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Date: 11 December 2020

Colleague,

Consultation on our assessment of NGET's proposal for reducing visual amenity impacts in the Peak District National Park.

We are consulting on our initial assessment of a funding request by National Grid Electricity Transmission (NGET) to deliver a new Enhancing Pre-existing Infrastructure ("EPI") Output under the RIIO-1 price control.

NGET has proposed the removal of a 2km section of 400kV overhead lines, to be replaced with an underground cable, in the Peak District National Park (Peak East). NGET are to deliver this and other associated works by 2023.

After obtaining planning consent for the project, NGET submitted to us their request for the approval of funding with project cost of £43.5m[1].

A non-confidential summary of NGET 's submission is published alongside this consultation letter.

As part of our review of NGET's request, we have considered:

- NGET's fulfilment of the key commitments of its Visual Impact Provision[2] (VIP) policy, including working with stakeholders to identify and prioritise the Peak East VIP project; and
- NGET's proposed project costs of £43.5 and whether these costs are economical and efficient.

Following our initial assessment, we are considering a reduction of £483,185 in proposed risk costs. We consider NGET's remaining proposed project costs to be economical and efficient and we are not suggesting a further adjustment. As a result, we propose a funding allowance of £43,031,391.

[1] Unless otherwise stated, all values are in 2019/20 prices.
[2] https://www.nationalgrid.com/uk/electricity-transmission/planning-together-riio/visual-impact-provision

Consultation questions

We are seeking stakeholders' views on our assessment and our proposed funding allowances for NGET to deliver the Peak East VIP project.

i) Based on the information in this consultation, do you agree with our assessment of NGET 's Peak East VIP project? In particular, we are looking for feedback regarding our assessment of the following elements:

- implementation of the VIP policy,
- project benefits,
- technical scope,
- procurement process and delivery strategy; and
- risk management.

ii) Based on the information in this consultation do you agree with our assessment and proposed funding allowances for the Peak East VIP project?

iii) Do you have any other comments or information relevant to our assessment?

Please email your response to the following questions to Dale Winch at Dale.Winch@ofgem.gov.uk by 15 January 2021.

Background on RIIO-1 Enhancing Pre-existing Infrastructure (EPI) outputs

In RIIO-T1 there is a scheme for electricity transmission owners (TOs) to reduce the visual impact of pre-existing infrastructure[3] in the following designated areas: National Parks, Areas of Outstanding Natural Beauty and National Scenic Areas. The expenditure cap for all mitigation projects that come forward under the scheme during the RIIO-T1 price control is £500m (2009/10 prices) in total.[4] The deliverables from these mitigation projects are known as EPI Outputs.

To be able to propose new EPI Output projects, and request funding for these under its price control, a TO must have in place a policy in relation to methods of working with stakeholders to select projects in its transmission areas.[5]

When we receive a funding request for a specific mitigation project we assess:

- whether the TO has complied with its own policy, in particular how the TO has engaged with stakeholders to identify, prioritise, and select projects; and
- whether the proposed costs for delivering the project are economical and efficient.

If applicable, we may apply an adjustment to the TOs allowed expenditure under the price control for the project costs in relation to the EPI Output. This is achieved by a modification made to the TO's licence.

[3] Pre-existing transmission infrastructure is defined as network equipment such as lines and towers that are part of the licensee's transmission network as of April 2013.
[4] The level of the expenditure cap was informed by a survey of households on the amount they would be willing to pay to reduce the effects of pre-existing transmission infrastructure on the visual amenity of designated areas. Of the original £500m expenditure cap, approximately £365m remains (excluding the Peak East VIP project).
[5] We approved National Grid's Visual Impact Provision policy in 2013. A copy of our decision letter is available on our website: https://www.ofgem.gov.uk/publications-and-updates/response-our-consultation-national-grid-electricity-transmission%E2%80%99s-proposed-visual-impact-provision-policy

Overview of the Peak East VIP mitigation project

The scope of the mitigation project encompasses the following within or adjacent to the Peak District National Park boundary:

- removing a 2km section of 400kV double circuit overhead line and eight steel lattice towers,
- installing one new steel lattice tower and 2km of underground cable from Stalybridge to Stocksbridge.

NGET plans to complete the project by 2023.

