Decision

RIIO-2 Visual Impact Mitigation Re-opener Final Determination: National Grid Electricity Transmission's Cotswolds VIP Project

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This document sets out our[1] decision to reject National Grid Electricity Transmission plc's (NGET's) Visual Impact Mitigation Re-opener application for its Cotswolds VIP project, governed by Special Condition (SpC) 3.10 (Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance ($VIMRE_t$ and EPI_t)) of NGET's RIIO-2 Electricity Transmission licence (the Licence).

NGET submitted a funding request for the Cotswolds VIP Project through the Licence. We published a consultation on 1 April 2026, setting out our assessment and Draft Determination relating to the application submitted. The consultation proposed to reject NGET's £177.56m project funding request to deliver a new Visual Impact Mitigation Price Control Deliverable (PCD) under the Licence. This document summarises the responses we received to the consultation and our decision made after careful consideration of these responses. We have published the non-confidential consultation responses alongside this document.

[1] [1] The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

1. Introduction

Context

1.1 Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. This is particularly important in the case of essential utilities, such as energy, as consumers have no choice whether or not to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers. Ofgem does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for existing and future energy consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.

1.2 As part of the RIIO-1 price control, we introduced a new policy allowing electricity transmission owners to apply for funding through re-openers to reduce the visual impact of pre-existing transmission infrastructure in nationally designated areas.[2] This policy was subsequently extended as part of our RIIO-2 price control in 2021. The policy applies to the following designated areas: National Parks, Areas of Outstanding Natural Beauty, [3] and National Scenic Areas.

1.3 Re-openers exist so that our price controls can be flexible and adapt to changing circumstances and information over the 5-year price control period. Since the visual amenity framework was introduced, there have been significant shifts in the energy landscape. Pressure on consumer energy bills has increased; the scale of the programme of work required from network companies to deliver a decarbonised energy system has grown - all against a backdrop of global supply chain and labour constraints. Given these considerations, it is not in the interests of consumers to approve funding through re-openers for visual impact mitigation related to existing infrastructure where the associated additional system benefits do not justify the additional costs. This position is consistent with the principles underpinning the RIIO-ET2 Final Determinations (FDs) and aligns with the forward-looking approach in the RIIO-3 Electricity Transmission price control (RIIO-ET3).

[2] Pre-existing transmission infrastructure is defined as transmission infrastructure assets forming part of the licensee's Transmission System as of April 2013.

[3] Area of Outstanding Natural Beauty means an Area of Outstanding Natural Beauty designated under section 82 of the Countryside and Rights of Way Act 2000.

The Visual Impact Mitigation Re-Opener Mechanism

1.4 RIIO ET-2 allowed us to approve funding of up to £465m (2018/19 prices) for Electricity Transmission Operators (ETOs) to mitigate the visual impacts of existing infrastructure in designated areas across GB.[4] An electricity transmission licensee could propose to deliver a new Visual Impact Mitigation PCD under Special Condition 3.10 of its licence and request funding for this, as long as the proposals were in line with a policy it had in place for working with stakeholders on the selection of visual impact improvement projects within its transmission area. This policy is referred to as the Visual Impact Provision (VIP) Policy.[5]

1.5 Ofgem had the ability to modify an ETO's licence to provide for additional allowance to deliver visual impact mitigation projects under SpC 3.10, where no funding had been awarded as part of the ETO's baseline allowance.[6] Projects within the scope of that licence condition could be submitted to be considered and scrutinised by Ofgem, which then determined whether there was a needs case to justify the project funding request, and to determine a level of efficient costs to be recovered through consumer bills.

1.6 Through our network price controls, Ofgem has approved funding for previous proposals to deliver visual and landscape enhancements that benefit local communities and visitors of relevant designated areas. Under the Visual Impact Mitigation Re-opener mechanism, ETOs have been awarded an estimated £715m of additional allowances between RIIO-1 and RIIO-ET2 (2018/19 prices).

