



Making a positive difference
for energy consumers

Matthew Seed
OFTO Transaction Manager
Seagreen Wind Energy Limited
1 Waterloo Street
Glasgow
G2 6AY

Our Ref: ITV letter
Direct Dial: 0207 901 0516

Email: phillip.heyden@ofgem.gov.uk

Date: 9 April 2024

Dear Matthew,

Indicative Transfer Value for the Seagreen Phase 1 Offshore Windfarm Transmission assets

Introduction

1. The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015 (the **Tender Regulations**) provide the legal framework for the process which Ofgem¹ runs for the grant of offshore electricity transmission licences. Regulation 4 of the Tender Regulations sets out the requirement for the Authority to calculate, based on all relevant information available to it, the economic and efficient costs which ought to be, or ought to have been, incurred in connection with the development and construction of the transmission assets. This process for calculating the economic and efficient costs includes a number of stages, starting with our confirmation of the Initial Transfer Value (**InTV**), progressing to the Indicative Transfer Value (**ITV**), and culminating in our determination of the Final Transfer Value (**FTV**) for the project.
2. We wrote to Seagreen Wind Energy Limited (the **Developer**) on 14 December 2021, confirming that the £633.3m forecast of costs provided to us on 22 October 2021, for the development and construction (including financing) of the Seagreen Phase 1

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

Offshore Windfarm transmission assets (the **Project**), would be taken as its InTV. This value was included in the Enhanced Pre-Qualification (**EPQ**) document and the preliminary information memorandum for the commencement of the EPQ stage of the Project.

3. As part of its ITV submission, the Developer submitted a cost assessment template (the **CAT**) on 10 January 2022. The Developer subsequently provided an updated version on 22 May 2022. The first version of the CAT was used for the Ofgem analysis of submitted costs as the subsequent version included no change to submitted costs but included additional dataroom references. The updated version was used for the forensic analysis by our independent accounting consultants, Grant Thornton (**GT**).
4. We have now completed the review of the CAT and ancillary cost information provided by the Developer. This letter sets out:
 - a) An overview of the work that has been undertaken to estimate the ITV;
 - b) Our decision to set £588.0 m² as the ITV for the Project; and
 - c) The next steps in the cost assessment process.
5. We note that all costs set at this ITV stage may be revisited at the FTV stage and, unless explicitly stated that a cost item is closed, the Developer may be required to provide further justification for costs during discussions to set the FTV.

Overview of work to arrive at the ITV

6. We have engaged extensively with the Developer to understand the costs submitted and supporting information, and used these discussions to inform our view of what constitutes the economic and efficient cost for the development and construction of the Project. We have calculated the ITV based on:
 - a) A forensic accounting review of the cost submissions;
 - b) Additional information provided by the Developer to substantiate costs; and
 - c) Our review of the efficiency of costs, across relevant cost categories.

² For reference, the full figure is £588,035,720

Findings of the ITV review

7. Table 1 provides an overview of the total cost adjustments we made to the Developer's costs submissions that were set out in the CAT. These values include adjustments made by the Developer, GT and by us.

*Table 1 – Overall ITV adjustment**

Cost	Developer's submitted cost in the CAT (£m)	Adjustment (£m)	ITV (£m)
Capital expenditure and development costs	589.6	-75.4	514.2
Interest During Construction (IDC)	87.9	-14.0	73.9
Total	677.4	-89.4	£588.0

**Figures have been rounded and total may not sum up.*

8. The following sections provide a high-level summary of the adjustments that we made to the individual cost categories for the Project. The Appendix provides further details on the adjustments, covering each of them individually and including more information on the rationale behind each adjustment.
9. Please note that we derived the values within this letter from spreadsheets and the values have been rounded therefore, in some cases, the total may not sum up.

GT ex-ante review

10. As a result of the investigation conducted, GT have highlighted a total amount of unsubstantiated costs of £36.9m across all cost categories. Adjustments have been made to these where an insufficient level of documentation was provided to justify the cost.

