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All interested parties

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Dear stakeholders,

Determination on Enhancing Pre-existing Infrastructure outputs and allowed expenditure adjustment within National Grid Electricity Transmission's RIIO ET1 price control (electricity transmission licence special condition 6G)

This letter explains our determination on new Enhancing Pre-existing Infrastructure (EPI) outputs and a related adjustment to National Grid Electricity Transmission's (National Grid) allowed expenditure under the RIIO ET1 price control.

There is £500 million¹ in the electricity transmission price control for the transmission owners to deliver projects that reduce the visual impact of pre-existing transmission infrastructure² on nationally designated landscapes.³ The deliverables from these mitigation projects are known as EPI outputs.

A transmission owner (TO) can propose new EPI outputs and request funding for these under its price control. When we receive a request we determine whether the EPI outputs are consistent with the TO's policy and whether the delivery costs are economic and efficient, and then the modification to be made to the TO's licence for an EPI output, including the amount of allowed expenditure.

National Grid has requested funding to deliver EPI outputs from five projects. These are located in the High Weald Area of Outstanding Natural Beauty (AONB), the Peak District National Park, the North Yorkshire Moors National Park and in the Snowdonia National Park. The projects have been selected from round one of National Grid's Landscape Enhancement Initiative (LEI), which it introduced in 2016 as part of its Visual Impact Provision (VIP) policy. Under the latter, National Grid is also developing a small number of major capital projects.⁴

Under the LEI, local stakeholders make funding grant applications to National Grid for smaller visual improvement and landscape enhancement projects in nationally designated

¹ Up to a total of £500 million (2009/10 prices) can be spent by the electricity transmission owners during the RIIO T1 price control for delivery of new EPI outputs, subject to Ofgem's approval. National Grid's submission is the first request for new EPI outputs and additional allowed expenditure of £432,000 (2009/10).

² Pre-existing transmission infrastructure is defined as transmission infrastructure assets forming part of the licensee's Transmission System, such as lines and towers, as at 1 April 2013.

³ The level of the expenditure cap was informed by a 2012 survey of households on the amount they would be willing to pay to reduce the effects of existing transmission infrastructure on the visual amenity of designated areas. The designated areas cover national parks, areas of outstanding natural beauty, and national scenic areas.

⁴ In 2015 NG announced a shortlist of candidate large-scale engineering projects for EPI outputs under RIIO T1. Further information is available on National Grid's website: <http://www2.nationalgrid.com/UK/In-your-area/Visual-Impact-Provision/Projects/>

areas that are adversely affected by pre-existing transmission infrastructure. Such projects might include landscaping to screen infrastructure, works to enhance the special landscape characteristics, and/or works to re-focus views.

Appendix 1 contains more background information on National Grid's VIP policy, the LEI and the five LEI projects covered by National Grid's submission.

Our review of National Grid's EPI output and funding submission

To assess National Grid's EPI output and funding request we have reviewed the main submission, the project applications and supporting material from the project applicants, as well as supplementary responses provided by applicants to our follow up queries.

For each project, we examined the application summary to verify the project meets the LEI project criteria set by National Grid in its VIP policy.⁵ We then looked at the costs of the main activities and/or deliverables involved in each project to get a break down of total project costs to ensure these are economical and efficient. We used supporting information provided by applicants about the volume and the scope of tasks included in each activity to derive task-specific cost rates. We assessed the reasonableness of these cost rates by comparing against similar agri-environmental tasks obtained from a range of independent sources.⁶ Where cost rates in the projects significantly exceeded comparable independent cost rates we sought further information from the applicants about the contributing factors. Another aspect we reviewed is the match funding and in-kind contribution made by landowners and the AONB and national park bodies to the total project costs. We sought additional information in instances where these were not sufficiently explained.

We are satisfied that the projects are consistent with National Grid's VIP policy, and also meet the LEI project criteria. Accordingly, we think the projects will benefit consumers by mitigating the impact of the existing transmission infrastructure on the highly valued landscape and visual amenities in the designated areas.

In response to our queries about the estimated project costs, we received additional information from applicants on the factors contributing to higher cost rates on some projects. For example, due to the sensitivity of some areas it is only possible to employ manual methods to complete some tasks, which are more expensive than a mechanical or chemical alternative. Other factors include but are not restricted to access issues, variation in vegetation density, and adverse ground conditions. Some applicants also provided tender cost information from comparable projects that had been undertaken previously to verify the estimated costs of some works included in the projects.