1.7 In RIIO-3 ET Draft Determinations, we confirmed the position set out in the Sector Specific Methodology Decision (SSMD) that the Visual Impact Mitigation Re-opener mechanism would not be retained and did not provide allowances for new visual amenity projects. RIIO-3 Final Determinations maintained that position, retaining only the more limited Landscape Enhancement Initiative to support localised landscape enhancements associated with existing transmission infrastructure.

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[4] RIIO-2 Final Determinations Electricity Transmission System Annex (REVISED). Set into the Licence in SpC 3.10 Appendix 2

[5] The term Visual Impact Provision (VIP) policy is a term used to refer to the "Mitigating Pre-existing Infrastructure Policy" as set out in SpC 3.10 Part C of NGETs transmission licence.

[6] The policy, introduced in the RIIO-1 electricity transmission price control, for addressing the impacts of existing transmission infrastructure in designated areas that was continued in RIIO-2. The RIIO-2 licence condition SpC 3.10 is largely based on the RIIO-1 licence condition SpC 6G but was amended to include a provision on how the regulatory approval process would work in the RIIO-2 price control period for project proposals submitted before the end of RIIO-1.

Purpose of this document

1.8 This document summarises the consultation responses received from stakeholders on our Draft Determination proposing to reject the funding application and explains our decision and the reasons for any changes from our Draft Determination.

1.9 This document sets out our Final Determination, which confirms our Draft Determination position to reject NGET's Visual Impact Mitigation Re-opener application requesting funding for the Cotswolds VIP Project.

Related documents

1.10 This document is intended to be read alongside:

- Draft Determination on National Grid Electricity Transmission's Cotswolds VIP Project – Visual Impact Mitigation Re-opener
- NGET's Cotswolds Visual Impact Mitigation Re-opener application
- RIIO-2 Final Determination – Core Document (REVISED)
- RIIO-2 Final Determination – ET Annex (REVISED)
- RIIO-2 Final Determinations – NGET Annex (REVISED)
- National Grid Electricity Transmission Plc Special Conditions
- Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem

Consultation stages

Stage 1 Consultation open: 01 April 2026

Stage 2 Consultation closes (awaiting decision), deadline for responses: 28 April 2026

Stage 3 Responses reviewed and published: 30 July 2026

Stage 4 Consultation outcome (decision): 30 July 2026

General feedback

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

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

Please send any general feedback comments to stakeholders@ofgem.gov.uk

2. Summary of National Grid's proposals and project funding request

2.1 National Grid Electricity Transmission plc (NGET) submitted a re-opener application on 16 May 2025 under Special Condition (SpC) 3.10 (Visual Impact Mitigation) of its RIIO-2 Electricity Transmission price control (RIIO ET-2) licence (the Licence). This application sought additional funding of £177.56m to deliver a new Visual Impact Mitigation Price Control Deliverable (PCD) as part of NGET's RIIO-ET2 price control under SpC 3.10.11 of the Licence.

2.2 NGET developed its Cotswolds National Landscape proposal in accordance with NGET's Visual Impact Provision (VIP) policy (the VIP Policy). This VIP Policy sets out NGET's process for working with stakeholders to identify and select visual improvement projects and maximise the benefits of these to consumers.[7]

2.3 There are currently five sections of transmission overhead line (4TE, 4XY, XL, ZF and ZFB) that run through the Cotswolds National Landscape, totalling 110.13km of overhead lines and 288 transmission towers (pylons) within the designated area.

2.4 NGET proposed to replace a 7.4km section of the existing ZF overhead line,[8] that runs north-south from Feckenham in Worcestershire to Minety in Wiltshire, with an underground cable. The submission proposed replacing 6% of the 110.13km of transmission line that passes through the Cotswolds National Landscape with an underground cable and removing 16 of the pylons (approximately 6% of the total number of pylons) in the designated area.

