Decision

Making a positive difference for energy consumers

Eight SHET projects – Decision on Early Construction Funding and Modification to special conditions of the electricity transmission licence

Publication date:	13 August 2024
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Following our consultation in March,[1] this document confirms our decision on the Early Construction Funding (ECF) applications for eight Scottish & Southern Electricity Networks Transmission (trading as Scottish Hydro Electric Transmission Plc – (SHET)) electricity transmission projects. This decision is taken in line with SHET's electricity transmission licence (the Licence), Special Condition (SpC) 3.41 'Accelerated strategic transmission investment Re-opener and Price Control Deliverable term ($ASTIR_t$)'.

This document outlines our consultation position, the responses to the consultation, our view of the responses and our final position. This decision document and the corresponding Statutory Decision Notice of Modification published alongside it confirms our decision to proceed to modify the SpC to adjust the $ASTIA_t$ term and allowances referenced in Appendix 1 of SpC 3.41.

[1] Eight Scottish Hydro Electric Transmission projects - Early Construction Funding and proposed licence modification | Ofgem

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Executive summary

In February 2024 we consulted[2] on our minded to position to adjust allowances ($ASTIA_t$) set out in the Accelerated Strategic Transmission Investment (ASTI) Confidential Annex that is referenced in Appendix 1 of Special Condition (SpC) 3.41 'Accelerated Strategic Transmission Investment Re-opener and Price Control Deliverable term ($ASTIR_t$)' Part C: Early Construction Funding (ECF). The consultation was carried out under Scottish Hydro Electric Transmission Plc (SHET) electricity transmission licence to reflect SHET's ECF application regarding eight electricity transmission projects.[3]

In line with SpC 3.41.10, we also consulted on our statutory notice of our proposed modification to SHET's license in accordance with section 11A of the Electricity Act 1989 to give effect to our minded to position.

Decision

This document confirms our decision to adjust the allowances set out in Appendix 1 ($ASTIA_t$) of SpC 3.41 'Accelerated strategic transmission investment Re-opener and Price Control Deliverable term ($ASTIA_t$)' in SHET's electricity transmission licence to allow SHET's ECF expenditure request. The term will have the value given in the corresponding updated version of the ASTI Confidential Annex.

Next steps

In accordance with section 11A of the Electricity Act 1989, the license modification will take effect 56 days after the publication of the modification.

Based on our recent engagement with SHET, we expect to receive eight[4] individual electricity transmission ASTI Project Assessment (ASTI PA) submission requests during the summer and winter of 2025. We will undertake a full cost assessment, including ECF costs, at the ASTI PA stage and will review whether ECF expenditure was efficient.

SHET submitted their second ECF application in June 2024 for the same eight projects and we are currently assessing their submission.

[2] Eight Scottish Hydro Electric Transmission projects - Early Construction Funding and proposed licence modification | Ofgem
[3] See paragraph 1.1
[4] Ibid

1. Context

1.1 This document sets out our decision on SHET's first ECF application for the following eight ASTI projects[5] which have the following Network Options Assessment (NOA)[6] codes:

Onshore (six projects)

- BLN4: Beauly to Loch Buidhe 400kV Reinforcement
- SLU4: Loch Buidhe to Spittal 400kV Reinforcement
- BBNC: Beauly to Blackhillock 400kV Double Circuit
- BPNC: Blackhillock and Peterhead 400kV Double Circuit
- BDUP: Beauly to Denny 275kV Circuit to 400kV
- TKUP:[7] East Coast Onshore 400kV Phase 2 reinforcement

Offshore (two projects)

- PSDC: Spittal to Peterhead 2GW HVDC Subsea link
- W.Isles: Arnish to Beauly (Western Isles) HVDC link

1.2 Chapter 2 summarises our consultation position, the responses we received, and our views regarding those responses. The chapter also confirms our decision after considering the consultation responses.

1.3 Chapter 3 sets out the next steps.

1.4 Alongside this decision we are also publishing the modification[8] to SpC 3.41 which will give effect to our decision. In accordance with section 11A of the Electricity Act 1989, the license modification will take effect 56 days after the publication of this decision to proceed with the making of modifications.

