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Yorkshire Green Energy Enablement (GREEN) Project

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nationalgrid

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Yorkshire GREEN Project

Document control

Version History

Document	Version	Status	Description / Changes
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1. Introduction

1.1 Introduction

- 1.1.1 This Funding Statement (“this Statement”) relates to the Yorkshire Green Energy Enablement (GREEN) project (“the Project”) and has been submitted by National Grid Electricity Transmission plc (“National Grid”) to the Planning Inspectorate acting on behalf of the Secretary of State.
- 1.1.2 It relates to an application made pursuant to section 37 of The Planning Act 2008 (as amended)¹ (“The Act”) for development consent for the Project.

1.2 The Project

- 1.2.1 The Project is a Nationally Significant Infrastructure Project (“NSIP”) within sections 14(1)(b) and 16 (1) of “The Act”.
- 1.2.2 The Project will comprise both new infrastructure and works to existing transmission infrastructure and facilities. The Project is divided into six sections for ease of reference as indicated in **Figure 1.2, Volume 5, Document 5.4.1** and described below.
- 1.2.3 **Section A (Osballdwick Substation):** Minor works at the existing Osballdwick Substation comprising the installation of a new circuit breaker and isolator along with associated cabling, removal and replacement of one gantry and works to one existing pylon. All substation works would be within existing operational land.
- 1.2.4 **Section B (North west of York Area):** Works would comprise:
- reconductoring of 2.4km of the 400kV Norton to Osballdwick (2TW/YR) overhead line and replacement of one pylon on this overhead line;
 - the new 400kV YN overhead line (2.8km), north of the proposed Overton Substation;
 - the new Shipton North and South 400kV cable sealing end compounds (CSECs) and 230m of cabling to facilitate the connection of the new YN 400kV overhead line with the existing Norton to Osballdwick YR overhead line;
 - a new substation (Overton 400kV/275kV Substation) approximately 1km south of Shipton by Beningbrough;
 - two new sections of 275kV overhead line which would connect into Overton Substation from the south (the 2.1km XC overhead line to the south-west and the 1.5km SP overhead line to the south-east);
 - works to 5km of the existing XCP Poppleton to Monk Fryston overhead line between Moor Monkton in the west and Skelton in the east comprising a mixture of decommissioning, replacement and realignment. To the south and south-east of Moor Monkton the existing overhead line would be realigned up to 230m south from the current overhead line and the closest pylon to Moor Monkton (340m south-east) would be

¹ The Planning Act 2008 [online]. Available at: <https://www.legislation.gov.uk/ukpga/2008/29/contents> [Accessed 12 September 2022]

permanently removed. A 2.35km section of this existing overhead line permanently removed between the East Coast Mainline (ECML) Railway and Woodhouse Farm to the north of Overton.

- 1.2.5 **Section C (Moor Monkton – Tadcaster** - existing 275kV Poppleton to Monk Fryston (XC) overhead line north of Tadcaster (Section D)): Works proposed to this existing 275kV overhead line include replacing existing overhead line conductors, replacement of pylon fittings, strengthening of steelwork and works to pylon foundations.
- 1.2.6 **Section D (Tadcaster Area):** Two new CSECs (Tadcaster East and West 275kV CSECs) would be installed approximately 3km south-west of Tadcaster and north-east of the A64/A659 junction where two existing overhead lines meet. One pylon on the existing 275kV Tadcaster Tee to Knaresborough (XD/PHG) overhead line would be replaced.
- 1.2.7 **Section E (Tadcaster to Monk Fryston** - existing 275kV Poppleton to Monk Fryston (XC) overhead line south of Tadcaster (Section D)): Works proposed to this existing 275kV overhead line include replacing existing overhead line conductors, replacement of pylon fittings, strengthening of steelwork and works to pylon foundations.
- 1.2.8 **Section F (Monk Fryston Area):** A new substation would be constructed to the east of the existing Monk Fryston Substation which is located approximately 2km south-west of the village of Monk Fryston and located off Rawfield Lane, south of the A63. A 1.45km section of the 275kV Poppleton to Monk Fryston (XC/XCP) overhead line to the west of the existing Monk Fryston Substation and south of Pollums House Farm would be realigned to connect to the proposed Monk Fryston Substation. East of the existing Monk Fryston Substation the existing 4YS 400kV Monk Fryston to Eggborough overhead line, which currently connects to the existing substation, would be reconfigured to connect to the proposed Monk Fryston Substation.
- 1.2.9 Further detail about the Project is provided in **Chapter 3: Description of the Project of the Environmental Statement (ES) (Volume 5, Document 5.2.3)**.

