Making a positive difference
for energy consumers

All interested stakeholders

Email: Min.Zhu@ofgem.gov.uk

Date: 28 September 2021

Dear stakeholder,

Proposed direction on adding Enhancing Pre-existing Infrastructure Projects to National Grid Electricity Transmission's RIIO ET2 price control

Following our determination in February 2021,[1] to approve a funding request from National Grid Electricity Transmission (NGET) to deliver new Enhancing Pre-existing Infrastructure (EPI) project in the Peak District National Park (known as the Peak East mitigation project), this letter sets out our[2] proposed direction under paragraph 3.10.15 of Special Condition 3.10 (Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance (VIMREt and EPIt)) on new Enhancing Pre-existing Infrastructure (EPI) outputs and a related adjustment to National Grid Electricity Transmission's (NGET) allowed expenditure under the RIIO-ET2 price control. The proposed direction to NGET's electricity transmission licence to implement this is set out in Appendix 1 to this letter.

Background

In our February determination, we set out our view that the total efficient cost for the Peak East mitigation project is £43.0m (2019/20 prices).[3] We said that we would modify NGET's

[1] Determination on NGET's proposal for reducing visual amenity impacts in the Peak District National Park and funding development costs for the New Forest mitigation project https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/peak_east_decision_letter.pdf
[2] The terms 'Ofgem', 'the Authority', 'we' and 'us' are used interchangeably in this document.
[3] This value is equivalent to a combined allowance adjustment in the RIIO-T1 price control period of £8.39m (2009/10 prices) and an allowance adjustment in the RIIO-T2 price control period of £30.78m (2018/19 prices). We convert project costs into the price base that is used in the financial model for the different price control

RIIO-T2 price control by £30.78m (2018/19 prices) for the expenditure that it would incur on the mitigation project in the RIIO-T2 price control period. We also said that this amount may be subject to a further adjustment for changes in the metal prices and exchange rate indices[4] that have occurred in the period between the contractor submitting their final price and NGET awarding the contract.

Adjustment for change in London Metal Exchange index

Between NGET selecting their preferred contractor's bid in 2019, and awarding the contract in 2021, there was an increase in the London Metal Exchange price indices, particularly for copper and also for aluminum (circa 30% and 22% respectively). Consequently, we have decided to increase the RIIO-ET2 price control allowance by £0.63m (2018/19 prices) to accommodate the resulting increase in cable prices.[5]

Our proposed direction

In accordance with paragraph 3.10.21 of Special Condition 3.10, we have set out the proposed direction to NGET's licence in the Appendix 1 to this letter. The proposed direction adds a new EPI project and an £31.41m (2018/19 prices) increase to NGET's RIIO-ET2 price control allowances.

Next steps

Please send any representations in response to the aforementioned proposed directon to anna.kulhavy@ofgem.gov.uk on or before 26 October 2021.

Yours faithfully,

Min Zhu
Deputy Director, Transmission, RIIO

periods in which project costs have been or will be incurred. In RIIO-T1 the price base of the financial model used 2009/10 prices, and in RIIO-T2 the price base is set in 2018/19 prices.
[4] The indices to be used to adjust the contract price are: Metals: London Metal Exchange https://www.lme.com Forex: Bank of England https://www.bankofengland.co.uk/statistics/exchange-rates
[5] The metal price adjustment has been calculated from multiplying the price differential of a kilogram of metal by the metal weight in a metre of cable (metal factor) and by total cable metres.

Appendix 1: Proposed Direction

Direction under paragraph 3.10.15 of Special Condition 3.10 (Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance) of National Grid Electricity Transission's licence to add Enhancing Pre-existing Infrastructure Projects

1. National Grid Electricity Transmission plc ('the Licensee') is the holder of an electricity transmission licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Licence').

2. In accordance with paragraph 3.10.21 of Special Condition 3.10 (Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance), on 28 September 2021 the Gas and Electricity Markets Authority ('the Authority')[1] published on its website the text of the proposed direction, the reasons for the proposed direction and stated that representations must be made on or before 26 October 2021.

3. We received [number] responses and have placed all non-confidential responses on our website. Having considered those responses we have decided to proceed with the direction.

4. [Address responses or refer to where that detail can be found. Explain any changes we have made to the proposed direction as a result of the responses.]

5. The reason for the direction is to amend the Licence to add a new Enhancing Pre-existing Infrastructure Project to Appendix 3 in Special Condition 3.10, to specify the deliverables of the project that the Licensee is required to deliver and to specify the associated additional allowance for that project, which is £31.41m in 2018/19 prices.

6. Further information on our assessment of this projects can be found in our February determination letter.[2]

7. This direction is our notice of reasons for the purposes of section 49A of the Electricity Act 1989.

8. Now the Authority pursuant to the provisions of Special Condition 3.10 hereby directs that Appendix 3 to that condition of the Licence is amended as set out in Annex 1 to this direction with new text shown in underline and deletions in strikethrough.

