

Decision

Eastern Green Link 1 – Project Assessment

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This document confirms our decision on the project assessment of National Grid Electricity Transmission (NGET) and Scottish Power Transmission’s (SPT) Eastern Green Link 1 (EGL1) project, under the Accelerated Strategic Transmission Investment (ASTI) mechanism in the RIIO-2 Price Control Framework. In particular, it sets out our final decision on the efficient capital costs that we will allow NGET and SPT to recover for the delivery of the project.

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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 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.

EGL1 is the first project to undergo the project assessment (PA) process under ASTI. It is being delivered by a Joint Venture (JV) between SPT and NGET.

Summary of our decision on the PA

This document confirms our decision to provide NGET and SPT with a total funding allowance of £2,001,104,429³ (2018/19 prices) for the delivery of the EGL1 project under the ASTI mechanism. It also confirms our decision to establish routes for further funding of specific uncertain costs that the JV expect they might incur.

The total funding allowance includes £1,657,441,102 of direct costs as well as £343,663,327 on indirect costs and risk. We will use the existing Cost and Output Adjusting Event (COAE) mechanism, and we will introduce a new reopener in order to manage the increased risks and new areas of uncertainty that we have identified on this project.

Lastly, we will implement a COAE materiality threshold of 1% (equivalent to a threshold of £20m) specifically for this project.

¹ [British energy security strategy - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/british-energy-security-strategy)

² [Consultation on accelerating onshore electricity transmission investment | Ofgem](https://www.ofgem.gov.uk/consultation/accelerating-onshore-electricity-transmission-investment)

³ All costs in this document are in 2018/19 prices, unless otherwise indicated.

1. Introduction

Section summary

In this section we provide the context of the project, published documents that are relevant to this project and how we collect feedback on this decision.

Context and related publications

- 1.1 The GB onshore electricity transmission network is planned, constructed, owned and operated by three transmission owners (TOs): NGET in England and Wales, SPT in the south of Scotland, and Scottish Hydro Electric Transmission (SHE-T) in the north of Scotland.
- 1.2 In July 2022, we published our conditional decision⁴ to approve the Final Needs Case (FNC) for the Eastern High-Voltage Direct Current (HVDC) projects under the Large Onshore Transmission Investment (LOTI) re-opener mechanism, subject to the projects obtaining the necessary planning consents.
- 1.3 The proposal for the Eastern HVDC projects consists of two separate reinforcement projects:
 - Torness to Hawthorn Pit subsea HVDC link, with Network Options Assessment (NOA) code: E2DC, referred to as Eastern Green Link 1 (EGL1), prepared by a joint project team from SPT and NGET; and
 - Peterhead to Drax subsea HVDC link, with NOA code: E4D3, referred to as Eastern Green Link 2 (EGL2) prepared by a joint project team from SHE-T and NGET.
- 1.4 In December 2022,⁵ we decided to introduce a new ASTI regulatory framework. This framework will assess, fund and incentivise the accelerated delivery of the 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.
- 1.5 In August 2023,⁶ 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):

⁴ [Eastern HVDC - Decision on the project's Final Needs Case \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/electricity/decisions/2022/eastern-hvdc-decision-on-the-project-s-final-needs-case)

⁵ [Decision on accelerating onshore electricity transmission investment \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/electricity/decisions/2022/decision-on-accelerating-onshore-electricity-transmission-investment)

⁶ [Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](https://www.ofgem.gov.uk/electricity/decisions/2023/decision-to-modify-the-special-licence-conditions-in-the-electricity-transmission-licences-accelerated-strategic-transmission-investment)

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).

1.6 In March 2024, we published our minded-to consultation on the project assessment for EGL1. The summary of this consultation is provided in Chapter 2 of this document.

Our decision-making process

1.7 We have assessed the submitted costs for EGL1 and have consulted on our proposed allowances of the economic and efficient costs. Following analysis of the responses⁷ received we have outlined our decision in this publication and the dates of the full decision-making process are outlined in the table below.

