Decision

Dinorwig-Pentir Project Assessment Decision

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This document sets out our[1] decision on the project assessment of National Grid Electricity Transmission Plc's (NGET) Dinorwig-Pentir project (**the Project**). In particular, it sets our final decision on the efficient capital costs that we will allow NGET to recover for the delivery of the project, and the details of the Large Project Delivery (LPD) mechanism that will apply to this project.

We have also set out our decision on the licence modifications required to support the delivery of the Project.

[1] The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this document.

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Executive Summary

Summary of this decision

This document confirms our decision to provide NGET with a total additional capital cost allowance of £141.8m[2] for the delivery of the Dinorwig-Pentir project (**the Project**) under the Large Onshore Transmission Investment (LOTI) re-opener mechanism. This is in addition to the existing funding of £19.1m for the project in RIIO-1 and RIIO-2 baseline allowances. It also sets out the details of the Large Project Delivery (LPD) mechanism that will apply to this Project.

We have also set out our decision on the licence modifications required to support the delivery of the Project and consequently, issued a notice of licence modification in Appendix 2 of the document as part of this publication.

NGET initially submitted £184.2m (included existing funding for the Project in RIIO-T1 and RIIO-T2 baseline allowances) of costs for delivering the Project to Ofgem in December 2021. Following initial review and challenge from us, NGET revised the forecast down to a final figure of £180.8m in December 2022.

We reconciled NGET's submission against our records to avoid double funding any parts of the Project and confirmed that the existing Project was funded £19.1m and additional £161.7m funding was requested through the LOTI Re-opener for this Project.

Of the additional £161.7m funding request, we have decided to provide an ex-ante allowance of £141.8m for Project delivery, which constitutes an adjustment of £19.9m (12.0%) to NGET's submitted costs. This adjustment is made of £13.3m of outright disallowance, and £6.6m of costs that NGET can recover where it demonstrates that they have been efficiently incurred.

This decision is the result of our review of NGET's submitted costs over the past 12 months, including benchmarking those costs against similar projects, our detailed assessment of NGET's contracting and risk management strategy, and consideration of responses to our January 2023 consultation: 'Dinorwig-Pentir: Project Assessment Consultation'[3].

[2] All costs in 2018/19 Prices unless otherwise indicated.
[3] Dinorwig-Pentir: Project Assessment Consultation | Ofgem

The reduction is primarily comprised of the following elements:

• Work packages and activities: a reduction of £12.0m of cost relating to commodity exposure, project management (PM) and overheads, planning and consent, engineering, and construction.

• Risk: a reduction of £9.1m in the ex-ante allowance relating to general project risk and pain-share of contractual risks. We will make a provision within the cost and output adjusting event (COAE) mechanism for NGET to submit additional justified funding requests relating to pain-share of contract risks, as well as certain other risks (should the cost exceed a certain threshold of the existing funding)

We provide, below, a high-level summary table of the allowances and, in Chapter 3, additional details regarding the reductions.

Table 1: High level summary of the cost allowances for the Dinorwig-Pentir project

Cost Area	**Submitted cost (£m)**	**Adjustment (£m)**	**Final allowance (£m)**	**Comparison with consultation position (£m)**
NGET Indirect Costs	14.0	-3.3	10.7	-
Work Packages	129.5	-7.6	121.9	+1.1
Risk and Contingency	18.2	-9.0	9.2	-
Total LOTI Re-opener Funding	**161.7**	**-19.9**	**141.8**	**+1.1**

Overview of allowances compared to consultation position

We will include into the baseline for the calculation of the risk allowance for the Project £3.2m of costs related to the cable scrap proceeds and exclude overheads cost. We will also rectify the risk allowance to take into consideration the disallowance of £0.3m related to the Shunt Reactor which was missed by mistake. Overall, the risk allowance remains very similar at £9.2m as a result of all these adjustments.

In addition we will allow the recovery of risks derived from commodity exposure and pain-share through the COAE mechanism, capped to the respective values of £3.8m and £2.8m.

We will also include £1.1m for site accommodation costs that were disallowed at consultation after receiving proof that this cost had already been removed in the updated submitted costs.

Output and Delivery Date

We have decided to set the delivery date for the Project as follows:

- for the Dinorwig-Pentir circuits output by 31 December 2026 – the last day of the period proposed by NGET; and
- for the Dinorwig-Pentir decommissioning output by 31 March 2028 - the last day of the 2027/2028 financial year.

We have also set the outputs for the Project as detailed in paragraphs 3.44 - 3.46 of this document.

Large Project Delivery (LPD) Framework

We have decided, as part of the LPD framework introduced through our RIIO-2 Final Determinations, to apply Re-profiling of allowances, to remove any financial benefit to NGET from delayed project delivery. We also decided not to apply a Project Delay Charge (PDC) should the project be delivered late as we consider that a delay beyond the proposed delivery date would result in little to no detriment to consumers.

Licence Modifications

We have decided to modify Special Condition 3.13 of NGET's licence to give effect to our decision on the Project as follows:

- include the delivery of the Dinorwig-Pentir project as an output for NGET
- reflect our decision on the cost and outputs adjustment event mechanism
- introduce a new Part I in Special Condition 3.13 of NGET's licence
- reflect our decision on the Large Project Delivery framework, and
- specify the outputs, allowances and delivery date for the Project.

1. Introduction

Section summary

This document sets out our decision regarding the assessment of the efficient costs allowed for NGET to recover from consumer for the delivery of the Dinorwig-Pentir project (**the Project**), the output and delivery date for the Project and our modifications to the NGET's transmission licence required to implement this project. In this section we provide the context of the project, published documents that are relevant to this project and how we collect feedback on this decision.

Context

1.1 Dinorwig-Pentir is a LOTI project, and this decision relates to the project assessment stage of the LOTI re-opener process. Further information can be found in our January 2023 consultation[3].

1.1 Dinorwig Power Station in Snowdonia, North Wales, is a pumped storage generation facility owned by Engie, providing energy to the market, system critical response, and balancing services to the system operator. It is located inside a man-made cavern within the mountain of Elidir Fawr.

1.2 The Dinorwig-Pentir cable circuits were installed in 1980 and are the only connection between Dinorwig Power Station and the wider transmission network. The Dinorwig-Pentir cable and substation replacement project is NGET's proposed solution for replacing the existing cable assets as they reach their end of life. The Project will comprise of the following as proposed by NGET and approved in our decision[4] at the FNC stage in August 2022, following consultation:

1.2.1 Construction of a new 400kV Gas Insulated Switchgear (GIS) double busbar substation at Dinorwig Power Station, Gwynedd;

1.2.2 Extension of Pentir substation with an extension of the double busbar, accommodating one additional cable feeder bay for the new third circuit. Modifications to existing bay and associated protection and control measures;

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[4] Dinorwig-Pentir – Decision on the project's Final Needs Case: https://www.ofgem.gov.uk/publications/dinorwig-pentir-decision-projects-final-needs-case.