2.5 In its submission, NGET highlighted its plans to undertake interacting uprating works on the Feckenham to Minety (ZF) and Feckenham to Walham (ZFB) double circuit overhead line, which runs through a section of the Cotswolds National Landscape. These programmes of work are driven by wider system reinforcement needs identified through the Transitional Centralised Strategic Network Plan (tCSNP) framework and customer connection requirements.[9] The planned uprating works are expected to be delivered by 2029. Ordinarily these uprating works would involve the replacement of the existing overhead lines with higher

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[7] The Authority's review of NGET revised VIP policy can be found on the Ofgem website: [Consultation on National Grid Electricity Transmission (NGET) North Wessex Downs – Visual Impact Mitigation Re-Opener | Ofgem]

[8] 400kv double circuit overhead line.

[9] The tCSNP framework focuses on strengthening the capability of the transmission system in a coordinated manner. The uprating of Feckenham – Minety (FMR2 in tCSNP2) will require the replacement of existing conductors with higher-capacity alternatives. The Feckenham – Walham circuit uprating is driven by a customer connection requirement.

rated overhead lines. Rather than replace the full ZF overhead line with an uprated overhead line, NGET instead proposed to carry out the uprating works and the visual impact mitigation interventions concurrently as its preferred option.

Summary of our Draft Determination

2.6 In our [Draft Determination](),[10] we proposed to reject NGET's funding application on the basis that, in the time since the Visual Impact Mitigation Re-opener mechanism was put in place, energy bills had risen and households were increasingly looking for ways to keep costs down. The conflict in the Middle East also led to increased financial pressure for households, and supply chains have become increasingly more constrained. As such, we did not consider it was in the interests of consumers to continue to approve funding on visual amenity projects for existing infrastructure.

2.7 We emphasised the need to take into consideration the changing energy landscape when it comes to making decisions to award funding for such projects. We consider the significant shifts in the context of cost and deliverability reinforces the need to prioritise the projects required to support the decarbonisation of the energy system and to ensure continual investment in the maintenance and resilience of existing assets. It is our responsibility, under SpC 3.10 of the Licence, to ensure that consumer funding used for visual amenity projects represents efficient investment and provides value for money for consumers.

2.8 Following the publication of our [North Wessex Downs decision]() in August 2024, we provided clarification to the Electricity Transmission Operators (ETOs) on the principles we intended to apply in our assessment of any future requests to fund large visual amenity projects for existing infrastructure. In those communications, we were clear that in order to approve future project funding requests of this nature, the submission would need to demonstrate that, independent of visual impact mitigation benefits and costs, the wider system benefits themselves justify the undergrounding investment. After this clarification, NGET is the only ETO to have submitted a visual impact mitigation re-opener submission for funding approval.

2.9 NGET's submission put forward several options, two of which we considered to be feasible and appropriate for further consideration:

- **Option 2:** Replace the full ZF route with uprated overhead line (no undergrounding) by 2029 at an estimated cost of £155.39m, or

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[10] [RIIO-2 Visual Impact Mitigation Re-opener National Grid Electricity Transmission's Cotswolds project]()

- **Option 3**: Replace 71.6km (90%) of the ZF route with uprated overhead line and underground remaining 7.4km (ZF.2(B) sub-section) through the Cotswolds by 2030 at an estimated cost of £335.71m.[11] This was NGET's preferred option, and it therefore requested £177.56m through the re-opener mechanism for the additional costs associated with under-grounding.

2.10 Both Option 2 and Option 3 provide the same system benefits. Our Draft Determination view was that Option 3 was not justified because it did not deliver additional system benefits compared with Option 2 and would cost significantly more. We therefore do not consider, independent of any visual impact mitigation benefits and associated costs, that the system benefits themselves justify the investment required to underground the existing infrastructure as proposed in Option 3.

2.11 Given the continued pressure on consumer energy bills, and in order to comply with the requirements of SpC 3.10 of the Licence, we must ensure that all funding decisions provide clear value for money and are in consumers' interests. NGET's submission did not sufficiently address our concerns about affordability, value for money and the cost to consumers. We therefore proposed to reject NGET's application.

