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Bramford to Twinstead Reinforcement

Volume 4: Compulsory Acquisition Information

Document 4.1: Funding Statement

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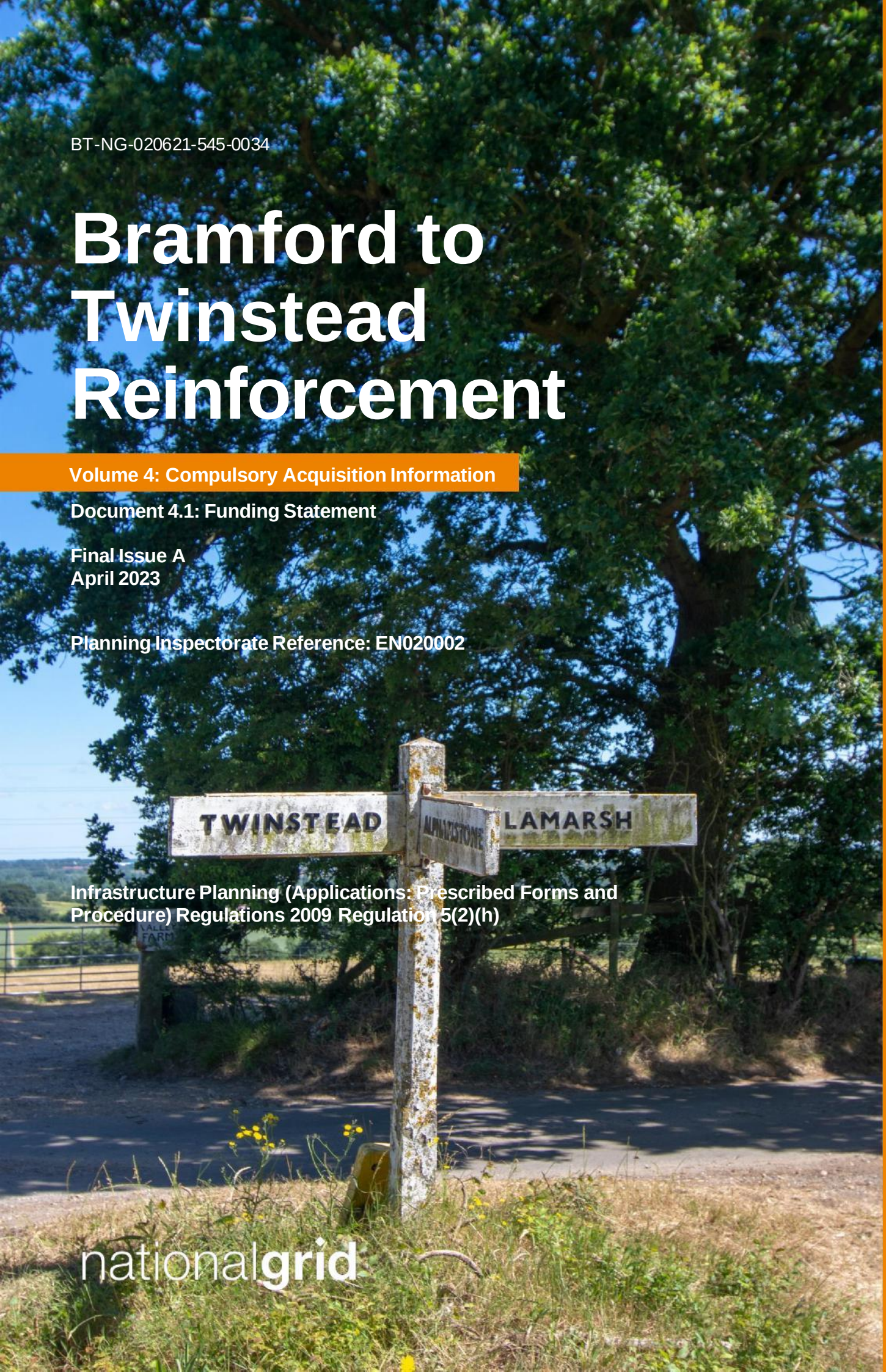

Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 Regulation 5(2)(h)

nationalgrid

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1. Summary

1.1 Introduction

1.1.1 This Funding Statement (here on referred to as 'this Statement') relates to National Grid Electricity Transmission plc's (here on referred to as National Grid) application for development consent to reinforce the transmission network between Bramford Substation in Suffolk, and Twinstead Tee in Essex. The Bramford to Twinstead Reinforcement (here on referred to as 'the project') would be achieved by the construction and operation of a new electricity transmission line over a distance of approximately 29km comprising of overhead lines, underground cables and grid supply point substation and other works defined in Chapter 1.2.