1.2.3 Replace two existing cable circuits with three new cross-linked polyethylene (XLPE) cable circuits between Dinorwig substation and Pentir substation;

1.2.4 Installation of a new 200 MVA shunt reactor at Wylfa substation, Newydd; and

1.2.5 Decommissioning, removal, and disposal of the two existing 400kV oil filled water cooled circuits.

1.3 NGET has advised that the Project is currently on schedule to meet its forecast contracted connection date of December 2026. From this date, all three of the new cable circuits will be fully and freely available to the Electricity System Operator (ESO).

1.4 NGET originally submitted £150m in costs for delivering the Project to Ofgem as part of its RIIO-2 Business Plan in December 2019. However, given the reported status of the cables as healthy and limited cost information presented by NGET, the Project was not included in NGET's RIIO2 Final Determinations allowances. Following discussion with NGET, we decided that the Project could be re-submitted under the LOTI re-opener mechanism during the RIIO-2 price control to allow time for different project options to be considered and assessed. We allowed £12.8m[5] for the Project in NGET's baseline funding within the RIIO-2 Final Determinations to enable NGET to proceed with the Project's development. This funding was in addition to £7.3m of NGET expenditure on the Project during the RIIO-1 price control period.

1.5 We published our decision[6] to approve the FNC for the Dinorwig-Pentir project in August 2022, following consultation[7].

1.6 In January 2023 we published our consultation on the project assessment for Dinorwig-Pentir. As part of that consultation[3] we also proposed the Licence Modifications needed to give effect to our minded to position. The consultation is summarised in Chapter 2 of this document.

[5] Final Determinations NGET Annex REVISED: RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem. This value was adjusted down to £11.8m during our RIIO-T2 cost assessment.
[6] Dinorwig-Pentir FNC Decision Dinorwig-Pentir - Decision on the project's Final Needs Case | Ofgem
[7] Dinorwig-Pentir FNC Consultation Dinorwig-Pentir - Consultation on the project's Final Needs Case and suitability for competition | Ofgem

Related publications

RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator, December 2020:

RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem

Large Onshore Transmission Investments (LOTI) Re-opener Guidance, March 2021:

Large Onshore Transmission Investments (LOTI) Re-opener Guidance | Ofgem

Dinorwig-Pentir – Consultation on the project's Final Needs Case and suitability for competition, June 2022:

Dinorwig-Pentir - Consultation on the project's Final Needs Case and suitability for competition | Ofgem

Dinorwig-Pentir – Decision on the project's Final Needs Case, August 2022:

Dinorwig-Pentir - Decision on the project's Final Needs Case | Ofgem

Our decision-making process

1.7 We have assessed the costs for the Project and have consulted on our proposed allowances of the economic and efficient costs for Dinorwig-Pentir. Following to the analysis of the responses8 received we have outlined our decision in this publication and the dates of the full decision-making process are outlined in the table below.

1.8 The decision taken Outline the key stages of the decision-making process, including any consultations and next steps. If we consulted to inform the decision-making process, reference and link to the responses here.

Decision-making stages

Date	Stage description
27/01/2023	Stage 1: Consultation open
08/03/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
12/06/2023	Stage 3: Responses reviewed and published
12/06/2023	Stage 4: Consultation decision/policy statement published alongside responses

General feedback

1.9 We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd 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.gov.uk.

[8] A summary of the responses received is in Appendix 1. The full responses are published alongside this decision.

2. Overview of our January 2023 consultation and Responses

Section summary

This section outlines the key points that we set out in our January 2023 consultation, and an overview of the responses that we received to that consultation.

Questions

Q1. Do you agree with our proposed cost allowances for the Dinorwig-Pentir project?

Q2. Do you agree with our proposed output and delivery date for this project?

Q3. Do you agree with our view on the implementation of the Large Project Delivery (LPD) mechanisms – Re-Profiling and Project Delay Charge – on this project? In particular, do you have a view on our proposal not to apply a Project Delay Charge?

Q4. Do you agree with our proposed modifications to Special Condition 3.13 of NGET's Electricity Transmission Licence?

Our consultation position

Proposed cost allowance

2.1 NGET submitted its initial costs for delivering the Project to Ofgem in December 2021, amounting to £180.8m[9]. This figure included £18.4m of existing funding made up of RIIO-T1 project expenditure (£7.3m) and T2 baseline funding (£11.1m). This funding was found to be £0.7m less than our records of the baseline funding for the Project. The £0.7m was attributed to ongoing efficiency agreed with NGET as part of the RIIO-T2 settlement. We therefore adjusted this value up to £11.8m from £11.1m to reflect this.

2.2 The existing funding therefore have been adjusted to £19.1 and the additional funding requested under the LOTI re-opener totals to £161.7m (see table 1).

[9] Please note that all figures reported here are expressed in 2018/19 prices unless otherwise stated.

Table 1: Summary of existing project funding as a sub-set of total project funding

Funding Category	Submitted Cost (£m)	Proposed Adjustment (£m)	Proposed View of costs (£m)
RIIO-T1 Expenditure	*7.3*	*0.0*	*7.3*
RIIO-T2 Baseline Funding	*11.1*	*0.7*	*11.8*
Existing Funding	18.4	0.7	19.1
LOTI Re-opener Funding	162.4	0.0	161.7
Total Project Funding	**180.8**	**0.7**	**180.8**

2.3 In our January 2023 consultation (the Consultation), we presented our minded-to position of allowing NGET capital costs of £140.7m for the delivery of the Project, a £21.0m reduction from the cost submitted (see Table 2).

Table 2: Summary of our proposed cost allowances for the Project

Cost Category	Submitted Cost (£m)	Proposed Adjustment (£m)	Proposed Allowance (£m)
NGET Indirect Costs	14.0	-3.3	10.7
Work Packages	129.5	-8.7	120.8
Risk and Contingency	18.2	-9.0	9.2
Total LOTI Re-opener Funding	**161.7**	**-21.0**	**140.7**

Indirect Costs

2.4 We proposed not to allow £3.3m of submitted closely associated indirect (CAI) costs, made up of £0.5m for costs associated with internal NGET land and consents staffing costs and £2.9m of costs associated with duplicated roles within the project management (PM) and overheads costs, and a small proportion of business support costs that we considered to be funded under the RIIO-T2 baseline funding[5].

Work packages

2.5 We proposed not to allow £8.7m of costs related to work packages which NGET was not able to justify. The rationale for each component is detailed below.

