

Consultation

Yorkshire GREEN – Project Assessment consultation

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We are consulting on our project assessment of National Grid Electricity Transmission Yorkshire GREEN (OPN2) project. This is a project under the Accelerated Strategic Transmission Investment (ASTI) mechanism in the RIIO-2 Price Control Framework. At the project assessment (PA) stage, we review and ultimately set revenue and outputs associated with delivery of an ASTI project.

We would like views from people with an interest in the costs of electricity transmission infrastructure, and the transmission owners. We particularly welcome responses from stakeholders impacted by the project. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

ASTI framework

The British Energy Security Strategy set out the Government's ambition to connect up to 50GW of offshore generation to the electricity network by 2030.¹ Facilitating this ambition will require significant reinforcements to the onshore electricity transmission network and a change to the current regulatory framework in order to accelerate delivery of large projects.

As such, in December 2022 we published a decision to introduce a new Accelerated Strategic Transmission Investment (ASTI) framework.² We set out the initial list of ASTI projects, our decision on exempting strategic projects from competition, the new process for assessing and funding ASTI projects and the range of measures we are introducing to protect consumers against additional risks that changing the process brings.

Yorkshire GREEN is one of the projects that we have included in the ASTI framework³ and it is being delivered by National Grid Electricity Transmission (NGET).

Minded-to position

This consultation sets out our minded-to position for the Yorkshire GREEN project following project assessment (PA).

We are proposing to set the overall funding allowance at £294,801,307⁴ (2018/19 prices) for NGET to deliver the project. This includes £235,072,843 of direct costs as well as £59,728,464 on indirect costs and risk. During our review of Yorkshire GREEN, we have identified areas of uncertainty and have set out different ways to address and fund these should they materialise. This includes making use of the new Uncertainty Re-opener developed for ASTI projects.

Lastly, we are minded-to maintain the Cost and Output Adjusting Event (COAE) materiality threshold of 5% (equivalent to a threshold of £15.6m) specifically for this project.

¹ [British energy security strategy | GOV.UK](#)

² [Consultation on accelerating onshore electricity transmission investment | Ofgem](#)

³ [Decision on accelerating onshore electricity transmission investment | Ofgem](#). Please note that the Yorkshire GREEN project is listed as project OPN2

⁴ All costs in this document are in 2018/19 prices unless otherwise indicated.

Next steps

In the coming weeks, we will engage with the NGET on the licence and guidance changes that are necessary to implement our minded-to position on the PA assessment. After considering responses to this consultation, we will publish a full decision on the PA for NGET alongside our proposed modifications to the NGET's electricity transmission licence to support delivery of the project.

1. Introduction

Section summary

This section summarises what we are consulting on and provides an overview of Yorkshire GREEN and background information.

What are we consulting on?

- 1.0 This consultation sets out our minded-to position and seeks stakeholder views on the PA of the Yorkshire GREEN project (Network Options Assessment (NOA) code: OPN2).
- 1.1 Chapter 2 covers the main cost areas of the PA request as submitted by NGET.
- 1.2 Chapter 3 sets out our minded-to position on the funding allowance for each of the cost areas.
- 1.3 Chapter 4 summarises the next steps and our expected timescale to publish our decision.
- 1.4 Our assessment and minded-to position set out in this document are subject to our consideration of any consultation responses and we invite stakeholders to respond using the contact details set out on the front of this document.

Context

- 1.5 The GB onshore electricity transmission network is planned, constructed, owned and operated by three transmission owners (TOs): NGET in England and Wales, Scottish Power Transmission (SPT) in the south of Scotland, and Scottish Hydro Electric Transmission (SHE-T) in the north of Scotland.
- 1.6 The Yorkshire GREEN project progressed through Ofgem’s Large Onshore Transmission Investment (LOTI) re-opener mechanism under Special Condition 3.13 of the TOs’ electricity transmission licences. In June 2023, we published our conditional decision⁵ to approve the Final Needs Case (FNC) for Yorkshire GREEN subject to the project obtaining all necessary planning consents. In 2022 the Electricity System Operator’s (ESO) Network Options Assessment (NOA) refresh, which now fully integrates the Holistic Network Design (HND)⁶, confirmed that delivering the Yorkshire GREEN project is essential to achieving the Government’s

⁵ [Yorkshire GREEN project - Final Needs Case decision | Ofgem](#)

⁶ [Network Options Assessment \(NOA\) refresh | National Grid ESO](#)

net zero ambitions. In December 2022, we published our decision on Accelerating Strategic Transmission Investment (ASTI) and included the Yorkshire GREEN project within the ASTI framework⁷. Given this, the Yorkshire GREEN PA is being assessed under the ASTI framework.

1.7 The proposal for Yorkshire GREEN consists of:

- Reinforcing the B7a and B8 boundaries in the North of England to facilitate the anticipated increase in the North to South power transfers due to proposed renewable power generation in Scotland and the North Sea; and
- The project is also critical to realising the full benefits of the first Eastern HVDC Link⁸ (E2DC) which is a separate project.