Offshore substation platform (OSP)

11. Following our ITV review, we have applied an overall reduction to the OSP category of £39.3m, made up by the following adjustments:
- a) a reduction of £13.4m for generator weight contribution on the OSP. We note that this is a holding value, derived from the Ofgem model. The Developer has stated that it will submit further justification at FTV stage;

- b) a reduction of £11.6m for unsubstantiated claims and variations including some costs related to the COVID-19 pandemic;
- c) a reduction of £14.1m for costs which were identified as non-transmission costs;
- d) a reduction of £0.2m for electrical studies which were a result of generation design changes;
- e) a reduction of £0.1m for PSCAD model tuning to remove generation share of costs;
- f) a positive re-allocation for external resource costs that relate to the OSP but were included in the submission under development costs; and
- g) a positive adjustment of £0.1m for metals and fuels adjustments identified by the Developer.

12. As a result of the above adjustments, we have estimated the value of £158.0m to reflect the cost of the OSP for the ITV.

Submarine cable

13. Following our ITV review, we have made an overall reduction of £12.4m to the submarine cable cost category, consisting of the following adjustments:

- a) a reduction of £6.5m for unsubstantiated costs that have either not yet been determined, or have a pending open variation;
- b) a reduction of £1.5m for fibre optic cables used by the generator for generation purposes determined by the Ofgem model. The Developer will provide a technical response to this in their FTV submission;
- c) a reduction of £1.0m for costs paid to a contractor to accelerate landfall works;
- d) a reduction of £0.4m for costs incurred twice due to an offshore survey being completed in two parts. This was driven by the late conclusion of fishermen cooperation agreements;
- e) a reduction of £0.9m for unsubstantiated claims and variations; and
- f) a reduction of £2.1m for costs which were identified as non-transmission costs.

14. As a result of the adjustments above, we have estimated the value of £160.2m to reflect the cost of the submarine cable at ITV.

Onshore cables

15. The Developer submitted costs in the CAT for the design, fabrication, installation, and project management for the onshore cables.

16. Following our ITV review, we have made an overall reduction of £3.0m, made up by the following adjustments:

- a) a reduction of £1.2m for fibre optic cables used by the generator for generation purposes determined by the Ofgem model. The Developer will provide a technical response to this in their FTV submission;
- b) a reduction of £1.1m for unsubstantiated costs that have not yet been determined; and
- c) a reduction of £0.7m for costs paid as compensation to Carnoustie Golf Course that we view as not economic and efficient and surplus to requirements.

17. As a result of the above adjustments, we estimated the value of £77.3m to reflect the cost of the onshore cables for the ITV.

Onshore substation (ONSS)

18. The Developer submitted costs in the CAT for the design, construction, and project management of the onshore substation.

19. Following our ITV review, we made an overall reduction of £8.5m, made up by the following adjustments:

- a) a reduction of £5.0m for the area of the onshore substation occupied by generation equipment for generation use determined by the Ofgem model. The Developer will provide a technical response to this in their FTV submission; and
- b) a reduction of £3.5m for unsubstantiated claims and variations including some costs related to the COVID-19 pandemic.

20. Based on the above adjustments, we have estimated the value of the onshore substation for the ITV at £64.8m.

Reactive compensation equipment (RCE)

21. The Developer submitted costs in the CAT for the design, supply, installation, commissioning, and project management of the RCE. We have not applied an adjustment to this category and consequently, we have estimated the cost in the RCE category to be £22.4m.

Connection works

22. The Developer submitted £8.7m in costs for the connection works undertaken to connect to the 275kV transmission system. Following our ITV review, we have made the following adjustments:

- a) a reduction of £4.8m for costs paid to accelerate connection works to meet a generation-led deadline; and
- b) a reduction of £1.1m for costs related to intertrip equipment.

23. Based on the above adjustments, we have estimated the value of the connection works for the ITV at £2.9m.

Other costs

24. The Developer submitted costs, including end-to-end project management and development costs, into the category "Other costs".

25. Following our ITV review, we have reduced the costs of this category by £6.3m. The adjustments applied consisted of:

- a) a reduction of £2.5m for shareholder interest payments which are covered by IDC allowances;
- b) a reduction of £1.4m for duplicated costs identified by the Developer;
- c) a reduction of £0.9m for Delay in Start Up (DSU) insurance;
- d) a reduction of £0.8m for financial advisory costs which are covered by IDC allowances;
- e) a reduction of £0.5m to remove an assumed 10% mark-up in internal staff costs;
- f) a reduction of £0.1m to re-allocate external resource which was related to work carried out on the OSP as well as an adjustment to the transmission/Generator split.
- g) a reduction of £0.1m for LiDAR costs which relate to the generation assets.