1.2 The Project

1.2.1 This document accompanies National Grid's application for an order granting development consent to reinforce the transmission network between the existing Bramford Substation in Suffolk, and Twinstead Tee in Essex. The project meets the threshold as a Nationally Significant Infrastructure project (NSIP), as defined under Part 3 of the Planning Act 2008, hence National Grid requires a development consent order (DCO).

1.2.2 The reinforcement would comprise of approximately 18km of overhead line (consisting of approximately 50 new pylons, and conductors) and 11km of underground cable system (with associated joint bays and above ground link pillars).

1.2.3 Four cable sealing end (CSE) compounds would be required to facilitate the transition between the overhead line and underground cable technology. The CSE would be within a fenced compound, and contain electrical equipment, support structures, a control building and a permanent access track.

1.2.4 Approximately 27km of existing overhead line and associated pylons would be removed as part of the proposals (25km of existing 132kV overhead line between Burstall Bridge and Twinstead Tee, and 2km of the existing 400kV overhead line to the south of Twinstead Tee). To facilitate the overhead line removal, a new Grid Supply Point (GSP) substation is required at Butler's Wood, east of Wickham St Paul, in Essex. The GSP substation would include associated works, including replacement pylons, a single circuit sealing end compound and underground cables to tie the substation into the existing 400kV and 132kV networks.

1.2.5 Some aspects of the project, such as the underground cable sections and the GSP substation, constitute 'associated development' under the Planning Act 2008.

1.2.6 Other ancillary activities would be required to facilitate construction and operation of the project, including (but not limited to):

- Modifications to, and realignment of sections of existing overhead lines, including pylons;
- Temporary land to facilitate construction activities including temporary amendments to the public highway, public rights of way, working areas for construction equipment and machinery, site offices, welfare, storage and access;

- Temporary infrastructure to facilitate construction activities such as amendments to the highway, pylons and overhead line diversions, scaffolding to safeguard existing crossings and watercourse crossings;
- Diversion of third-party assets and land drainage from the construction and operational footprint; and
- Land required for mitigation, compensation and enhancement of the environment as a result of the environmental assessment process, and National Grid's commitments to Biodiversity Net Gain.

1.2.7 For a full description of the project reference should be made to Chapter 4 of the Environmental Statement: Project Description (**application document 6.4.2**).

1.3 Legal Context and Relevant Guidance

1.3.1 This Statement has been prepared pursuant to the requirement of Regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 (as amended) and in accordance with paragraphs 25 and 26 of (the former) Department for Communities and Local Government (DCLG) guidance 'Planning Act 2008: Application Form Guidance' and paragraphs 9 and 17-18 of (the former) Department for Communities and Local Government guidance 'Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land'.

1.3.2 This Statement is required because the proposed DCO if made would authorise the compulsory acquisition of land or interests in land. Regulation 5(2)(h) requires in respect of such an order, a statement indicating how the order, including powers for compulsory acquisition of land, would be funded.

1.4 Objectives of this Statement

1.4.1 The DCLG guidance in relation to compulsory acquisition explains that a funding statement should demonstrate that adequate funding is available to enable the compulsory acquisition within the relevant time period. This Statement should provide as much information as possible about the resource implications of both acquiring the land and rights, and implementing the works for which the land and rights are required.

1.4.2 This Statement explains how:

- the project generally is to be funded; and
- how the acquisition of land necessary to build the project would be funded.

1.4.3 This Statement should be read alongside National Grid's other application documents and, in particular, the Statement of Reasons (**application document 4.2**) which justifies the powers of compulsory acquisition that are sought in the DCO and explains how National Grid intends to use the land and rights which it is proposed to acquire.