We have concluded our cost assessment of the projects in the High Weald AONB, North Yorkshire Moors National park, and Peak District National Park. Based on the information provided we are satisfied that the estimated project costs for these three projects are economic and efficient.

We have not been able to conclude our cost review on the two projects submitted in relation to Snowdonia National Park. This is due to a conflict with other work priorities within the National Park. We will resume our cost review for the two projects when we receive the additional information in due course.

⁵ Further information on the criteria used to assess project applications is available from: <http://lei.nationalgrid.com/>

⁶ Sources used for benchmarking comparable activities are: John Nix Farm Management Pocketbook, the Welsh Government's Glastir Advanced Rules Booklet, and the UK Government's Countryside Stewardship Capital Grants Manual.

Our determination

Having completed our review of three projects, we've determined that these are consistent with National Grid's VIP policy and LEI criteria, and will help to mitigate the impact of existing transmission lines in these highly valued landscapes for the benefit of existing and future consumers. We are also satisfied, based on the supporting evidence provided, that the requested costs for the three projects and for operating the LEI in 2016 are reasonable. Accordingly we've determined to modify National Grid's electricity transmission licence with three new EPI outputs, and to increase its allowed expenditure by £528,000 (2016/17 prices).

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 National Grid's electricity transmission licence to implement the above determination. The notice sets out the details of the proposed new EPI outputs and the adjustment to National Grid's allowed expenditure. Please respond to anna.kulhavy@ofgem.gov.uk on or before 28 April 2017.

Yours faithfully,

Steve McMahon
Associate Partner, RIIO Electricity, Networks

Appendix

Background to the Landscape Enhancement Initiative

As part of implementing its Visual Impact Provision (VIP) policy⁷, National Grid established the VIP Stakeholder Advisory Group in 2014 to advise it on EPI outputs to reduce the impacts of its pre-existing transmission lines in AONB and national parks in England and Wales. In addition to a small number of major capital engineering projects, the VIP Stakeholder Advisory Group recommended to National Grid that it should also progress smaller localised visual improvements and landscape enhancement projects.

The VIP Stakeholder Advisory Group championed the potential benefit of smaller projects to help lessen the impact of pre-existing transmission infrastructure. It is anticipated that these smaller, less capital-intensive projects will include a variety of mitigation works. For example, landscaping to screen infrastructure, works to enhance the special landscape characteristics of the area, works to re-focus park users' views, as well as works to increase public access to areas that are less adversely affected by transmission lines.

In 2015 National Grid amended its VIP policy to include the Landscape Enhancement Initiative (LEI), which covers the criteria and process by which smaller mitigation projects, led by local stakeholders, can be funded and contribute EPI outputs. National Grid launched the LEI in 2016.

National Grid operates the LEI as a grant scheme. The initiative is only open to AONBs and national parks that contain or are affected by National Grid's overhead electricity lines and were included in the landscape and visual impact assessment report National Grid commissioned in 2014.⁸

Applications are assessed against a set of LEI project criteria. All projects are expected to meet the primary criteria of reducing visual impacts of pre-existing transmission lines/and or enhancing the landscape in ways to shift the balance away from the impact of the overhead lines. The primary criteria also include compatibility with local landscape character and with AONB and national park management criteria. The applications are also assessed against secondary criteria, covering other environmental, social, economic and practical project factors.

The project applicants match 25 per cent of requested project costs and there is a maximum limit on LEI funding of £200,000 per application. Up to £4 million per year is available for LEI projects until March 2021.

The first round of the LEI opened in 2016. In accordance with its VIP policy, National Grid appointed a grant administration specialist to administer the day to day running of the scheme. Applications are reviewed initially by a grant officer and also by professional landscape assessors, who make a preliminary assessment of the project's merits against the scheme criteria and provide guidance to the LEI funding panel. The LEI funding panel, made up of an independent Chair Person and external experts from Cadw, Historic England, Natural England and Natural Resources Wales, review applications and make its recommendations to National Grid on which projects to fund.