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)² 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'³ 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'⁴.
- 1.3.2 This Statement is required because the proposed Development Consent Order (the "DCO") if made would authorise the compulsory acquisition of land or interests in land.

² The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 [online]. Available at: <https://www.legislation.gov.uk/uksi/2009/2264/regulation/5/made> [Accessed 12 September 2022]

³ The Planning Act 2008: Application Form Guidance [online]. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/204425/Planning_Act_2008_-_application_form_guidance.pdf [Accessed 12 September 2022]

⁴ Guidance related to procedures for the compulsory acquisition of land [online]. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/236454/Planning_Act_2008_-_Guidance_related_to_procedures_for_the_compulsory_acquisition_of_land.pdf [Accessed 12 September 2022]

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.

1.4 Objectives of this Statement

- 1.4.1 The DCLG guidance in relation to compulsory acquisition explains that a funding statement should be able to “*demonstrate that adequate funding is likely to be available to enable the compulsory acquisition within the statutory period following the order being made, and that the resource implications of a possible acquisition resulting from a blight notice have been taken account of.*”
- 1.4.2 This statement explains how:
- the Project generally is to be funded; and
 - how the acquisition of land and rights over land which are necessary to build the Project will be funded.
- 1.4.3 This statement should be read alongside National Grid’s other application documents and, in particular, the **Statement of Reasons (Volume 4, Document 4.1)** which justifies the powers of compulsory acquisition that are sought in the DCO and explains how National Grid intends to use the land which it is proposed to acquire.

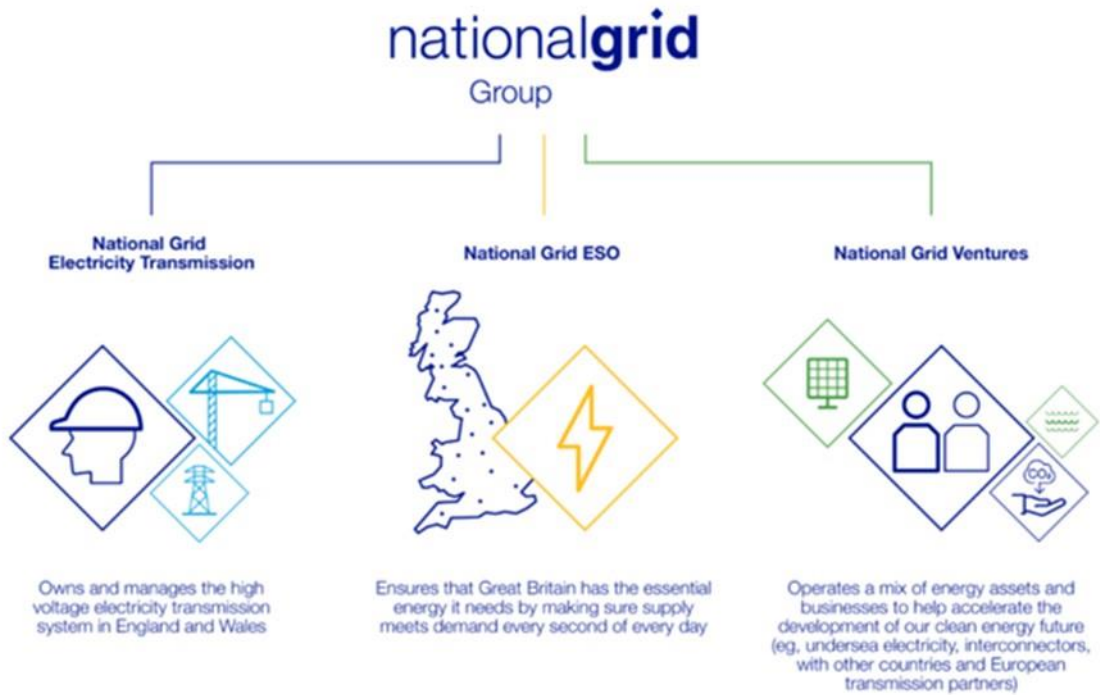
2. National Grid Electricity Transmission plc and Regulatory Framework