Summary of Consultation responses

2.12 We received 17 non-confidential responses to our Draft Determinations from a variety of stakeholders. These included NGET, Campaign for National Parks (CNP), Chris Baines as chair of NGET's Stakeholder Advisory Group (SAG),[12] Cheltenham Borough Council, Historic England, Cotswolds National Landscape, The National Trust, Campaign to Protect Rural England (CPRE), Natural England, Knight Frank, and 6 private individuals.

2.13 All non-confidential responses can be viewed on our website. We also received one confidential and commercially sensitive response from NGET. Of the 17

[11] Option 3 cost estimate consists of the combined total cost estimates for the Cotswolds visual impact mitigation interventions and the planned system improvements on the ZF double circuit overhead line only. All capex estimates are derived from the NGET Project Development Cost Book (August 2024 with 2018/19 prices), which is based on historical tender returns and project data. The cost estimations at this stage were based on pre-tender award estimates and are subject to change, based on actual tendered solutions. It should be noted that Under SpC 3.10, NGET is currently seeking additional allowances to undertake visual impact mitigation elements.
[12] NGET established its Stakeholder Advisory Group (SAG) in 2014. SAG consist of senior representation from stakeholder bodies, including Campaign for National Parks, Campaign to Protect Rural England (CPRE), The Campaign for the Protection of Rural Wales, Historic England, the Landscape Institute, the National Landscapes Association, National Parks England, National Parks Wales, the National Trust, Natural England, Natural Resources Wales, The Ramblers, Visit England and Visit Wales.

responses received, 15 disagreed with our Draft Determination to reject funding for the Cotswolds VIP project. These stakeholders gave a range of reasons for their views, which are set out below. The remaining two respondents agreed with our Draft Determination to reject the project funding request.

2.14 NGET's response to the consultation is summarised from paragraphs 2.16 to 2.21.

NGET's response

2.15 NGET's response is summarised in the four sections below:

Supply chain impacts

2.16 NGET highlighted the strategic and technical benefits of the Cotswolds VIP project, particularly its role in sustaining specialist transmission undergrounding capability that is not otherwise utilised through the majority of NGET's near-term portfolio. While NGET acknowledged its large and diverse programme of works, it considered the Cotswolds project to be well placed to play a preparatory role ahead of the expected increase in transmission cable undergrounding schemes after 2030. NGET indicated that without this project, there is a risk that specialist resources could be demobilised or redeployed elsewhere, therefore weakening it's UK supply chain resilience ahead of periods where this expertise will again be required.

Impact on consumers bills

2.17 NGET referred to both its bespoke 'Willingness to Pay study' and 'Acceptability Testing' it conducted ahead of its re-opener submission to demonstrate why it considered its proposal represented value for money for consumers. For the purpose of the studies, NGET outlined to study participants that the bill impact of delivering the Cotswolds project would be £0.13 per year for 25 years for the average consumer. NGET concluded from these studies that consumers would consider a £0.13 bill increase over 25 years an acceptable price to pay for the project. The studies indicated that support for these projects is largely driven by the low perceived costs to consumers and final outcomes of the improved visual amenity in the designated area.

2.18 NGET acknowledged in its consultation response that, although this demonstrates consumer support and value for money, the survey was taken prior to the crisis in the Middle East which has increased uncertainty in the energy market. Consequently, the study may not accurately reflect the amount that current consumers would find acceptable.

Additional system benefits

2.19 NGET disagreed with Ofgem's view that Option 4[13] should not have been taken forward for further consideration. NGET argued that Option 4 was developed as a counterfactual to reflect the delivery outcome should the Cotswolds VIP project not be approved in RIIO-ET2 and progress into RIIO-ET3 following completion of the uprating of overhead lines. This would avoid realising delivery synergies, which could increase whole-life costs and early asset write-offs. NGET therefore considered it appropriate to assess Option 4 to demonstrate the value of a coordinated delivery approach.