2.6 £3.2m of cable scrap costs recoverable from the cable works contractor. NGET included these costs in its funding request and argued that our exclusion of the funding is misaligned with our RIIO-2 FD decision of the disposal of assets[10] which incentivises TOs to achieve the best sale price for scrap. We disagreed with this argument and considered that, where there is a reasonable estimate of scrap

[10] RIIO-2 Final Determinations – Finance Annex (REVISED) (ofgem.gov.uk), page 122, Disposal of assets.

value, as is the case here, this estimate should be incorporated into the ex-ante allowance to compensate for any scrap related costs. Our view was that there is still an incentive for NGET to achieve the best sale price for scrap as any value above the estimate in the ex-ante allowance would be shared between NGET and consumers via the Totex Incentive Mechanism (TIM).

2.7 £1.7m of costs for the three areas below and the associated contractor fees for:

- Land rental costs, where we proposed to disallow a portion of these costs for site accommodation which were indicated as having been removed from the costs submitted, however we could not verify their removal from the submission;
- Cables spares costs, which we proposed to disallow as we considered covered by the RIIO-T2 baseline funding[11];
- Inefficient working costs, where we proposed to disallow the unjustified portion of these costs associated with an uplift in costs for worker sustenance and travel expenses, costs for workers travelling between operational sites and welfare facilities whilst on-shift,

2.8 £3.8m of costs associated with the difference between our annual consumer price index adjustment to allowances and NGET's forecast of costs on specific commodities and labour over the course of the project's delivery. This is a portion of the £5.1m of costs for commodity price inflation in NGET's submission and we proposed to allow the remaining £1.3m which was justified.

2.9 We finally proposed to allow in full the sum submitted for updates to NGET operational telecommunications (Optel) network infrastructure. However, we also noted that in accordance to RIIO-2 Final Determination outcomes in December 2020, NGET would pursue further Optel refresh schemes from 2023. Therefore, any future Optel funding requests must exclude works funded under the Project to avoid the double-recovery of costs.

Risk and Contingency

2.10 We proposed to allow £9.2m for general project risks and contingency, out of £18.2m of costs submitted (including both NGET risks and those passed on to contractors). This is a top-down approach based on NGET's RIIO-T2 settlement where risk and contingency allowance for a typical project was set at 7.5% of the

[11] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem, Final Determination NGET Annex REVISED

direct capex as applied to the NGET's Bengeworth Road GSP project (see also section 3.26).

2.11 We considered that a combination of above allowances, NGET's insurance and liquidated damages arrangements provided sufficient risk and contingency coverage for a project of this size and complexity. Any overspend outside this coverage would be treated through the RIIO totex sharing factor[12] (i.e., split 33% to 67% respectively between NGET and consumers).

2.12 We remained open to the exploration of a qualitative bottom-up assessment of the Project's risk register. As the risk register is a live document, we would also complete a further review in advance of our decision as the uncertainty on risk reduces with the progress of construction activities on the Project.

2.13 NGET submitted £[redacted] of costs associated with pain-share arrangements with main works contractors, which is the potential cost that NGET could incur in case of overspend. These costs were included in our £9.0m disallowance as we did not consider it appropriate to fund this risk in upfront allowances. We instead proposed two options for the treatment of these costs and welcomed feedback to inform our decision.

2.14 We considered that risks which are highly unlikely to occur, but with a high-cost impact if they did, and certain risks that are difficult to quantify, should not be included in the cost allowances we set at Project Assessment.

2.15 We pointed out that NGET's licence already includes a Cost and Output Adjusting Event (COAE) provision within the LOTI re-opener condition[13] that allows it to recover costs associated with this type of risks. We proposed to modify this provision to reduce the COAE threshold for the Project from 20% of total project capex provided for in the licence, to 10%, which we considered to provide a reasonable capital threshold for a project of this size. This is in line with the threshold we set on NGET's Hinkley Seabank project, NGET/SPT's Western HVDC project and the SSEN Transmission's Shetland HVDC link.

2.16 Therefore, if one or more qualifying risks occurred during the construction period for the Project, and the total cumulative cost impact was 10% or above of total

[12] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem, Final Determination NGET Annex REVISED – page 40.
[13] NGET Electricity transmission licence - Special Condition 3.13, Part G: National Grid Electricity Transmission plc - Special Conditions Consolidated - Current Version.pdf (ofgem.gov.uk)

project cost allowance under the LOTI re-opener, NGET would receive full funding for its efficient costs in relation to addressing those risks.

2.17 In addition, we also proposed to modify the COAE provision for the Project to include a ringfenced no-threshold section for pain-share costs, in case we decide to proceed with the second of the options proposed as mentioned in paragraph 2.13.

Proposed Output and Delivery Date

2.18 We proposed two outputs and associated delivery dates for the Project as follows:

- Dinorwig-Pentir circuits, with all its components (as described in detail under section 3.38), and
- Dinorwig-Pentir decommissioning: This output includes the timely decommissioning, removal, and disposal of all primary and ancillary assets in the scope of the Dinorwig-Pentir project.

2.19 We proposed the delivery date for the Dinorwig-Pentir circuits output to be the 31 December 2026 and for the Dinorwig-Pentir decommissioning to be the 31 March 2028.

Proposed Large Project Delivery (LPD) mechanisms

2.20 In our January 2023 consultation, we proposed to apply Re-profiling of allowances to the Project, which would remove any financial benefit to NGET from delayed project delivery.

2.21 We also proposed not to apply a Project Delay Charge (PDC) to the Project as we considered that a delay beyond the proposed delivery date would result in little to no detriment to consumers.

Proposed licence modifications for the delivery of the Dinorwig-Pentir project

2.22 We proposed to modify Special Condition 3.13 to include the delivery of the Project. Notice of the proposed modifications were provided in Appendix 2 of the January 2023 consultation document.

Summary of consultation responses

2.23 This section provides a summary of the responses we received to our January 2023 consultation. All non-confidential responses are published on our website alongside this document. We have also included further detail of all consultation responses in Appendix 1 and set out our views on key consultation responses in Chapter 3.

2.24 We received five responses to our January 2023 consultation, including NGET. Four of them came from electricity network companies and one came from the ESO.

2.25 Three respondents, including NGET, disagreed with our minded-to position on the cost allowances we proposed and two did not provide any comments. All of those who responded disagreed with our approach on the disallowance of £3.2m against cable scrap costs to account for the estimated value of the scrap material recovered. The respondents considered this approach of defining the scrap rebate value ex-ante to constitute a policy change with respect to asset disposal as described in the RIIO-2 final determinations and would seek clarification on this.

2.26 Other areas of concern were:

- the disallowance of the forecasted difference in cost between the consumer price index and the commodity cost (from one respondent), as it was commented that commodity and material cost could be higher than inflation;
- the use of a top-down approach, using a set percentage, to define the level of risk for the project as risk and contingency vary depending on the type of project (from one respondent);
- the application of a fixed threshold for Cost and Output Adjusting Events (COAE) for projects of high value, suggesting that the threshold should be adjusted depending on the cost of the projects as more costly projects are going to be realised in the near future (from one respondent);
- the management of risk and contingency using the TIM which is argued to be an efficiency mechanism rather than a risk management tool (from two respondents).

