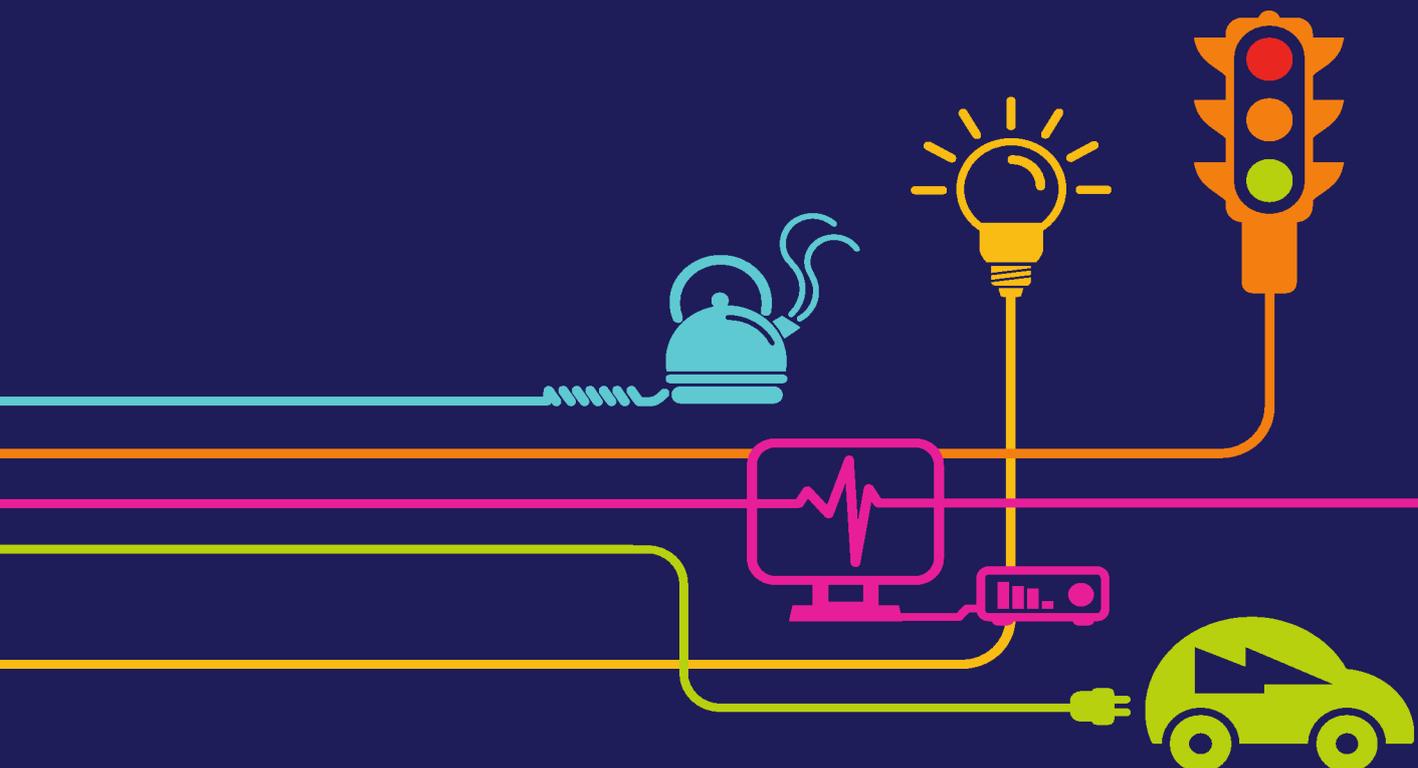


DOCUMENT 3.2

# Funding Statement

National Grid (North Wales Connection Project)

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





# **North Wales Connection Project**

## **Volume 3**

### **Document 3.2 Funding Statement**

National Grid  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

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<b>Author</b>	Ian Williams		
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# 1. Introduction

- 1.1 This Funding Statement (the Statement) relates to an application by National Grid Electricity Transmission plc (NGET) for development consent for the North Wales Connection Project (the Project).
- 1.2 NGET is proposing a development that consists of the following principal components:
  - modifications to the existing substation at Wylfa;
  - sections of new 400 kV OHL between Wylfa substation and Braint Tunnel Head House (THH) and Cable Sealing End Compound (CSEC) on Anglesey including modifications to parts of the existing 400 kV OHL between Wylfa and Pentir;
  - Braint THH/CSEC on Anglesey;
  - a tunnel between Braint and Tŷ Fodol THHs;
  - Tŷ Fodol THH/CSEC in Gwynedd;
  - new section of OHL connection between Tŷ Fodol THH/CSEC and Pentir Substation;
  - extension to the existing substation at Pentir; and
  - Temporary construction compounds, access tracks, construction working areas, localised widening of the public highway and third party works that are required to construct the infrastructure listed above.
- 1.3 The Project is classified as a Nationally Significant Infrastructure Project pursuant to sections 14(1)(f) and 20 of the Planning Act 2008.
- 1.4 This Statement has been prepared pursuant to the requirements of Regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 and in accordance with the Department for Communities and Local Government (DCLG) guidance entitled 'Planning Act 2008: Application Form Guidance.'
- 1.5 This Statement is required because the proposed Development Consent Order (DCO) 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 will be funded.
- 1.6 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. The funding statement should