Funding for efficiently incurred development costs

2.20 NGET highlighted that the Cotswolds VIP application was submitted in accordance with the RIIO-ET2 framework and SpC 3.10 of the Licence. As such, NGET has incurred development costs that were necessary to progress an eligible project under the established re-opener mechanism. NGET argued that Ofgem must now assess the remaining balance of development and demobilisation costs incurred and forecast to be incurred and confirm that these costs will be funded as part of the Final Determination. NGET also requested confirmation of the mechanism through which these costs will be funded, as SpC 3.10 was not continued into the RIIO-ET3 licence.

2.21 NGET requested further discussion with Ofgem on the appropriate RIIO-ET3 mechanism to seek funding for uprating the ZF route.

Other stakeholder responses

2.22 We received responses from the following 16 non-network company stakeholders:

- British Horse Society
- Knight Frank
- Cheltenham Borough Council
- Historic England
- Cotswolds National Landscape
- The National Trust

[13] Option 4 – Phase 1: Replace the full ZF route with uprated overhead line (no undergrounding) by 2029 (as Option 2); Phase 2: Replace and underground 7.4km (ZF.2(B) sub-section) through the Cotswolds by 2033.

- Campaign to Protect Rural England
- Natural England
- Campaign for National Parks
- 6 private individuals
- NGET's Stakeholder Advisory Group

2.23 Their comments are summarised below:

Levelling Up and Regeneration Act (LUR) 2023

2.24 Six respondents referred to the LUR Act 2023, noting changes to duties relating to the treatment of Protected Landscapes.[14] They argued that rejecting the project would be inconsistent with Ofgem's statutory duties relating to the protection and enhancement of designated landscapes, and that insufficient weight had been given to environmental and wellbeing considerations. Similarly, three respondents stated that it was not clear to them whether this strengthened duty had been taken into account in our Draft Determination and argued that declining the funding request represents a failure by Ofgem to comply with this statutory duty.

Impact on the landscape

2.25 The majority of respondents claimed that the Cotswolds has a disproportionate burden of pylons compared to other protected areas in England and Wales and highlighted the visually intrusive and character-damaging nature of pylons on the Cotswolds National Landscape. Some argued that the removal of pylons would deliver long-lasting enhancements and insisted that the approval of funding for undergrounding would be visually transformative for the Cotswolds landscape.

2.26 A small number of respondents expressed the contrary opinion, agreeing with our Draft Determination, arguing that the pylons would not prevent tourists from visiting the Cotswolds National Landscape, and that locals are not offended enough by the pylons to support the increased cost to consumers of undergrounding. Similarly, a consultancy acting on behalf of a private individual objected to the project due to the impact it would have on its client's farmland, which would be on the site of the sealing end compound[15] for the project.

[14] National Parks and Access to the Countryside Act 1949
[15] The structure at both ends of an underground cable connecting it to the above ground overhead line.

Economic benefits

2.27 Five respondents argued in support of the economic benefits of the project, with some claiming that the presence of overhead lines detract from the attractiveness of the area. They argued that undergrounding would enhance the appeal of the landscape. These responses emphasised the relationship between the landscape quality and the visitor numbers, noting that the area attracts substantial numbers of visitors annually, which contributes significantly to the local economy.

Cost to consumers

2.28 Several respondents challenged our assessment of affordability and argued that the cost to consumers is not a detracting factor. They referred to NGET's 'Willingness to Pay' study to indicate that consumers support the project. One respondent argued that the cost-per household is marginal, and the benefits of conducting the work, such as wellbeing and heritage value, outweigh the associated costs. Another noted that the 'Willingness to Pay' study showed that consumers are willing to have slightly higher costs in order to support a greener, less visually impactful grid.

