

Decision

Decision on the Pre-Construction Funding application for the North-West Wales Project in accordance with Special Condition 3.15

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This document explains our Pre-Construction Funding (PCF) decision for the North-West Wales Project (NWWP) and sets out the PCF for that project following our consultation on 11th January 2023.

This document also includes a summary of the consultation responses received from National Grid to the consultation and our response to it.

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Executive Summary

The NWWP is an electricity transmission infrastructure project that proposes to upgrade the existing 400kV circuit between Pentir and Trawsfynydd and to build a second 400kV circuit between Pentir and Trawsfynydd in the northwest of Wales.

In January 2023 we consulted on the PCF application made by National Grid Electricity Transmission plc (NGET) for the NWWP. The application was submitted under special condition 3.15.7¹ (Pre-Construction Funding Re-opener and Price Control Deliverable).

This decision confirms our consultation position to provide funding for pre-construction works for the NWWP. It also includes the respective direction and the amendments to Appendix 2 of Special Condition 3.15.

This document also summarises the response we received from NGET to the consultation and our view of this response.

NGET welcome Ofgem’s view that there is sufficient evidence that PCF is essential to ensure timely delivery of the project. However, they did not agree with our approach to assessing the PCF and stated that our proposed cost allowances presented a significant challenge. NGET agreed with our proposed direction and modifications to Appendix 2 of Special Condition 3.15.

We do not agree with NGET’s view. As NGET have not provided any supporting evidence in their response, we remain of the view that the PCF allowance of £15m should be reduced to £12m.

We also found two errors in Annex 1 of the consultation (proposed direction). We rectified those errors in the updated direction which is published alongside this consultation.

Next Steps

We have confirmed the PCF allowances for the NWWP. We will continue to engage with NGET on the next review stage for the NWWP. The NWWP is included in our list of projects within the ASTI framework, however the ASTI framework will not provide pre-construction funding for projects that been provided PCF under the Large Onshore

¹ The special conditions to NGET’s electricity transmission licence can be found at [Licences and licence conditions | Ofgem](#)

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Transmission Investment (LOTI) arrangements. Therefore, the NWWP will not be part of the ASTI PCF provisions once those are in place.

Introduction

This document

1.1. This document sets out our decision on NGET’s PCF application for the NWWP, including:

- Our assessment of the efficient PCF costs that we will allow NGET to recover from consumers to carry out pre-construction works² for the NWWP;
- The responses we received to the consultation and our view of those responses; and
- The amendments to Appendix 2 of NGET’s electricity transmission licence.

Context

1.2. The GB onshore electricity transmission network is currently planned, constructed, owned, and operated by three transmission owners (TOs): NGET in England and Wales, Scottish Power Transmission (SPT) in the south of Scotland, and Scottish Hydro Electric Transmission (SHET) in the north of Scotland. We regulate these TOs through the RIIO (Revenue = Incentives + Innovation + Outputs) price control framework. For offshore transmission, we appoint Offshore Transmission Owners (OFTOs) using competitive tenders.

1.3. The incumbent onshore TOs are currently regulated under the RIIO-2 price control, which started on 1 April 2021 and will run for 5 years. Under this price control, we developed a re-opener mechanism for assessing the need for, and efficient cost of, large and uncertain electricity transmission infrastructure projects called the LOTI re-opener. Once the need for and costs of projects become more certain, the TOs bring forward construction proposals and seek funding for them. Projects that are expected to go through the LOTI re-opener may also apply for PCF if required to progress the project delivery timeline and not already funded through the TO’s RIIO-2 baseline allowances.

²As defined in the licence, limited to: (a) surveys, assessments, and studies; (b) project design; (c) engineering development; (d) stakeholder engagement and consultation; (e) tasks associated with wayleaves; (f) planning applications; and (g) tender activities.

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1.4. Network investment is informed by the Future Energy Scenarios (FES)³ and the NOA⁴, which are developed and published annually by the Energy System Operator (ESO)⁵. A key focus of the FES is the inclusion of the legally binding UK Government Net Zero targets, to be achieved by 2050. The transition to a Net Zero economy will see increased demand on the transmission boundary capability, which will need to be facilitated by critical network reinforcements.