A map of the undergrounding routes proposed by NGET can be found in the Appendix.

Our initial assessment of the Peak East VIP project

Our Approach

In coming to our initial assessment, we reviewed NGET 's request for approval of funding as well as considering the supplementary responses provided by NGET to our follow-up queries.

We reviewed NGET's request to verify the notice contained the necessary criteria as set out in Special Condition 6G.13[6] of NGET's Electricity Transmission Licence, and NGET's VIP policy document. As part of this review, we considered the following aspects of the Peak East VIP project:

- the VIP policy project selection process;
- project benefits;
- technical scope;
- interaction with projects in the nearby vicinity;
- NGET's procurement process for tendered elements of project and delivery programme;
- NGET's approach to risk and project management; and
- the efficiency of costs (development, tendered, non-tendered).

Summary of our findings

Table 1 below summarises the key initial findings from our project assessment. It includes the assessment category, our rating (Red, Amber, Green – RAG), and a short summary of the underlying reasons for the rating.

A summary of our assessment is listed in the Appendix.

Table 1

Assessment category	RAG rating	Overview of findings
Consistency with VIP policy		Good documentary evidence of steps NGET has taken to implement commitments in its VIP policy.
Benefits of project		Visual and landscape, economic, and other benefits (e.g. biodiversity net gain) are expected to be of benefit to the local communities and public.

Technical scope and design		The technical scope is in line with the outputs the project intends to deliver. We have queried the choice to de-rate the exiting capability of the line, in order to underground through the preferred route, and are comfortable that NGET have considered this adequately.
Planning Consent		Planning permission has been granted.
Procurement process and delivery strategy		We consider that NGET has completed a competitive tendering process and found Morgan Sindall to be the preferred bidder. The Morgan Sindall bid aligned with costs similar to NGET's internal cost estimate. The delivery programme looks well planned. Project completion is now scheduled for April 2023 due to delays in obtaining planning permission and due to missed outage windows.
Approach to risk management		Risk log uses the P50 approach to determine cost and likelihood of risk. Risk assessment and mitigation by the contractor is also integrated within the procurement process. The overall risk has been reduced to 8% of total (NGET & Morgan Sindall risks combined). This is down from over 10% from the initial submission, with a proposed adjustment to two of the largest risks (Planning Consent & Brexit).
Project Costs		The costs provided by NGET broadly align with previous Dorset VIP AONB mitigation project costs. NGET provided evidence explaining why some unit costs increased as well as a further breakdown of their project management costs.

It should be noted that we will further review and update the costs and impacts of changes in the initial indices for metal rates, currency exchange and the risks (and associated costs of) Brexit when we make our final decision on the funding allowances for the Peak East VIP mitigation project.

Next steps:

We intend to make a final decision on the Peak East VIP mitigation project and allowed expenditure early in 2021, after considering responses to this consultation. We listed our main consultation questions at the start of this letter. Please send your responses to Dale Winch at Dale.Winch@Ofgem.gov.uk by 15 January 2021. Unless marked confidential, we will publish all responses on our website (www.ofgem.gov.uk). If you wish your response to remain confidential please clearly mark your response to that effect and give your reasons for seeking confidentiality.

Yours sincerely,

Min Zhu

Deputy Director, RIIO Transmission

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Appendix

The Appendix provides further details on the project and our assessment.

Assessment of NGET's approach

Implementation of VIP Policy

1.0 In 2013, we assessed and approve NGETs VIP policy. Our assessment found that the VIP policy met the requirements set out in Part A of Special Licence Condition 6G, specifically, paragraph 6G.6, and that its implementation will help ensure transparency about how NGET and its stakeholders select and prioritise mitigation projects during the price control.

1.1 Accordingly, a key aspect of assessing funding requests is ensuring that the proposed mitigation project is an appropriate application of the VIP policy.

1.2 In its submission, NGET outlined the steps it took to implement the VIP policy and how this has resulted in the proposed Peak East VIP mitigation project. As part of this, NGET summarised its methodology for selecting the project after evaluating seven shortlisted projects and explained how it worked with its stakeholders in regular forums to reflect their views on project identification, selection, and development.

1.3 Overall, our initial view is that we are satisfied that, in proposing the Peak East VIP mitigation strategy, NGET have complied with the processes set out in its VIP policy.