[1] The terms "the Authority", "we" and "us" are used interchangeably in this document.
[2] https://www.ofgem.gov.uk/publications/determination-national-grid-electricity-transmissions-proposals-reducing-visual-amenity-impact-peak-district-national-park

Min Zhu

Duly authorised on behalf of the
Gas and Electricity Markets Authority

[date]

Annex 1

Appendix 3

Enhancing Pre-existing Infrastructure Project allowance

Project name and Designated Area	Allowance (£m)					All years
	21/22	22/23	23/24	24/25	25/26	
Dorset AONB Mitigation Project	12.545	0.587				13.132
LEI projects: Cannock Chase AONB, Gentleshaw Common into the Future Blackdown Hills AONB, Enhancing the Hills High Weald AONB, Beautiful Boundaries II and Wonderful Woodlands New Forest NP, Landford Bog Nature Reserve North York Moors AONB, Kipwich Landscape Restoration Project Tamar Valley AONB, South Hooe Restoring and Enhancing Watery Landscapes	0.031	0.016	0.025	0.0	0.0	0.072
LEI projects: Clwydian Range and Dee Valley AONB, Hidden from view Dorset AONB, Linking chalk, river and vale Lake District NP, Breast High Road Borrowdale restoration oroject Lake District NP, Breast High Road Bretherdale restoration project New Forest NP, Landscape and access enhancements	0.633	0.223	0.195	0.0	0.0	1.052

	Southdowns NP, Revealing Grandfather's Bottom Southdowns NP, Historic boundaries of Woolbeding Estate				
Peak East mitigation project	15.189	15.834	0.387		31.410

Project name	Description of project	Delivery date
Dorset AONB Mitigation Project	Replace a 8.25 km section of a 400kV double circuit overhead line, known as the 4YA, with 8.8 km underground cable in the Dorset AONB area. The overhead line runs from northwest of Winterborne Abbas to south of Friar Waddon Hill inside the boundary of the Dorset AONB. Install two new sealing end compounds to connect the new section of underground cable to the existing overhead line. Install 2 x 200 MVAR reactive compensation equipment at the existing Chickerell substation to manage voltage issues and increasing capacitance from the underground cables. Underground diversion of the western 33kV distribution circuit near the southern sealing end compounds for safety reasons and associated fibre optics cable.	2022
Gentleshaw Common into the Future	60 ha bracken and scrub control 7 ha purple moor grass cutting 80 m footpath upgrading 38 m broadwalk installation	2021
Enhancing the Hills	865 m hedgerow creation and management 1.2 ha traditional orchard restoration 5 ha meadow creation and improvement	2021
Beautiful Boundaries II	3,776 m coppice gap up and fencing 1,435 m ancient woodland fencing 2,774 m new hedge and fencing 884 m hedge laying and fencing 0.4 ha woodland planting 0.16 ha wetland habitat restoration	2021
Wonderful Woodlands	2,056 m2 all-weather access improvement 5.5 ha woodland habitat restoration 5.6 ha ground flora restoration 3 pond habitat restoration	2023
Landford Bog Nature Reserve	35 m2 all-weather access improvement 1,370 m boundary improvement 2 leaky log dam installations 0.7 ha rotational pollarding	2021
Kipwich Landscape Restoration Project	9.8 ha native woodland creation 7.4 ha wood pasture creation 12 ha open habitat creation with trees 37 ha SSI grassland and heathland restoration	2024

	5.6 ha ancient woodland restoration 19.6 ha woodland restoration 6.7 ha native woodland restoration	
South Hooe Restoring and Enhancing Watery Landscapes	385 m reinstatement of historic field boundaries 345 m new hedgerow planting 4,200 woodland tree planting 840 m hedgerow management 5 gates for improved access to circular walk 450 m2 scrub clearance 2,014 m new boundary fencing and access	2024
Hidden from view	150 m woodland thinning 8 pond/scrape creation 8.5 ha wildflower meadow creation 1500 m2 woodland glade creation 100 m non-native tree removal 100m hedgerow creation 826 m2 vehicular access improvements 800 m pedestrian access surface improvement 20 pieces pedestrian access infrastructure improvements	2024
Linking chalk, river and vale	1270 m hedgerow tree planting 1270 m hedge laying 140 m drystone wall restoration 7.0 ha grassland restoration 4.7 ha scrub management 10 ponds pond restoration 0.75 ha create wildlife corridors	2024
Breast High Road Borrowdale restoration project	1208 m reinstate and clear existing drainage gully lines 2 maintain and repair existing culverts 5 replace broken culverts 1 route alignment 1 install a pitched ford 1 repair an existing traditional stone culvert 580 m2 reprofiling and realignment of track 1100 m soil inversion (subsoiling) and addition of aggregate material 150 m create aggregate ditch 9 removal of, reinstatement of, or creation of new cross drains/surface draining features 40 native tree planting	2022
Breast High Road Bretherdale restoration project	510 m reinstate and clear existing drainage gullies 3 replace and widen existing culverts 2 install steel and plaswood bridges 3 install pitched fords/wath areas 3 reinstate and maintain existing aggregate waths 3 clear and maintain existing culverts 12 m2 surface gateway 2 m install revetment 42 m restore dry stone wall	2022
Landscape and access enhancements	300 m plant and maintain hedgerows 40 trees planted 1950 m route improvements 14 gates installed 77 signposts installed 20 ha improve habitat	2027

Revealing Grandfather's Bottom	6.99 ha clear scrub 1.6 ha restore chalk heath 2.2 km new access route through yew woodland 380 m improved access at Grandfather's Bottom 2293 m stock fencing 1 drinking trough installed 0.3 ha car park surfacing 30 signs installed 10 mature trees planted	2023
Historic boundaries of Woolbeding Estate	300 trees planted (wood pasture) 5000 trees planted (shaw) 1600 m hedgerow planted 3550 m fencing (wood pasture) 1600 m fencing (shaw and hedgerow) 60 acres grassland seeding 2 trees removal of diseased ash and replace with new standard trees 3 troughs water troughs installed 600 m water infrastructure (pipes) installed	2025
Peak East mitigation project	Replace a 2 km section of a 400kV double circuit overhead line, running between the Woodend tunnel at Dunford Bridge to Wogden Foot, with underground cable. Remove existing sealing end compound at Dunford Bridge and install a new sealing end compound to connect the new section of underground cable to the existing overhead line at Wogden Foot.	2023