1.5. On 15 December 2022, we published our decision on the ASTI framework⁶. This sets out our conclusions on how we can support the accelerated delivery of strategic electricity transmission network upgrades needed to meet the Government's 2030 renewable electricity generation ambitions. Our decision sets out the benefits that accelerated delivery can unlock and our decision on how to streamline the current regulatory approval process for large electricity transmission projects. It also sets out our proposed measures to protect consumers against additional risks that changing the process brings.

1.6. Both elements of the NWWP are included in our list of projects that we intend to be included in the ASTI framework. As explained in our December decision, the ASTI framework will not provide PCF for projects that have, or will have, PCF provided under the LOTI arrangements⁷.

Overview of the PCF Re-opener and Price Control Deliverable

1.7. Under Special Condition 3.15.7, NGET may apply for a direction from Ofgem amending Appendix 2 to Special Condition 3.15 to allow PCF that the TO considers necessary to develop projects under the LOTI re-opener⁸, to the point where all material planning consents have been obtained and the project is ready to begin construction.

1.8. To qualify for the PCF mechanism TO proposals must meet the LOTI definition:

³ The FES is the ESO's representation of a range of different, credible ways to decarbonise the energy system to strive towards the 2050 target

⁴ The NOA is the ESO's recommendation for which reinforcement projects should receive investment during the coming year

⁵ In April 2019 National Grid ESO became a separate business within National Grid Plc

⁶ [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

⁷ [Decision on accelerating onshore electricity transmission investment | Ofgem](#), paragraph 5.21

⁸ Special Condition 3.13 of the licence

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- a) are expected to cost £100m or more of capital expenditure; and
- b) are, in whole or in part, load related⁹.

1.9. In August 2022, we approved the eligibility of the NWWP as a LOTI project following an eligibility to apply letter that was submitted by NGET in July 2022.

1.10. On 1 September 2022, we issued a direction¹⁰ that allowed NGET to seek PCF ahead of INC submission. In September 2022, NGET applied for PCF and our consultation was published on 11 January 2023.

1.11. In our consultation paper we mentioned that we were satisfied that the NWWP meets these criteria and is therefore eligible as a LOTI project. We also mentioned that we were satisfied that the works within the PCF deliverables have not been financially covered by an alternative funding mechanism.

Related publications

1.12. RIIO-2 Final Determinations: [Ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator](https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator) | Ofgem

1.13. LOTI Re-opener Guidance document: [Ofgem.gov.uk/publications/large-onshore-transmission-investments-loti-re-opener-guidance](https://www.ofgem.gov.uk/publications/large-onshore-transmission-investments-loti-re-opener-guidance) | Ofgem

1.14. Decision on Accelerating Strategically Important onshore electricity Transmission Investment (ASTI): [Ofgem.gov.uk/publications/decision-accelerating-onshore-electricity-transmission-investment](https://www.ofgem.gov.uk/publications/decision-accelerating-onshore-electricity-transmission-investment) | Ofgem

1.15. Consultation on the Pre-Construction Funding application for the North-West Wales Project (NWWP) in accordance with License Condition 3.15:

⁹ Special Condition 1.1, part B: Definition of LOTI

¹⁰ [Direction - North West Wales Pre-Construction Funding Request](https://www.ofgem.gov.uk/publications-and-updates/direction-north-west-wales-pre-construction-funding-request) | Ofgem

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[Ofgem.gov.uk/publications/consultation-pre-construction-funding-application-north-west-wales-project-nwwp-accordance-license-condition-315](https://www.ofgem.gov.uk/publications/consultation-pre-construction-funding-application-north-west-wales-project-nwwp-accordance-license-condition-315) | [Ofgem](#)

Decision-making stages

Date	Stage description
11/01/2023	Stage 1: Consultation opens
15/02/2023	Stage 2: Consultation closes (awaiting decision). Deadline for responses
22/03/2023	Stage 3: Responses reviewed and consultation position re-assessed considering responses
22/03/2023	Stage 4: Consultation decision/policy statement. Responses published alongside decision.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We would also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to [stakeholders Ofgem email address](#).

Overview of our January 2023 consultation and responses

Section summary

This section outlines our January 2023 consultation position, NGET’s response to this consultation and our decision to as well as an overview of the responses that we received to that consultation.

Questions

- Q1. Do you agree with our approach to assessing the PCF for the NWWP?
- Q2. Do you agree with our proposed cost allowances for the NWWP?
- Q3. Do you agree with our proposed direction and modifications to Appendix 2 in accordance with Special Condition 3.15.7 of NGET’s Electricity Transmission licence?
- Q4. Do you have any comments on other elements of the PCF review?