26. Based on the above adjustments, we estimated the value of this category for the ITV to be £26.2m.

Transaction costs

27. The Developer submitted transaction costs of £2.5m in the CAT.
28. Transaction costs are, at this stage, not fully defined and are, in the main, an estimate of costs. We have not applied any adjustment at this stage and these costs will be fully reviewed at the FTV stage.

Interest During Construction (IDC)

29. The Developer submitted costs in the CAT for the Project's IDC. We have made an overall reduction of £14.0m to the IDC. This included:
- a) a reduction of £11.0m based on the level of cost disallowances made at the ITV review;
 - b) a reduction of £1.8m during the period of judicial review; and
 - c) a reduction of £1.2m for adjusting the duration of the pre-FID period to reflect the economic and efficient duration under the Section 36 regime.
30. As with each of the costs at the ITV stage, this IDC figure is likely to be revised in response to any new adjustments or disallowances arising from the FTV assessment. We will also make an adjustment to IDC at FTV stage to reflect when the assets have become available for generation use. Based on these adjustments, we have included an estimated value of £73.9m for the Project's IDC.

Next steps

31. The cost assessment process for the Project will now proceed to the FTV assessment stage. To inform our FTV assessment, we intend to work closely with the Developer and will consider further updates from the Developer on costs as the Project progresses and any new information that is submitted, including those related to certain costs disallowed at ITV. The FTV process will involve the following:
- a) An ex-post forensic review; and
 - b) A detailed review of the Project's capex and development costs, including, but not limited to:
 - i. offshore substation generator weight contribution,

- ii. onshore substation, including land costs, and space retained for generator use,
- iii. onshore and offshore cable fibre cost allocations,
- iv. CR8 – ‘other’ costs, including consenting,
- v. land costs that had been excluded from the ITV CAT,
- vi. all costs marked in this letter as unsubstantiated, including COVID-19 claims,
- vii. spares for onshore and offshore cable,
- viii. IDC – first power date(s), pre-FID duration.

32. These reviews may be assisted by independent technical consultants.

33. If you have any questions regarding this letter, please contact Andrew Martin, 0141 354 5450, Andrew.martin@ofgem.gov.uk in the first instance.

Yours sincerely,



Phill Heyden
Head of Offshore Cost Assessment

Appendix: Reconciliation of costs

1. This appendix provides a detailed summary of the adjustments that have been applied to the Developer's CAT submission for estimating the ITV.

Table 2 - Adjustments made to cost categories*

Cost category	Submitted cost (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
Offshore Substation	197.3	-39.3	158.0	-13.4	Ofgem - Generator equipment weight contribution to the OSP
				-8.0	Ofgem - Unsubstantiated COVID-19 claims
				-7.7	Ofgem - Non-transmission costs
				-4.8	Seagreen - Non-transmission costs
				-3.1	Ofgem - Unsubstantiated costs for undetermined claims/variations
				-1.1	Ofgem - Non-transmission costs
				-0.5	Seagreen - Non-transmission costs
				-0.5	Ofgem - Unsubstantiated costs for open variations
				-0.2	Ofgem - Electrical studies resulting from generation design changes
				-0.1	Ofgem - PSCAD model tuning removal of generation share
				0.1	Ofgem - re-allocation of external resource cost from development cost category
				0.0	Seagreen (£270) - Metals and fuels adjustment
Submarine Cables	172.6	-12.4	160.2	-3.9	Ofgem - Unsubstantiated costs for open variations
				-2.5	Ofgem - Unsubstantiated costs for undetermined claims/variations
				-2.1	GT - Unsubstantiated costs for undetermined claims/variations
				-1.5	Ofgem - Generator fibre on offshore cable
				-1.0	Ofgem - Acceleration payment to contractor for landfall works
				-0.9	GT - Unsubstantiated costs for open variations
				-0.4	Ofgem - Costs incurred twice due to completion of survey in two parts
Onshore Cables	80.3	-3.0	77.3	-1.2	Ofgem - Generator fibre on onshore cable
				-1.1	Ofgem - Unsubstantiated costs for undetermined claims/variations
				-0.3	Ofgem - O&M costs included within 'administrative overheads' compensation to Carnoustie Golf Course
				-0.2	Ofgem - Golf course maintenance and condition compensation paid to Carnoustie Golf Course
				-0.2	Ofgem - Carnoustie Hotel compensation paid to Carnoustie Golf Course
				-0.1	Ofgem (£50k) - Compensation for loss of major tournaments at Carnoustie Golf Course
Onshore substation	73.3	-8.5	65.1	-5.0	Ofgem - Generator space occupied in onshore substation
				-1.8	Ofgem - Unsubstantiated COVID-19 claims
				-1.4	Ofgem - Unsubstantiated costs for open variations
				-0.3	GT - Difference in CAT and payment plan values upon translation to GBP
Reactive	22.4	0.0	22.4	-	
Connection	8.7	-5.9	2.9	-4.8	Ofgem - Acceleration payment to meet generation-led deadline
				-1.1	Ofgem - Costs related to intertrip equipment
Other Costs	32.5	-6.3	26.2	-2.5	Ofgem - Shareholder interest payments
				-1.4	Seagreen - Duplicated costs
				-0.9	Ofgem - DSU insurance
				-0.8	Ofgem - Financial advisory costs covered by IDC
				-0.5	Ofgem - 10% CMA rate mark-up removed

