

Transmission licensees,
generators, suppliers, and
consumer groups

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Date: 24 February 2021

Dear colleague,

**Determination on NGET's proposal for
reducing visual amenity impacts in the Peak District National Park and funding
development costs for the New Forest mitigation project**

This letter sets out our final decision on a £43.0 million (2019/20 prices)¹ funding request from National Grid Electricity Transmission (NGET) to deliver new Enhancing Pre-existing Infrastructure (EPI) output in the Peak District National Park (known as the Peak East mitigation project). This letter also sets out our decision for a £3.6 (2019/20 prices)² million allowance adjustment for the development costs incurred on a project in the New Forest National Park (known as the New Forest mitigation project).

The Peak East mitigation project is intended to reduce the impact of NGET's electricity transmission infrastructure on the visual amenity of the national park, near the hamlet of Dunford Bridge. The project will remove a 2km section of 400kV overhead lines and 8 steel pylons and replace this with an underground cable. NGET are to deliver this project by 2023.

In December 2020, we consulted on our assessment³ on the proposed Peak East mitigation project to reduce visual amenity impacts. We proposed a reduction of £0.48m in NGET's proposed risk costs and considered NGET's remaining project costs to be economical and efficient and proposed an overall allowance of £43.0m.

NGET responded to our consultation and agreed that the reduction in their proposed risk costs was appropriate, in line with the outcome of the Brexit trade deal.

Having considered responses to our consultation, we confirm our view that the efficient cost for the Peak East mitigation project is £43.0m.

¹ This value is equivalent to a combined allowance adjustment in the RIIO-T1 price control period of £8.39m (2009/10 prices) and an allowance adjustment in the RIIO-T2 price control period of £30.78m (2018/19 prices). We convert project costs into the price base that is used in the financial model for the different price control periods in which project costs have been or will be incurred. In RIIO-T1 the price base of the financial model is set in 2009/10 prices, and in RIIO-T2 the price base is set in 2018/19 prices.

² This value equates to a RIIO-T1 allowance adjustment of £2.65m (2009/10 prices).

³ https://www.ofgem.gov.uk/system/files/docs/2020/12/peak_east_vip_consultation_letter.pdf

Alongside the Peak East mitigation project, we have decided to include a £3.6m allowance adjustment for preliminary development costs that NGET incurred on another mitigation project in the New Forest National Park between 2015 and 2019. In March 2019, NGET decided with stakeholders to mothball the New Forest mitigation project because of environmental challenges posed by the EU Habitats Regulation.⁴ Based on the supporting evidence provided, we are satisfied that these costs were efficiently incurred and that an adjustment is appropriate for NGET to recover these.

Summary of our determination on the Peak East mitigation project

Our determination on new EPI outputs and the associated efficient funding follows our December 2020 consultation. After taking into account consultation responses, we are satisfied that:

- The Peak East mitigation project is a valid outcome of NGET's implementation of its Visual Impact of Policy (VIP) and its work with stakeholders to select EPI outputs during the RIIO-T1 price control.
- The economical and efficient cost of the EPI output is £43.0m, which includes an efficient risk cost reduction of £0.48m;
- That the relevant planning authority has decided that NGET's Peak East mitigation project includes the appropriate measures to ensure that the biodiversity and ecological impacts of this project are acceptable in planning terms; and
- The £3.6m preliminary costs associated with the New Forest mitigation project are efficient.

In the appendix to this letter, we provide further detail on:

- EPI outputs in the RIIO-T1 electricity transmission price control;
- The scope of the Peak East VIP project;
- A summary of the assessment and findings of our December 2020 consultation;
- Issues raised in the consultation and our consideration of these; and,
- Our final determination on the EPI output and the economical and efficient cost of the project.

New EPI outputs and adjustment to RIIO-T1 allowed expenditure

We are proposing to modify NGET's licence by way of direction to introduce new EPI outputs to adjust its RIIO-T1 price control allowances by a total increase of £11.04m⁵ and its RIIO-T2 price control allowance by a total of £30.78m⁶.

Please note that, in our notice, we proposed a further adjustment of the main contract price for changes in the metal price and exchange rate indices⁷ that have occurred in the period

⁴ For further information: <http://newforest.nationalgrid.co.uk/news-events/new-forest-vip-project-update-march-2019/> and <https://www.nationalgrid.com/document/129766/download>

⁵ This value is in 2009/10 prices and includes a total T1 allowance adjustment of £8.39m for the Peak East mitigation project and £2.65m for the New Forest mitigation project.