⁷ [Eastern Green Link 1 \(EGL1\) – Project Assessment Consultation | Ofgem](#)

Decision-making stages

Date	Stage description
20/03/2024	Stage 1: Consultation open
17/04/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses
15/11/2024	Stage 3: Responses reviewed and published
15/11/2024	Stage 4: Consultation decision/policy statement

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We would also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
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. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

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

2. Overview of our minded-to consultation and responses

Section summary

This section outlines the requested cost allowances for EGL1, as submitted by the JV. It sets out key points that we set out in our March 2024 consultation, and an overview of the responses that we received to that consultation.

Requested cost allowances for EGL1

2.1 The JV submitted its initial costs for delivering EGL1 to Ofgem in September 2023.

Direct construction costs

2.2 It requested £1,657,441,102 to fund direct construction works for EGL1. This would cover the costs of the new HVDC cable, subsea installation and converter stations to transmit the new generation from Scotland to England. The JV stated that demand and commodity inflation is prompting significant cost increases on all electricity transmission projects, increasing lead times for specialist equipment due to manufacturing constraints and driving a change in appetite for the transfer of risk.

Indirect costs and Risks

2.3 The JV requested £386,674,683 for indirect costs and P50 level of confidence funding. A further [redacted] was requested for P80 level risk funding and they also requested [redacted] on Price Adjustment Mechanisms (PAMs).

2.4 As part of the PA submission, the JV requested £43,011,356 of funding for a proposed ASTI programme management office (termed NGET Strategic Investment). This was based upon a 2% uplift to estimated staffing costs and was included to cover programme-wide costs associated with the implementation of the ASTI portfolio.

2.5 The indirect costs also included £7.9m for a proposed social value and community benefit fund. This is to ensure that the communities in Scotland and North-West England that host the infrastructure also secure some benefit from it. This also supports the project in obtaining and discharging planning consents, thereby reducing project delivery risk and expediting the project's programme of works.

2.6 A further £7.9m was requested for a proposed carbon innovation fund. This aims to drive carbon-reducing innovation on the project and support UK net zero targets.

P50 and P80 level of funding

2.7 Costs 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. Ofgem's approach is to normally fund projects to a P50 level of confidence only.

2.8 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. 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.

2.9 For EGL1, the JV provided the costs related to both the P50 level of funding [redacted] and the P80 [redacted]. It requested funding based on a P80 level of confidence for EGL1, providing 3 levels of justification for seeking funding at a higher-than-usual level.

PAMs

2.10 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 therefore not pre-determined but treated by ex-post allowance adjustment, which is trued up on an annual basis based on indices.

2.11 EGL1 is one the first projects that has necessitated the introduction of funding arrangements for PAMs across supply chain indexation. 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.

2.12 The JV estimated the total exposure to the PAMs on EGL1 at being between [redacted] and [redacted] at the lower and top end of the range respectively. It noted that these are not fixed limits, but instead are subject to change as indices change.

2.13 The JV therefore sought allowances for these risk-related costs at PA.

Cost and Output Adjustment Event (COAE)

2.14 The JV also requested that we set the COAE threshold to 0.5% for EGL1. It believed that the default 5% (as per Part E of SpC 3.41) was too high a threshold to breach and that it would expose them to individual unfunded risks of up to [redacted] in value.

Our minded-to consultation position

2.15 In March 2024, we presented our minded-to position to allow the JV a total of £2,001,104,429 for the delivery of EGL1. The reasons for this are set out below.

Direct construction costs

2.16 On direct construction costs, we were minded-to allow the requested direct costs of the project (£1,657,441,102).

2.17 We considered that the JV could have taken more steps to attract and retain potential bidders. However, we also recognised the challenging operating environment EGL1 faced and the difficulty the JV had in securing bids from a supply chain experiencing high levels of customer demand.

2.18 Our view was that it would not be in customers' interests to make reductions to the direct costs requested by the JV, since it was unclear whether making reductions would lead to any efficiencies being gained. Any such efficiencies would likely be marginal and offset by increased constraint costs caused by delays in renegotiating the procurement contracts.

