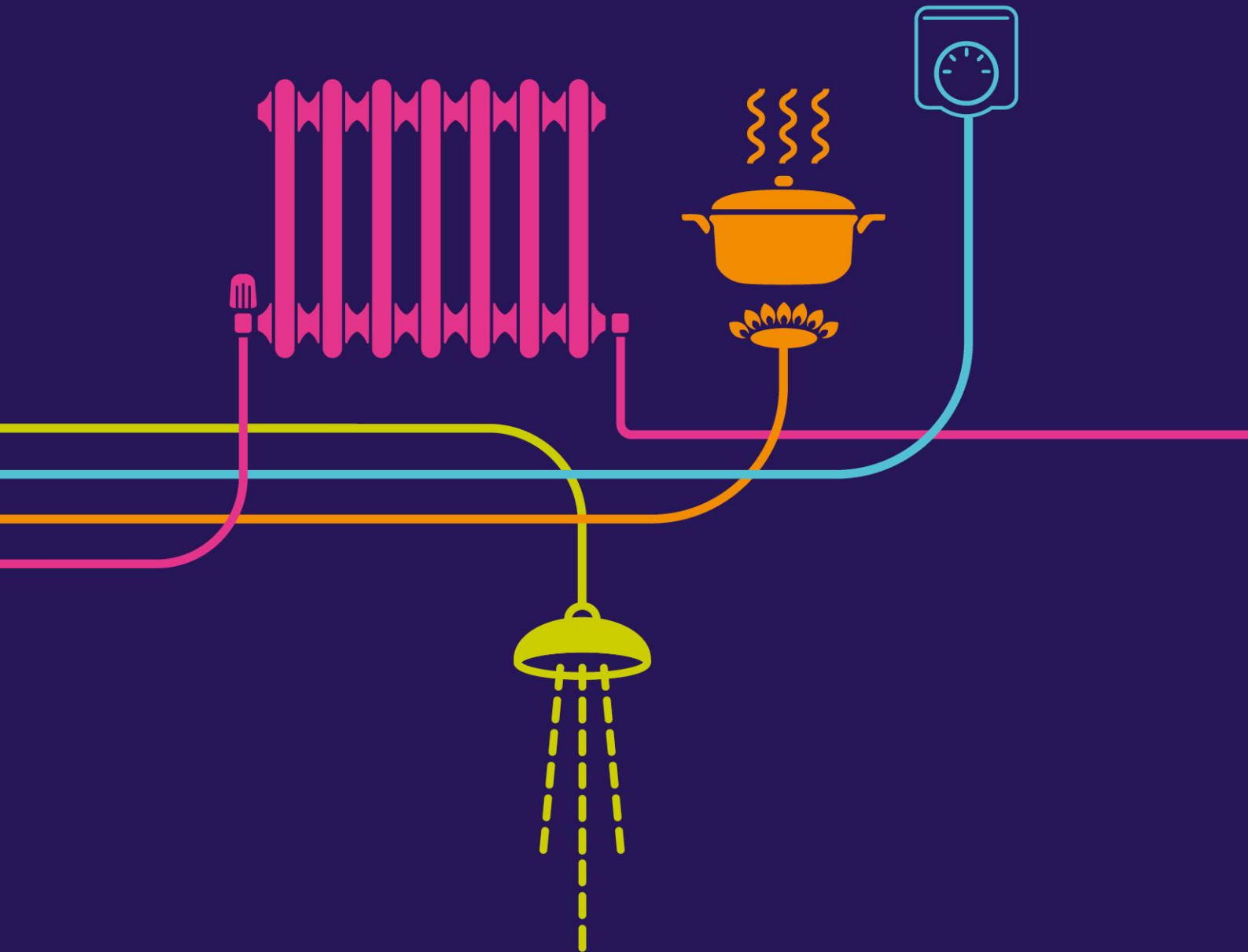


# Funding Statement

## River Humber Gas Pipeline Replacement Project

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



**THE INFRASTRUCTURE PLANNING (APPLICATIONS: PRESCRIBED FORMS AND  
PROCEDURE) REGULATIONS 2009**

**RIVER HUMBER GAS PIPELINE REPLACEMENT PROJECT**

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**FUNDING STATEMENT**

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## 1. **INTRODUCTION**

- 1.1 This Funding Statement ('the Statement') relates to the application by National Grid Gas Plc ('NGG') for development consent for the River Humber Gas Pipeline Replacement Project ('the Project').
- 1.2 NGG is proposing to construct and operate a replacement section of high pressure gas transmission pipeline between existing Above Ground Installations at Goxhill and Paull. The Project is classified as a Nationally Significant Infrastructure Project pursuant to sections 14(1)(f) and 20 of the Planning Act 2008.
- 1.3 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, 'Planning Act 2008: Application Form Guidance' .
- 1.4 It is required because the proposed development consent order ('DCO') would authorise the compulsory acquisition of land or interests in land and regulation 5(2)(h) requires in respect of such an Order a statement to indicate how an order that includes powers for the compulsory acquisition of land will be funded . The DCLG guidance on compulsory purchase explains that the 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 and applicant should be able to demonstrate that adequate funding is available to enable the compulsory acquisition within the relevant time period.
- 1.5 This Statement explains how (i) the acquisition of the land necessary to build the Project will be funded; and (ii) how the Project generally is to be funded. It should be read alongside NGG's other application documents and, in particular, the Statement of Reasons (Doc Ref 4.1) which justifies the powers of compulsory acquisition that are sought in the development consent order.