Maturity of project development

2.29 A key theme discussed by some respondents was the inefficiency of cancelling the project at such an advanced stage of development. Three respondents highlighted that proceeding with the cancellation of this project could result in consumers paying significant abortive costs with no landscape benefits delivered, thereby wasting funding, stakeholder time, and other resources. One respondent echoed these sentiments, noting that it would be an inefficient use of regulatory and public investment already put into the project. Another respondent considered that value for money would be achieved through the completion of the project, as this would realise the return on the investments made up to this point. One stakeholder referred to the impact that cancellation of the project would have on the wider roll out of transmission infrastructure and that it may signal that more environmentally sensitive approaches should not be pursued.

Stakeholder engagement

2.30 Several respondents highlighted the extensive stakeholder engagement undertaken in developing the Cotswolds VIP project, including collaboration with local communities, stakeholder organisations, and wider stakeholder groups. These respondents raised concerns that rejecting the funding application for the project could undermine local trust and support for future network developments and potentially risk causing reputational damage to the Authority.

3. Our Final Determination

3.1 We have carefully considered all stakeholder responses to the consultation, and we maintain the position in our Draft Determinations to reject NGET's application for funding the Cotswolds VIP project. We summarise below the rationale for our Final Determination.

3.2 In reaching this decision, we have had regard to our principal objective and statutory duties under the Electricity Act 1989, the requirements of Special Condition 3.10 of the Licence, NGET's VIP Policy and Ofgem's Re-opener Guidance. Under this framework, NGET is required to demonstrate that the proposed expenditure represents an efficient and value-for-money use of consumer funding, and Ofgem must determine the efficient level of costs, having regard to the interests of existing and future consumers.

- In particular, NGET's VIP Policy is required to include a methodology for ensuring best value and criteria for evaluating and prioritising projects, and having regard to visual amenity benefits, value for money and other environmental impacts. Ofgem's Re-opener Guidance further provides that applicants should demonstrate why the expenditure is additional to existing allowances, why the proposed costs are efficient and what benefits the proposal would deliver to consumers.
- In assessing this application, we have therefore considered not only the visual amenity benefits associated with the proposed project, but also whether the requested expenditure represents an efficient and justified use of consumer funding, having regard to the costs, benefits and alternative options available.
- While we recognise that visual impact mitigation projects can deliver meaningful landscape benefits, applicants are required to demonstrate that the expenditure sought represents value for money and is justified in light of the benefits delivered. In this case, our assessment focuses on whether the additional expenditure associated with NGET's preferred option is justified when compared with the alternative options available.

3.3 NGET considers that the Cotswolds project represents a distinctive opportunity for sustaining specialist capabilities associated with large scale transmission undergrounding projects. It also argued that the project would contribute to its supply chain resilience and future readiness for the increase in transmission cable undergrounding schemes it expects to deliver post 2030. However, NGET has not provided evidence to demonstrate that these benefits are likely to be realised through the Cotswolds project, that they cannot be realised through other projects from the large portfolio of GB transmission projects to be delivered over the coming years, or that the benefits will be worth the £177.56m cost that consumers would pay for them.

3.4 Our position on the funding of visual amenity projects for existing infrastructure has been signalled since our RIIO-3 Sector Specific Methodology Decision in 2024. As mentioned in paragraph 2.8, we have communicated our approach for assessment and subsequent allowance decisions for projects of this nature. This approach is consistent with our RIIO-3 decisions.

3.5 NGET argued that its preferred option is supported by its 2024 bespoke updated Willingness to Pay study and its Acceptability Testing, which suggests that consumers would accept £0.13 per year bill increase for 25 years for undergrounding in the Cotswolds National Landscape.

3.6 However, individual projects cannot be justified purely on the basis of the marginal bill increase for the average customer. The ultimate total cost to consumers would in that scenario be enormous. We must therefore consider the total cost consumers would bear and weigh this against the benefits the project would deliver. This is particularly important given that consumer funding is finite, and approving one project may reduce consumers' willingness or ability to fund future projects that deliver greater benefits.