National Grid's submission from round 1 of the LEI

The LEI funding panel recommended to National Grid that five project applications are funded from round 1 of the LEI.⁹ Accordingly, National Grid has submitted a request in

⁷ In 2014 we reviewed National Grid's VIP policy and consulted stakeholders on our assessment. Further detail is available on Ofgem's website: <https://www.ofgem.gov.uk/publications-and-updates/response-our-consultation-national-grid-electricity-transmission%E2%80%99s-proposed-visual-impact-provision-policy>

⁸ A total of 30 AONB and national parks were covered in the visual and landscape assessment report. It is available on National Grid's website: <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=37291>

⁹ A total of six full applications were submitted into round 1 of the LEI.

accordance with Special Condition 6G of its electricity transmission licence for new EPI outputs and an adjustment to its allowed expenditure under the transmission price control.

The total value of National Grid’s funding request is £928,000 (2016/17 prices). This covers the total cost of the five projects and also the efficient costs National Grid has incurred to set up and operate the LEI in 2016. The tables below summarise the five LEI projects covered by the submission and the proposed EPI outputs.

1. High Weald AONB: Beautiful Boundaries project

Project addresses visual and landscape impact of five sections of existing line on publicly accessible viewpoints and enhances landscape through restoration and creation of characteristic boundary features.

Combined visual and landscape impact of existing lines ¹⁰		Proposed EPI output	Mitigation activity	Volume
4ZJ.1	25	Landscape enhancement and reduced visual impact	Coppice gap up and fence	5.3km
4ZJ.2	10		New hedge and fence	3.6km
4ZJ.3	8		Plant trees	232
4ZJ.4	13		Fence ancient woodland	5.4km
4VM	10			

2. North Yorkshire Moors National Park: Over Stilton to Thimbleby Bridleway Upgrade project

Project addresses visual impacts by upgrading an existing bridleway to an all-weather link so that park users have an alternative route that doesn’t cross beneath a pre-existing transmission line.

Combined visual and landscape impact of existing lines		Proposed EPI output	Mitigation activity	Volume
4VC	6	Reduced visual impact	Bridleway upgrade to all weather resurfacing	2.2km

3. Peak District National Park: Central Longdendale Trails Landscape and Enhancements project

Project addresses the visual and landscape impacts of three sections of existing line through screening, re-directing views, landscape enhancement and increasing access to areas to direct attention away from pylons.

Combined visual and landscape impact of existing lines		Proposed EPI output	Mitigation activity	Volume
4ZO.3	27	Reduced visual impact	Path repair	3000m ²
4ZO.4	28	Reduced visual impact	Bridge rebuild	1
4ZO.5	16	Reduced visual impact	Car park improvements	1
		Reduced visual impact	New benches	15
		Landscape enhancement	Rhododendron control	2500m ²
		Landscape enhancement	Grassland management	2500m ²
		Reduced visual impact and landscape enhancement	Scrub clearance	2000m ²
			Tree management	1550m ²

4. Snowdonia National Park: Woodland Restoration and Landscape Improvement project

Project addresses visual and landscape impact of six sections of existing line by restoring native woodland and hedgerows, removing invasive non-native species to improve patchwork views of landscape from afar and screen lines from close quarters.

Combined visual and landscape impact of existing line sections		Proposed EPI output	Mitigation activity	Volume
4ZC.1	26	Landscape enhancement and reduced visual impact	Rhododendron control	1,341ha
4ZC.2	14		Restoring hedgerows	871m
XO.1	16		Dry stone walling	34m
ZK.1	22		Re-stocking woodlands and thinning conifers	8.21ha
ZK.2	13			
ZK.3	13			

¹⁰ The combined impact scores are from the 2014 Landscape and Visual Impact Assessment report on pre-existing transmission lines. Line sections with a measure of 25 or greater denote very high impact, 20 to 24 is assessed as high impact, 10 to 19 as moderate impact and lines with a score of 10 or less have a lower impact.

5. Snowdonia National Park: Traditional Boundaries project

Project addresses visual and landscape impact of seven sections of existing line. Addresses impacts on publicly accessible viewpoints and enhances landscape through restoration and creation of characteristic boundary features.

Combined visual and landscape impact of existing line sections	
4ZC.1	26
4ZC.2	14
4ZB.1	19
4ZB.2	15
ZK.1	22
ZK.2	13
ZK.3	13

Proposed EPI output	Mitigation activity	Volume
Landscape enhancement and reduced visual impact	Hedgerow works	3.5km
	Dry stone walling	4km
Landscape enhancement	Slate pillar fencing	0.5km