 on the NL1/NL2 route, and 1 to 15 on the LSS route).

- Installation of two sections of 4.5km underground cable.

- New sealing end towers will be erected as part of the works. A new tower will be erected adjacent to the existing tower 100 and will be fitted with a sealing end platform to act as the transfer point between the new cable end and the existing NL1/NL2 OHL. At LSS tower 16 a different transfer arrangement will be installed utilising wood pole structures.

- At the north end, the underground cables will extend into Killin substation and no additional sealing ends will be required.

SHE Transmission plans to complete the project by April 2024.

A map of the undergrounding routes proposed by SHE Transmission can be found in the Appendix.

Our assessment of the Killin mitigation project

Our Approach

In coming to our preliminary assessment, we reviewed SHE Transmission's request for approval of funding as well as supplementary responses provided by SHE Transmission to clarify our queries.

We reviewed SHE Transmission's request to verify that the notice contained the necessary criteria as set out in Special Condition 6G.13[8] of the Licence and SHE Transmission's VISTA policy document. As part of this, we considered the following aspects of the Killin project:

- the VISTA policy project selection process;
- project benefits;
- technical scope;
- SHE Transmission's procurement process for tendered elements of project and delivery programme;
- SHE Transmission's approach to risk and project management; and,
- the efficiency of costs (development, tendered, non-tendered).

We reviewed the scope of works proposed to ensure it is efficient for the outputs the project intends to deliver.

Summary of our findings

Table 1 below summarises the key initial findings from our project assessment for both projects. It includes the assessment category, our rating (Red, Amber, Green – RAG), and a short summary of the underlying reasons for the rating.

Further details can be found in the Appendix.

Table 1

Assessment category	RAG rating	Overview of findings
Implementation of VISTA policy		Good evidence provided of steps SHE Transmission has taken to implement commitments in its VISTA policy.
Benefits of projects		Positive visual, landscape, and economic benefits are expected for the public, tourism, landowners, and other parties as a result of the mitigation projects.
Technical scope		The technical scope is in line with the outputs the projects intend to deliver.
Procurement process and delivery strategy		SHE Transmission ran a competitive procurement process. Delivery strategy is sufficient and justified.
Approach to risk management		We consider that SHE Transmission are applying appropriate risk management and mitigation strategies. The activities in SHE Transmission's risk register, and proposed risk allowance are in line with similar projects we have seen.
Costs		Project development costs Preliminary project development costs are reasonable, and in line with similar projects we have seen.
		Tendered costs We consider the tendered costs to be efficient.

[8] SHE Transmission's special licence conditions can be found on https://epr.ofgem.gov.uk/

		Non-tendered costs We consider the non-tendered costs to be justified.

It should be noted that we will further review and update the costs and impacts of changes in the initial indices for metal rates and currency exchange when we make our final determination on the funding allowances for the Killin project.

Next steps:

We intend to make a final determination on this mitigation project located in the Loch Lomond and the Trossachs National Park and allowed expenditure, after considering responses to this consultation. We listed our main consultation questions at the start of this letter.

Please send your responses to Saffron Shemsin at Saffron.Shemsin@ofgem.gov.uk by 24 March 2021.

We appreciate that stakeholders are focusing on responding to Covid-19 at the moment. The timeframe of this consultation deadline reflects a timely decision is made to guarantee contractor prices and prevent delays in the work programmes.

Unless marked confidential, we will publish all responses on our website (www.ofgem.gov.uk). If you wish your response to remain confidential, please clearly mark your response to that effect and give your reasons for seeking confidentiality.
Yours sincerely,

Min Zhu
Deputy Director, RIIO Electricity Transmission

Appendix

The Appendix provides further details on the project and our assessment.

Assessment of SHE Transmission's approach

Implementation of VISTA Policy

In 2016, we assessed and approved Scottish Hydro Electric Transmission's (SHE Transmission) VISTA policy[9]. Our assessment found that the VISTA policy met the requirements set out in Part A of Special Licence Condition 6G, specifically, paragraph 6G.6, and that its implementation will help ensure transparency about how SHE Transmission and its stakeholders select and prioritise mitigation projects during the price control.

Accordingly, a key aspect of assessing funding requests is ensuring that the proposed mitigation project is an appropriate application of the VISTA policy.

In its submission, SHE Transmission outlined the steps it took to implement the VISTA policy[10] and how this has resulted in the proposed Loch Lomond and the Trossachs National Park mitigation project. As part of this, SHE Transmission summarised its methodology[11] for selecting the project after evaluating other provisionally shortlisted projects, and explained how it worked with its stakeholders in regular forums to reflect their views on project identification, selection, and development.