3.7 NGET has asked for approx. £178m (in 2018/19 prices) additional allowance through this re-opener, and its assessment is that this amount would equate to around a £0.13 bill increase for the average customer over the 45 years that consumers will pay for it.[16] However, if approved, £178m would not be the full amount that NGET would receive and that consumers would pay for the project. NGET would also receive around £30m in automatic indirect funding through the RIIO-2 Opex Escalator mechanism,[17] as well as around £181m to cover its financing costs in line with the determined efficient financing costs set by the RIIO-T3 price control review. This would bring the total cost that consumers would pay over 45-years to around £389m[18] in 2018/19 prices, and around £520m in

[16] Note, consumers pay through bills for 45 years. NGET's Acceptability Testing survey used a timeframe of 25 years.

[17] This OPEX escalator allowance calculation is predicated on the view of efficient Closely Associated Indirect (CAI) baseline allowances established at RIIO-ET2 Final Determination which utilised the relationship between direct capex and CAI and subsequently applies this relationship to any direct capex allowances agreed under a defined list of uncertainty mechanisms.

[18] Estimated using RIIO-3 Final Determinations (Finance Annex) capitalisation rate, gearing, real cost of equity, and real cost of debt for NGET. Although the funding was under a RIIO-2 mechanism, because RIIO-2 has now ended any additional allowances would be awarded through Special Condition 3.23 ET2/ET3 Crossover adjustments of NGET's RIIO-3 licence. Real cost of debt and cost of equity figures are used for comparability with RIIO-2. RIIO-3 FD uses nominal and/or semi-nominal to take account of the effect of inflation indexation and to therefore better reflect the actual cash return that investors will receive. Using real figures therefore gives estimates that are lower than expected actual cash returns.

current (2025/26) prices. The annual bill impact would therefore be significantly higher than the £0.13m that NGET proposed to study participants, at more than £0.35 per customer per year. Given this, a conclusion of consumers' willingness to accept an additional £0.13 per year on their bills does not provide justification for funding the project.

3.8 Considering the total costs and benefits of the two viable options, with the considerations as explained in paragraph 2.6 to 2.11, Option 2 is the better option as it delivers the same system benefits but at a significantly lower cost.

3.9 NGET requested clarity around the recovery of costs already incurred as part of the project development and demobilisation of the Cotswolds VIP project. We will consider the recovery of any costs appropriately and efficiently incurred by NGET as part of RIIO-2 closeout. We also welcome further discussions with NGET to clarify the appropriate RIIO-T3 mechanism under which funding should be sought for the planned uprating works along the ZF route.

Our response to wider stakeholder comments

<u>Economic benefits and impact on the landscape</u>

3.10 As part of any project funding request, ETOs have to provide robust justification for why consumers should pay for the project, including demonstrating that there is a need for investment, that their proposed solution is the best option to meet the need, and that the project will provide value for money for consumers. Ofgem's role is to approve or reject the application depending on whether the ETO has provided sufficient justification, and to determine the efficient level of funding on any project considered to be suitably justified. All project funding decisions are made on a case-by-case basis and must be evidence based.

3.11 While we acknowledge the landscape benefits that visual impact improvement projects can deliver, they are not essential for the current or future operation of the electricity system, or critical for energy decarbonisation. Although we have regard to economic benefits, our principal objective is to protect the interests of current and future electricity consumers. The Cotswolds VIP submission from NGET did not quantify the project's economic benefits, nor did it provide sufficient justification that the funding would represent value for money to consumers by delivering those benefits. The submission did not provide evidence of the Cotswolds VIP project leading to increased tourism and did not undertake modelling or analysis of local tourism demand, visitor numbers, or associated economic impacts to demonstrate that these benefits were likely to materialise.

3.12 In our assessment of the re-opener application submission, we explained that NGET's proposal does not provide additional system benefits when compared to the alternative option of uprating the overhead line without any undergrounding and comes at a significantly higher cost to consumers. Consultation respondents have not provided any additional evidence against this assessment, and therefore our position remains that the alternative option is the better one.