Benefits of project

1.4 The local community of Dunford Bridge will experience the main visual enhancement benefits of the project, with the removal of the transmission infrastructure.

1.5 The project will also provide visual amenity to users of the Trans Pennine Trail (TPT) and National Cycle Route 62. Enhanced views will also benefit users of the promoted Kinder Loop long distance bridleway and the Upper Don Valley Trail, both of which follow the same route as the TPT along the base of the valley.

Technical scope

1.6 Our initial view is that the technical scope of the project is efficient. The proposed technical option will result in the removal of the existing line and replacing this with an underground cable.

1.7 The proposed option will also require the de-rating of the circuit to 1300MVA and 1432MVA pre/post fault conditions. This is due to the limited working area, which will accommodate only a smaller rated cable. However, we are content that NGET is satisfied that the line will remain fit for future use.

Procurement process and delivery strategy

1.8 The main output of the project consists of undergrounding the 400kV double circuit overhead line and the removal of the existing SEC and overhead lines. This activity was tendered to ensure a competitive price for consumers, with Morgan Sindall being selected as the preferred bidder.

1.9 Our initial view is that tender process for the works was open and attracted several competent bids. Morgan Sindall provided the most competitive price and were selected as contractors for the project.

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1.10 We considered that NGET took a reasonable and balanced approach to assessing tender submissions and contract options, and that the procurement strategy involved a robust process leading to a competitive outcome.

1.11 The delivery strategy highlighted key milestones. NGET demonstrated considerations of nearby projects and evidence of collaboration with third parties.

Risks

1.12 We reviewed NGET 's risk register, as well as the risk register of preferred contractors. We considered and queried which party is best positioned to manage risks, and whether risks were justified. We also reviewed mitigation actions and strategies associated with all risk items. We ensured there were no double- counted items in the risk register and in other project risks.

1.13 National Grid has identified the following top five areas where they retain responsibility over risks. These risks are non-tendered:

- Working with asbestos in ground
- System access uncertainty due to outage congestion
- Public Protest
- Widespread flooding risk
- Risk of redesign

1.14 NGET have also proposed a sizable risk for Brexit uncertainty, on the cost of materials, resources, and additional time delay. We are proposing to reduce the cost of this risk in the cost section below.

1.15 Our initial view is that NGET provided an appropriate approach to identify and assess risks, as well as mitigation activities for risks associated with the project.

Assessment of NGET 's proposed Costs

Costs

2.0 We reviewed project costs in three general categories; preliminary project development costs, tendered costs, and non-tendered costs. We analysed costs for each project activity and cross-checked similar activities from other projects. Areas that were unclear were clarified with NGET so we could understand differences between similar items to ensure no duplication of costs.

2.1 Table 2 below shows the cost breakdown of NGET's project submission across project categories.

Table 2

Project category	Cost (£m)
Preliminary project development costs	7.2
Tendered costs	30.2
Non-tendered costs	6.1
Total	43.5

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Preliminary project development costs

2.2 National Grid is seeking to recover £7.2m it has incurred to date on project development costs. This cost is included in their total requested project cost. Based on the supporting evidence provided, we consider that the requested costs for the programme to date are efficient.

2.3 NGET is seeking to recover project development costs such as preliminary works for developing design options, stakeholder engagement, environmental works, and associated costs for land acquisition and consents. It is our view that these costs are comparable to other similar projects.

Tendered Costs

2.4 The majority of project costs are for the underground works including cable cost and construction. These items were originally competitively tendered by NGET when setting up their procurement framework.

2.5 Preferred contractors Morgan Sindall were appointed as they had worked on the previous Dorset project, and were considered well placed to coordinate projects. We assessed the tender competition for the project works. As stated in the Procurement Process and Delivery Strategy section, it is our initial view that the tendering process undertaken by NGET was economical and efficient.

2.6 We assessed contract costs using our internal benchmarking model and compared costs against those of projects with similar scope.

Non-Tendered Costs

2.7 Non-tendered costs of the project are incurred through areas of work which don't form the main scope of the contracted works. These include:

- risks held by NGET (covered in the risks section above);
- project management and overhead costs; and,
- other programme related costs (e.g. consents).

