

Company Secretary
DSO and Innovation,
Inveralmond House,
200 Dunkeld Road,
Perth,
PH1 3AQ

Direct Dial: 0207 901 7193
Email: Steven.McMahon@ofgem.gov.uk

Date: 20 December 2018

Dear Company Secretary,

Decision on funding for Successful Delivery Reward criterion 4 of Scottish Hydro Electric Transmission’s (SHE-T) New Suite of Transmission Structures (NeSTS)

I am writing with details of our decision on funding for your (SHE-T) NeSTS innovation project.

On 11 December 2015, we directed that your NeSTS project had been selected for funding through the Electricity Network Innovation Competition (NIC), subject to compliance with the Project Direction.¹ The Project Direction specified that the project would be assessed by the Authority for the purposes of the NIC Successful Delivery Reward against the Successful Delivery Reward Criteria (SDRC) set out in the Project Direction.

The Project Direction outlines that upon completion of Stage 1 of the project, SHE-T *“must present [an] evaluation and recommendation in a report to the Authority by 31 December 2018. Based on the Funding Licensee’s application the Authority will, subject to the following paragraph, determine whether the funds for Stage 2, less sums already released in respect of Permitted Stage 2 Costs, will be released.”* SHE-T submitted its evaluation and recommendation to Ofgem on 28 September 2018. This letter outlines our decision on whether the funds for Stage 2 will be released.

The Table below outlines the requirements associated with SDRC 4, as outlined in the Project Direction.

Successful Delivery Reward criterion	Evidence
4) Decision Point / Review of business case	
<ul style="list-style-type: none"> Review the NeSTS business case to conclude whether or not the Project should continue to Phase 2. The learning gathered at this point will be assessed to ensure that NeSTS still has a positive business case – impacts of any energy policy developments regarding renewable generation and the results of stakeholder engagement will be considered as part of the decision process. It will involve SHE Transmission’s Director of Transmission and the SHE Transmission Steering Board. 	<ul style="list-style-type: none"> Submit an update to Section 3 and Appendix 6, the business case of the Full Submission, to the Authority evaluating the project and recommending whether or not to proceed to Phase 2 by 31 December 2018.

¹ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-nests>

Summary of our views on the SDRC 4 Report

Your SDRC 4 submission has updated the business case for NeSTS. A summary of this update is outlined below:

- You have forecast that the costs of NeSTS will be lower than the costs of equivalent steel lattice towers and you consider that this forms “a reasonable basis for constructing a NeSTS [overhead line (OHL)] to allow the assessment of actual and potential costs.” Based on the information that we have assessed during our review, we consider that SHE-T has made a reasonable case that NeSTS will produce cost savings relative to lattice towers.
- With the assistance of a report compiled by TNEI Services Ltd, you have outlined that under various future generation scenarios there is a “clear and consistent requirement” for in excess of 4000km of 132 kV and 275 kV OHL in GB by 2050, the “vast majority” of which would be required in Scotland.
- You have estimated the financial benefit of NeSTS to be between £11m and £68m between 2023 and 2050, depending on the cost saving delivered by NeSTS and the compatibility of NeSTS with OHL requirements in Scotland. This financial benefit is principally derived by assuming that NeSTS will deliver, relative to lattice towers, reduced:
 - installation costs, as a result of NeSTS’ simple design;
 - operating costs, due to the smaller ‘footprint’ of NeSTS; and
 - consenting costs and time, because of the visual benefit provided by, and resultant public support for, NeSTS.
- Your submission notes that your market engagement to date has indicated that material required for the NeSTS structures may be more expensive than lattice towers as a result of the “increased steel weight required and the inclusion of tertiary coating in the factory [meaning] that unassembled structure costs will be higher than for lattice steel supports.” However, you also note that “this element has not yet been exposed to competitive tendering, and, a competitive market for the supply of steel monopoles exists globally.”

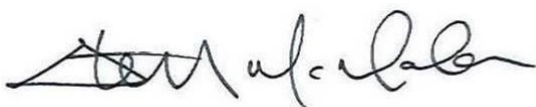
We consider that the information you have provided in your submission, summarised above, sufficiently demonstrates an updated business case for NeSTS and that this business case supports SHE-T’s decision that the development of NeSTS should proceed to Phase 2, including the construction of a trial OHL.

Our decision

We have reviewed your SDRC 4 report and consider that you have sufficiently justified your decision to proceed with Stage 2 of the NeSTS Project. We are satisfied that there is sufficient evidence and justification provided in the report.

Accordingly, we authorise you to access funds to proceed with Stage 2 of the NeSTS project.

Yours faithfully,



Steven McMahon
Deputy Director, RIIO Electricity Distribution and Cross Sector Policy
For and on behalf of the Authority