				-0.1	Ofgem – Costs re-allocated to the OSP category
				-0.1	Ofgem - LiDAR costs related to WTG
				-0.0	Ofgem (£1.5k) – Reduction in transmission allocation from 50% to 41%
Transaction costs	2.5	0	2.5	-	
Total (exc. IDC)	589.6	-75.4	514.2		
IDC	87.9	-14.0	73.9	-11.0	Ofgem - Adjustment based on disallowances made at ITV
				-1.8	Ofgem - Adjustment for IDC during period of judicial review
				-1.2	Ofgem – Adjustment to the duration of the pre-FID period
					TBC: Ofgem - Adjustment based on ION-B dates
Total (incl. IDC)	677.4	-89.4	588.0		

*Totals may not reconcile due to rounding.

2. The following sections provide further information on the adjustments that we made to each cost category, including a detailed explanation of our rationale behind each adjustment. Please note that figures in all the tables have been rounded, therefore totals may not reconcile.

Offshore substation

Table 3 - Adjustments made to the offshore substation category

Cost category	Submitted cost (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
Offshore Substation	197.3	-39.3	158.0	-13.4	Ofgem - Generator equipment weight contribution to the OSP
				-8.0	Ofgem – Unsubstantiated COVID-19 claims
				-7.7	Ofgem - Non-transmission costs
				-4.8	Seagreen - Non-transmission costs
				-3.1	Ofgem - Unsubstantiated costs for undetermined claims/variations
				-1.1	Ofgem - Non-transmission costs
				-0.5	Seagreen - Non-transmission costs
				-0.5	Ofgem - Unsubstantiated costs for open variations
				-0.2	Ofgem – Electrical studies resulting from generation design changes
				-0.1	Ofgem - PSCAD model tuning for WTG and generation system
				0.1	Ofgem – re-allocation of external resource cost from development cost category
				0.0	Seagreen (£270) - Metals and fuels adjustment

- 2.1. As Table 3 shows, we have calculated a value of £158.0m for this cost category. We have made a reduction of £39.3m to the Developer's submitted costs. We have provided a rationale below and have made adjustments of:

- 2.1.1. A reduction of £13.4m to the OSP costs. These costs take account of transmission and generator assets located on the OSP, apportioning overall costs based on the weight of these assets. This reduction accounts for the

proportion of costs relating to generation assets indicated by the Ofgem model. The Developer has stated that they have commissioned a third-party study to calculate what they view is the generation weight contribution to the OSP. Therefore, this value is a holding value until that study has been submitted by the developer and reviewed by Ofgem at the FTV stage.

- 2.1.2. A reduction of £11.6m for unsubstantiated claims or variations. These costs are currently estimated based on information from the contractor but remain unsettled. The developer did not provide a substantiation of these costs during the ITV review, and therefore these costs have been removed from the ITV.
- 2.1.3. A reduction of £8.8m for costs that do not relate to the transmission assets but were included in contract costs submitted by the Developer.
- 2.1.4. A reduction of £5.3m for costs identified by the Developer. These costs relate to pigtail variations and J-tube repurposing which are not relevant to the transmission assets.
- 2.1.5. A reduction of £0.2m for electrical studies submitted as a variation. We have removed this cost as the need for these electrical studies were driven by changes to the generation assets.
- 2.1.6. A reduction of £0.1m for PSCAD model tuning. We have removed cost that should have been allocated to the generator as these studies apply to both transmission and generation assets.
- 2.1.7. A positive re-allocation of £0.1m to this category. A portion of external resource costs submitted in the other cost category were identified as being specific to the OSP. We have therefore re-allocated these costs to this category.
- 2.1.8. A positive adjustment of £0.1m for metals and fuels adjustment costs identified by the Developer as a small discrepancy in their submitted costs.