2.8 Our initial view is that non-tendered costs for project management and other program related costs are within reasonable range. We assessed these costs using historical data, and proposed costs are comparable to previous projects.

2.9 We also consider the majority of risks held by NGET to be reasonable and proportional. However, we are proposing a £483,000 reduction in risk allowance for as detailed in Table 3 (further details are set out below):

Table 3

Risk category	**NGET submission**	**Proposed cost reduction**	**Proposed cost**
Planning Permission	£197k	£197k	£0
Brexit	£381k	£286k	£95k

2.10 Planning Permission: With the consent of planning permission, our view is the need for this risk no longer remains.

2.11 Brexit: The Brexit risk involves uncertainly over a trade deal between the UK and EU. This risk outlines the potential fluctuations in the cost of materials, resources

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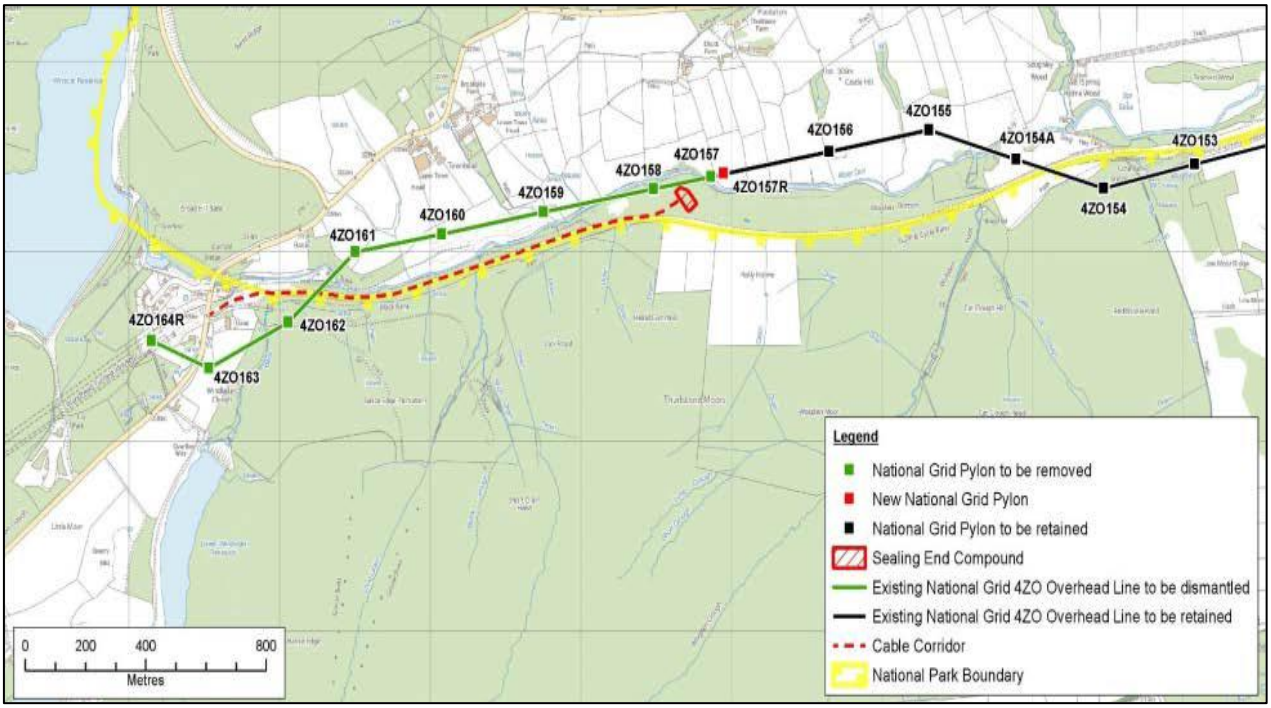
and additional timing impacts on the project. We propose to remove the materials element of the risk, with the remaining elements of the risk remaining, and account for any changes to costs when we make our final decision early 2021, where we expect to have a more accurate estimate of the cost impacts of Brexit.

3.0 We will further review and update the costs and impacts of changes in the initial indices for metal rates and currency exchange when we make our final decision on the project.

Map of preferred undergrounding route

4.0 Figure 1: Stalybridge to Stocksbridge



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