

Accelerated Strategic Transmission Investment – proposed modifications to electricity transmission licence special conditions

Scottish Hydro Electric Transmission Plc (SHET)

This document contains the proposed modifications to SHET’s special licence conditions required to give effect to our decision¹ to include an ex-post allowance adjustment mechanism in respect of Accelerated strategic transmission investment (ASTI) projects. This will form part of the Price Control Deliverable (PCD) assessment in cases where efficient outturn costs are greater than or equal to +/- 5% of total provided allowances.

This applies to the following special conditions:

- **SpC 3.41 Accelerated Strategic Transmission Investment Re-opener and Price Control Deliverable (ASTIR_t)**
- **Special Condition 9.3 Price Control Deliverable assessment principles and reporting requirements**

The reasons for and effects of modifying these special conditions, which will apply to all Transmission Owners (TOs), are detailed in the accompanying consultation. Details of proposed modifications to existing electricity transmission special licence conditions and the Price Control Deliverable Reporting Requirements and Methodology Document² are also included in the consultation.

¹ [Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#) paragraph 3.43

² [Price Control Deliverable Reporting Requirements and Methodology Document | Ofgem](#)

Special Condition 3.41 Accelerated strategic transmission investment Re-opener and Price Control Deliverable term (ASTIR_t)

Introduction

- 3.41.1 The purpose of this condition is to specify the value of the term ASTIR_t (the accelerated strategic transmission investment Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.41.2 The effect of this condition is to:
- (a) specify the ASTI Outputs, delivery dates and allowances for the Price Control Deliverable;
 - (b) establish a Re-opener for the licensee to apply for an adjustment to the ASTI Outputs, delivery dates and allowances in Appendix 1 and the Minimum circuit availability standard after delivery in Appendix 2;
 - (c) provide for an assessment of the Price Control Deliverable; and
 - (d) establish the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document.
- 3.41.3 This condition also sets out the process the Authority will follow when making changes to Appendix 1 as a result of the Re-opener.

Part A: Formula for calculating the accelerated strategic transmission investment Re-opener term (ASTIR_t)

- 3.41.4 The value of ASTIR_t is derived in accordance with the following formula:

$$ASTIR_t = ASTIA_t - ASTIRA_t$$

where:

ASTIA_t means the allowances in Appendix 1; and

ASTIRA_t has the value zero unless otherwise directed by the Authority in accordance with Part G.

Part B: ASTI Outputs

- 3.41.5 The licensee must deliver the ASTI Outputs no later than 12 months after the delivery dates specified in Appendix 1.
- 3.41.6 After the ASTI Output has been delivered it must be operational and available for use by NGENSO for the period specified in Appendix 2 after application of the exclusions set out in Chapter 4 of the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document.

Part C: Early Construction Funding

- 3.41.7 The licensee may, in respect of any ASTI Output, apply for an Early Construction Funding decision to adjust ASTIA_t.
- 3.41.8 Unless the Authority directs otherwise, the aggregate allowances provided under paragraph 3.41.7 for any ASTI Output may not exceed 20% of the total forecast project cost listed in the ASTI Confidential Annex.
- 3.41.9 The licensee must notify the Authority in writing of its intention to make an application under 3.41.7 at least 8 weeks before making an application, unless the Authority directs otherwise.
- 3.41.10 A modification under this Part will be made under section 11A of the Act.

Part D: ASTI Project Assessment Decision

- 3.41.11 The licensee may, in respect of any ASTI, apply for an ASTI Project Assessment Decision and an associated modification of Appendices 1 and 2 to:
- (a) specify or amend an ASTI Output, a delivery date and associated allowances; and
 - (b) specify the minimum circuit availability standard after delivery for the relevant ASTI Output.
- 3.41.12 Unless the Authority otherwise directs, the licensee may only apply for an ASTI Project Assessment Decision after submission of all material planning consent applications.
- 3.41.13 A modification under this Part will be made under section 11A of the Act.

Part E: ASTI Cost And Output Adjusting Event

- 3.41.14 The licensee may apply for a modification to the ASTI Outputs and allowances in Appendix 1 where it considers that there has been one or more ASTI Cost And Output Adjusting Event.
- 3.41.15 The licensee may only apply under this Part to modify allowances in Appendix 1 where:
- (a) expenditure has been caused to increase or decrease by at least the percentage specified in, or in accordance with, paragraph 3.41.17, calculated before the application of the Totex Incentive Strength, relative to the relevant allowance in Appendix 1 by the event or if there has been more than one event:
 - i. by each event;
 - ii. if the Authority has directed that the events in relation to the relevant ASTI Output should count cumulatively towards the percentage threshold; and

(b) the increase or decrease in expenditure is expected to be efficiently incurred or saved.