1.8 In December 2022,⁹ we introduced a new Accelerated Strategic Transmission Investment (ASTI) regulatory framework. This framework will assess, fund and incentivise the accelerated delivery of large, strategic onshore transmission projects required to deliver the government's ambition to connect up to 50GW of offshore wind generation to the network by 2030.

1.9 In August 2023,¹⁰ we published our decision to modify the Special Conditions in the electricity transmission licences required to give effect to our ASTI decision, introducing new Special Conditions (SpCs):

- 3.40 Accelerated strategic transmission investment Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (APCFt);
- 3.41 Accelerated strategic transmission investment Re-opener and Price Control Deliverable term (ASTIRt); and
- 4.9 Accelerated strategic transmission investment output delivery incentive (ASTIIIt).

1.10 This document covers our minded-to position on the PA for the Yorkshire GREEN project under the ASTI framework.

Overview of ASTI re-opener mechanism

1.11 The ASTI framework streamlines the regulatory approval process, compared with the LOTI regime, by reducing the number of regulatory assessment stages. It

⁷ [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

⁸ [Eastern HVDC - Conditional Decision on the projects' Final Needs Case | Ofgem](#)

⁹ [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

¹⁰ [Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#)

also allows the TOs earlier access to project funding to accelerate delivery of ASTI projects.

1.12 The ASTI framework applies to the electricity transmission projects listed at Appendix 1 of our ASTI implementation decision of August 2023¹¹ as they have been found to meet the following criteria¹²:

- meets the definition of a LOTI as set out in SpC1.1 (Interpretations and definitions), Part B of the TOs’ electricity transmission licences: “LOTI means the assets constituting an investment in the Transmission System, which investment:
 - (a) is expected to cost £100m or more of capital expenditure; and
 - (b) is, in whole or in part, load-related;”
- has been identified by National Grid Electricity System Operator (NGESO) as being needed to be operational by 2030 to meet the Government’s ambition to connect 50GW offshore wind generation; and
- satisfies the Authority that there is clear evidence that the expected consumer benefits of applying the accelerated delivery framework to the project exceeds the expected consumer detriment.

1.13 The initial 26 ASTI projects were identified by the NGESO in the Holistic Network Design¹³ (HND) and NOA 7 Refresh¹⁴ as required to deliver the Government’s 2030 net zero ambitions.¹⁵

1.14 To accelerate delivery of the ASTI projects, all ASTI projects that had not already been granted pre-construction funding (PCF) were granted PCF of 2.5% of their estimated total cost under SpC 3.40. PCF funding is intended to allow ASTI projects to be progressed to the point where all material planning consents have been applied for.

¹¹ [Accelerated Strategic Transmission Investment Guidance and Submission Requirements Document | Ofgem](#)
¹² [Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#), Accelerated Strategic Transmission Investment Guidance and Submission Requirements Document, paragraph 2.3

¹³ [The Pathway to 2030 Holistic Network Design | National Grid ESO](#)

¹⁴ [Network Options Assessment \(NOA\) refresh | National Grid ESO](#)

¹⁵ [British energy security strategy | GOV.UK](#)

- 1.15 Further, should additional funding be required ahead of PA to accelerate an ASTI project, TOs may apply for early construction funding (ECF) which is capped at 20% of the project's estimated costs, unless directed otherwise by Ofgem.
- 1.16 PA is the final stage of the ASTI framework.¹⁶ The PA review determines the efficient allowance to deliver the project, including the efficient costs of construction, risk contingencies, project management and any other elements of delivery.