2.19 Lastly, we noted that Ofgem's and the TOs' current direct cost benchmarks no longer reflect current contract rates. Innovation and changing market conditions have led costs to increase significantly over the past years, making benchmarks based on historic data mostly obsolete. It was our assessment that the direct costs submitted reflect the market's current price for the works.

Indirect costs and risk

2.20 We were minded-to allow a total of £343,663,327 on indirect costs and risk.

2.21 We proposed not to allow £43,011,356 of funding requested for the NGET Strategic Investment element. We have agreed with the JV that the efficiencies and costs associated with implementing an ASTI programme, as well as the optimal method for funding such a programme, needed to be explored further.

2.22 Regarding the social value and community fund, we recognised the need to ensure communities that host infrastructure obtain a benefit from doing so, and the role that good local stakeholder relations can play in successful on time delivery. On the Carbon Innovation fund, we believed such funding would drive down the project's impact on the environment, considering the carbon footprint of

a complex major infrastructure project such as EGL1. We were therefore minded-to approve both of these funding requests.

P50 and P80 level of confidence

- 2.23 Ofgem accepts project submissions at 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 providing excessive levels of comfort.
- 2.24 We recognised that EGL1 has a greater risk exposure than a conventional transmission project due to the challenging timescales, supply chain environment and deployment of novel technology. However, we did not accept there was an automatic requirement for a P80 level of funding, and we did not consider it efficient to fund the project at this level without further control of costs and assurance over why those costs have been incurred.
- 2.25 Our view was that the COAE reopener was the appropriate re-opener for this extra allowance to be assessed. Our position was that if a P80 funding is needed and justified under the COAE mechanism, we would expect the JV to make a submission under that mechanism, which we would review and decide upon after consulting. For clarity, any COAE submission would cover the difference between P80 and P50 (the 'P80 contingency').
- 2.26 Our minded-to position was that the JV can access funding for the P80 contingency as an event-specific, separate category of the existing COAE mechanism. This would not have a materiality threshold and a funding request for this would be expected to seek an adjustment of the allowance, without impacting the delivery date or output.

PAMs

- 2.27 In our minded-to consultation, we accepted that the supplier market in which EGL1 is delivered is one with significant commodity inflation. Although the JV has some control over the introduction and management of the PAM mechanism through its commercial leverage and ability to negotiate, it has limited means to set prices. We therefore accepted that the PAMs could create a risk for which the JV could need further funding.
- 2.28 We set out our expectation to get further updates from the JV regarding the progress of their negotiations. At the point of the minded-to consultation, there was an asymmetry identified within the PAMs that we believed could be mitigated. The asymmetry was that costs could only increase as inflation

increases, but there was no opportunity for consumers to gain if there was deflation and commodity prices went down.

- 2.29 Our view was that the existing ASTI mechanisms were not suitable to mitigate the uncertainty that PAMs bring. We were therefore minded-to consider PAMs under a specific and targeted new cost reopener mechanism, that would allow flexibility to adjust allowances based on commodity price movements. Such an approach would be in the interests of consumers, as it would prevent consumers from incurring unnecessary costs. At the same time, it would provide assurance to the JV that there is a mechanism in place to request PAMs-related funding based on the progress of the project.
- 2.30 We also set our expectation to assess the reasonableness and efficiency of such costs, evidenced by supporting information, such as invoices, question and answer logs and relevant price indices for PAMs-related costs from EGL1's contractors.

COAE

- 2.31 In terms of COAE, we accepted that for a project of this value, a 5% threshold represents a significant liability of unfunded cost risk. However, we considered the JV's proposed COAE threshold of 0.5% to be too low. We were minded-to implement a COAE threshold of 1% (equivalent £20m). We believe that £20.00m represents a single risk of significant magnitude, protecting the interests of consumers whilst providing the JV with confidence that low probability and high value risks will be funded.

The minded-to consultation questions

- 2.32 We asked for stakeholder views on our minded-to position and feedback on the below questions:
- Q1. Do you agree with our minded-to position on direct costs on EGL1?
- Q2. Do you agree with our minded-to position on indirect costs and P50 level of confidence funding on EGL1?
- Q3. Do you agree with our minded to position for the P80 contingency funding on EGL1?
- Q4. Do you agree with our minded-to position on PAM funding on EGL1?
- Q5. Do you agree with our minded-to position on the COAE threshold adjustment on EGL1?