2.1 Role of National Grid

- 2.1.1 Within the National Grid Group there are distinctly separate legal entities, each with their individual responsibilities and roles. This is illustrated in **Figure 2.1** below.
- 2.1.2 **National Grid Electricity Transmission plc (NGET)** (referred to as National Grid in all other sections of this report and all Application documents) 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. NGET is regulated by Ofgem, which sets price controls and monitors how the company develops and operates the network on behalf of consumers.
- 2.1.3 NGET owns and manages the national high-voltage electricity transmission system throughout England and Wales. NGET owns, builds and maintains the infrastructure; overhead lines, buried cables and substations as a few examples, to allow power to move around the country. 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 NGET. This revenue is then used to maintain, improve and invest in the transmission network.
- 2.1.4 As a licence holder NGET has 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 1989⁵. National Grid companies sit at the heart of Great Britain's energy system, connecting millions of people and businesses to the energy they use every day.
- 2.1.5 The Project is being promoted by NGET.
- 2.1.6 **National Grid Electricity System Operator Limited (NGESO)** is a separate company which controls the movement of electricity around the country, transporting power from generators (such as wind farms) to local distribution network operators, like Northern Powergrid, ensuring that supply meets demand.
- 2.1.7 Every year it produces, in regular cycles, Future Energy Scenarios to examine ways of achieving Net Zero by 2050. These inform the Electricity Ten Year Statement and, finally, the Network Options Assessment (NOA). The NOA recommends which reinforcement projects should receive investment during the year.
- 2.1.8 **National Grid Ventures Limited** sits outside the core regulated businesses, investing in technologies and partnerships that help accelerate its move to a clean energy future. That includes interconnectors - connecting the UK with countries across the North Sea, allowing trade between energy markets and efficient use of renewable energy resources.

⁵ The Electricity Act 1989 [online]. Available at: [Electricity Act 1989 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/1989/29) [Accessed 12 September 2022]

Figure 2.1 National Grid Group of Companies



- 2.1.9 As seen in **Figure 2.1** NGET’s parent company is National Grid Group. This is the world’s largest investor-owned electricity and gas utility. A multinational company, its principal activities are in the UK and north-eastern United States.
- 2.1.10 NGET has a duty under the Electricity Act 1989 to develop and maintain an efficient, coordinated and economical system of electrical transmission. In return, the 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 the use of the transmission network in the UK, there is a reliable revenue stream for NGET.
- 2.1.11 NGET 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 and NGET has underlying operating profits of £1,055 million.
- 2.1.12 National Grid Group has a regulatory asset value of £58,997 million and NGET has a regulatory asset value of £15,486 million.

2.2 Need for the Project

- 2.2.1 There is a high degree of certainty that the Project will receive funding. It is identified in the most recent Network Options Assessment as requiring investment.
- 2.2.2 National Grid have also entered into contracts that commit it to supply this reinforcement as enabling works by September 2027. For more information on the need for the Project see **Chapter 2: Project Need and Alternatives of the ES (Volume 5, Document 5.2.2)** and the **Updated Need Case** report (**Volume 7, Document 7.4**).

- 2.2.3 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.

2.3 National Grid’s business model

- 2.3.1 National Grid operates as a regulated monopoly. Regulators safeguard customers’ interests by setting allowances for the delivery of transmission assets. National Grid is regulated by Ofgem.

Revenue

- 2.3.2 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 a number of factors. These include:

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

- 2.3.3 National Grid’s allowed revenue gives it a level of certainty over future revenues if it continues to meet safety and reliability targets, as well as the efficiency and innovation targets included in the RIIO (as defined in Section 2.4.1 of this document) licence agreements. (See **Section 2.4** for more details).

Investment

- 2.3.4 National Grid invests efficiently in its networks to deliver strong, regulated asset growth over the long term. This allows it to continue generating revenue growth and growth in its regulated asset base. This in turn generates additional cash flows and allows National Grid to continue reinvesting in its networks and providing sustainable dividends to its ultimate shareholders.
- 2.3.5 This approach is critical to the sustainability of National Grid’s business. By challenging its investment decisions, it continues to deliver reliable, cost-effective networks that benefit its customers. The way in which its investment is funded is also an important part of its business. The long-term, sustainable nature of its assets and its credit ratings helps National Grid secure efficient funding from a variety of sources.