provide as much information as possible about the resource implications of both acquiring the land and implementing the works for which the land is required.

1.7 This Statement explains:

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

1.8 This Statement should be read alongside NGET's other application documents and, in particular, the Statement of Reasons (**Document 3.1**) which justifies the powers of compulsory acquisition that are sought in the DCO.

## 2. National Grid Electricity Transmission PLC and Regulatory Framework

### Structure and financial standing

- 2.1 NGET's parent company is National Grid plc. National Grid plc is a multinational electricity and gas utility company and its principal activities are in the UK and North-eastern United States. National Grid plc has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index.
- 2.2 NGET is the sole owner and operator of the high voltage electricity transmission system in England, Scotland and Wales. It has a duty under the Electricity Act 1989 to develop and maintain an efficient, co-ordinated and economical system of electrical transmission. In return users of the transmission network pay a tariff to NGET. This revenue is then used by NGET to maintain, improve and invest in the transmission network. As there is a stable demand for use of the transmission network in the UK, there is a reliable revenue stream for NGET.
- 2.3 NGET publishes its full accounts as required by its licence conditions on an annual basis. The financial results set out in the National Grid Investor Relations Factsheet for financial year to 31 March 2018<sup>1</sup> show that NGET has adjusted operating profits of £1.0billion.
- 2.4 NGET has a regulatory asset value of £13 billion whilst National Grid plc has an asset value of £37 billion.

### Our Business Model

- 2.5 NGET operates as a regulated monopoly. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on. We have one regulator for our business: the Office of Gas and Electricity Markets (Ofgem).
- 2.6 We are a long-term, asset-based business. Our operations are regulated, which means we create value for our stakeholders through predictable revenue streams and cash flows.

### Revenue

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<sup>1</sup> Investor Relations Factsheet 2017/18 <http://investors.nationalgrid.com/~media/Files/N/National-Grid-IR-V2/results-centre/2018/ng-focus-factsheet-may-2018.pdf>

2.7 Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

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

2.8 Our allowed revenue gives us a level of certainty over future revenues if we 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.

### **Investment**

2.9 NGET invests efficiently in our networks to deliver strong regulated asset growth over the long term. This allows us to continue generating revenue growth and growth in our regulated asset base. This in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our ultimate shareholders.

2.10 This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

### **Cash flow**

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

2.12 It is through this business model, with a mixture of revenue, investment and cash flow, that NGET is able to fund major infrastructure projects such as the North Wales Connection Project.

### **RIIO Mechanism**

2.13 In 2013, Ofgem introduced a new regulatory framework called RIIO that became effective on 1 April 2013 and lasts for eight years. It puts in place all funding arrangement to allow all National Grid plc licensed entities, including NGET, to discharge its duties as transmission operator and owner.

- 2.14 This includes mechanisms to be reimbursed the capital costs of constructing new, efficient, co-ordinated and economical transmission equipment, also providing provision for associated costs including compulsory acquisitions and foreseeable incidental costs.
- 2.15 It is likely that part of the project will be constructed during the second RIIO funding framework. Whilst the funding mechanism is expected to evolve, it will still provide for licensed entities to discharge the duties of transmission operators and owners. NGET will apply to Ofgem, under RIIO to claim the reimbursement for all recoverable costs incurred by the Project.

## 3. Cost of implementing the proposed development

- 3.1 NGET has already committed significant funds in relation to securing resources for the Project to date.
- 3.2 The estimated capital cost of implementing National Grid's new 400 kV infrastructure is £698 million, in addition diversion works will be required to the SP Manweb network, costing approximately £6 million.
- 3.3 NGET is satisfied that the funding required to meet the estimated implementation costs will be made available by NGET and, if required, by National Grid plc. This funding will be subject to the appropriate internal approval. All major investments carried out by companies within the National Grid Group require the approval of the board of National Grid plc.
- 3.4 The internal governance processes of NGET are in the process of releasing the funding required to enable the Project to be designed and delivered through the application stage. If the DCO is granted for the Project then it will be reported to National Grid plc. National Grid plc will then confirm that the terms of the DCO are in compliance with its statutory duties.
- 3.5 NGET would expect a DCO for the Project to meet its statutory duties and would therefore be approved for delivery in full, including compulsory acquisitions.
- 3.6 The overall costs for the Project will include securing the necessary resources for constructing the project. These will be procured through a tender process that will commence in advance of a decision being made on the DCO by the Secretary of State for Business Energy & Industrial Strategy.