Summary of responses to our minded-to consultation

2.33 We received 4 responses to our minded-to consultation on EGL1. We have published these on our website.⁸ Overall, two respondents were supportive of EGL1 (the JV and Scottish & Southern Electricity Networks) and the other two respondents were against funding the EGL1 project, for the reasons set out below.

The EGL1 solution

2.34 East Lamermuir Community Council (ELCC) objected to the proposal to fund this project, because they have not seen evidence that the proposed route for cabling onshore represents the best practical, commercial and environmental option. ELCC argued that this is because Ofgem failed to present evidence for the proposed siting of the Branxton substation. They argue that Ofgem’s consultation focuses on cost, which in their view is driven by the assessment of options, so if this is not the best commercial option, it cannot represent value for money for the electricity consumers.

2.35 Rolling Stock & Engineering Co. Ltd (“Rolling Stock”) responded to the consultation saying that the direct costs can be reduced if Ofgem requires multiple projects to build and use the same transmission lines, in line with wider National Grid design objectives. Like EGL1, the Morven Offshore Wind Farm project (“Morven”) requires onshore cabling to connect with National Grid’s Hawthorn Pit substation. The respondent objects to EGL1 and Morven developing and using two separate cabling routes from the same direction, with separate landfall locations, to reach the same destination. They request that Ofgem require National Grid to reduce the direct costs it seeks for EGL1, by combining its landfall and cabling route with Morven’s.

Community benefit fund

2.36 ELCC stated that they do not accept the suggestion that offering community benefits will "support the project in obtaining and discharging planning consents, thereby reducing project delivery risk and expediting the project’s programme of works." They state that the community council is well used to assessing projects on their own merits and at the same time making use of community benefits that accrue from any development that becomes a reality.

2.37 Nevertheless, ELCC supported our proposal to include a financial community benefit within the overall budget for the project. They said that this would offset

⁸ [Eastern Green Link 1 \(EGL1\) – Project Assessment Consultation | Ofgem](#)

the multiple years of disruption and inconvenience that the construction of the project will bring to local residents, and potentially offset some of the environmental destruction that will inevitably come with the construction. However, they noted that £8m is not generous enough, as it only represents 0.4% of the total proposed allowance for the project.

Funding mechanisms

- 2.38 In its response, the JV stated that the costs for hedging should be included within the scope of the uncertainty re-opener, in line with the approach to EGL2. It is considering the benefits of hedging the estimated risk costs if deemed beneficial for consumers.
- 2.39 It also highlighted the need to ensure that the uncertainty mechanisms we proposed to use to address the uncertainties they identified are fit for purpose and work as intended. In our discussions with the JV, it raised concerns around the suitability of the COAE mechanism for the P80 contingency costs, as it believed that the definition of 'event' might not be met.⁹
- 2.40 On PAMs, the JV recently informed us that it has managed to negotiate further with contractors to ensure they achieve a more symmetrical indexation.

Licence changes and other items

- 2.41 The JV noted that there are some items in relation to the licences that need to be further clarified. On the availability standards for EGL1, it noted that Ofgem need to make sure that the standards are set out at the appropriate level, taking into consideration the complexity of the project, the associated technical risks and the likelihood of failure rates in the early life cycle of the project.¹⁰

⁹ This is further explained in paragraphs 3.21-3.23.

¹⁰ The 'availability standard' is a performance standard for the assets delivered under ASTI, intended as a backstop to ensure consumers are protected against severe asset faults and will be set below average system performance levels for comparable assets (see ASTI Guidance).

3. Our Decision

Section summary

This section sets out our decision, including any key changes from what was proposed in the consultation, following consideration of consultation responses.

Our view

3.1 This section sets out our views on the points raised by the stakeholders in their responses and how these informed our final decision. It also covers our decision regarding the cost allowances for the EGL1 project.