Maturity of project development and stakeholder engagement

3.13 While consumers may bear some of the costs relating to project development activities, the amount of money that has been spent to date is only a small fraction of the amount that it would cost to deliver the full project. Expenditure already incurred on project development does not justify approval of future expenditure. Our assessment focuses on whether the remaining expenditure required to deliver the project would represent an efficient use of consumer funding. Since NGET commenced developing this project, energy affordability concerns have increased significantly, reinforcing the need to avoid adding further costs to bills where possible.

3.14 We also consider that investment decisions must be made on the basis of how much the project would cost in the future and not on the basis of how much expenditure has already been incurred on project development activities. Given that an alternative upgrade option exists which maintains network performance at a much lower cost to consumers, we do not consider that proceeding with the project represents value for consumers.

3.15 We acknowledge the extensive stakeholder engagement and collaboration undertaken by NGET, the local community, and wider stakeholder groups. We have fully considered all stakeholder responses and understand there may be disappointment amongst some stakeholder groups if the project does not go ahead. However, it is our duty to ensure all decisions we make in relation to additional funding requests are in line with our statutory duties, reflect value-for-money considerations, and the wider strategic context.

3.16 We disagree that not proceeding with the Cotswolds VIP project would hinder wider transmission build, undermine the legitimacy of future network development, or signal that environmentally sensitive approaches should not be pursued. In line with the 2030 Clean Power objectives, the current price control framework is designed to support the significant investments required to meet decarbonisation targets. This means prioritising the build of new infrastructure at an efficient cost to consumers is imperative, as is the need to ensure continual investment in the maintenance and renewal of existing assets. Existing frameworks, including the Biodiversity Net Gain mandate[19] and Landscape Enhancement Initiative,[20] also remain available to reduce the environmental and visual impact of transmission infrastructure.

3.17 In addition to other funding routes available for environmental initiatives, Ofgem is committed to supporting the Government's clean power plans, ensuring it is achieved at efficient cost to consumers. We consider that reaching net zero is an objective which has the long-term protection of the natural environment at its core, including many of the vulnerable landscapes in GB's national parks.

Levelling Up and Regeneration Act 2023

3.18 In arriving at our Final Determination, we considered all our statutory duties, and the balance between them. We note that the Levelling Up and Regeneration Act 2023 amended section 11A of the National Parks and Access to the Countryside Act 1949 (the Act), strengthening the duty on relevant public authorities in relation to National Parks. The duty to "have regard" to the purposes of conserving the natural beauty, wildlife and cultural heritage of National Parks has now become a duty under which relevant public authorities "must seek to further" those purposes. While this duty appears to be targeted at planning authorities, we have carefully considered the requirements of the Act. Nonetheless, "seeking to further" the purposes set out in the Act does not mean that Ofgem is required to approve NGET's project funding application because the proposal may further those purposes. Instead, the duty is to consider the extent to which granting the application may further them in the context of the wider circumstances. Ofgem has taken the project's potential contribution to those purposes into account. However, having considered the costs and benefits of the proposal, we are not satisfied that the requested funding represents value for money for consumers. Therefore, we remain satisfied that rejecting the funding request is consistent with our statutory duties including our principal objective of protecting the interests of existing and future consumers, even where it may facilitate the purposes of the Act.

[19] Biodiversity Net Gain (BNG) is a mandate under the Environment Act 2021 requiring new developments to deliver a minimum 10% increase in biodiversity value compared to the pre-development baseline. Introduced in February 2024, the mandate intends to reverse habitat loss and environmental impacts caused by development.

[20] Landscape Enhancement Initiative (LEI) UIOLI for RIIO-ET3 is a grant scheme to reduce the impact of National Grid's existing electricity transmission infrastructure in England and Wales. The LEI is part of National Grid's Visual Impact Provision project.

4. Next steps

4.1 We have taken account of all the consultation responses received and have maintained our position to reject the funding application for NGET’s Cotswolds VIP Project as detailed in Chapter 3.

4.2 No further steps are required to give effect to our decision.