

# Strategic Wider Works (SWW)

**Ofgem set price controls for the companies that run Britain's gas and electricity networks. These restrict the amount of money that the network companies can recover from their charges to suppliers, who pass these costs on to customers through energy bills. Price controls are needed as these network companies are single providers of network services.**

## Why do we have a Strategic Wider Works (SWW) programme?

RIIO (Revenue = Incentives + Innovation + Outputs) is Ofgem's new framework for setting price controls. It will help to make sure that a reliable and secure network is delivered at a fair price for consumers.

In 2012 we published our RIIO-T1 Final Proposals for the three electricity transmission owners (TOs) that operate in Great Britain - Scottish Power Transmission Limited (SPTL), Scottish Hydro Electric Transmission Plc (SHE Transmission) and National Grid Electricity Transmission Plc (NGET). These set out the key elements of the price control package for an eight-year period, from 1 April 2013 to 31 March 2021. As part of the RIIO-T1 price control, we put in place the Strategic Wider Works arrangements to allow TOs to deliver additional large network investments.

## What are Strategic Wider Works?

A number of large transmission projects are needed over the coming price control period. This is because a lot of new generation is expected to be built to replace old power stations, and we need to increase the amount of electricity produced by low carbon generation. The transmission system will have to be extended and strengthened to transport electricity from where new generation is built to where demand is located.

Several of these developments were not agreed as part of the RIIO-T1 price control as the timing and costs of particular projects were uncertain at the time of the settlement. To help manage this uncertainty we introduced the SWW arrangements.

The SWW arrangements provide flexibility by allowing TOs to bring forward projects when more information is available (rather than only allowing TOs to develop projects that were agreed at the start of the price control). This helps to manage uncertainty and ensure value for money for consumers by ensuring that network infrastructure projects are progressed at the most appropriate time.

The TOs have a duty to develop and maintain an efficient, co-ordinated and economical transmission network. Therefore it is for a TO to decide when it is the right time to initiate a new project. The TO has to take decisions on the appropriate level of investment against a background of long lead times in delivering new equipment and uncertainty around the amount of new generation that will be developed. As the regulator, it is our role to scrutinise these projects when they are submitted to us and consider whether there is a need for the reinforcement and whether the TO's plans are likely to represent long term value for money for existing and future consumers.

## What is the SWW process?

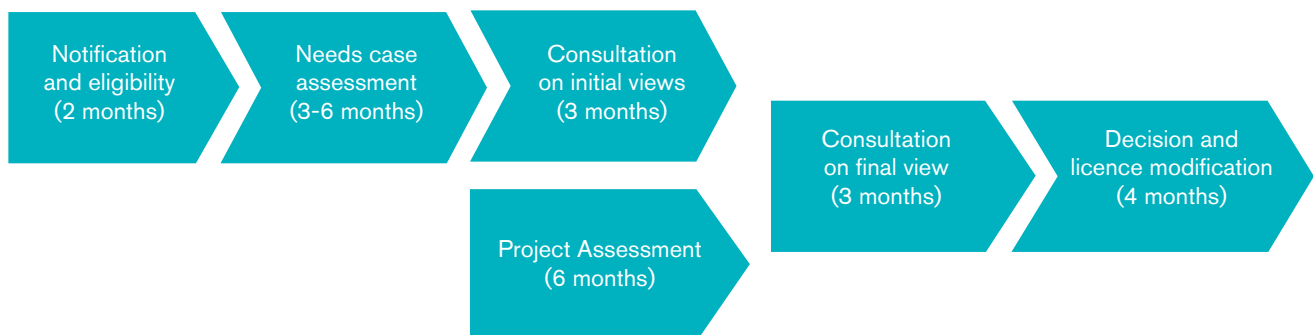
When a TO wishes to bring forward a project for consideration under the SWW arrangements, it must give us notice that it is proposing a new network development for regulatory approval. It must also submit supporting information to justify the network reinforcement and show that the costs of delivering the proposed project represent value for money.