Submarine cable

Table 4 - Adjustments made to the submarine cables category

Cost category	Submitted costs (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
Submarine Cables	172.6	-12.4	160.2	-3.9	Ofgem - Unsubstantiated costs for open variations
				-2.5	Ofgem - Unsubstantiated costs for undetermined claims/variations
				-2.1	GT - Unsubstantiated costs for undetermined claims/variations
				-1.5	Ofgem - Generator fibre on offshore cable
				-1.0	Ofgem - Acceleration payment to contractor for landfall works
				-0.4	Ofgem - Costs incurred twice due to completion of survey in two parts
				-0.9	GT - Unsubstantiated costs for open variations

2.2. As set out in Table 4, we estimated a value of £160.2m for this cost category for the ITV. We applied a reduction of £12.4m to the Developer's submitted costs in the CAT. The rationale behind each of the adjustments, is set out as follows:

2.2.1. We have applied a reduction of £6.5m for unsubstantiated claims. These costs are currently forecasted and remain unsettled with the contractor. The developer did not provide any substantiation of these costs during the ITV review and therefore these costs have been removed from the ITV.

2.2.2. The Developer has installed fibre optic cables that will be used by both the generator and the OFTO. The Developer stated that for onshore cables, the generator uses 58 (51%) out of the 112 fibres installed in total. The submarine cable contract does not provide a breakdown of fibre cable costs, however the Developer obtained the cost from their contractor and provided this to us. The generation fibre cable costs account for 1.7% of the total onshore cable supply cost. We have used this percentage in order to allocate installation and other shared costs to the generation fibre assets. The resulting £1.5m of costs are generator fibre costs for the submarine cable and are not included in the ITV. The Developer has confirmed that they will provide further technical justification for the allocation of the generation fibres, which we will review at FTV.

2.2.3. We have applied a reduction of £2.1m in relation to non-transmission costs highlighted by GT. The developer submitted costs relating to the Fishermen Cooperation Agreement. This also included the Windfarm's proportion of the cost. Therefore, these costs have not been included in the ITV.

2.2.4. We have applied a reduction of £1.0m for a cost associated with the acceleration of landfall open cut works. The acceleration works were driven by consenting delays that had occurred due to the Developer changing from HDD (Horizontal Directional Drilling) to open cut installation at landfall. We have removed this cost from the ITV as we do not consider it efficient that the developer accelerated works after making the decision to change installation method.

2.2.5. We have applied a reduction of £0.4m for costs associated with seabed surveys. This survey was completed in two parts due to the presence of fishing equipment on the seabed after fishermen cooperation agreements were not in place in time. We have not included costs that have been incurred twice due to the survey being completed in two parts. We consider that had Seagreen placed the cooperation agreements as originally planned, one survey would have been sufficient.

2.2.6. We have applied a reduction of £0.9m in relation to unsubstantiated costs highlighted by GT. These costs are currently forecasted and remain unsettled with the contractor. The developer did not provide any substantiation of these costs during the ITV review, and therefore these costs have not been included in the ITV.

Onshore cables

Table 5 - Adjustments made to the onshore cables category

Cost category	Submitted costs (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
<i>Onshore Cables</i>	80.3	-3.0	77.3	-1.2	Ofgem - Generator fibre on onshore cable
				-1.1	Ofgem - Unsubstantiated costs for undetermined claims/variations
				-0.3	Ofgem - O&M costs included within 'administrative overheads' compensation to Carnoustie Golf Course
				-0.2	Ofgem - Golf course maintenance and condition compensation paid to Carnoustie Golf Course
				-0.2	Ofgem - Carnoustie Hotel compensation paid to Carnoustie Golf Course
				-0.0	Ofgem (£50k) - Compensation for loss of major tournaments at Carnoustie Golf Course

2.3. As set out in Table 5, we estimated a value of £77.3m for this cost category for the ITV. We applied a reduction of £3.0m to the Developer's submitted costs in the CAT. The rationale behind each of the adjustments, is set out as follows:

- 2.3.1. As in section 2.2.3, a reduction has been made due to the inclusion of fibre optics used by the generator. This has resulted in a reduction of £1.2m. The Developer has confirmed that they will provide further technical justification for some of this cost, which we will review at FTV.
- 2.3.2. We have applied a reduction of £1.1m for unsubstantiated claims. These costs are currently forecasted and remain unsettled with the contractor. The developer did not provide any substantiation of these costs during the ITV review, and therefore these costs have been removed from the ITV.
- 2.3.3. We have applied a reduction of £0.3m for operations and maintenance (O&M) costs included within the administrative overheads compensation paid to Carnoustie Golf Course. O&M costs are not incurred during the construction period of the transmission assets and have therefore been removed from the ITV.
- 2.3.4. We have applied a reduction of £0.2m for golf course maintenance and condition. Increases to golf course maintenance from displaced golfers will be offset by Carnoustie Golf Course not being required to maintain the entire Buddon Links Course whilst construction is undertaken by the Developer.
- 2.3.5. We have not included £0.2m for Carnoustie Hotel claims. This claim relates to an agreement between Carnoustie Hotel and Carnoustie Golf Links. We have removed this cost, as this is not a cost realised by Carnoustie Golf Course as a result of construction carried out by the Developer.
- 2.3.6. We have applied a reduction of £50k for the loss of major tournaments at Carnoustie Golf Course. The supporting information that the Developer supplied referenced a competition that was in fact held at the golf course. Subsequent to this the developer was able to provide details of another competition that was unable to be held due to construction works. Given that one of the two competitions was able to be held, we have allowed half of this compensation amount.

Onshore substation

Table 6 - Adjustments made to the onshore substation category

Cost category	Submitted costs (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
<i>Onshore substation</i>	73.3	-8.5	64.8.	-5.0	Ofgem - Generator space occupied in onshore substation
				-1.8	Ofgem - Unsubstantiated COVID-19 claims
				-1.4	Ofgem - Unsubstantiated costs for open variations
				-0.3	GT - Difference in CAT and payment plan when translated to GBP

2.4. As Table 6 shows, we estimated a value of £64.8m for this cost category for the ITV. We have applied an adjustment of £8.5m to the Developer's submitted costs in the CAT. The rationale behind these adjustments is as follows:

2.4.1. Part of the onshore substation will be used exclusively by the generator and is therefore not relevant to the ITV. We asked the Developer to submit the percentage of the onshore substation area occupied by generation-related equipment. We have used the Developer submitted diagram of the onshore substation to calculate that the generator will use 32.7% of the building and 0.29% of the surrounding plot. The resulting estimated value for this space is £5.0m, which has been excluded from the ITV.

2.4.2. We have made a reduction of £3.2m for unsubstantiated claims and variations. These costs are currently estimated based on information from the contractor, but remain unsettled. The developer did not provide any substantiation of these costs during the ITV review and therefore these costs have not been included in the ITV.

2.4.3. GT have proposed a reduction of £0.3m in relation to a difference between the value contained within the CAT and the value in the payment plan once they had been converted to GDP. This adjustment is for the difference between these two values.

Reactive compensation equipment (RCE)

Table 7 - Adjustments made to the reactive compensation category

Cost category	Submitted cost (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
<i>Reactive</i>	22.4	0.0	22.4	-	-

2.5. As Table 7 shows, a value of £22.4m was submitted for this cost category for the ITV. Following our ITV review, we have not made any adjustment to this figure.

Connection works

Table 8 - Adjustments made to the connection category

Cost category	Submitted cost (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
Connection	8.7	-5.9	2.9	-4.8	Ofgem – Acceleration payment to meet generation-led
				-1.1	Ofgem - Costs related to intertrip equipment

2.6. As Table 8 shows, we estimated a value of £2.9m for this cost category for the ITV. We applied a reduction of £5.9m to the Developer’s submitted costs in the CAT. The rationale behind this adjustment, is as follows:

2.6.1. We have not included £4.8m for claims associated with the acceleration of the connection works. We have removed this cost as the purpose of accelerating this work was to meet a generation-led deadline.

2.6.2. We have removed £1.1m of costs related to intertrip equipment on the substation. This equipment is the result of an agreement between the Developer and the ESO and is not relevant to the transmission assets as it is a service provided by the generator.

