Eastern Green Link 3

**NGET and SHET consultation response related to the Eastern Green Link 3 (EGL3) Joint Venture (JV)**

Responses below cover consultation questions 3, 6, and 7 from Ofgem's consultation: Accelerated Strategic Transmission Investment: Material Scope Change and Early Construction Funding - EGL3, EGL4 and GWNC, published 11 September 2025.

**Question 3. Do you agree with moving the EGL3 PCF allowance from the LOTI PCF condition to the ASTI PCF condition?**

We provide our views below in relation to Ofgem's minded-to proposal set out in paragraph 3.29 of its consultation, and welcome its agreement with the TOs' proposal, outlined in paragraph 3.26, that should a new ASTI Output be set for a project, it is appropriate that pre-construction funding (PCF) should be provided through the ASTI PCF mechanism rather than the LOTI PCF mechanism. To that end the ASTI PCF mechanism should be used for the EGL3 project.

In the EGL3 MSC submission from 15 November 2024 (made by SHET and NGET and updated in May 2025) and the subsequent engagement with Ofgem, we outlined our reasons for making the request to move the EGL3 PCF allowance from LOTI into ASTI for consistency with the rest of the ASTI project portfolio. This action would also enable the portfolio PCF re-opener mechanism within ASTI to be available to the EGL3 project in future, should that be required.

We therefore welcome Ofgem's proposed decision to move the PCF allowance for EGL3 from the LOTI PCF mechanism into the ASTI PCF mechanism.

This would require modifications to NGET's and SHET's licences to be made to:

- Remove the existing EGL3 LOTI PCF PCD from Appendix 2 to Special Condition 3.15 and update Appendix 1 accordingly to reflect this removal;
- Insert a new EGL3 ASTI PCF PCD into Appendix 2 to Special Condition 3.40 and reflect the updated PCF PCD Output and Delivery date for the project to 31 March 2028 for the submission of all material planning consent applications, and update Appendix 1 accordingly; and
- Update the PCF allowances in each licensee's ASTI Confidential Annex.

**Question 6. Do you agree with our proposal to update PCF allowances to reflect updated forecast project costs?**

<u>PCF allowance for EGL3</u>

We note Ofgem's recognition of our request (made within the November 2024 MSC submission) for the PCF allowance for the EGL3 project to be in excess of the default 2.5% of project value provided under ASTI.

Due to limitations on its resources, Ofgem has not undertaken a detailed assessment of EGL3 pre-construction costs and proposes setting initial allowances at 2.5% of the forecast project costs and then assessing any additional PCF request made under the ASTI PCF re-opener at the ASTI portfolio level.

Although we are disappointed Ofgem was unable to review in full the PCF need within our MSC request at this time, we believe this proposal to be a pragmatic way forward to enable the pace of the project to continue. This approach will provide an interim increase in the value of PCF available to the EGL3 project, compared to its present LOTI PCF allowance, and confirms the portfolio PCF re-opener mechanism within ASTI will be available.

In setting the PCF allowance for EGL3, Ofgem confirms it will set initial PCD allowances at 2.5% of the new total forecast cost of the EGL3 project, and we take that to mean the total forecast project cost as provided by NGET and SHET within the updated ECF submission dated 31 July 2025 (total forecast cost estimate [redacted]). Such an allowance should be set net of PCF allowances already provided under Special Condition 3.15.

Alongside the reset of the PCF allowance, a modification is needed to the PCF PCD date for EGL3 to align with Ofgem's recent decision[1] that Pre-Construction Works will mean works undertaken for the purposes of developing a LOTI, ASTI or Delivery Track project to the point where all material planning consents have been obtained and the project is ready to begin construction. We therefore seek confirmation from Ofgem that the PCF PCD delivery date and PCF allowance will be aligned in licences.

We request Ofgem to make the following changes:

- Set the ASTI PCF allowance for EGL3 at 2.5% of the new total forecast cost of the project = [redacted].
- Update the EGL3 ASTI PCF allowances and resulting revised sum of ASTI PCF in Appendix 1 to Special Condition 3.40 (and reflect these in the ASTI Confidential Annexes) of NGET's and SHET's licences.
- Insert a new EGL3 ASTI PCF PCD Output as the "Submission of all material planning consent applications for E4L5" and delivery date set at 31 March 2028 in Appendix 2 to Special Condition 3.40 of NGET's and SHET's licences.

[1] Decision to modify the Price Control Financial Instruments and licence conditions for electricity and gas distribution and transmission (1 July 2025)

**Question 7. Do you agree with our minded-to position to provide ECF for the EGL3 project as set out in chapter 4?**

ECF for EGL3

We welcome Ofgem's assessment of our Early Construction Funding (ECF) requests from September 2024 and more recently updated on 31 July 2025. We thank Ofgem for its engagement during the last few months as we guided it through the need for these early commitments in order to secure the supply chain capacity for HVDC cables and converters and the necessary civils packages and land purchases essential to meet delivery timescales for the project.

We agree with Ofgem's to minded-to position that all the activities for which we requested ECF fall within the permitted activity categories set out in ASTI Guidance, and that the value sought is within 20% of the updated forecast project costs. We welcome Ofgem's proposal to approve the EGL3 ECF for the value of 8% of the updated forecast project costs, as provided in our 31 July 2025 updated ECF submission (total forecast cost estimate is [redacted]; ECF request is [redacted]).

We also welcome the acknowledgement that our commercial contracts will be subject to project cancellation conditions should the project be cancelled, and that Ofgem will allow an appropriate level of funding for cancellation costs, subject to efficiency assessment, should the project be cancelled up to the point of DCO decision for reasons outside of the reasonable control of the EGL3 JV.

As we confirmed in our engagement with Ofgem, it is commonplace that the contracts for major construction projects such EGL3 provide a mechanism for cancellation and set out the consequences to each party. Nevertheless, we have been able to limit consumer exposure through ECF by instigating limited notice to proceed structure in the contracts and minimising advanced payments to suppliers. As we continue towards concluding contract negotiations for HVDC cables and converters, we will work to make consumers' exposure from a project cancellation scenario as low as practicable whilst ensuring we can provide efficient delivery of the project.

In relation to land costs within our ECF request, where possible we will seek to secure options agreements. An option agreement typically costs 10% of agreed land value, with full value to be paid upon project sanction following full planning award and project assessment determination. By following this approach, it limits consumers' exposure to project cancellation to the options costs. In the unlikely event of the EGL3 project being cancelled, we would first assess the suitability of the land site(s) for other projects or look to dispose of the land via the open market.