## 2. **NATIONAL GRID GAS PLC AND REGULATORY FRAMEWORK**

### 2.1 **Structure and Financial Standing**

- 2.1.1 NGG'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 & Northeastern United States. National Grid plc has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index.
- 2.1.2 NGG is the sole owner and operator of gas transmission infrastructure in the UK (from terminals to distributors), known as the National Transmission System (NTS). It has a duty under the Gas Act 1986 to develop and maintain an efficient and economical system of gas transportation. In return us-

ers of the transmission network pay a tariff to NGG. This revenue is then used by NGG 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 NGG.

- 2.1.3 NGG publishes its full accounts as required by its licence conditions on an annual basis. The financial results set out on page 39 of the "Annual Report and Accounts 2013/2014" show that NGG had revenue of £3,033 million and operating profits of £1,359 million in 2014.

## 2.2 **RIIO Mechanism**

- 2.2.1 In 2013 Ofgem set out the proposed UK RIIO price control arrangements. National Grid agreed to these and the RIIO - T1 price control arrangement for National Grid began on 1st April 2013. This settlement covers the period 2013-2021.
- 2.2.2 It puts in place all funding arrangements to allow National Grid licensed entities, including NGG, to discharge its duties as Transmission Operator and Owner.
- 2.2.3 This includes mechanisms to fund capital costs in respect of efficient and economical transmission equipment, also providing provision for associated costs including compulsory acquisitions and foreseeable incidental costs.
- 2.2.4 The new RIIO model is a significant change to the remuneration arrangements that have applied since privatisation, but the reliability of revenue income is not expected to be affected by the change. NGG will still be able to recover the efficient costs associated with installing, operating and maintaining the transmission system.

## 3. **COST OF IMPLEMENTING THE PROPOSED DEVELOPMENT**

- 3.1 The estimated cost of implementing the Project is between £146 million and £194 million (2014/2015 price level).
- 3.2 Construction costs have been developed using National Grid's internal cost estimating database. Costs within the database are informed by information obtained from discussions and budgetary estimates from manufacturers and installers as well as experience of recent costs obtained in tenders and completed contracts.
- 3.3 NGG has already committed significant resources to the Project to date, and this is funded as part of an agreed allowance via the regulated RIIO model.
- 3.4 NGG is satisfied that the funding required to meet the estimated implementation costs will be made available by NGG and, if required, by National Grid Plc. This funding will, of course, be subject to the appropriate Board approval once development consent has been granted.

- 3.5 All major investments carried out by companies within the National Grid Group require the approval of the board of National Grid Plc.
- 3.6 The internal governance processes of National Grid have released the funding required to enable the Project to be designed and delivered through the application stage. If a DCO is granted for the Project then it will be reported to National Grid. National Grid will then confirm that the terms of the DCO are in compliance with its statutory duties. National Grid would expect a DCO for the Project to meet its statutory duties and would therefore be approved for delivery in full, including compulsory acquisitions.

#### 4. **LAND ACQUISITION AND CAPITAL COSTS**

- 4.1 NGG is seeking to secure the necessary land rights through voluntary acquisitions, but will utilise the powers of compulsory acquisition in the DCO should it prove necessary. NGG is consulting and negotiating with those landowners affected by the Project and will continue these negotiations throughout examination of the DCO.
- 4.2 NGG has taken expert advice on the likely costs of implementing the proposed development, including the cost of construction and the funding of the acquisition of the interests in land described in the Book of Reference (Doc Ref. 4.3).
- 4.3 The cost of capital acquisition is estimated at between £2.5 million and £2.9 million. This includes the cost of acquiring easements, including the maximum potential incentive payments that could be made under the NGG's land rights strategy. Any allowances for construction disturbance is included within that figure.
- 4.4 National Grid's Land Rights Strategy (LRS) informs the assessment of the costs of compulsory acquisition. The figures used by NGG include LRS figures plus the costs of professional fees, disturbance and blight.
- 4.5 National Grid's specialist property consultants use national, regional and local data to compile the 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.
- 4.6 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 used in this Statement contain the 10% contingency.
- 4.7 NGG is fully 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.
- 4.8 NGG has taken the possibility of the receipt of blight notices into consideration and factored the cost into the financial calculations. Given the alignment of the Project

beneath the Humber Estuary, there are very few property owners who would be in a position to issue a blight notice in NGG's opinion.

4.9 Furthermore, NGG would continue to hold sufficient provision of funding following the implementation of the Project to enable payment of any disputed claims, as and when any tribunal finds in favour of any claimant.

## 5. **NEED FOR THE PROJECT**

5.1 There is a high degree of certainty that the Project will receive funding because there is a legal requirement for the Project to be built, namely:

5.1.1 The detailed case for the Project is set out in NGG's Need Case (Doc Ref 7.4). It is impractical and inefficient to retain Feeder 9 by continuing remediation and maintenance works. There are unacceptable risks to the UK gas supply as a result. A replacement for the Feeder 9 River Humber crossing is required so that the efficient and economic operation of the NTS can be maintained.

5.1.2 NGG has a statutory duty to develop and maintain an efficient and economical pipeline system for the conveyance of gas.

5.1.3 The Secretary of State for Energy and Climate Change and Ofgem have a legal duty to ensure that the national transmission system licence holder can finance its functions. NGG is the licence holder. The functions that must be supported by the Secretary of State and Ofgem include NGG's responsibilities to maintain and replace Feeder 9.

## 6. **CONCLUSION**

6.1 The Project is required to ensure that the efficient and economic operation of the NTS can be maintained. For this, and 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 Order be made, the Project will not proceed.

6.2 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 Order, and the costs of implementing the Project.