3.41.16 The licensee may apply under this Part to modify the ASTI Outputs in Appendix 1 only where there is a material change to the scope of the relevant ASTI project.

3.41.17 The percentage referred to in paragraph 3.41.15(a) is:

(a) 5%; or

(b) such other percentage as the Authority may specify by direction.

3.41.18 An application under this Part must be made in writing and must:

(a) include detailed supporting evidence that an ASTI Cost And Output Adjusting Event meeting the requirements set out in paragraphs 3.41.15, or where applicable 3.41.16, has occurred;

(b) set out the modifications requested to the ASTI Outputs or associated allowances in Appendix 1;

(c) explain the basis of the calculation for any proposed modification to the allowances in Appendix 1, which must be designed to keep, so far as is reasonably practicable, the financial position and performance of the licensee the same as if the ASTI Cost And Output Adjusting Event had not occurred; and

(d) include a statement from a technical adviser, who is external to and independent from the licensee, whether, considered in the context of the value of the ASTI Output, the proposed modification to the ASTI Output or associated allowances fairly reflects the effects of the ASTI Cost And Output Adjusting Event.

3.41.19 The Authority may make a modification under this Part where:

(a) there has been an application under this Part;

(b) there has been an ASTI Cost And Output Adjusting Event in relation to the relevant ASTI;

(c) the requirements of paragraphs 3.41.14 to 3.41.18, where applicable, have been met; and

(d) the proposed modifications to Appendix 1 have the effect so far as is reasonably practicable of keeping the financial position and performance of the licensee the same as if the ASTI Cost And Output Adjusting Event had not occurred.

3.41.20 A modification under this Part will be made under section 11A of the Act.

Part F: Modification of delivery date in Appendix 1 further to an ASTI ODI Penalty Exemption Period decision or ASTI ODI Target Date decision under Part B of Special Condition 4.9 (Accelerated strategic transmission investment output delivery incentive)

3.41.21 The Authority will modify the delivery dates in Appendix 1 where it decides under Part B of Special Condition 4.9 (Accelerated strategic transmission investment output delivery incentive) to make a modification to the ASTI ODI Penalty Exemption Period or ASTI ODI Target Date in Appendix 1 of Special Condition 4.9.

3.41.22 A modification under this Part will be made under section 11A of the Act.

Part G: Assessment of the Price Control Deliverable (ASTIR_t)

3.41.23 The Authority will, in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider directing a value for ASTIR_t where either:

- (a) -the licensee has not Fully Delivered an output in Appendix 1; or
- (b) ;an output in Appendix 1 has been Fully Delivered or Fully Delivered With An Alternative Specification and the efficient cost of delivering the output are greater than or equal to +/- 5% of the allowance provided

Part H: What process will the Authority follow in making a direction?

3.41.233.41.24 Before making a direction under Part G the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

3.41.243.41.25 A direction in respect of Part G will set out:

- (a) Either:
 - i. the delivery status of the ASTI Output that has not been Fully Delivered, or
 - ii. the efficient costs of delivering an output greater than or equal to +/- 5% of the allowance provided for any outputs that are Fully Delivered or Full Delivered With An Alternative Specification.;

3.41.253.41.26 the value of the ASTIR_t term and the Regulatory Years to which that adjustment relates; and

- (a) the methodology and data that has been used to decide the delivery status and value of any adjustments to the ASTIR_t term.

Part I: Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document

~~3.41.26~~3.41.27 The licensee must comply with the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document.

~~3.41.27~~3.41.28 The Authority will issue and amend the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document by direction.

~~3.41.28~~3.41.29 The Authority will publish the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document on the Authority's Website.

~~3.41.29~~3.41.30 The Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document will make provision about the detailed requirements for Parts C, D, E and F.

~~3.41.30~~3.41.31 The Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document will also make provision about the detailed requirements under Special Condition 3.40 (ASTI Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment) and Special Condition 4.9 (ASTI output delivery incentive).

~~3.41.31~~3.41.32 Before directing that the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document;
- (b) the date on which the Authority intends the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document to come into effect; and
- (c) a period during which representations may be made on the text of the proposed Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document, which will not be less than 28 days.

~~3.41.32~~3.41.33 Before directing an amendment to the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document;

- (b) the date on which the Authority intends the amended Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document to come into effect;
- (c) the reasons for the amendments to the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document; and
- (d) a period during which representations may be made on the amendments to the Accelerated Strategic Transmission Investment Guidance and Submissions Requirements Document, which will not be less than 28 days.