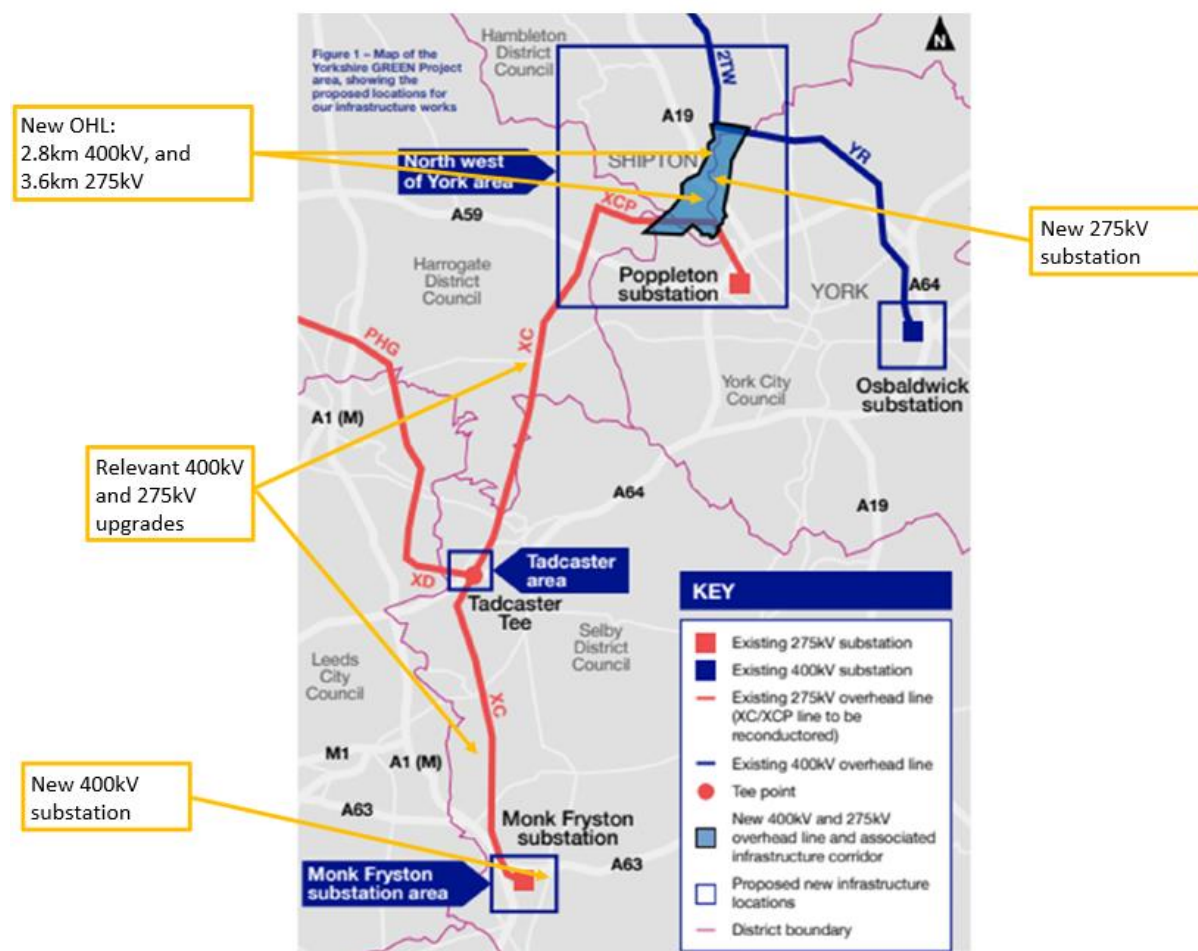
Background

- 1.17 Yorkshire GREEN is an infrastructure project triggered by the need to increase the capability of major boundaries¹⁷ (B7a and B8) within NGET's network in the North of England. The project is required to manage increasing power flows from the North to the South of England. The project will provide a boundary uplift of c.1.7GW and 394MW on boundaries B7a and B8 respectively.
- 1.18 Figure 1 presents Yorkshire GREEN's scope of work which consists of:
- New 400kV substation extension at Monk Fryston, inclusive of protection and control of transformers to connect back into the existing 275kV substation;
 - New 275kV substation to be installed at Overton, inclusive of transformers, protection, and control sited off the existing XCP overhead lines (OHL) route. XCP OHL shall be renamed to XC (west of Overton) and SP (East of Overton);
 - c.6.4km of new OHL, 2.8km at 400kV and 3.6km at 275kV, connecting the existing YR OHL with Overton substation, and Overton substation to the existing 275kV OHL; and
 - Relevant 400kV and 275kV upgrades.

¹⁶ The ASTI Guidance includes information on the ASTI stages – PCF, ECF and PA.

¹⁷ Transmission boundaries split the electricity transmission system. A single boundary splits into two parts which represent pinch points on the network. This split crosses critical circuit paths that carry power between the areas where power flow limitations may be encountered. For more information on boundaries, see the [Electricity Ten Year Statement 2020 | National Grid ESO](#)

Figure 1: Scope of preferred option, OPN2, for Yorkshire GREEN



- 1.19 In 2022 the ESO NOA refresh, which now fully integrates the HND, confirmed that delivering Yorkshire GREEN (OPN2) is essential to achieving the Government’s net zero ambitions.¹⁸ Although the project had progressed through the LOTI mechanism up to a FNC stage (see paragraph 1.7), going forwards it will be considered under the new ASTI framework. As such, the project is already included in the list of projects in Appendix 1 of NGET’s electricity transmission licence, SpC 3.41.¹⁹
- 1.20 The project was not granted PCF under the ASTI framework as PCF had already been provided as part of setting the RIIO-2 price control. The PCF amount provided to NGET was £23.57m.²⁰

¹⁸ [Network Options Assessment \(NOA\) refresh | National Grid ESO](#)

¹⁹ [Decision to modify the Special Conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#)
[Decision to modify the Special Conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#)

²⁰ [RIIO-2 Final Determinations - NGET Annex \(REVISED\) | Ofgem](#), page 17, OPN2. Also see Appendix 2 of SpC 3.15 within NGET’s electricity transmission licence.

- 1.21 We have provided ECF for the Yorkshire GREEN project. Our decision was published in February 2024.²¹
- 1.22 The project is being delivered by NGET. The final PA submission was made in January 2024. Ofgem and NGET have had extensive up-front engagement, including an engagement stage prior to submission on indirect costs and the Yorkshire GREEN programme to better understand the procurement environment and development of project scope.