Cash flow

- 2.3.6 National Grid’s ability to convert revenue to cash is an important factor in the ongoing reinvestment in its business. Securing low-cost funding, carefully managing its cash flows and efficient development of its networks are essential to maintaining strong sustainable returns. Cash generation is underpinned by agreeing appropriate regulatory arrangements.
- 2.3.7 It is through this business model, with a mixture of revenue, investment and cash flow, that it is able to fund major infrastructure projects including the Project.

2.4 RIIO mechanism

- 2.4.1 In 2013, Ofgem introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs) that became effective on 1 April 2013. The first RIIO period (RIIO-T1) lasted eight years. This was then followed by a second RIIO period RIIO-T2 which will last five years and began on 1 April 2021. It puts in place all funding arrangements to allow all National Grid plc licensed entities, including National Grid, to discharge its duties as transmission operator and owner.
- 2.4.2 This includes mechanisms to be reimbursed for the capital costs of constructing new, efficient, coordinated and economical transmission equipment, also providing provision for associated costs including compulsory acquisitions and foreseeable incidental costs.
- 2.4.3 There are effectively two regulatory funding streams for the Project.
- Pre-Construction Funding: as part of the RIIO-T2 allowances set by Ofgem, the Project was given an allowance of £23.45m (18/19 Cost Base) in order to secure development consent and facilitate pre-construction activities to enable project execution; and
 - Construction Funding: construction funding for the Project will be secured via the Large Onshore Transmission Investment (LOTI) licence. It is secured via a Final Needs Case (FNC) submission which finalises the project justification and a Project Assessment (forecast for submission in 2023). Ofgem will set a monetary allowance for National Grid to execute the project.
- 2.4.4 The Project will be delivered between 2024-2028. Allowances secured via the LOTI process (see **Section 3** below) are for the entire Project investment despite delivery spanning both RIIO-T2 (2021-2026) and RIIO-T3 (2026-2031).

3. LOTI Funded Projects

3.1 LOTI Funded Projects

3.1.1 To secure allowances National Grid follow Ofgem's Large Onshore Transmission Investment (LOTI) license process. LOTI is a regulatory license framework in which Transmission Owners (TO's) provide the necessary substantiation for any project that constitutes an investment in the transmission network that:

- Is expected to cost £100m or more of capital expenditure; and
- Is in whole or in part, either load-related; or
- Related to a shared-use or sole-use generator connection project.

3.1.2 Throughout 2021 and 2022 National Grid has submitted the Eligibility Assessment and both the Initial Needs Case (INC) and FNC for the Project as per the license requirements of operating under the LOTI mechanism.

3.2 Eligibility Assessment

3.2.1 The Project received confirmation of its eligibility under LOTI by Ofgem in April 2021 – this effectively gave confirmation the Project met the criteria (i.e. capital expenditure over £100m and a load related investment) and therefore is eligible to secure funding via a RIIO-T2 re-opener via the LOTI license framework.

3.3 Initial Needs Case

3.3.1 The INC was submitted to Ofgem in June 2021 and a decision by Ofgem was issued in February 2022 in which Ofgem stated;

“We are satisfied that there is a clear consumer benefit in the Yorkshire GREEN Project progressing. Having taken into consideration the three consultation responses received, which all agreed with the Project needs case, we have concluded that National Grid has made a clear case so far for the boundary reinforcements which make up the Project. We have not identified any material changes, through consultation responses, to the evidence underpinning the needs case. As such, we see no reason to move away from our position, as set out in our October 2021 consultation. Additionally, we note the associated detriment to consumers through constraint costs should there be delays in meeting the proposed delivery date for the reinforcements”.

3.4 Final Needs Case

3.4.1 The purpose of the FNC stage is to review the progression and changes to the Project since the INC and reach a final view on whether or not the Project as proposed by the TO is needed. If the key drivers of the need for the Project remain, and the optimum design and cost of the Project has not changed materially since the INC, a FNC must be sought after all material planning consents have been secured (or by such other date as we may specify).

- 3.4.2 Ofgem gave confirmation to the Project in July 2022 that a FNC may be submitted prior to a planning decision.
- 3.4.3 The FNC was therefore submitted to Ofgem in August 2022, earlier than the LOTI guidance recommends, in agreement with Ofgem. National Grid anticipates Ofgem to make a final decision on the FNC in Q4 2022, Ofgem has stated this shall be conditional on obtaining a Planning Decision.