⁶ This value is in 2018/19 prices and includes a total T2 allowance adjustment of £30.78m for the Peak East mitigation project.

⁷ The indices to be used to adjust the contract price are: Metals: London Metal Exchange <https://www.lme.com>
Forex: Bank of England <https://www.bankofengland.co.uk/statistics/exchange-rates>

between the contractors submitting their final price and NGET awarding the contract⁸. We propose that this adjustment be reflected in the allowed expenditure that is directed following the licence modification consultation to implement our determination.

Following the implementation of our determination on the Peak East VIP, the remaining available expenditure cap in the RIIOT1 price control for new EPI outputs will be £351.87m⁹.

Next Steps

Alongside this letter, we are publishing a notice under Part C of Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) to modify NGET's licence to implement the above determination. The notice sets out the proposed new EPI outputs and the adjustment to NGET's allowed expenditure. Please respond to Anna.Kulhavy@ofgem.gov.uk by 24 March 2021.

Yours sincerely,

Min Zhu
Deputy Director – Electricity Transmission

⁸ We expect NGET to report and justify any material changes in metal prices and the currency rate. Ofgem will adjust the cost of the main contract works to account for any changes in metal prices and currency rates that occurred between the appointment of contractors, and SHE Transmission's award of the contract.

⁹ This amount also takes into account the allowed expenditure we have approved for other EPI outputs over RIIOT1. For more information on the associated mitigation projects please see details on our website. <https://www.ofgem.gov.uk/electricity/transmission-networks/network-price-controls/visual-amenity>

Appendix

December 2020 consultation and our key assessment findings

We consulted on our project assessment, which focused on ensuring the projects meet the criteria set out in Special Condition 6G.13 and NGET's VIP document. As part of this, we considered the following aspects:

- the VIP project selection process;
- project benefits;
- technical scope;
- 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).

The key assessment findings set out in our consultation are summarised as follows:

- We considered that NGET had provided satisfactory evidence to show it had implemented the commitments in its VIP, in accordance with Part A of Special Condition 6G.14, and worked with stakeholders to select the Peak East mitigation project to reduce the impact of existing transmission lines on the visual amenity of Peak District National Park.
- We were satisfied that the proposed project scope is economical and efficient, because a competitive tender was undertaken.
- We said that the majority of the proposed project costs for the Peak East mitigation project are efficient and have noted an area of proposed reduction.

Consultation responses

We received eight responses to our consultation. All non-confidential responses are published on our website alongside this letter.

Seven respondents supported the funding and proposed works involved in the Peak East mitigation project. One stakeholder had concerns for the biodiversity and environmental impacts of the project, in particular that this may threaten the Willow Tit species in the vicinity of the proposed worksite.

We note the concerns raised about the potential environmental impacts of the project. However, we understand that these were considered and resolved as part of the planning application process with Barnsley Metropolitan Borough Council, and that NGET has successfully obtained planning consent for the Peak East mitigation project.

Our final determination

The tables below summarises our final determination on the adjustment to be made to NGET's RIIO-T1 Allowed Expenditure for the delivery of the Peak East mitigation project located in the Peak District National Park.

Table 1

Project category	Cost (£m 2019/20 prices)
Preliminary project development costs	7.2
Tendered costs	30.2
Non-tendered costs	5.6
Peak East mitigation project total	43.0
Other preliminary development costs	3.6
Total adjustment	46.6

Taking into account our assessment, and consultation responses, we have determined:

- To make an allowed expenditure adjustment and introduce EPI Outputs specified in Special Condition 6G of NGET's electricity transmission licence for the Peak East mitigation project;
- To increase NGET's allowed expenditure in the RIIO-T1 price control by £11.04m (2009/10 prices);
- To increase NGET's allowed expenditure in the RIIO-T2 price control by £30.78m (2018/19 prices) in the first year of that price control period; and
- To specify that NGET is to deliver EPI outputs by 2023 specified as:
 - The removal of a 2km section of 400kV overhead lines, including 8 steel pylons, between with 2km of underground cable, along the Trans Pennine Trail near the hamlet of Dunford Bridge.
 - The installation of a new sealing end compound (SEC) with tension tower at Wogden Foot, to connect the new section of underground cable to the existing overhead line.

Prior to issuing any direction under Special Condition 6G.16 of NGET's electricity transmission licence, there is a period of 28 days within which representations concerning the proposed direction may be made. We will consider any representations duly made and not withdrawn during this period.