Related publications

- 1.23 [Decision to modify the Special Conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#)
- 1.24 [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Consultation open	Consultation closes (awaiting decision). Deadline for responses	Responses reviewed and published	Licence modification decision	[if applicable – licence modifications come into effect]
13/08/2024	10/09/2024	Autumn 2024	Winter 2024	56 days after the licence modification decision ²²

How to respond

- 1.25 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document’s front page.
- 1.26 We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.27 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

²¹ [Yorkshire GREEN project – Early Construction Funding decision | Ofgem](#)

²² Section 11A (9) of the Electricity Act 1989

Your response, data and confidentiality

- 1.28 You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.29 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.30 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.
- 1.31 If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 1.32 We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 2. Do you have any comments about its tone and content?
 3. Was it easy to read and understand? Or could it have been better written?
 4. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?

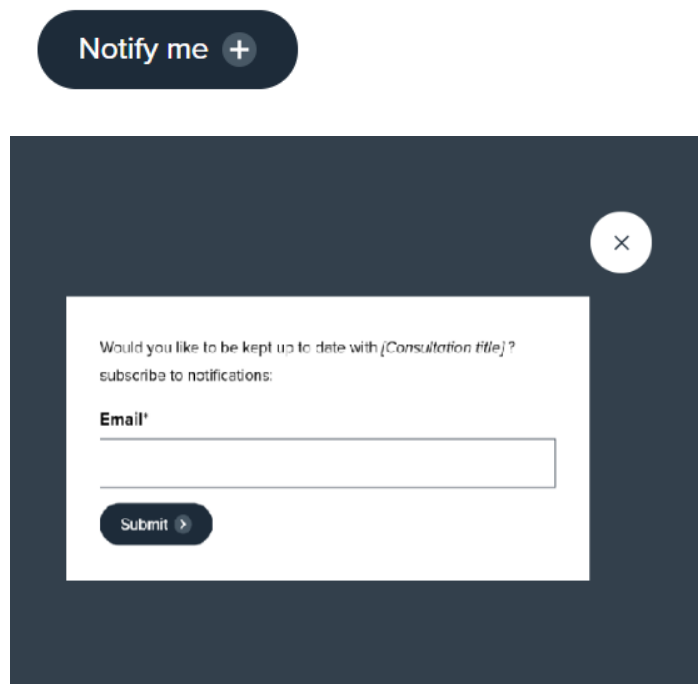
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Requested cost allowances

Section summary

This section details the funding requested by NGET in their submission.

- 2.0 When the FNC for Yorkshire GREEN was assessed under LOTI in December 2022, the estimated capital costs were £286.19m. At the ASTI PA stage NGET requested a total of £318.19m, which is an increase of 12%. This increase reflects a maturing project scope and design, market tendered prices, progress with land and consents, and a quantified risk assessment.
- 2.1 This section sets out the main parts of the funding requested by NGET in their submission. It includes the proposed project allowances regarding direct construction costs, indirect costs and risk, as well as a request to adjust the Cost and Output Adjusting Event (COAE) threshold for Yorkshire GREEN.

Direct construction costs

- 2.2 NGET requested £258,457,940 to fund direct construction works for Yorkshire GREEN. The high-level scope of Yorkshire GREEN comprises two new substations, new OHL, and upgrades to existing equipment. The project also encompasses the re-use and upgrade of existing assets to minimise environmental impact. The details of this option have remained unchanged since the design freeze in May 2022, prior to submission of the FNC in August 2022.
- 2.3 The transition to net zero continues to drive high demand for electricity transmission infrastructure around the globe, increasing costs and product lead times in a relatively constrained supply chain environment. Demand for high-capacity transmission voltage transformers have increased since the COVID-19 pandemic to the extent that global production capacity for supergrid transformers (SGTs) has become constrained.
- 2.4 Production lead times for SGTs have increased from 12-18 months to 24 months and beyond – in some cases to 48 months. For specialist non-standard transformers NGET have also been advised of lead times of up to 60 months. This places considerable strain on project programmes and necessitates changes to the way equipment is procured and projects are delivered.
- 2.5 Before the COVID-19 pandemic, NGET typically ordered 10 to 15 SGT's per year; as a result of the requirement for new transmission infrastructure, NGET are currently ordering over 50 transformers per year. Similar increases are apparent

across the entire electricity transmission and distribution sector, resulting in constraints to secure manufacturing slots.

- 2.6 COVID-19 and the war in Ukraine has led to further disruption in the supply chain and an escalation in the cost of raw materials. Accordingly, transformer prices have increased substantially.
- 2.7 Yorkshire GREEN involves building substations, installing SGTs, and OHL works. The project carried out Front End Engineering Design (FEED) work to inform and de-risk procurement, followed by the award of a Main Works Contract (MWC). The main works packages include supply of the SGTs, substation works package (Overton and Monk Fryston substations), and the OHL Package (including new build, upgrades, and refurbishment).
- 2.8 NGET utilised call-off contracts under their existing frameworks agreements, splitting the works in to two packages, substation and OHL; in their view this mitigated against some of the market capacity constraints by utilising pre-existing frameworks that provide efficient access to suppliers that have been assessed as capable of delivering electricity transmission infrastructure to the required quality and technical standards. During pre-market engagement it was concluded that the project had attracted sufficient supply chain interest to generate competition amongst its framework suppliers.
- 2.9 NGET have used a target cost contract for the works; the mature level of scope detail and FEED design work on the project increases the opportunities awarded by a target cost contract. In NGET's view, a target cost contract incentivises cost efficiency by sharing both the risk and benefits of cost overruns or savings between client and contractor, motivating the contractor to find ways to complete the project within budget. It also promotes collaboration between client and contractor, fostering a shared interest in achieving cost-effective solutions and successful project delivery.