Other costs

Table 9 - Adjustments made to the other costs category

Cost category	Submitted cost, (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
Other Costs	32.5	-6.3	26.2	-2.5	Ofgem - Shareholder interest payments
				-1.4	Seagreen – Duplicated costs
				-0.9	Ofgem - DSU insurance
				-0.8	Ofgem - Financial advisory costs
				-0.5	Ofgem – 10% CMA rate mark-up removed
				-0.1	Ofgem – Costs re-allocated to the OSP category
				-0.1	Ofgem - LiDAR costs related to WTG
				-0.0	Ofgem (£1.5k) – Reduction in transmission allocation from 50% to 41%

2.7. As Table 9 shows, we estimated a value of £26.2m for this cost category for the ITV. We applied a reduction of £6.3m to the Developer’s submitted costs in the CAT. The rationale behind each of the adjustments, is set out as follows:

- 2.7.1. We have applied a reduction of £2.5m for interest charged on shareholder loans during the development period. This cost has been removed, as financing costs are covered by the IDC allowance.
- 2.7.2. We have removed £1.4m in costs for land advisory work. This has been identified by the Developer as a duplicated cost.
- 2.7.3. We have applied a reduction of £0.9m for Delay in Start Up (DSU) insurance. The Developer confirmed that during the construction period, the insurance covers any delay to generation. Therefore, this cost has been removed from the ITV.
- 2.7.4. We have applied a reduction of £0.8m for financial advisor costs. This cost has been removed, as financing costs are covered by the IDC allowance.
- 2.7.5. We have applied a reduction of £0.5m to remove an assumed 10% mark-up in the Construction Management Agreement (CMA) rate charged for internal staff who are working on the Project. The Developer was unable to provide a breakdown of the CMA rate and so 10% was assumed to be the mark-up included within that rate.
- 2.7.6. We have applied a reduction of £0.1m for external resource costs that were submitted in the development cost category but related to the OSP works. We have re-allocated this cost from this category to the OSP category. This adjustment also includes a small adjustment (£1.5k) to reduce the transmission allocation of one invoice. The Developer had submitted this cost with a 50% allocation, however the evidence provided supported a 41% allocation. We have therefore made this adjustment to reflect the evidenced allocation of 41%.
- 2.7.7. We have applied a reduction of £0.1m for LiDAR costs. These costs relate to studies undertaken in relation to wind turbine generator equipment. Insufficient evidence has been provided to show that any of this cost should be allocated to the transmission assets.

Interest during construction (IDC)

Table 10 - Adjustments made to the Project's IDC

Cost category	Submitted cost, (£m)	Total adjustment (£m)	ITV (£m)	Adjustment (£m)	Description
IDC	87.9	-14.0	73.9	-11.0	Ofgem - Adjustment based on disallowances made at ITV.
				-1.8	Ofgem - Adjustment for IDC during period of judicial review.
				-1.2	Ofgem - Adjusting the duration of the pre-FID period.
					TBC: Ofgem - Adjustment based on ION-B dates.

2.8. As Table 10 shows, a value of £73.9m has been calculated for the Project's IDC for the ITV. We made a total reduction of £14.0m to the Developer's submitted IDC in the CAT and the rationale behind each adjustment is as follows:

2.8.1. A reduction of £11.0m was made to reflect the adjustments made to the project's Capex as part of the ITV cost review. This reflects the pro rata reduction in the IDC proportional to the reductions in the development and construction costs.

2.8.2. We reduced the IDC allowance by £1.8m to reflect that the project was not progressing during the period of Judicial Review. Whilst the Judicial Review was ongoing, construction on the Project was halted for 35 months. We therefore consider that accrual of IDC should not be included during this period as IDC is designed to cover only periods that directly relate to construction of the transmission assets.

2.8.3. We reduced the IDC allowance by £1.2m to reflect what we consider to be an economic and efficient duration to apply IDC during the pre-FID period. We have compared the duration on this Project to other similar projects under the s.36 process and noted that it was longer than we consider is efficient. We therefore considered that accrual of IDC should not be recognised in total during this extended period. We have adjusted the IDC accordingly, to reflect the 53 months we consider to be the efficient duration, not the 83³ months on this project.

2.9. The IDC figure at ITV is estimated at £73.9m and will be reviewed in light of any new adjustments or any further costs that are not included at the FTV stage.

³ The projects IDC period for the purpose of our adjustment calculations, has been calculated based on the overall IDC period of 118 months, minus 35 months that project construction was halted for the Judicial Review.