Related publications

1.5 Decision on accelerating onshore electricity transmission investment: Ofgem.gov.uk/publications/decision-accelerating-onshore-electricity-transmission-investment

[5] Decision on accelerating onshore electricity transmission investment, Table 2, page 14
[6] Network Options Assessment (NOA)
[7] TKUP is a joint venture ASTI project with Scottish Power Transmission Plc. SHET's ECF application is solely for SHET's ECF activities.
[8] This is Stage 5 of the 'Consultation stages' section below

1.6 Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment: Ofgem.gov.uk/publications/decision-modify-special-licence-conditions-electricity-transmission-licences-accelerated-strategic-transmission-investment

1.7 Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment, Accelerated Strategic Transmission Investment Guidance And Submission Requirements Document: Ofgem.gov.uk/publications/decision-modify-special-licence-conditions-electricity-transmission-licences-accelerated-strategic-transmission-investment

Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Consultation open	Consultation closes (awaiting decision). Deadline for responses	Responses reviewed and published	Consultation decision/ Decision to modify the licence	Modification decision comes into force 56 days after the decision by virtue of S.11A(9)
22/03/2024	26/04/2024	12/07/2024	13/08/2024[9]	56 days after the licence modification decision (i.e. after Stage 4)

[9] The publication of the decision was delayed due to the election period that was announced early June.

2. Eight SHET projects Early Construction Funding assessment

Section summary

This chapter summarises our March 2024 consultation position as well as the consultation responses and our decision following consideration of those responses.

Brief description of the eight projects

2.1 A map displaying the existing network and proposed new infrastructure as well as a brief description of the eight SHET projects is included in Appendix 1.

Consultation position, responses, and decision

2.2 Three stakeholders: SHET, Scottish Power Transmission Limited (SPT), and Ocean Winds (an offshore wind developer created by EDP Renewables and ENGIE as a 50-50 joint venture) responded to our ECF consultation. All responses were non-confidential and have been published on our website.[10]

2.3 The remainder of this chapter sets out our consultation position, stakeholder responses, and our decision to provide ECF for the eight SHET projects.

Consultation position

2.4 We considered that the ECF request specified eligible early construction activities to be carried out, the proposed yearly cost profile for ECF funding, and the justification for why it is in consumers interest for the costs to be incurred early. We agreed that ECF funding will help safeguard the overall earliest in-service dates for the projects and reduce the risk of incurring constraint costs for consumers.

2.5 We were minded to[11] provide SHET's ECF request for the eight projects as per table 1 below:

[10] Eight Scottish Hydro Electric Transmission projects - Early Construction Funding and proposed licence modification | Ofgem, Response documents
[11] Eight Scottish Hydro Electric Transmission projects - Early Construction Funding and proposed licence modification | Ofgem, page 10

Table 1: ECF application

Project	Percentage of total project spend
BLN4	6%
SLU4	6%
BBNC	3%
BPNC	11%
BDUP	14%
TKUP	2%
PSDC	7%
W.Isles	5%

Consultation responses and our views on them

2.6 All three stakeholders agreed with our consultation position on both questions.

2.7 SHET pointed out a potential area of confusion that requires clarification on page 12 (table 1) of our consultation regarding early procurement commitments for projects PSDC and Western Isles. The consultation table was as follows:

Table 1: Early Procurement commitments[12]

Project	Summary
PSDC	Awarding of HVDC converter station, cable, and civil supplier early design contracts. Engage with 3rd party infrastructure owners to develop crossing agreements.
W.Isles	Construction of a 2.0GW HVDC converter station adjacent to the high voltage alternating current (HVAC) substation on the Isle of Lewis. Installation of c.170km (82km subsea and 88km underground cabling) of 2.0GW bipole HVDC cable from the Lewis HVDC converter station site to the Fanellan HVDC convertor station. Construction of 2.0GW HVDC converter station at Fanellan, near Beauly, and provide connection to the adjacent proposed new HVAC 400kV substation.

2.8 SHET notes that the summary of early procurement commitments in their ECF submission was incorrect. The current wording in table 1 suggests that their early procurement commitments for PSDC would cover the awarding of initial works

[12] Eight Scottish Hydro Electric Transmission projects - Early Construction Funding and proposed licence modification | Ofgem, page 12

contracts and the development of crossing agreements, and that for Western Isles it would cover the full construction of the project. However, SHET has clarified that their procurement commitments for this ECF submission for both projects only relates to the cost of placing Capacity Reservation Agreements (CRA) to secure contractor commitment for cables and convertors. SHET also notes that the costs remain the same as per their ECF submission.

2.9 We agree with SHET's clarification and have updated table 1 accordingly. This is reflected below.

Table 1: Early Procurement commitments (updated)

Project	Summary
PSDC	Placing of CRA (alongside the associated cancellation liabilities) to secure contractor commitment for HVDC cables (including Dedicated Metallic Return (DMR) cables) and convertors. 525kV XLPE cables: • Onshore is 44km of HVDC cable (x2) and 5km spare, and 44km of DMR cable (x1) and 2.5km spare; • Offshore is 186km of HVDC cable (x2) and 20km spare, and 186km of DMR cable (x1) and 10km spare. 2GW Voltage Sourced Convertors (VSC) x2.
W.Isles	Placing of CRA (alongside the associated cancellation liabilities) to secure contractor commitment for HVDC cables (including Dedicated Metallic Return (DMR) cables) and convertors. 525kV XLPE cables: • Onshore is 90km of HVDC cable (x2) and 9km spare; • Offshore is 90km of HVDC cable (x2) and 8km spare. 2GW VSC x2.