3.5 Project Assessment

- 3.5.1 The final stage of LOTI, Project Assessment, will be submitted in mid-2023 which will seek to secure approval for the allowances covering construction funding required to deliver the Project. As per the LOTI framework Ofgem provide a decision on cost allowances sequentially following the FNC decision which shall be post Planning Decision.

4. Cost of implementing the Project

- 4.1.1 National Grid has already committed significant funds in relation to securing resources for the Project to date.
- 4.1.2 The cost of implementing the Project is approximately £300m-325m which shall be confirmed following tendering exercises with National Grid's supply chains which is due to complete in 2023. This range is inclusive of £25m pre-construction costs.
- 4.1.3 The pre-construction phase is underway and due to be concluded in 2024 following the DCO decision. National Grid has existing funding for this via the RIIO-T2 baseline allowances described above.
- 4.1.4 The remaining costs are construction phase spend. Included within these costs are main works and equipment supply and enabling works such as DNO supplies, diversion and other utility diversion works. Procurement is underway for construction activities. Funding of these works are subject to obtaining allowances via the LOTI license mechanisms described above.
- 4.1.5 The Projects current position is that the FNC which has been submitted shall be conditionally determined in Q4 2022 subject to obtaining a planning decision. This shall effectively provide National Grid a mechanism to recover construction costs with Ofgem post a DCO decision in Q1 2024. Specific cost allowances shall be allowances established by a Project Assessment determination forecast to be complete in Q3 2024 (post DCO decision).
- 4.1.6 National Grid would expect the funding required to meet the estimated implementation costs will be made available. This funding will be subject to the appropriate internal governance and approval.

5. Land acquisition

- 5.1.1 National Grid has published guidance – ‘Guidance on Land Rights for New Electricity Transmission Assets’– which sets out how it will seek to obtain, from the very outset of a project, by negotiation, permanent and temporary land rights for all new electricity transmission assets. National Grid seeks to reach early agreement with all Landowners.
- 5.1.2 National Grid is currently seeking to secure the necessary acquisitions and land rights through voluntary agreement but will utilise the powers of compulsory acquisition included in the **Draft Development Consent Order (Volume 3, Document 3.1)** if necessary. Negotiations with affected landowners will continue after the submission of the application for development consent.
- 5.1.3 National Grid 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 (Volume 4, Document 4.3)**.
- 5.1.4 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 total cost 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 £5 and £10 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 £2.5 million and is also included in the overall assessment.
- 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 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 figures quoted in this Statement contain such contingency.
- 5.1.7 The land acquisition costs and potential compensation claims for blight will 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 1990.⁶
- 5.1.8 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.

⁶ Town and Country Planning Act 1990 [online]. Available at: <https://www.legislation.gov.uk/ukpga/1990/8/contents> [Accessed 12 September 2022]

6. Contractual arrangements with Northern Powergrid

- 6.1.1 Northern Powergrid and National Grid have agreed a contract which will support the construction of the Overton and Monk Fryston substations.
- 6.1.2 The parties are also negotiating the terms of multiple agreements; the terms once agreed will set out the mechanisms for supporting various works including diversions and supplies for construction compounds. The terms of these agreements are commercially sensitive and therefore remain confidential. Any outstanding contracts to secure the commercial terms between National Grid and Northern Powergrid are expected to be completed before the proposed works commence.

7. Contractual arrangements with Northern Gas Networks

- 7.1.1 Northern Gas Networks and National Grid shall enter a contract which will support the construction of the cable installations required between the two new CSECs in section D near Tadcaster.
- 7.1.2 The scoping requirements of the works required to be undertaken by Northern Gas Networks has been established. The parties are now negotiating the terms of multiple agreements in executing the works; the terms once agreed will set out the mechanisms for supporting works including diversions of medium and high-pressure mains. The terms of these agreements are commercially sensitive and therefore remain confidential. Any outstanding contracts to secure the commercial terms between National Grid and Northern Gas Networks are expected to be completed before the proposed works commence.

8. Conclusions

- 8.1.1 The Project is required to fulfil National Grid’s existing contractual obligations, to delivery a safe, economic, efficient and reliable transmission network which support the UK Government’s legally binding Net Zero commitments and it is identified in the NOA.
- 8.1.2 For the reasons set out above, the Secretary of State can be satisfied that all aspects of 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 due to an absence or shortfall in available funding.
- 8.1.3 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.

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