As part of our eligibility assessment, we will assess whether the proposed network development meets the criteria for consideration under the SWW arrangements:

- that the project delivers additional network capacity
- that the project is not funded elsewhere in the price control
- that the project value meets a minimum financial threshold.

We will assess whether it is well justified and whether it is in the interests of existing and future consumers to proceed (this stage is the Needs Case assessment). We will then assess whether the technical design, costs and delivery plan are efficient (the Project Assessment).

This process, and an approximate timing for each stage, is shown in the diagram below.



TOs need to make sure that SWW submissions are complete (ie that they contain the necessary information to allow us to assess the case). If the submissions fall short of the requirements set out in our SWW Guidance then we may return the submission. We'd expect this to be the exception rather than the rule. Other factors, such as a significant change in policy or large changes in the technical scope or costs of a proposal, may result in us suspending the process temporarily. This would extend the timing of the assessment process.

We will consult stakeholders on our Needs Case and Project assessments to inform our decisions on whether to approve the proposal.

If we conclude positively on all aspects of our assessments, we will also consult on the proposed modifications to the TO's electricity transmission licence. These modifications would specify a new SWW output for the network development, and the additional allowed expenditure that the TO can recover from consumers through network charges for the network reinforcement.

If we decide to make the proposed modifications following our consultation, the TO's licence will be modified.

## How long does the SWW process take?

Generally, proposals for new network developments that will be assessed under the SWW framework are large and complex. In line with our RIIO principle of proportionality, we will apply more scrutiny to larger and/or more technologically complex projects than to projects that are smaller and/or more straightforward.

Our assessments and stakeholder consultations on proposals will take time. We expect a TO to take these matters into account when deciding on the best time to provide a submission. In general, we expect a well evidenced proposal to take approximately 12-15 months from the start of the assessment process to a funding decision. Projects that are particularly complex or sensitive may take longer.

If our assessment process for a particular project differs significantly from our usual process we will try to notify relevant stakeholders at an early stage, and explain our reasons for adopting a different process. We also expect the TOs to engage actively with stakeholders and keep them informed on timelines of SWW projects.

## Which projects might be assessed under the SWW arrangements?

Our RIIO-T1 Final Proposals set out a non-exhaustive list of projects that could be brought forward by each TO in order to meet future customer requirements. These are included in Table 1 below, some of which have already been submitted to us for assessment. The remaining projects, and new projects not identified in RIIO-T1 Final Proposals, may be submitted for assessment in future.

**Table 1:** Prospective Strategic Wider Works outputs

Transmission Owner	Proposed project	Key driver for investment
NGET	Hinkley-Seabank	Proposed new nuclear generation at Hinkley Point
NGET; SHE Transmission; SPTL (joint project)	Eastern subsea HVDC link	Increase in the north-south transfer capacity; new offshore generation in Firth of Forth
SHE Transmission	Caithness-Moray	Onshore and offshore renewable generation
SHE Transmission	400kV East Coast	Increase capability to export renewable energy to central Scotland and North England
SHE Transmission	Kintyre-Hunterston	Renewable generation around Kintyre, Argyll and Bute area
SHE Transmission	Western Isles link and onshore works	New generation on Lewis
SHE Transmission	Shetland HVDC link	Generation around Shetland
SHE Transmission	Orkney Isles link	Renewable generation around the Orkney Isles and Pentland Firth
SHE Transmission	Beaulieu-Mossford overhead line	Renewable generation projects in the Strathconon and Mossford areas
SHE Transmission	Second East Coast subsea HVDC link	Wind generation including Moray Firth and marine generation from Pentland Firth and the Orkney Waters
SPTL	Dumfries and Galloway	To facilitate renewables in SW Scotland and to provide a secure link to the Moyle interconnector
SPTL	East Coast (Kincardine – Harburn) 400kV	Enables increased levels of renewable energy to be transferred from SHETL to SPTL network areas.

## How to find more information

All SWW updates and consultations can be found in the SWW section of our website:

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

Please contact the team via [SWW@ofgem.gov.uk](mailto:SWW@ofgem.gov.uk) if you'd like to find out more.

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