2.27 We received three responses regarding the proposed output and delivery date. All respondents agreed with the delivery date; two respondents agreed also with the outputs although one respondent (NGET) rectified certain aspects of the outputs that needed to be corrected.

2.28 On our proposed implementation of LPD mechanisms, where we specifically asked if there were any objections for not applying a Project Delay Charge (PDC), we received four responses, including NGET. All of them agreed with our proposal not to apply a PDC as any delay would result in little or no consumer detriment.

2.29 We received two responses to our proposed licence modifications, in addition to the response from NGET: one agreed with our proposal, one expressed concern for changes to the licence that were both project specific and generic and sought clarification from Ofgem.

2.30 NGET is one of the three respondents to the proposed licence modifications and provided corrections to the licence modifications as set in the consultation in addition to comments which will be applied in this document.

3. Our decisions

Section summary

This section sets out our decisions, including highlighting any key changes from what was proposed in the consultation, following consideration of consultation responses.

Overview of our decision on cost allowances

3.1 The first part of this chapter provides further detail on our decisions and reasons for cost allowances, including where relevant, how we have considered consultation responses or carried out additional analysis.

3.2 Following the close of our January 2023 consultation, we considered all of the responses that we received. We also engaged with the project developer, NGET Transmission, to clarify aspects of their response to ensure that the final position, which we set out in this decision, is robust and provides value for money for consumers.

3.3 We have come to a final position on what we consider to be the economic and efficient capital costs of delivering the Project. In total, we have decided to provide NGET with a capital cost allowance of £141.8m (£1.1m more than proposed in our January 2023 consultation).

3.4 The table below summarises the costs submitted by NGET, and the capital cost allowances we have determined for the Project. The table also shows any changes in allowances since our January 2023 consultation.

Table 3 - Final cost allowance compared to consultation position

Cost Category	Submitted Cost (£m)	Adjustment (£m)	Final allowance (£m)	Comparison with Consultation position (£m)
NGET Indirect Costs	14.0	-3.3	10.7	-
Work Packages	129.5	-7.6	121.9	+1.1
Risk and Contingency	18.2	-9.0	9.2	-
Total LOTI Re-opener Funding	**161.7**	**-19.9**	**141.8**	**+1.1**

3.5 In the sections below, we provide further detail of these allowances and the amendments we have made to the cost allowances we proposed in our January 2023 consultation.

NGET indirect costs

3.6 NGET submitted £14m of CAI costs, including PM costs and overheads. We proposed to disallow £3.3m of these costs, including £0.5m of costs associated with internal NGET land and consents staffing costs, and £2.9m of costs associated with duplicated roles within the PM and overheads costs and of business support costs that we consider are funded under the RIIO-T2 baseline funding[14].

3.7 We received one comment from NGET objecting these reductions, arguing that overhead costs cannot be allocated directly to the Project and need to be apportioned and that certain excluded costs were covering different roles.

3.8 We based the allowed costs on the information provided by NGET and according to the definition of closely associated indirect costs in order to include all pertinent overhead costs to this project. We do not consider that the information provided on what we classified as duplicated costs is sufficiently detailed to justify these costs, therefore we have decided to confirm our proposal from the consultation.

Work packages

3.9 In our January 2023 consultation, we grouped under the 'work packages' category all costs that NGET submitted for cables and substation works and shunt reactor's contracts in recognition of their commercial sensitivity.

3.10 Of the £129.5m requested for work packages, we proposed to disallow £8.7m. Following our consideration of the responses to the consultation we have decided to disallow £7.6m. Below, we outline the rationale we followed to arrive at this decision for each deduction proposed in the consultation.

[14] RIIO-2 FD Decision – NGET Annex REVISED: [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](), p.65

Cable scrap

3.11 In our January 2023 consultation we proposed to disallow £3.2m for the rebate from cable scrap, which NGET included in its funding request.

3.12 We received three comments from respondents specifically related to our proposal of cable scrap treatment. Two respondents disagreed with our approach arguing that our exclusion of the funding is misaligned with our RIIO-2 FD decision of the disposal of assets[15] which incentivises TOs to achieve the best sale price for scrap. They state that taking this approach would constitute a policy change. One respondent was seeking clarification around the estimate of the cable to be disposed of and how this was assessed.

3.13 We do not consider that applying an ex-ante allowance including the proceeds for scrap material constitutes a policy change as we are not proposing that the position taken with respect to this project should replace the policy in the FD Finance Annex. Instead, we recognise that where there is a reasonable estimate of scrap value, as is the case for this Project, then that estimate should be incorporated ex-ante into the allowance as we are proposing rather than implicitly, and incorrectly, forecasting zero-value for the scrap. Therefore, the allowance for the estimated cost of disposal (net of any scrap proceeds) should be compared to the actual cost and proceeds in the cost return, giving the true up for the difference between the net allowance and the net actual. It is this net difference that we expect to be shared between consumer and shareholder via the TIM.

3.14 Our approach is also consistent with the logic on any Totex allowances where, by fixing an ex-ante value, companies are incentivised to deliver more economically and efficiently (or get a better sale price) than the fixed ex-ante value or benchmark, therefore we have decided to disallow £3.2m for the rebate from cable scrap.

Site accommodation, cable spares and inefficient working costs and associated fees

3.15 In our consultation we proposed to disallow £1.7m of costs towards the three areas below and the contractor fees associated with them:

[15] RIIO-2 Final Determinations – Finance Annex (REVISED) (ofgem.gov.uk), page 122, Disposal of assets.

- Land rental costs for site accommodation which were indicated as having been removed from one of contracts but appeared to be included in the submission
- Cables spares costs as we considered that they are provided for under the RIIO-2 baseline funding[16].
- Inefficient working costs which are associated with the uplift in costs for worker sustenance pay and travel expenses in the North Wales area.

3.16 We did not receive any comments from respondents apart from NGET. They disagreed with the disallowance of land rental cost for site accommodation as they stated that these costs have already been removed from the costs submitted. We engaged further with NGET and they were at this point able to provide an extract of the cost spreadsheet and a breakdown of costs which included the removal for site accommodation costs. They were able to demonstrate how the figures of this spreadsheet reconcile with the submitted cost spreadsheet. We have therefore decided to not disallow this cost as we have now received proof that this cost has been removed previously.

3.17 NGET also disagreed with the removal of cable spares cost and commented that the additional cable and joints are part of a mitigation strategy to ensure that outage periods are not missed during cable installation works in case any issue arise. However, they did not comment whether the provision of spares through the RIIO-2 final determinations would meet the need for spares of this Project, therefore we are considering not to change our view and disallow those costs. NGET did not comment on the disallowance of costs associated with the uplift for worker sustenance pay and travel expenses, therefore we have decided to maintain our position and disallow these costs.