Indirect costs and risk

- 2.10 NGET requested £59,728,464 for indirect costs and a P70 level of confidence funding. A further [redacted] was requested on the Price Adjustment Mechanisms (PAMs).
- 2.11 The indirect costs also included £0.9m to deliver community benefits, with the funding being based upon three key areas:

- Community, focussing on people local to the project, identifying opportunities to support locally registered non-profit community organisations and charities that make a positive impact on residents’ physical and mental wellbeing;
- Environment, which seeks to create a positive impact on nature, delivering an environmentally friendly project that protects and preserves the environment in which projects are delivered; and
- Education, which focusses on proactively and positively engaging with local schools, colleges and other education providers to support science, technology, engineering and mathematics (STEM) subjects and to raise awareness about Yorkshire GREEN. As well as educational support, the project aims to create work experience and site interaction opportunities for local pupils to gain practical experience which will support their future career paths. There are up to 132 community spaces and 419 schools and colleges within a 10-mile radius of the works.

2.12 Yorkshire GREEN is the first project under the ASTI portfolio to have to comply with new legislation relating to Biodiversity Net Gain (BNG). NGET has committed to deliver a net gain of at least 10% or greater in environmental value (including biodiversity) on all their construction projects which is in line with new legislation for Town and Country Planning Act developments and for Nationally Significant Infrastructure Projects (NSIPs).²³

2.13 NGET has applied for £23,185,095 to deliver the 10% or greater environmental value BNG. The estimate used the Environment Bank’s biodiversity units²⁴ and was based around initial delivery plus 30 years of management and maintenance.

P70 level of confidence

2.14 NGET requested funding based on a P70 level of confidence for Yorkshire GREEN. Ofgem’s approach is to normally fund projects to a P50 level of confidence only.

2.15 Cost confidence levels are a measure of confidence in the project’s estimated costs constructed using probability. They are used to gauge the appropriate level of funding against the likelihood of the project being successfully delivered for a given cost.

2.16 A project costed at the P50 confidence level means that 50% of estimates exceed the P50 estimate and that, by definition, 50% of estimates are less than the P50.

²³ [The Biodiversity Net Gain Statutory Instruments | GOV.UK](#)

²⁴ [Biodiversity Net Gain - Local Biodiversity Units Available | Environment Bank](#)

In other words, it is a middle estimate (but not the mean). A P80 level of funding exceeds a P50 level as a greater volume and value of risk will be funded under P80, with a correspondingly greater likelihood that the project will be delivered within that cost estimate.

2.17 For Yorkshire GREEN, the P50 level of funding was [redacted] and the P80 was [redacted].

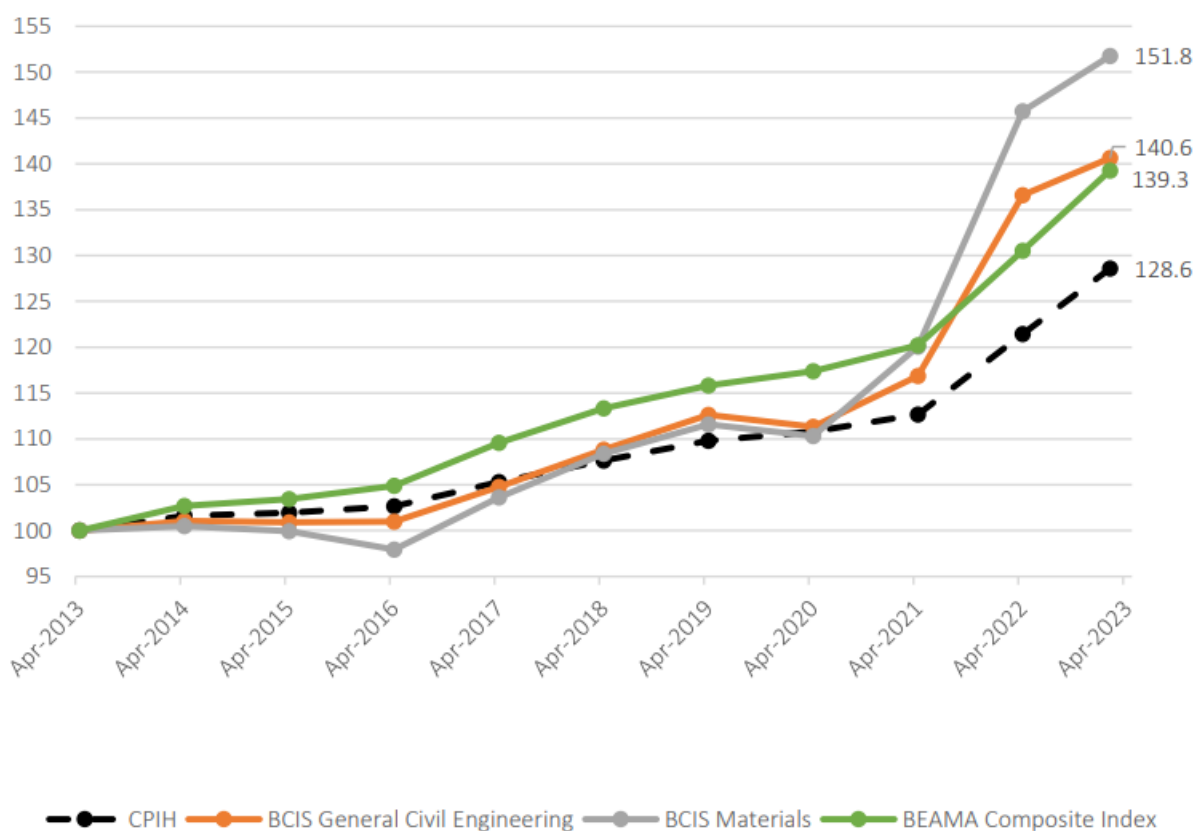
2.18 NGET provided four points of justification for seeking funding at a P70 rather than P50 level:

- The cost of acceleration in a constrained supply chain environment;
- Network access for outages is heavily constrained with competing access for the EGL1 and Harker projects which are the two other major projects being delivered concurrently that impact transmission boundaries B6 and B7. The risk for Yorkshire GREEN is compounded by the complex network interface requirements between these projects;
- Innovation and introduction of new technologies: examples of significant new technologies being implemented are Leipzig OHL conductors. These are a new OHL conductor product utilising a carbon core to operate with high tensile / low sag properties that reduces the need to undertake more significant OHL tower upgrade / replacement works; and
- The project has very extensive third-party interdependencies, including multiple landowners, local authorities, statutory undertakers and other interest groups. The project team is currently subject to a final decision by the Secretary of State following a Development Consent Order (DCO) recommendation by the Planning Inspectorate to which there are still matters which have not been agreed prior to a DCO planning decision being made.

Price Adjustment Mechanisms

2.19 Inflation over the past two years has been significant owing to a variety of global macro-economic events. While general inflation indices such as the Consumer Price Index including owner occupiers' Housing costs (CPIH) have seen substantial change, they do not reflect the full extent of inflation within specific sectors, especially construction and the specialist High-Voltage Direct Current (HVDC) market. Although CPIH has historically been a close proxy for construction specific indices, since mid-2023 inflation within manufacturing and construction has far outstripped CPIH. This divergence is illustrated in Table 1 below:

Table 1: CPIH comparison to Building Cost Information Services (BCIS) and British Electrotechnical and Allied Manufacturers' Association (BEAMA) Indices (APR-2013 = 100)



2.20 A supply chain indexation Price Adjustment Mechanism (PAM) is a contractual mechanism for managing changes to the contract price post award. Costs are treated as pass-through and are therefore not pre-determined but instead are treated by ex-post allowance adjustment which is trued up on an annual basis based on indices. PAMs have been demanded by the supply chain to manage costs which they have not been able to fix, and which remain highly volatile in the current climate, in particular commodities such as copper, aluminium, and oil.

2.21 The project team has estimated that the total exposure to PAMs on Yorkshire GREEN is between [redacted] and [redacted] at the lower and top end of the range respectively. However, these are not fixed limits, and they are subject to change as indices change.

COAE

2.22 Part E of SpC 3.41 provides for a COAE re-opener mechanism to adjust outputs and allowances in Appendix 1 to SpC 3.41 should there be a COAE.

- 2.23 In NGET's submission, they argued that 5% was too high a threshold to breach and that it exposed them to individual unfunded risks of up to (redacted) in value. NGET therefore requested a COAE threshold of 1% which is equivalent to £3.1m. NGET's modelling shows that only two identified and quantified risks are expected to breach this threshold at the given P-value.
- 2.24 The following chapter covers our minded-to position on NGET's funding request.

3. Minded-to position

Section summary

This section explains our minded-to position on NGET's PA funding request. It provides a summary of the total funding we are minded-to allow to NGET for delivery of the Yorkshire GREEN project.

Questions

- Q1. Do you agree with our minded-to position on direct costs for Yorkshire GREEN?
- Q2. Do you agree with our minded-to position on indirect costs and risk for Yorkshire GREEN?
- Q3. Do you agree with our minded-to position on PAM funding for Yorkshire GREEN?
- Q4. Do you agree with our minded-to position on the COAE threshold adjustment for Yorkshire GREEN?