Overall, our initial view is that, in proposing the Killin project, SHE Transmission have complied with the processes set out in its VISTA policy.

Benefits of project

SHE Transmission has identified the following benefits within its submission:

- Removing both the overhead lines between Killin and Lix Toll will benefit both local residents and visitors to the area. This includes visitors to the Falls of Dochart and Killin village, walkers on the Rob Roy Way, residents within Killin, particularly those on the west edge of the settlement, and road users travelling on the A827. This project will enhance their experience of the landscape and its special qualities.

- Removing the overhead line will enhance the experience of the landscape, which could potentially result in an increase in footfall or longer visits to this part of the National Park. This would benefit local tourism business owners, such as hotels and restaurants, holiday accommodation and caravan sites in and around Killin.

Our initial view from the information presented in SHE Transmission's submission set out above, is that the project will benefit consumers by mitigating adverse impacts of the existing transmission infrastructure on the highly valued landscape and visual amenities in these areas of the Loch Lomond and the Trossachs National Park.

Technical scope

Our initial view is that the technical scope of the project is efficient. The preferred undergrounding routes are appropriate and justified. The proposed underground cable

[9] You can read our decision here: https://www.ofgem.gov.uk/publications-and-updates/consultation-our-assessment-she-transmission-s-proposed-visual-impact-scottish-transmission-assets-policy

[10] SHETL's VISTA Policy Annexe provides further detail on the ways in which the policy will be applied and decisions will be made under VISTA: https://www.ssen-transmission.co.uk/media/1577/vista-policy-annex_v21.pdf

[11] The methodology was developed by consultants LUC to understand the landscape and visual impacts arising in relation to pre-existing transmission infrastructure being considered within the VISTA initiative.

route will initially deviate from the existing overhead for just over 1km to avoid steep ground but will meet and run parallel with the existing OHL for the remainder of the route.

Procurement process and delivery strategy

SHE Transmission provided a summary of tender submissions and information relating to its evaluation process for tender selection. Our initial view is that the SHE Transmission's tender process for the main contract works was open and competitive, albeit that one of the contractors did drop out of the process due to the pandemic.

Nonetheless, two contractors submitted final tender offers and we consider that SHE Transmission took a reasonable approach to assessing these leading to a competitive outcome.

We have reviewed the delivery strategy and think that it is sufficient and justified. The delivery strategy highlighted key milestones in the programme. It should be noted, whilst there is no immediate risk to the delivery of the project, we will continue to engage with SHE Transmission who are monitoring the impacts of Covid-19 on its project delivery closely.

Risks

Our initial view is that SHE Transmission is taking appropriate approach to identify and assess risks, as well as mitigation activities for risks associated with the project.

We reviewed SHE Transmission's risk register, including mitigation actions and strategies associated with all risk items. We used internal benchmarking where possible to compare requested risk allowance with other similar projects.

The top three residual risks SHE Transmission retain responsibility for are outlined in Table 2 below.

Table 2

Killin
• Tower survey not accurate • Securing wayleaves • Horizontal Direct Drilling frack out into the river

Assessment of SHE Transmission's proposed costs

Costs

We reviewed project costs in three general categories: preliminary project development costs, tendered costs, and non-tendered costs. We analysed costs for each project activity and cross-checked similar activities from other projects.

Areas that were unclear were clarified with SHE Transmission through supplementary questions so we could understand whether cost efficiencies could be made, and cost differences between similar items to ensure no duplication of costs.

Table 3 below shows the cost breakdown across project categories.

Table 3

Killin	
Project category	**Cost (£m)**
Preliminary project development costs	1.0
Tendered costs	16.1
Non-tendered costs	4.2
Total	22.3

Preliminary project development costs

We consider that these costs are reasonable and proportionate to the preliminary development costs on other similar projects.

Tendered Costs

The majority of project costs are for main construction, and electrical installation of undergrounding cables and for the overhead line removal. It is our view that the tendering process undertaken by SHE Transmission was fair and open and that this has resulted in market competitive contract for the main works involved in the project.