2. Role of National Grid Electricity Transmission

2.1 Role of National Grid and Regulatory Framework

2.1.1 National Grid's parent company is National Grid Group. This is one of the world's largest investor-owned energy utilities. A multinational company, its principal activities are in but not limited to the UK.

2.1.2 Within the National Grid Group there are distinct legal entities, each with their individual responsibilities and roles. This is illustrated in figure 1 below.

2.1.3 National Grid Electricity Transmission (NGET) owns and operates the high voltage electricity transmission system in England and Wales. This project is being promoted by National Grid Electricity Transmission, here on referred to as National Grid.

2.1.4 National Grid is the sole owner and operator of the high voltage electricity transmission in England and Wales. It owns, builds and maintains the infrastructure; overhead lines, buried cables and substations as a few examples, to allow power to move around Great Britain. The key role of this transmission system is to connect the electricity generators' power stations with regional Distribution Network Operators (DNOs) who then supply businesses and homes. In return for the connection, users of the transmission network pay a tariff to National Grid. This revenue is then used to maintain, improve and invest in the transmission network.

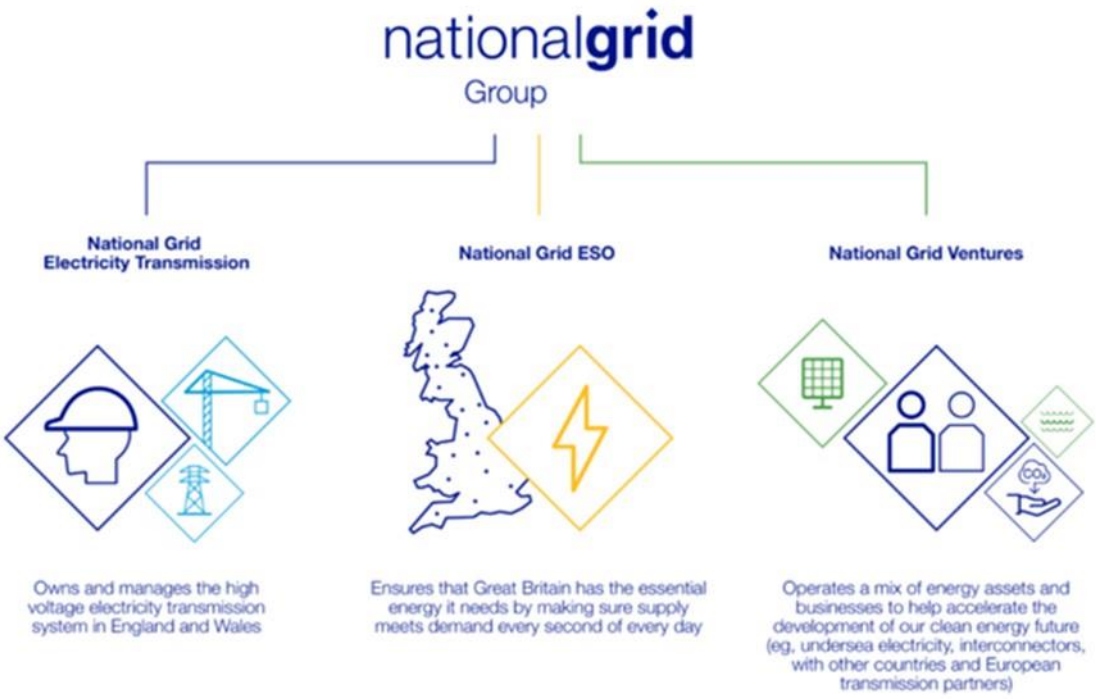
2.1.5 National Grid holds the Transmission Licence for England and Wales and is thus obligated to develop and maintain an efficient, co-ordinated and economical system of electricity transmission and to facilitate competition in the generation and supply of electricity, as set out in the Electricity Act 1989.

2.1.6 As a licence holder National Grid have specific duties to uphold in relation to the desirability of preserving amenity of certain aspects of the environment and to mitigate the effects of its activities on the environment under Section 38 and Schedule 9 of the Electricity Act 1989.