Our decision

2.10 After careful consideration of stakeholder responses, we have decided to maintain our minded to consultation position and therefore approve SHET's full ECF request as permitted under SpC 3.41.

3. Next steps

Section summary

This chapter sets out the next steps in our assessment under the ASTI framework.

3.1 We are publishing alongside this decision the amendments to SpC 3.41 in accordance with section 11A of the Electricity Act 1989.

3.2 Please note that other proposals which may affect SpC 3.41 that are currently being consulted on are not reflected in the drafting.

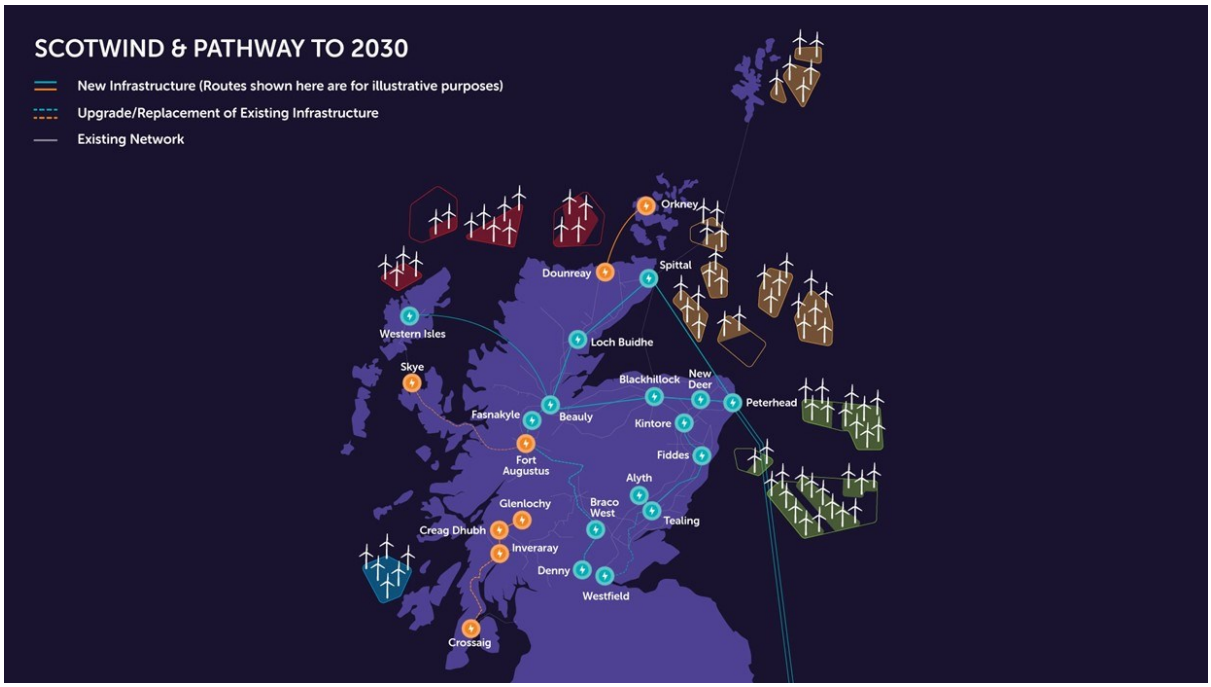
3.3 The modifications to SpC 3.41 and the ASTI Confidential Annex will take effect on the 08 October 2024, 56 days after this decision and modification is made.

3.4 We will undertake a full cost assessment, including ECF costs, at the ASTI PA stage and will review whether ECF expenditure was efficient.

Appendices

Appendix 1 – Map and brief description of the eight SHET projects

Existing network and proposed new infrastructure



Brief description of the eight SHET projects

Note: NOA codes are in brackets

Projects	Overview
Beauly to Loch Buidhe 400kV Reinforcement (BLN4)	Beauly to Loch Buidhe 400kV Reinforcement (BLN4) is an onshore electricity transmission project along with Loch Buidhe to Spittal 400kV Reinforcement (SLU4) to construct a new 170km 400kV double circuit OHL between Spittal 400kV substation and Beauly 400kV substation, a new 400kV substation at Loch Buidhe, a new 400 kV double busbar substation at Spittal, and reinforce existing substations at Loch Buidhe and Spittal. The project is triggered by the need for onshore transmission network enabling works for the connection of ScotWind schemes. Its aim is to enable significant power transfer capability required to transport power from onshore and offshore renewable generation connecting in Caithness to Beauly, and to the east via BBNC/BPNC, before onward transportation at Peterhead via Peterhead to Drax (E4D3) and Peterhead to South Humber (E4L5) to demand centres in England.
Loch Buidhe to Spittal 400kV Reinforcement (SLU4)	Same as above.