Commodity exposure

3.18 In our consultation we proposed to disallow £3.8m of costs for the difference between our forecast annual consumer price index adjustment to allowances and NGET's forecast of costs on specific commodities and labour over the course of the Project's delivery. We also welcomed any further justification for these costs.

3.19 We received two responses on this topic, including the one from NGET. The respondents expressed concern for the market uncertainty around commodity

[16] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem, Final Determination NGET Annex REVISED.

prices and inflation. One respondent acknowledged the possibility offered by Ofgem to provide evidence to prove the cost and welcomed further engagement with Ofgem on this topic. NGET disagreed with setting an ex-ante allowance on commodity exposure due to the uncertainty of the economy and the market as this approach could be exposing either the TOs or the consumers to unnecessary costs.

3.20 We entertained further conversations on this topic with NGET and proposed that these costs, provided are economic and efficient, could be recovered through a COAE, capped at £3.8m. They expressed their support to this approach, however they disagreed with the application of a cap as the cost ex-post will be determined by the market and cannot be mitigated by NGET.

3.21 We consider that, since we made allowances for inflation risks on the two main contracts, which account for the majority of the funding requested, we are of the view that most of inflation risk costs are already included into the allowances. Moreover, it is not fair for consumers to bear the entirety of the risk on commodity exposure, therefore we remain of the view that the recovery should be made through a ringfenced COAE, capped at £3.8m, if and when the cost materialises.

Telecommunication costs

3.22 In the January 2023 consultation we proposed to allow the funding requested for updates to the operational telecommunications (Optel) network infrastructure. We did not receive any comments on this point therefore confirm our position to allow the full cost requested. However, we want to point out that the RIIO-2 Final Determination outcomes in December 2020 include further Optel refresh schemes across NGET's network from 2023. For the avoidance of doubt, any future Optel funding requests must exclude works funded under the Dinorwig-Pentir project to avoid the double-recovery of costs.

Risk and contingency

General project risk

3.23 In our January 2023 consultation we proposed to allow £9.2m for risk and contingency out of the £18.2m submitted which included both risks borne by NGET and those passed to the contractors.

3.24 During our cost assessment process, we analysed NGET's risk register and classified as ineligible all risks falling under the following categories:

- risks relating to interfaces between NGET's contractors;
- risks which we consider have sufficient coverage within minded-to allow costs;
- risks that should be borne by parties other than the consumer, such as contractors; and
- risks that no longer apply, such as those relating to an event which has passed.

3.25 We did not define the risk allowance at this stage as we did not arrive to an agreed position with the level of risk for the Project.

3.26 We, therefore, changed our approach and passed to a top-down assessment where we calculated the risk allowance by applying a percentage based on NGET's RIIO-T2 settlement where risk and contingency allowance for a typical project was set at 7.5% of the direct capex as applied to NGET's Bengeworth Road GSP project[17].

3.27 We received two responses on our proposal, including NGET. Both respondents disagreed with the top-down approach for assessing risk and they expressed concerns about applying a generic approach to quantify risks, while considered that a bottom-up assessment would be more adequate as it would take into account the specific characteristics of the Project. However, NGET disagreed also with Ofgem's bottom-up approach which classifies the ineligible risks as described above.

3.28 We have considered the responses to our consultation and our decision and the rationale on risk allowances are provided below.

3.29 We have decided to confirm our approach to risk proposed in the consultation, in line with the decision taken for Bengeworth Road project, where we indicated that '*for future projects, we intend to adopt the approach of using our benchmark level to inform our assessment of risk and contingency. We will also consider any compelling evidence of risks that are outside of the scope of comparable onshore projects when determining whether to incorporate any project-specific adjustments to the risk and contingency component of the allowance'*. We hence decided to allow £9.1m in overall upfront risk for the Project. This figure is slightly different from the figure presented in our consultation (£9.2m) as the risk

[17] Decision on NGET's Bengeworth Road GSP project: [National Grid Electricity Transmission (NGET) Bengeworth Road Grid Supply Point (GSP) Project | Ofgem]

disallowance for the shunt reactor portion of the Project, which was incorrectly missed at consultation, has now been included. This figure has also been corrected to include the scrap rebate cost and exclude the 2% overheads into the baseline for the calculation of risk allowance.

3.30 We did not pursue another review of the risk register. NGET disagreed with the eligibility criteria that we consistently use for the analysis of risks of similar projects. We consider that interface risks should be borne by the developer as we provide an allowance to cover for PM costs to minimise these risks. In addition, these risks are better managed by the developer and it is not fair that consumers should pick up these risks in their entirety. The same justification applies also to risks that should be passed on to the contractors.

3.31 We regard the level of risk granted to be appropriate for the Project when taking also into account the contribution of NGET's insurance and liquidated damages arrangements. Any overspend outside this coverage would be treated through the RIIO totex sharing factor[18] (i.e., split between NGET and consumers). We have received two responses to our consultation pointing out that the TIM is an efficiency tool rather than a risk tool, therefore should not be used in this case, rather a greater risk allowance should be granted.

3.32 We disagree with the respondents' view as the TIM is described in the RIIO-2 FDs – Core Document as both an efficiency mechanism and a protection from overspend[19] as follows: "The TIM is designed to encourage network companies to improve efficiency in delivery and ensures that the benefits of these efficiencies are shared with consumers. It also provides some protection to companies from overspends, as the costs of overspends are also shared with consumers". Uncertainty mechanisms are intended to deal with risks arising from uncertainty therefore are useful in setting allowances in uncertain circumstances, for network investment needed in future to facilitate the energy transition.

[18] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem, Final Determination NGET Annex REVISED – page 40.

[19] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem, Final Determinations: Core Document, p.131

<u>Pain-share of contract risk</u>

3.33 NGET submitted £[redacted] of costs associated with pain-share arrangements with two of its main works contractors. This represents the costs NGET could potentially incur on these contracts in case of overspend.

3.34 In our consultation we indicated we would disallow these costs as part of the risk and contingency costs and proposed the following two options for which we welcome stakeholder feedback to inform our decision on which option to apply:

- Option 1: We disallow these costs and any resulting costs from NGET's exposure to the pain-share of risk is dealt with through the TIM (see section 3.31 above). This is consistent with NGET's proposal on the treatment of any resulting gain-share from its contractual arrangements.
- Option 2: NGET can recover justified and efficiently incurred future pain-share costs through a new, no-threshold, ringfenced part of the Cost and Output Adjusting Event (COAE).

3.35 We received three responses to this point, including NGET, and all respondents supported option 2. NGET, however disagreed with the application of a cap to the recovery of costs based on the amount of the ex-ante request.

3.36 We have decided to apply 'Option 2' to the treatment of the pain-share of contract risks, capped at the established value of £2.8m.