2.1.7 National Grid publishes its full accounts as required by its licence conditions on an annual basis. The financial results set out in the 'Annual Report and Accounts 2021/2022' show that National Grid Group has underlying operating profits of £4,371 million, with National Grid Electricity Transmission reporting underlying operating profits of £1,058 million (National Grid, 2022).

2.1.8 National Grid Group have a regulatory asset value of £58,997 million and NGET has a regulatory asset value of £15,486 million (National Grid, 2022).

Figure 2.1 – National Grid Structure



2.1.9 National Grid Electricity System Operator (NGESO) controls the movement of electricity around Great Britain, transporting power from generators (such as wind farms) to local Distribution Network Operators to ensure that supply meets demand. This project is being promoted by National Grid Electricity Transmission.

2.2 National Grid's Business Model

2.2.1 National Grid operates as a regulated monopoly. Regulators safeguard customers' interests by setting the level of charges National Grid is allowed to pass on. National Grid have one regulator for the business: the Office of Gas and Electricity Markets (Ofgem).

2.2.2 National Grid is a long-term, asset-based business. National Grid create value for the stakeholders through predictable revenue streams and cash flow.

Revenue

2.2.3 Most of National Grid's revenue is set in accordance with its regulatory agreements. This is referred to as its "allowed revenue" and is calculated based on several factors. These include:

- investment in network assets
- performance against incentives
- return on equity and cost of debt
- customer satisfaction scores.

2.2.4 National Grid's allowed revenue gives it a level of certainty over future revenues if National Grid continue to meet safety and reliability targets, as well as the efficiency

and innovation targets included in the RIIO ("Revenue = Incentives + Innovation + Outputs") licence agreements. Each RIIO period lasts five years. RIIO-T2 began on 1 April 2021. It puts in place all funding arrangements to allow all National Grid licensed entities in the UK to discharge their respective duties.

Investment

2.2.5 National Grid invest efficiently in the networks to deliver strong, regulated asset growth over the long term. This allows National Grid to continue generating revenue growth and growth in the regulated asset base. This in turn generates additional cash flows and allows National Grid to continue reinvesting in the networks and providing sustainable dividends to the ultimate shareholders.

2.2.6 This approach is critical to the sustainability of National Grid's business. By critically evaluating and challenging its own investment decisions through a robust governance process, National Grid continue to deliver reliable, cost-effective networks that benefit customers. The way in which National Grid investment is funded is also an important part of National Grid's business. The long-term, sustainable nature of National Grid's assets and credit ratings help National Grid secure efficient funding from a variety of sources.

Cash Flow

2.2.7 National Grid's ability to convert revenue to cash is an important factor in the ongoing reinvestment in the business. Securing low-cost funding, carefully managing the cash flows and efficient development of National Grid's networks are essential to maintaining strong sustainable returns. Cash generation is underpinned by agreeing appropriate regulatory arrangements.

2.2.8 It is through this business model, with a mixture of revenue, investment and cash flow, that National Grid are able to fund major infrastructure projects such as the project.

2.3 Regulatory Framework

2.3.1 The project has secured a £112.7m baseline funding allowance through RIIO-T2 for the development of the overhead line, cable and reactive compensation works. The Grid Supply Point (GSP) substation has a bridging funding allowance of £15.6m. All works will be subject to a 'true-up mechanism' at the end of RIIO-T2, therefore all costs expended on the project will be recoverable on the basis that they have been incurred on an economic and efficient basis. Any costs incurred during the RIIO-T3 period (i.e. post April 2026) will be subject to the prevailing framework agreement at that time, which is expected to make provision for this project.

3. Need for the Project

3.1.1 There is a high degree of certainty that the project would receive funding because there is a need for the project to be built. The detailed case for the project is set out in the Need Case (April 2023) Document (**application document 7.2.1**).

3.1.2 When carrying out their duties, The Secretary of State and Ofgem have an obligation to have regard to the 'need' to secure that National Grid, as the holder of the transmission licence, is able to finance the activities which it is required to undertake.