Beauly to Blackhillock 400kV Double Circuit (BBNC)	Beauly to Blackhillock 400kV Double Circuit (BBNC) is an onshore electricity transmission project, along with Blackhillock and Peterhead 400kV Double Circuit (BPNC), to construct new 110km 400kV double circuit OHL between new Beauly 400kV substation and new Blackhillock 400kV substation and 82km 400kV double circuit OHL between new Blackhillock 400kV substation, new New Deer 400kV substation and new Peterhead 400kV substation. Additionally, to construct new 400kV substations at Beauly, Blackhillock, New Deer, Peterhead, and a 132kV substation at Peterhead. The project is triggered by the need for onshore transmission network enabling works required to utilise E4D3 and E4L5. Its aim is to enable significant power transfer capability to transport power from onshore and offshore renewable generation connecting on the west – from the Arnish to Beauly 1.8GW HVDC link - and from connections north of Beauly (via BLN4/SLU4) – to the east before onward transportation at Peterhead via E4D3 and E4L5 to demand centres in England.
Blackhillock and Peterhead 400kV Double Circuit (BPNC)	Same as above.
Beauly to Denny 275kV Circuit to 400kV (BDUP)	Beauly to Denny 275kV Circuit to 400kV (BDUP) is an onshore electricity transmission project to install infrastructure with the aim of allowing the existing Beauly Denny OHL second circuit to change operation from 275kV to 400kV, to construct new 400kV substations at Beauly 2, Fasnakyle, Fort Augustus, and Braco West, and to aim to extend Kinardochy/ Errochty / Tummel substation. The project is triggered by the need for onshore transmission network enabling works for the connection of ScotWind schemes and Coire Glas. BDUP has key interactions with Beauly to Loch Buidhe 400kV reinforcement (BLN4) / Loch Buidhe to Spittal 400kV reinforcement (SLU4), Beauly to Blackhillock 400kV double circuit (BBNC) / Blackhillock and Peterhead 400kV double circuit (BPNC), Arnish to Beauly 1.8GW HVDC link. The Beauly 2 substation incorporates BLN4&SLU4 /BDUP/BBNC schemes.
East Coast Onshore 400kV Phase 2 reinforcement (TKUP)	East Coast Onshore 400kV Phase 2 reinforcement (TKUP) is an onshore electricity transmission project to construct 400kV substations at Tealing and Fiddes, extend Kintore substation, construct a new 106km 400kV double circuit OHL between Kintore-Fiddes and Tealing 400kV substations, reconductor and reinsulate the existing 38km of OHL to accommodate 400kV double circuit operation at Tealing to Glenrothes, reconductor and reinsulate the existing 38km of OHL to accommodate 400kV double circuit operation. The project is triggered by the need to enable significant power transfer capability required to transfer from onshore and offshore renewable generation in the North and Northeast of Scotland which cannot wholly be accommodated by E4D3 and E4L5. TKUP has key interactions with Beauly to Blackhillock 400kV double circuit (BBNC) / Blackhillock and Peterhead 400kV double circuit (BPNC), East Coast coordinated offshore network (via AC link from Fiddes).
Spittal to Peterhead	Spittal to Peterhead 2GW HVDC Subsea link (PSDC) is an offshore electricity transmission project to construct a 2GW HVDC subsea link

2GW HVDC Subsea link (PSDC)	from a new 400kV substation at Spittal to a 400kV substation at Peterhead, including to construct 2GW bi-pole HVDC converter stations within the Spittal and Peterhead areas, establish HVAC connections, and install c.200 km of HVDC cables. The project is triggered by the need for onshore transmission network enabling works for the connection of ScotWind schemes and its aim is to enable power transfer capability to transport generation from the far north of Scotland to the east coast of Peterhead.
Arnish to Beauly (Western Isles) HVDC link	Arnish to Beauly (Western Isles) HVDC link is an offshore electricity transmission project to facilitate the transfer of 1.8GW of renewable generation from the Isle of Lewis in the Western Isles to the Beauly area in the North of Scotland. The project is triggered by the need for the Arnish to Beauly 1.8GW HVDC link to look to secure lower cost energy by connecting several onshore and offshore renewable wind projects.