- 3.0 The previous section set out the main parts of NGET's PA funding request and the reasons behind the submitted costs for Yorkshire GREEN.
- 3.1 This section covers our minded-to position on the PA submission for Yorkshire GREEN. It sets out our views on the efficient allowances for the project regarding direct construction costs as well as indirect costs and risk. It covers our approach to P50/P70 confidence level of funding and PAMs. It also clarifies our view on the requested COAE adjustment. Finally, it provides a table that summarises the requested allowance and the total sum of funding we propose to allow.
- 3.2 In summary, we are minded-to allow £294,801,307 of costs for the overall delivery of Yorkshire GREEN and to maintain the COAE threshold at 5%.

Direct construction costs

- 3.3 The main submission document detailed the ongoing constraints in the supply chain environment and the challenge this presents in terms of contractor willingness and ability to bid for projects, changes to their risk appetite, lengthening lead times for key equipment, and increased costs.
- 3.4 We recognise this situation and are seeing it reflected across the portfolio of major transmission projects.
- 3.5 In our review of the project's direct costs, we consider the approach to procurement and contracting taken by the project team to be optimal for managing the challenges above.

- 3.6 The use of NGET’s frameworks reduces programme risk through utilising pre-existing, well understood contractual arrangements and driving competition amongst the framework partners through the value of the contracts to be awarded. We are satisfied that the use of frameworks has driven a robustly competitive process and resulted in an efficient cost to deliver the project.
- 3.7 We consider a target cost contract to be an optimal method of managing the evolving appetite for risk in the supply chain and to incentivise contractors to work collaboratively with NGET to achieve the timely delivery necessitated by the ASTI licence.
- 3.8 Costs have increased significantly over the past two years due to changing market conditions. Based on the procurement strategy, approach to market, tender returns, and evidence presented by NGET, we believe that the direct costs submitted for this project reflect the market’s current price for the works.
- 3.9 A range of costs between £500,000 and £700,000 were provided for welfare costs. We have opted to remove a requested £200,000 of costs to proceed with the most efficient figure.
- 3.10 For these reasons our minded-to position is to remove £200,000 of costs for welfare facilities and to allow the proposed direct costs of £235,072,643 for the project.**

Indirect costs and risk

- 3.11 Our view is that the sum requested by NGET for the community benefit fund (£0.9m) is in line with recent historic norms and based upon sound principles. These include a focus on reducing the carbon impact of the delivery works, supporting local non-profit organisations that seek to make a positive impact on residents' wellbeing and engaging with educational institutions, with an emphasis on Science, Technology, Engineering and Maths subjects. We recognise the need to ensure communities that host infrastructure also obtain benefit from doing so and the key role that good local stakeholder relations can play in successfully delivering the project on time. We consider that the costs submitted are based on a valid use of community benefit funding and are proportionate to the scale and scope of the project.
- 3.12 The funding request for BNG included a request for 30 years of management and maintenance. We do not consider it appropriate to fund whole lifecycle costs beyond the initial delivery plus a year of operation. The remaining costs should be included within the price control funding settlement. In addition, the costs

submitted were at an immature stage of development, based upon a unit rate and high-level volumes. We do not consider it appropriate to fund costs that include such a high degree of uncertainty.

3.13 We do not consider it appropriate to fund these costs through upfront allowances; instead, we believe that these highly uncertain costs should be mitigated in different ways, and we have set out our views below.

3.14 We are minded to remove £23,385,095 of costs for the 30-year management and maintenance of BNG, and to allow NGET to recover costs incurred complying with BNG legislation (up to one year post-delivery) through the new uncertainty reopener detailed below.

P50 and P70 level of confidence

3.15 The PA stage determines the efficient cost allowance for the delivery of the project. It is the stage where we look at the proposed project in depth, focusing on the efficiency of the total forecast costs of construction, risk contingencies and the TOs' readiness to proceed with delivery.

3.16 Ofgem has always been clear that projects should normally be funded to a P50 level of confidence; we judge this to be the most efficient level of funding for risk, providing an incentive to the TOs to proactively manage project risks and seek opportunities without being provided with excessive levels of comfort.

3.17 The P70 risk funding requested by NGET was well within our P50 level benchmarks for efficient risk expenditure as a percentage of total project cost; nor does it represent a significant uplift on the P50 figure to provide significant additional levels of confidence in the overall estimate. The justifications provided by NGET, in particular the emphasis on installation of new technology and the constraints on access for outages, are highly specific to this project and present a robust case for a higher level of risk funding. Given the total requested remains well within our benchmarks for a P50 level of risk funding, we consider the request for a higher level of funding confidence to be both efficient and valid in this instance. **We are minded to approve a total of £18,285,619 for indirect costs and a P70 funding level for the project.**

PAMs

3.18 As noted above, the existing supply chain environment is driving the need for PAMs on several projects, including Yorkshire GREEN. At present it is extremely difficult for suppliers to provide firm, long-term costs and commitments for projects, a situation that is exacerbated by the war in Ukraine and recent

commodity price inflation. NGET are therefore seeking the inclusion of PAMs to adjust costs where specific commodity prices rise significantly above the prevailing rate of inflation.