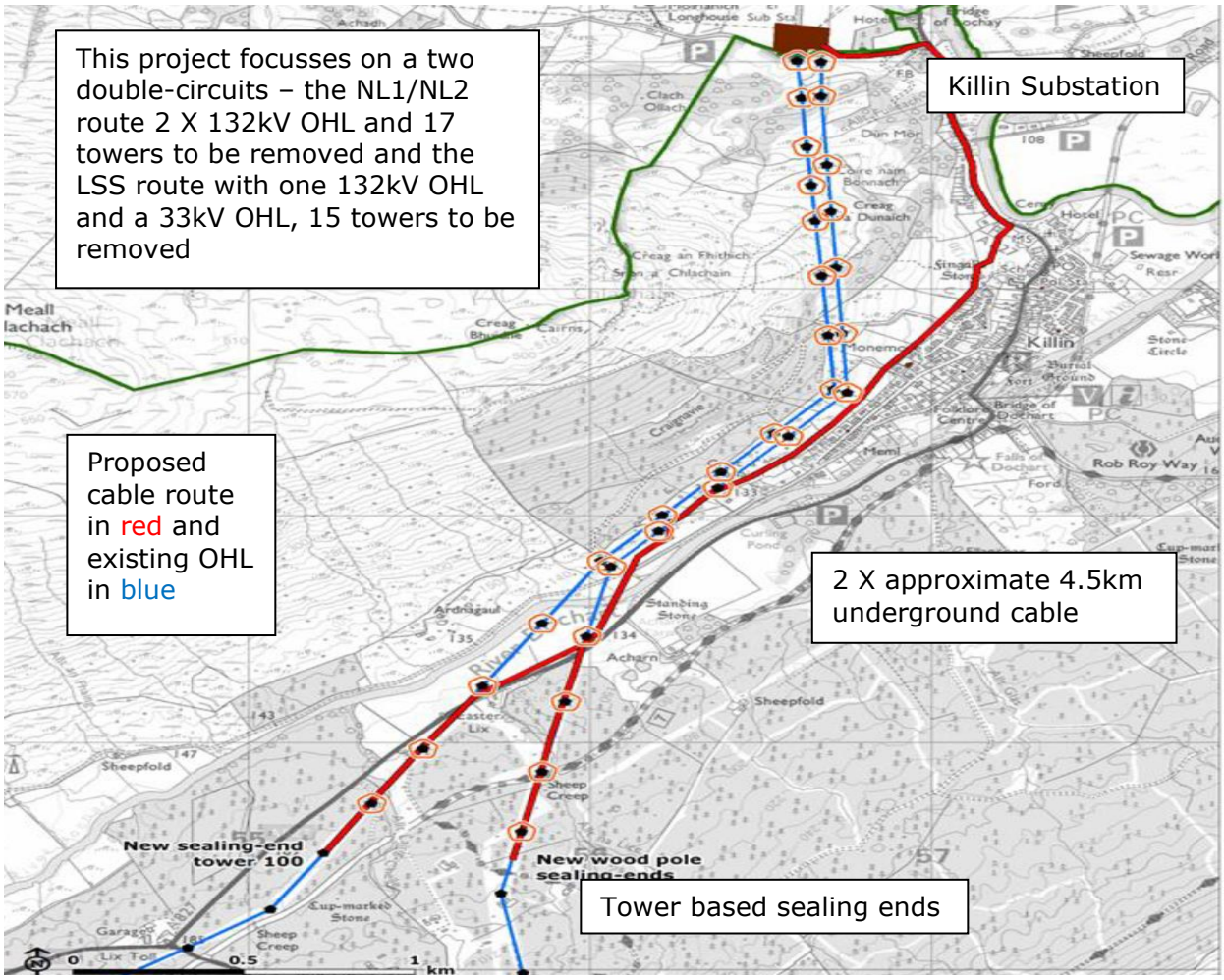
Non-Tendered Costs

Non-tendered costs of the project are incurred through areas of work which do not form the main scope of the contracted works. These include:

- risks held by SHE Transmission (covered in the risks section above);
- project management and overhead costs; and,
- other programme related costs (eg diversions).

We assessed these costs using historical data, and proposed costs are comparable to previous projects. It is our view that SHE Transmission have provided sufficient justification on its non-tendered activity. Overall, we consider that the non-tendered costs are within reasonable range.

Figure 1: Undergrounding route of Killin mitigation project


This project focusses on a two double-circuits – the NL1/NL2 route 2 X 132kV OHL and 17 towers to be removed and the LSS route with one 132kV OHL and a 33kV OHL, 15 towers to be removed
Killin Substation
Proposed cable route in red and existing OHL in blue
2 X approximate 4.5km underground cable
New sealing-end tower 100
New wood pole sealing-ends
Tower based sealing ends
Killin
Rob Roy Way
Sheepfold
Ardnagaul
Acharn
Sheep Creep
0
0.5
1
km