<u>High impact, low probability (HILP) and difficult to quantify risks</u>

3.37 As mentioned in our consultation, risks which are highly unlikely to occur, but that would have a high-cost impact if they did, and certain risks that are difficult to quantify up-front, should not be included in the ex-ante cost allowances at Project Assessment. In the event these risks occur, they should be considered for funding through a specific and targeted cost reopener mechanism. This approach serves two purposes:

- It prevents consumers unnecessarily paying for risks which are highly unlikely to occur or are difficult to robustly quantify before they occur.
- It provides NGET with comfort that if a high cost risk occurs, that is beyond its control and that has a material impact on overall project cost, it would be funded for the efficient costs that it incurs relating to that risk.

3.38 NGET's licence already includes a Cost and Output Adjusting Event (COAE) provision within the LOTI re-opener condition[20] that allows the recovery of costs associated with some HILP risks for a LOTI re-opener project. In our consultation we proposed to modify this provision to reduce the COAE threshold for the Dinorwig-Pentir project from 20% to 10% of total Project capex. We consider that this provides a reasonable equivalent capital threshold for a project of this size. This approach is consistent with the 10% COAE threshold we set on NGET's Hinkley Seabank project, NGET/SPT's Western HVDC project and the SSEN Transmission's Shetland HVDC link project.

3.39 The effect of this change would be that if one or more relevant qualifying risks occurred during the construction period of the Project, and the total cumulative impact was 10% or above of total project cost allowance, under the LOTI re-opener, NGET would receive full funding for the efficient costs of addressing those risks.

3.40 We have decided to proceed with option 2 in paragraph 3.34 above and therefore we have decided to modify the COAE provision for the Project to include a ringfenced no-threshold section for pain-share costs capped at the established value included in the licence; this position is consistent with the decision at section 3.21. We recognise that the contract terms for pain-share arrangements represent value for consumers, however the potential pain-share cost of £[redacted] remains uncertain. Any proportion of these costs would be reviewed to ensure that they are economic and efficient.

3.41 We consider that the upfront risk allowances, the proportion of project risk that NGET has transferred to its contractors and the COAE (with a 10% threshold and no threshold for pain-share of contract risks and commodity risk exposure) altogether provide an appropriate level of cover against the risk profile of the Dinorwig-Pentir project.

Output and delivery date

3.42 In our January 2023 consultation, we proposed the output and delivery dates that we considered the Dinorwig-Pentir project should meet.

3.43 We proposed two outputs, namely:

- Dinorwig-Pentir circuits: this output includes the following components:

[20] NGET Electricity transmission licence - Special Condition 3.13, Part G:v [National Grid Electricity Transmission plc - Special Conditions Consolidated - Current Version.pdf (ofgem.gov.uk)]

(1) Construction of a new 400kV Gas Insulated Switchgear (GIS) double busbar substation at Dinorwig Power Station, Gwynedd;

(2) Extension of Pentir substation with a new double busbar, accommodating one additional cable feeder bay for the new third circuit, and modifications to existing bay and associated protection and control measures;

(3) Replacement of two existing oil-filled cable circuits with three new cross-linked polyethylene (XLPE) cable circuits between Dinorwig Power Station and Pentir substation;

(4) Installation of a new 200 MVA shunt reactor at Wylfa substation, Newydd; and

- Dinorwig-Pentir decommissioning: this output includes the timely decommissioning, removal, and disposal of all primary and ancillary assets in the scope of the Project.

3.44 NGET confirmed that the programme of works had been sequenced to ensure that two circuits remain in service during the construction period. The sequence of works will incorporate three outage windows, one for each circuit between April and June in 2024, 2025 and 2026.

3.45 NGET had proposed a delivery date of December 2026 for the completion of the Dinorwig-Pentir connect with the decommissioning works to be completed in 2028. To provide specific dates for delivery assessment we were minded to set the delivery dates for the outputs as follows:

3.46 Dinorwig-Pentir circuits output: 31 December 2026 – the last day of the period proposed by NGET.

3.47 Dinorwig-Pentir decommissioning output: 31 March 2028 - the last day of the 2027/2028 financial year.

3.48 We proposed that delivery of the Dinorwig-Pentir circuits output, for the purposes of satisfying the LOTI delivery date, will be taken at the point the link is made fully and freely available to the Electricity Transmission System Operator.

3.49 In response to our January 2023 consultation we received three comments (including NGET) regarding outputs and delivery dates. All respondents agreed with the delivery date, however NGET commented that the word ’by’ should be introduced before the date to better specify the delivery terms.

3.50 Of the three respondents two agreed with the outputs set, while NGET did not agree with the outputs as reported in our consultation documents and provided the following amendments:

(2) '*Extension of Pentir substation with a new double busbar'* is incorrect and should be '*extension of the Pentir Substation with **an extension of the double busbar**'*; and

(3) '*Replacement of […] circuits between Dinorwig Power Station and Pentir substation'* should be corrected as '*Replacement of […] circuits between **Dinorwig substation** and Pentir substation'*.

Our decision

3.51 In consideration of the responses received to our January consultation, we have decided to set the delivery dates for the Project as follow:

- Dinorwig-Pentir circuits output by 31 December 2026 – the last day of the period proposed by NGET.
- Dinorwig-Pentir decommissioning output by 31 March 2028 - the last day of the 2027/2028 financial year.

We have also considered the comments provided around outputs and have decided to accept the corrections to the Project output as set under section 3.50 above.

3.52 The delivery dates and amended outputs will feed into the implementation of the Large Project Delivery framework discussed below.

Large project delivery (LPD) framework

3.53 We introduced the LPD framework through our RIIO-2 Final Determinations[21] to incentivise timely delivery and minimise the detriment to consumers of late project delivery. The framework consists of the Re-profiling, Milestone-Based Approach and Project Delay Charge mechanisms. Additional information on the LPD framework is provided in the LOTI re-opener guidance[22].

3.54 We proposed to apply Re-profiling of allowances to the Dinorwig-Pentir project, which would remove any financial benefit to NGET from delayed project delivery.

[21] RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem, core document sections 4.59-4.62
Large Onshore Transmission Investments (LOTI) Re-opener Guidance | Ofgem, paragraphs 7.13 – 7.26.

3.55 We did not propose to apply the Milestone-Based Approach to the project because this would introduce additional delay-risk due to the contracting and expected delivery timeline for the Project. Additionally, we can apply either Re-profiling or Milestone-Based Approach, but not both.

3.56 We had also considered whether to apply a Project Delay Charge (PDC) should the Project be delayed beyond the proposed delivery date. As a result of the construction and delivery approach of the Project (see section 3.53 above), we consider that a delay beyond the proposed delivery date would result in little to no detriment to consumers. We did therefore propose not to apply a PCD to the Project.

3.57 We received four responses to our consultation and all agreed with our proposal, therefore we decided not to apply a PDC for the reasons stated in sections 3.56-3.58 above.