Price Control Deliverable

ASTI Output	Delivery Date	Allowance (ASTIA_t, £m)	ECF/PA
Beauly to Blackhillock 400 kV double circuit addition (NOA Code: BBNC)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
Uprate the Beauly to Denny 275 kV circuit to 400 kV (NOA Code: BDUP)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
Beauly to Loch Buidhe 400 kV reinforcement (NOA Code: BLN4)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
New 400 kV double circuit between Blackhillock and Peterhead (NOA Code: BPNC)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
Eastern Scotland to England link: Peterhead to Drax offshore HVDC (NOA Code: E4D3)	31 December 2030	Have the values given in the ASTI Confidential Annex.	
Eastern Scotland to England 3rd link: Peterhead to the south Humber offshore HVDC (NOA Code: E4L5)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
Spittal to Peterhead HVDC reinforcement (NOA Code: PSDC)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
Loch Buidhe to Spittal 400 kV reinforcement (NOA Code: SLU4)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
East Coast Onshore 400 kV Phase 2 reinforcement (NOA Code: TKUP)	31 December 2031	Have the values given in the ASTI Confidential Annex.	
Arnish to Beauly 1.8GW HVDC link (Western Isles)	31 December 2031	Have the values given in the ASTI Confidential Annex.	

ASTI Output availability standard

ASTI Output	Minimum circuit availability standard after delivery (%)		
	0-6 months	6-12 months	12-24 months
Beaulieu to Blackhillock 400 kV double circuit addition (NOA Code: BBNC)			
Upgrade the Beaulieu to Denny 275 kV circuit to 400 kV (NOA Code: BDUP)			
Beaulieu to Loch Buidhe 400 kV reinforcement (NOA Code: BLN4)			
New 400 kV double circuit between Blackhillock and Peterhead (NOA Code: BPNC)			
Eastern Scotland to England link: Peterhead to Drax offshore HVDC (NOA Code: E4D3)			
Eastern Scotland to England 3rd link: Peterhead to the south Humber offshore HVDC (NOA Code: E4L5)			
Spittal to Peterhead HVDC reinforcement (NOA Code: PSDC)			
Loch Buidhe to Spittal 400 kV reinforcement (NOA Code: SLU4)			
East Coast Onshore 400 kV Phase 2 reinforcement (NOA Code: TKUP)			
Arnish to Beaulieu 1.8GW HVDC link (Western Isles)			

Special Condition 9.3 Price Control Deliverable assessment principles and reporting requirements

Introduction

9.3.1 The purpose of this condition is to set out the assessment principles the Authority will apply in deciding whether to make a direction ~~where an Evaluative PCD has not been Fully Delivered~~, and in deciding the contents of such a direction where either:

(a) an Evaluative PCD has not been Fully Delivered; or

(b) an ASTI Output under Special Condition 3.41 has been Fully Delivered or Fully Delivered With An Alternative Specification and the efficient cost of delivering the output is greater than or equal to +/- 5% of the allowance provided.

9.3.2 This condition requires the licensee to report to the Authority on the delivery of its Evaluative PCDs and provides for the issuing and amending of the PCD Reporting Requirements and Methodology Document.

Part A: Evaluative PCD assessment principles

9.3.3 In deciding whether to make a direction ~~to adjust allowances where an Evaluative PCD has not been Fully Delivered~~ in accordance with paragraph 9.3.1 and in deciding the contents of such a direction, the Authority will apply the following assessment principles:

- (a) where an output is Fully Delivered With An Alternative Specification and the licensee demonstrates that any underspend against the associated allowances are attributable to Efficiency or Innovation, the Authority will not make any adjustment to the associated allowance except as provided for by paragraph 9.3.3(e);
- (b) where an output is Not Delivered, the Authority may direct a reduction to the associated allowance up to the total amount of the allowance, save that the Authority will allow the licensee the costs of undertaking reasonable and necessary work until the decision to not deliver the output, where the licensee demonstrates that such costs were reasonable, necessary, incurred efficiently and not otherwise funded by the special conditions of this licence;
- (c) where an output is Delayed, the Authority may direct a re-profiling of the associated allowance to match the profile of the actual delivery of work or expenditure, where re-profiling would have a material impact on allowances;
- (d) where the output is Partially Delivered or Partially Delivered With Alternative Specification, and:
 - i. the licensee demonstrates that any underspend against the associated allowances are attributable to Efficiency or Innovation; and
 - ii. the licensee provides a justified estimate of the proportion of the output or Consumer Outcome associated with the work delivered,

the Authority may direct an adjustment to the associated allowances only in accordance with the following formula:

$$\text{Adjustment to allowances} = ((1 - \text{proportion of output or Consumer Outcome delivered}) * \text{associated allowance})$$