## 4. Land acquisition and capital costs

- 4.1 In July 2011, NGET published a Lands Rights Strategy (LRS). The LRS was designed to be consistent and transparent about the terms for acquiring rights for the new generation of grid connections across England and Wales. The LRS was updated in 2017 to reflect the lessons of the previous 6 years. The new LRS is intended to continue to incentivise early agreement, whilst protecting the electricity consumer against customer delays, and complying with the statutory duties of economy and efficiency.
- 4.2 Following the approach set out in the LRS, NGET is seeking to secure the necessary land rights for the Project through voluntary acquisitions, but will utilise the powers of compulsory acquisition in the DCO if necessary. NGET is consulting and negotiating with those landowners affected by the Project and will continue these negotiations throughout the examination of the application.
- 4.3 NGET has taken expert advice on the likely costs of implementing the Project, including the cost of construction and the funding of the acquisition of the interests in land described in the Book of Reference (**Document 3.3**).
- 4.4 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 these heads of claim is estimated at between £40 and £45 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 acquiring all the necessary land and rights before access and construction commences is estimated at £8million and is also included in the overall assessment.
- 4.5 NGET specialist property consultants use national, regional and local data to compile the land acquisition estimates. NGET's in-house specialist's cross-check the data given to an individual project against data supplied to recent and current projects to ensure greater overall accuracy.
- 4.6 It is possible that some local factors may emerge after the initial estimates have been prepared. Experience across NGET projects indicates that a 10% contingency is sufficient to contain such costs. The figures quoted in this Statement contain such contingency. Interest has also been factored into the assessment of the funding over the anticipated life of the DCO.
- 4.7 NGET is confident that land acquisition costs and potential compensation claims for blight can be fully met as and when 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.

- 4.8 The overall costs of the Project include securing the necessary resources for land related activities in connection with the construction of the project. These resources will be procured through a tender process that will commence in advance of a decision being made on the DCO by the Secretary of State.

## 5. Contractual arrangements with SP Manweb

- 5.1 An agreement between NGET and SP Manweb is agreed in principle and the terms are being negotiated. However, there are a range of details which must be agreed between NGET and SP Manweb to ensure that customers of SP Manweb do not receive any unfair benefit or disadvantage as a result of changes to the national transmission system. The terms of the negotiation are commercially confidential. The Agreement, when concluded, will also be commercially confidential.
- 5.2 The DCO provides the necessary powers to enable the Project to be delivered. The proposed agreement will include the mechanisms for supporting SP Manweb in its work required in relation to the application for the DCO.
- 5.3 NGET and SP Manweb have agreed the principles for the arrangements that must be made between them in relation to the works contained in the DCO. The effect of those principles is to transfer to NGET all the reasonable and proper costs incurred by SP Manweb in delivering the Project obligations. The principles are consistent with the powers sought for NGET and SP Manweb within the DCO. They are also consistent with the controls and safeguards set out in the Environmental Statement **(Volume 5)**.
- 5.4 Contracts to secure the additional commercial terms between NGET and SP Manweb are expected to be completed before the proposed works commence.

## 6. Need for the project

- 6.1 There is a high degree of certainty that the Project will receive funding as there is a legal requirement for the Project to be built, namely;
- 6.2 The detailed case for the Project is set out in the Need Case (**Document 7.1**). NGET is required to connect contracted new generation in North Wales and in particular the proposed 2,940 MW Wylfa Newydd nuclear power station in 2026-2027.
- 6.3 The Secretary of State and Ofgem when carrying out their duties have an obligation to have regard to the need to secure that NGET, as the holder of a Transmission Licence, is able to finance the activities which it is required to undertake. The functions that must be supported by the Secretary of State and Ofgem also include NGET's obligation to connect Wylfa Newydd.

## 7. Conclusion

- 7.1 The Project is required to fulfil NGET obligations to connect new generation in North Wales and in particular Wylfa Newydd to the national transmission system. For the reasons set out above the Secretary of State can be satisfied that the Project will be fully funded and that there is no reason to believe that should the DCO be made, the Project will not proceed.
- 7.2 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, any compensation claims by those interested in the land affected by the DCO, and the costs of implementing the Project.