Modifications to Special Condition 3.13 of NGET's licence

3.58 In our January 2023 consultation we proposed to modify Special Condition 3.13 to include the delivery of the Dinorwig-Pentir project since, currently, the Project is not specified as an output for NGET. This is necessary to ensure that NGET has clear outputs for the delivery of this project in its licence. The effect of the modifications will be that the Project is a clear deliverable within NGET's licence. In accordance with the licence, we specify the outputs, delivery date and allowances for the Dinorwig-Pentir cable replacement shown at Appendix 2 of Special Condition 3.13.

3.59 We proposed to make modifications to the existing COAE provisions in Special Condition 3.13 of NGET's licence. We also proposed to introduce a new "Part I" in Special Condition 3.13 of NGET's licence. The reasons and effects for this introduction are provided in paragraphs 3.52 of this document.

3.60 We received three responses regarding the licence modifications. NGET proposed the corrections to apply. One respondent agreed with our proposal and another sought clarification on Ofgem approach of producing generic changes to the licence conditions based on project specific assessments and how these changes should be interpreted.

3.61 The reasons and effects for the modifications to the existing COAE provisions of Special Condition 3.13 are provided in paragraphs 3.34 to 3.37 of this document.

3.62 In consideration of these responses, and for the reasons set out above, our decision is that the proposed output and delivery dates and implementation of the

LPD framework are appropriate. These will be implemented in licence modifications, notice of which is included in Appendix 2 of this document.

Next Steps

Section summary

This section sets out the next steps associated with this decision.

3.63 As detailed in Appendix 2 of this document, we are modifying Special Condition 3.13 of NGET Transmission's licence. The modifications will take effect from 07 August 2023.

3.64 This document has detailed our decision on cost allowances for the delivery of the Dinorwig-Pentir project which have been set at £141.8m.

Appendices

Index

Appendix 1 – Summary of responses to our January 2023 consultation

A1.1 In January 2023, we published a consultation on our assessment of capital costs for the Project. That consultation set out our minded-to position on the allowable costs for the Project.

A1.2 We received five consultation responses in total, including NGET. Four of them came from electricity network companies and one came from the ESO.

A1.3 All of the non-confidential responses to our consultation are published on our website alongside this publication.

A1.4 Below is a summary of responses to our January 2023 consultation.

Chapter 2: Overview of our January 2023 Consultation and Responses

Q1: Do you agree with our proposed cost allowances for the Dinorwig-Pentir project?

A1.5 We received four comments about the cost allowances. Three respondents disagree with the treatment of cable scrap. Two respondents, including NGET, view the disallowance of the proceeds from the cable scrap as a policy change, the third respondent sought clarification on the treatment of proceeds from the disposal of assets.

A1.6 Two respondents, including NGET, disagreed on the disallowance on commodity exposure. One respondent disagreed with the application of a cap and was of the opinion that establishing an ex-ante allowance is neither in the interest of consumers not of the TO, especially in uncertain economic situations, while an evaluation ex-post would be more appropriate. The other respondent expressed concern for the disallowance due to the current (and possibly future) commodity costs being higher than the inflation rate and welcomed further engagement with Ofgem on this topic.

A1.7 One respondent expressed concern for the presence of a fixed threshold for COAEs and suggested an adaptive threshold, in particular for larger projects.

A1.8 Two respondents, including NGET, disagreed with the top-down approach using a set percentage for establishing the Project's risk allowance and also with using the TIM to recover any overspending, stating that the TIM is an efficiency tool and should not be used as a risk tool.

A1.9 Two respondents, including NGET, were supportive of the use of option 2 for the treatment of contracts' risks, provided no threshold was applied for this particular claim.

Chapter 3: Proposed Output and Delivery Date for the Dinorwig-Pentir project

Q2: Do you agree with our proposed output and delivery date for this Project?

A1.10 We received a total of three comments regarding output and delivery dates. All three respondents agreed with delivery dates and two respondents with output, although NGET highlighted mistakes in the output as stated in the consultation and indicated what needs to be corrected.

Q3: Do you agree with our view on the implementation of the Large ProjectDelivery (LPD) mechanisms - Re-Profiling and Project Delay Change - on this project? In particular, do you have a view on our proposal not to apply a Project Delay Charge?

A1.11 We received a total of four responses and all expressed agreement for not to apply a PDC for the Project as the detriment to consumers would be negligeable.

Chapter 4: Proposed Licence Modifications for the delivery of the Dinorwig-Pentir project

Q4: Do you agree with our proposed modifications to Special Condition 3.13 of NGET's transmission licence?

A1.12 We received three responses regarding the licence modification. One respondent expressed agreement, another one expressed concern for generic modifications applied as a consequence of project specific changes. NGET, the third respondent highlighted corrections to those modification proposed which were not reflective of the current licence and suggested additional changes to the licence as reported in Annex 1.

Appendix 2 – Modification of the Special Conditions of NGET licence

To: National Grid Electricity Transmission Plc

Electricity Act 1989

Section 11A(1)(a)

Modification of the Special Conditions of the electricity transmission licence held by the above licensee

1. National Grid Electricity Transmission Plc is the holder of an Electricity Transmission licence ("the Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").

2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')[23] gave notice on 27 January 2023 ("the Notice") that we propose to modify special condition 3.13 (Large onshore transmission investment Re-opener (LOTIAt and LOTIREt) of the Licence. We stated that any representations to the modification proposal must be made on or before the 8th March 2023.

3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.

4. We received three responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out at section 3.60-3.64 of this document.

5. It is necessary to make a number of alterations to the modifications set out in the Notice. An incorrect baseline was used in the consultation therefore we will use the correct baseline in this document and highlight in green the corrections to the baseline; we will also highlight in yellow and double underscore any new text and strike through any deleted text and any minor changes. The reasons for any differences between the modifications set out in the Notice and the modifications

[23] The terms "the Authority", "we" and "us" are used interchangeably in this document.

reflected in Annex 1 are to correct minor typographical errors, address minor issues and corrections raised in consultation responses.

6. We are making these licence changes because the Dinorwig-Pentir project is not specified as an output for NGET.

7. The effect of the modifications will be to include the delivery of the Dinorwig-Pentir project and to make modifications to the existing COAE provisions. Further detail on the reasons and effects of the proposed modifications can be found in paragraphs 4.2 to 4.4 of chapter 4 of the consultation document[24].

8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules[25] requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the Special condition 3.13 (part G) of the Electricity Transmission Licence of National Grid Electricity Transmission Plc in the manner specified in attached Schedule 1. This decision will take effect from 07 August 2023.

This document is notice to the reasons for the decision to modify the Electricity Transmission licence held by National Grid Electricity Transmission Plc as required by section 49A(2) of the Act.

…………………………………………….