Proposed cost allowance

NGET proposal and our consultation position

1.16. NGET has requested £15m to undertake pre-construction works for the NWWP. The application categorises the costs into third party costs and NGET’s internal project management costs. NGET stated that the works will prevent delays to project delivery. The pre-construction work started in January 2022 and is planned to end in May 2025.

1.17. In our January consultation we presented our proposed view of an economic and efficient PCF allowance. We proposed a reduction of a total of 20% to the PCF application as per table 1 below. We proposed a reduction to third-party costs because, in our view, some of these costs were based on “worst case scenarios”. We also disallowed unjustified risk and contingency costs. We suggested a total reduction of 12% of third-party costs. We also proposed a total reduction of 38% of project management (PM) costs based on two reasons:

- We thought PM costs were higher than expected as a proportion of third-party costs when compared to other projects; and
- We thought there was duplication of roles included in the PM costs and overheads costs.

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Table 1: Proposed view of PCF for NWW (2021/22 prices)

Cost Element	PCF Application (£m)*	Proposed Disallowance (£m)*	Proposed Allowance (£m)*	% Reduction
Third party costs	10.5	1.3	9.2	12%
Project Management costs	4.5	1.7	2.8	38%
Total	15.0	2.9	12.0	20%

**These figures are in 2021/22 price base. The total allowance in 2018/19 price base is £11.08m as indicated in the direction published alongside this decision.*

Consultation responses

1.18. We received one response to the consultation from NGET. Their full response is published alongside this decision.

1.19. In response to question 1, NGET welcomed our view that there was sufficient evidence that PCF is essential to ensure timely delivery of the project. However, NGET did not agree with our approach to assessing the PCF and did not agree with our proposed cost allowance.

1.20. Specifically, NGET did not agree with our reduction in funding for some risk areas and argued that there are too many unknown aspects to determine the true likelihood of some risks and their associated quantum. They also did not agree that there is duplication of roles included in PM and overhead costs.

1.21. Given the above points, in response to question 2, NGET did not agree with the proposed cost allowance and flagged that these present a significant challenge. They also flagged that they already forecast overspend.

Our view following NGET's response

1.22. We considered NGET's response. NGET did not provide any additional supporting evidence in their response. NGET's view on the subject were communicated to Ofgem as part of the engagement ahead of the publication of the consultation. As no additional supporting evidence was submitted in the response and Ofgem's arguments were the same as those made ahead of the consultation, we remain of the view we held in our

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consultation position and do not propose any changes to the PCF allowance we set at consultation.

Our decision

1.23. We are maintaining our consultation position. As such, we are publishing a direction alongside this decision amending Appendix 2 of special condition 3.15.

1.24. We identified a mistake in the NWWP PCF allowance figures that were in our proposed direction within Annex 1 to our consultation. The NWWP PCF allowances for each financial year was using a 2021/2022 price base and the total allowance was using a 2018/19 price base. In accordance with special condition 1.1.13 of special condition 1.1 (Interpretation and definitions), all figures in the special conditions are in a 2018/19 price base unless otherwise stated, so the direction now reflects that.

1.25. We also found two errors in Annex 1 of the consultation (proposed direction):

- The table used to show the additional Pre-Construction Funding Price Control Delivery item (Appendix 2 of Special License Condition 3.15 - (Pre-Construction Funding Re-opener and Price Control Deliverable)) was out of date; and
- The figures we added for the NWWP were not presented in the appropriate Price Base.

1.26. We rectified those errors in the updated Direction that is published alongside this consultation.

Next steps

1.27. We will continue to engage with NGET on the next review stage for the NWWP. As flagged in our consultation, the NWWP is included in our list of projects within the ASTI framework. As explained in our decision on ASTI of 15 December 2022, the ASTI framework will not provide pre-construction funding for projects that have, or will have, PCF provided under the LOTI arrangements.¹¹ Therefore, as we have now decided to

¹¹ [Decision on accelerating onshore electricity transmission investment | Ofgem](#), paragraph 5.21

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provide PCF under 3.15 of NGET's licence for the NWWP, this funding will not form part of the ASTI PCF allowance and re-opener arrangements.