- 3.19 We accept that rejecting the inclusion of PAMs outright could have significantly limited the number of projects bids, even to the extent that no contractors submitted a best and final offer for the works. We therefore agree that they have helped to drive competition on the project and allow client and contractor to proceed with confidence.
- 3.20 We confirmed with NGET that the PAMs are symmetrical; there is an opportunity for consumers to gain should inflation decrease, and commodity prices come down.
- 3.21 We believe that PAM funding requests should be considered through the new ASTI cost re-opener mechanism. This allows flexibility to adjust allowances based on commodity price movements. We are able to increase allowances if commodity prices increase or decrease allowances if commodity prices decrease in future. This approach prevents consumers from incurring unnecessary costs. It also provides assurance to NGET that there is a mechanism in place for them to request further funding based on the progress on the project.
- 3.22 We are minded-to subject the PAM costs to the new cost uncertainty re-opener.**
- 3.23 For Yorkshire GREEN this annual re-opener will allow NGET to submit a further funding request where they have incurred cost via their PAMs. We will be assessing whether these costs are reasonable and efficient, therefore we expect this to be evidenced by supporting information such as invoices, question and answer logs, and relevant price indices for PAM related costs from Yorkshire GREEN contractors.
- 3.24 We intend to include the indicative level of PAMs in NGET's ASTI Confidential Annex to reflect the submitted estimates.

COAE

- 3.25 We consider NGET's proposed COAE threshold of 1% (equivalent to £3.1m) to be too low a figure for a threshold that is intended to be for very low probability, very high impact events. **We are minded-to maintain a COAE threshold of 5%, equivalent to £15.6m.** We believe that £15.6m represents a single risk of significant magnitude, protecting the interests of consumers while providing NGET with the confidence that low probability high value risks will be funded.

Summary of proposed ASTI Allowances

Summary of our minded-to position

3.26 In summary, we are minded-to allow £294,801,307 of costs for the overall delivery of Yorkshire GREEN. This includes £235,072,843 on direct construction costs and £59,728,464 on indirect costs and risk.

3.27 The above level of funding on indirect costs and risk includes our minded-to position to:

- remove £200,000 of welfare cost;
- remove £23,185,095 of BNG funding; and
- subject the PAMs [redacted] to a new re-opener.

3.28 We are also minded-to retain the COAE threshold at 5%.

Summary of submitted and proposed funding

3.29 Table 2 below summarises the proposed cost allowances under the ASTI Re-opener for Yorkshire GREEN.

Table 2: Summary of proposed cost allowances under the ASTI Re-opener for the Yorkshire GREEN Project (in 18/19 prices)

Cost Category	Submitted Cost (£)	Proposed Adjustment (£)	Subject to COAE / Re-opener	Proposed Allowance (£)
Indirect Costs, P50 and Risk	82,913,559	-£23,185,095	0	59,728,464
Direct Construction Costs	235,272,843	-200,000	0	235,072,843
Total ASTI Re-opener Funding	318,186,402 PAMs [redacted]	-43,011,356	Re-opener: PAMs [redacted]	294,801,307 PAMs: Nil
COAE	1%	+4%		5%

3.30 We will engage with NGET to ensure that the licence changes we will be proposing will give effect to our minded-to position on Yorkshire GREEN.

4. Next steps

- 4.0 We welcome your general responses to this consultation and to our specific questions set out in Chapter 3. Please send your response to: RIIOElectricitytransmission@ofgem.gov.uk. The deadline for responses is 10th September 2024.
- 4.1 We aim to publish our decision and our proposed modifications to NGET's licence in Autumn 2024.

Appendices

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Appendix 1 – Consultation questions

Chapter 3:

Q1. Do you agree with our minded-to position on direct costs for Yorkshire GREEN?

Q2. Do you agree with our minded-to position on indirect costs and risk funding for Yorkshire GREEN?

Q3. Do you agree with our minded-to position on PAM funding for Yorkshire GREEN?

Q4. Do you agree with our minded-to position on the COAE threshold adjustment for Yorkshire GREEN?

Appendix 2 – Privacy notice on consultations

Personal data

The Gas and Electricity Markets Authority is the controller (“Ofgem” for ease of reference). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally). It does not refer to the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller (“Ofgem” for ease of reference). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest, i.e. a consultation.

4. With whom we will be sharing your personal data

N/A.

5. For how long we will keep your personal data or the criteria used to determine the retention period

Your personal data will be held for six months after the project is closed.

6. Your rights

The data we are collecting is your personal data and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data,
- access your personal data,
- have your personal data corrected if it is inaccurate or incomplete,

- ask us to delete your personal data when we no longer need it,
- ask us to restrict how we process your personal data,
- get your personal data from us and re-use it across other services,
- object to certain ways we use your personal data,
- be safeguarded against risks where decisions based on your personal data are taken entirely automatically,
- tell us if we can share your personal information with 3rd parties,
- tell us your preferred frequency, content and format of our communications with you,
- lodge a complaint with the independent Information Commissioner’s Office (ICO) if you think we are not handling your personal data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/> or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

10. More information

For more information on how Ofgem processes your data, click on [“Ofgem privacy promise”](#)