Phillip Heyden

Head of Offshore Cost Assessment

Duly Authorised on behalf of the

Gas and Electricity Markets Authority **12/06/2023**

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[24] Dinorwig-Pentir: Project Assessment Consultation | Ofgem, p.27.
[25] CMA70
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Annex 1 – Amended licence conditions

Modifications to Special Condition 3.13 of NGET's licence

As referred to in paragraphs 3.60-3.64, we are making the following modifications to Special Condition 3.13 (part G) of NGET's licence. The changes are shown as follows:

- Correct template, where different from the one used in consultation - font colour black with green highlighting
- New text - font colour black and double underscore
- Deleted text – font colour black and strike through
- Minor changes following the statutory consultation Notice – as above with yellow highlighting.

The changes relate to:

(i) – The amendment of part G of Special Condition 3.13;

(ii) – The insertion of part 'I' into Special Condition 3.13.

(iii) - The insertion of a new column, outputs, delivery date and allowances to Appendix 2.

(i) - The amendment of part G of Special Condition 3.13

Part G: Cost And Output Adjusting Event

3.13.15 The licensee may apply to the Authority for a direction under this Part amending a LOTI Output, delivery date or associated allowances in Appendix 2 where:

(a) there has been one or more Cost And Output Adjusting Events; and

(b) if the following requirements are met:

i. the licensee could not have reasonably foreseen the event or events; and

ii. the licensee could not have economically and efficiently planned a contingency for the event or events.

3.13.16 The licensee may only apply for a direction under this Part to adjust allowances in Appendix 2 where:

(a) expenditure has been caused to increase or decrease by at least the percentage specified in, or in accordance with, paragraph 3.13.17, calculated before the application of the Totex Incentive Strength, relative to the relevant allowance in Appendix 2 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 LOTI Output should count cumulatively towards the percentage threshold, by any one or more events; or

iii. for the purposes of the LOTI Output beginning with the words 'Hinkley – Seabank', by any one or more events; and

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

3.13.17 The percentage referred to in paragraph 3.13.16 is:

(a) 20%;

(b) such other percentage as the Authority may specify by direction; ~~or~~

(c) for the purposes of the LOTI Output beginning with the words 'Hinkley – Seabank', 10%; or

(d) for the purposes of the LOTI Output beginning with the words 'Dinorwig-Pentir'

(i) 10% for costs other than pain-share risk costs (being the costs incurred by the licensee in relation to contractual liability for pain-share costs between the licensee and its contractors delivery works over the course of the project) and commodity risk costs (being the costs associated with the difference between the Authority's annual consumer price index adjustment to allowances and the licensee's forecast of costs in relation to specific commodities and labour over the course of the project); and

(ii) 0% for pain-share risk costs up to a cap of £2.8m

(iii) 0% for commodity risk costs up to a cap of £3.8m

3.13.18 Unless the Authority otherwise directs, the licensee must make any application not later than before the end of the period of three months beginning with the delivery date for the LOTI Output.

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

(a) include detailed supporting evidence that a Cost And Output Adjusting Event meeting the requirements set out in paragraphs 3.13.15, and where applicable 3.13.16, has occurred;

(b) set out any amendments requested to the LOTI Output, the delivery date or associated allowances in Appendix 2;

(c) explain the basis of the calculation for any proposed adjustment to the allowances in Appendix 2, which must be designed to keep, so far as is reasonably practicable, the financial position of the licensee the same as if the 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 LOTI Output, the proposed adjustments to the LOTI Output, the delivery date or associated allowances fairly reflect the effects of the Cost And Output Adjusting Event.

3.13.20 A direction under this Part may modify Appendix 2 to:

(a) amend the description of the LOTI Output to which the Cost and Output Adjusting Event relates;

(b) adjust allowances for that LOTI Output;

(c) amend the delivery date for that LOTI Output.

3.13.21 The Authority may make a direction under this Part where:

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

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

(c) the requirements of paragraphs 3.13.15 to 3.13.19, where applicable, have been met; and

(d) the proposed modifications to Appendix 2 have the effect so far as is reasonably practicable of keeping the financial position and performance of the licensee the same as if the Cost And Output Adjusting Event had not occurred.

3.13.22 Before making a direction under this Part, 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.

Part H: LOTI Guidance and Submissions Requirements Document

3.13.23 The licensee must comply with the LOTI Guidance and Submissions Requirements Document when making an application under Part B or Part G, seeking approval under Part D or Part F or making a submission under Part E.

3.13.24 The Authority will issue and amend the LOTI Guidance and Submissions Requirements Document by direction.

3.13.25 The Authority will publish the LOTI Guidance and Submissions Requirements Document on the Authority's Website.

3.13.26 The LOTI Guidance and Submissions Requirements Document will make provision about the detailed requirements for Parts B, D, E, F and G.

3.13.27 Before directing that the LOTI Guidance and Submissions Requirements Document comes into effect, the Authority will publish on the Authority's Website:

(a) the text of the proposed LOTI Guidance and Submissions Requirements Document;

(b) the date on which the Authority intends the LOTI 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 LOTI Guidance and Submissions Requirements Document, which will not be less than 28 days.

3.13.28 Before directing an amendment to the LOTI Guidance and Submissions Requirements Document, the Authority will publish on the Authority's Website:

(a) the text of the amended LOTI Guidance and Submissions Requirements Document;

(b) the date on which the Authority intends the amended LOTI Guidance and Submissions Requirements Document to come into effect;

(c) the reasons for the amendments to the LOTI Guidance and Submissions Requirements Document; and

(d) a period during which representations may be made on the amendments to the LOTI Guidance and Submissions Requirements Document, which will not be less than 28 days.

(ii) - The insertion of part I into Special Condition 3.13

Part I: Large project delivery adjustments

3.13.29 In relation to the LOTI Outputs beginning with the words “Dinorwig-Pentir” where the LOTI Outputs are not Fully Delivered the Authority will make modifications to the special conditions of this licence to reprofile the allowances specified in Appendix 2 in relation to those LOTI Outputs.

3.13.30 Any modifications under paragraph 3.13.29 will be made under section 11A of the Act.

Appendix 1

LOTI baseline allowances (LOTIAt) by Regulatory Year (£m)

Regulatory Year					Total Allowance (All years)
21/22	**22/23**	**23/24**	**24/25**	**25/26**	
Have the values given in the NGET Redacted Information Document.					

(iii) - The insertion of a new column, outputs, delivery date and allowances to Appendix 2

Appendix 2

LOTI Outputs, delivery dates and allowances (£m)

LOTI Output	Delivery date	2021/22	2022/23	2023/24	2024/25	2026/27	2025/26	2027/28
Hinkley – Seabank, as specified in Table 5 of Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) of this licence as in force on 31 March 2021.	31 December 2024	Have the values given in the NGET Redacted Information Document.						
Dinorwig-Pentir: construct, energise and make freely and fully available to the ESO the circuits of this project	By 31 December 2026	7.3	21.7	29.6	30.9	26.5	0.0	0.0
Dinorwig-Pentir: decommissioning, removal, and disposal of all primary and ancillary assets in the scope of this project	By 31 March 2028	0.0	0.0	0.0	0.0	0.0	19.1	6.7