4. Cost of Implementing the Project

4.1.1 National Grid have already committed significant funds in progressing the project to the point of DCO application.

4.1.2 The current capital cost of delivering the project is anticipated to be approximately £499 million.

4.1.3 National Grid is satisfied that the funding required to meet the estimated implementation costs will be made available. Release of this funding will be subject to the appropriate internal governance and sanction approval process. All major investments carried out by companies within the National Grid Group require the approval of the board of National Grid plc or another designated Committee or Board with the appropriate level of delegated authority.

4.1.4 Funding to construct the GSP substation and to develop the DCO application through to submission and the subsequent examination phase has already been released.

5. Land Acquisition

5.1.1 The DCLG guidance in relation to compulsory acquisition explains that a funding statement should demonstrate that adequate funding is likely to be available to enable the compulsory acquisition within the relevant time period

5.1.2 National Grid is currently seeking to secure the necessary land rights through voluntary agreement but would utilise the powers of compulsory acquisition included in the draft DCO (**application document 3.1**) if necessary. Negotiations with affected landowners will continue after the submission of the application for development consent.

5.1.3 Appendix B of the Statement of Reasons (**application document 4.2**) shows a summary of negotiations with landowners as at the date of 17th March 2023.

5.1.4 National Grid have taken expert advice on the likely costs of implementing the project, including the funding of the acquisition of the interests in land described in the Book of Reference (**application document 4.3).**

5.1.5 Specialist property consultants who use national, regional and local data are employed to compile the land acquisition estimates. National Grid's in-house specialists cross-check the data given to an individual project against data supplied to recent and current projects to ensure greater overall accuracy.

5.1.6 An assessment of the required funding has taken into account the total cost of payments for acquiring both freehold land and rights over land. This assessment has included the estimated value of compensation payable in relation to disturbance, severance and injurious affection, third party professional fees, blight and claims arising under both Section 10 of the Compulsory Purchase Act 1965 and Part 1 of the Land Compensation Act 1973. The overall assessment of the level of funding required to cover the above matters is estimated at approximately £26.2 million. Included in this overall assessment are payments that are only triggered by taking access to the land or by the commencement of construction. The full cost of entering into the agreements for the necessary land and rights before access and construction commences is estimated at £2.84 million and is also included in the overall assessment.

5.1.7 It is possible that some local factors may emerge after the initial estimates have been prepared. Experience across National Grid projects indicates that a 10% contingency is sufficient to contain such costs. The overall figure quoted in the paragraph above contains such contingency.

5.1.8 National Grid is confident that land acquisition costs and potential compensation claims for blight can be fully met as and when they are required under the provisions of the DCO, and this would include any "early payments" under the blight provisions of the Town and Country Planning Act 1990.

5.1.9 The overall costs of implementing the project include the above land related activities in connection with the project.

6. Contractual Arrangements with UK Power Networks ("UKPN")

6.1.1 An agreement between National Grid and UKPN is agreed in principle and the terms are being negotiated. The Terms are commercially confidential.

6.1.2 The agreement sets out the mechanisms for supporting UKPN in its work required in relation to the application for the DCO.

6.1.3 The DCO provides the necessary powers to enable the Project to be delivered.

6.1.4 National Grid and UKPN have agreed the principles for the arrangements that must be made between them in relation to the works contained in the DCO. The practical effect of those principles is to transfer to National Grid all the reasonable and proper costs incurred by UKPN in delivering the Project obligations of UKPN. The principles are consistent with the powers sought for National Grid and UKPN within the DCO.

6.1.5 Contracts to secure the additional commercial terms between National Grid and UKPN are expected to be completed before the proposed works commence.

7. Conclusion

7.1.1 The project is required in order to fulfil National Grid's licence obligations as set out in the Need Case (April 2023) Document (**application document 7.2.1**)

7.1.2 For the reasons set out above, the Secretary of State can be satisfied that all aspects of the project would be fully funded and that there is no reason to believe that, should the DCO be made, the project would not proceed due to an absence or shortfall in available funding.

7.1.3 The Secretary of State can be satisfied that funding will be available for the acquisition of any land and other interests required for the project, for any compensation or blight claims brought by those interested in the land affected by the DCO, and for the costs of implementing the project.

8. References

National Grid (2022) Full Year End Statement. (Online)

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