(e) where an ASTI Output is Fully Delivered or Fully Delivered With An Alternative Specification, the Authority will make an adjustment to the associated allowance as follows

i. where efficient outturn costs against the associated allowances is greater than or equal to 5% more than the allowance provided, in accordance with the following formula:

Adjustment to associated allowances = Efficient outturn costs – (105% of associated allowance)

ii. where the efficient outturn costs against the associated allowances is greater than or equal to 5% less than the allowance provided, in accordance with the following formula:

Adjustment to associated allowances = Efficient outturn costs – (95% of associated allowance)

~~(e)~~~~(f)~~ where none of the circumstances described in sub-paragraphs (b) to ~~(de)~~ applies, the Authority may direct an adjustment to the associated allowances such as to allow only the efficient costs of any work carried out that contributes to the delivery of the output. When deciding on the value of any such adjustment, the Authority will:

- i. have due regard to the particular characteristics of the output;
- ii. have due regard to any factors that are outside of the licensee's control and that may have affected the ability of the licensee to Fully Deliver the output; and
- iii. establish efficient costs using the following methods:

(AA) where these are available, using benchmarking against historical cost data; or

(BB) where historical cost data is not available, using bespoke engineering and cost assessment, employing qualitative techniques to supplement technical methods;

~~(f)~~~~(g)~~ except as provided for at 9.3.3(e), the Authority will not direct an increase to allowances for an Evaluative PCD that has not been Fully Delivered;

~~(g)~~~~(h)~~ any adjustment to an associated allowance will proportion that allowance to Regulatory Years in accordance with the profile of actual expenditure reported by the licensee; and

~~(h)~~~~(i)~~ the split between fast money and the RAV for any adjustments will be as set out in the ET2 Price Control Financial Model.

Part B: Reporting requirement

- 9.3.4 The licensee must by 31 July of each Regulatory Year, or such later date directed by the Authority, send to the Authority a Basic PCD Report on each Evaluative PCD output for which the delivery date specified in the relevant licence condition was in the previous Regulatory Year.
- 9.3.5 On receipt of a Basic PCD Report, the Authority will decide whether to direct the licensee to submit to it a Full PCD Report.
- 9.3.6 The Authority will not direct the submission of a Full PCD Report where the Basic PCD Report demonstrates that the output has been Fully Delivered.
- 9.3.7 Where directed to do so by the Authority the licensee must send to the Authority a Full PCD Report.
- 9.3.8 The Authority will use the Basic PCD Report, Full PCD Report, responses to supplementary questions and any other relevant information to decide the delivery status of the outputs for the purposes of

Part A in accordance with the definitions of those terms in Special Condition 1.1 (Interpretation and definitions). The Authority may decide to assign more than one delivery status to any output.

Part C: PCD Reporting Requirements and Methodology Document

- 9.3.9 The licensee must comply with the PCD Reporting Requirements and Methodology Document when preparing a report required by Part B.
- 9.3.10 The Authority will issue and amend the PCD Reporting Requirements and Methodology Document by direction.
- 9.3.11 The Authority will publish the PCD Reporting Requirements and Methodology Document on the Authority's Website.
- 9.3.12 The PCD Reporting Requirements and Methodology Document will set out:
- (a) how the licensee must prepare the reports required by Part B; and
 - (b) further guidance about, and worked examples of, the methodology the Authority will use when deciding:
 - i. whether to direct a value to reduce allowances for Price Control Deliverables that have not been Fully Delivered; and
 - ii. the value to direct.
- 9.3.13 Before issuing the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed PCD Reporting Requirements and Methodology Document;
 - (b) the date on which the Authority intends the PCD Reporting Requirements and Methodology Document to come into effect; and
 - (c) a period during which representations may be made on the content of the PCD Reporting Requirements and Methodology Document, which will not be less than 28 days.
- 9.3.14 Before amending the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended PCD Reporting Requirements and Methodology Document;
 - (b) the date on which the Authority intends the amended PCD Reporting Requirements and Methodology Document to come into effect;
 - (c) the reasons for the amendments to the PCD Reporting Requirements and Methodology Document; and
 - (d) a period during which representations may be made on the amendments to the PCD Reporting Requirements and Methodology Document, which will not be less than 28 days.