The role of Ofgem, TOs and the ESO on project design

3.2 We believe it is important to provide some clarity on the role of Ofgem and the TOs with regards to the design of the projects given the suggestion by ELCC that Ofgem has failed to present evidence for the proposed siting of the Branxton substation, and the feedback from Rolling Stock that EGL1 should combine its landfall and cabling route with Morven.

3.3 Ofgem does not design projects or plan how projects should be built or what routes they should take. This is the responsibility of the TOs, in accordance with the obligations placed on them by planning regulations and the relevant planning authorities and in accordance with their wider duties in the legislative framework.

3.4 As an economic regulator, we consider the investment case for transmission projects presented to us and the efficient costs that can be recovered from consumers for delivering these projects.

3.5 The TOs are responsible for developing network investment plans and for obtaining the relevant consents from the planning authorities.

Alternative routing - Morven

3.6 In May 2021, we consulted on the Initial Needs Case (INC) for EGL1 under the LOTI framework. We then consulted on the proposed solution again on 30 March 2022 as part of our FNC and published a decision approving the EGL1 FNC on 8 July 2022, on the condition that all the necessary planning consents be obtained. The necessary planning permissions for onshore elements in England for EGL1 were granted in November 2022.¹¹ On 5 March 2024, DESNZ issued a direction for Morven's transmission assets to be treated as development for which a

¹¹ [In your area - Eastern Green Link 1](#)

Development Consent Order (DCO) is required, which is an early stage of the process to obtain a DCO, the required planning permission for Morven in England. The next stage of the process is a non-statutory consultation¹², which is underway and will close on 3 September 2024. The feedback from the public and stakeholders will be used to further develop project design, and that will then be the subject of a statutory consultation. There will be further stages required before a DCO may be approved, details can be found at [Morven offshore wind farm - Morven bp](#). We believe it is clear that it will be some time before Morven's project design is concluded and the required planning permission in England is obtained.

- 3.7 Our view is that EGL1 and Morven are separate projects with very different timescales and we would not expect the JV to reconsider the agreed design.

Change in routing and impact on costs

- 3.8 We do not agree with the suggestion that the direct costs would decrease if the routing changed and the Morven route was taken forward. Any change in routing now would likely bring delays to the delivery of the project, and/or increase delivery costs, considering the work that has been done and the further work that would be expected. Any delays to the project would likely incur substantial constraint costs which would ultimately be borne by consumers, and as such would not be in consumers' interests.

The Branxton substation routing

- 3.9 We disagree with the representations we received from ELCC in relation to the Branxton substation. ELCC states that Ofgem failed to present evidence that the proposed route for cabling onshore represents the best practical, commercial and environmental option.
- 3.10 Our consultation on EGL1 does not contain an assessment of the options for Branxton as that has already been assessed, the project is now substantially past design stage and optioneering. We consulted on the project's options at INC¹³ in May 2021 and again at FNC in March 2022.¹⁴
- 3.11 EGL1 project has progressed towards obtaining planning permission for its chosen project design; it commenced the consultation process in Scotland in 2021, and in May 2023, EGL1 received in principle planning permission by East Lothian Council

¹²[Morven offshore wind farm - Morven bp](#)

¹³ [ehvdc_inc_consultation_final.pdf \(ofgem.gov.uk\)](#)

¹⁴ [Consultation \(ofgem.gov.uk\)](#)

for the Scottish onshore elements of the project, including the new substation at Branxton. The application process involved detailed options analysis and consideration of practical and environmental matters,¹⁵ and we note that the council has been closely involved in that process.

- 3.12 As such, there has already been substantial assessment of the options resulting in Branxton being chosen as the preferred site for a new substation. Given the advanced stage of the project, we do not believe it would be in the interest of consumers to re-open the assessment of options for the chosen technical solution.
- 3.13 The scope of EGL1 does not include the actual works on the Branxton substation, however the Branxton substation is required based on the EGL1 designed solution, as it is expected to connect to that substation at a later point in time.¹⁶
- 3.14 In order to finalise a PA decision, we expect all material planning consents to be in place for the project. Because of the significance of the planning consent for the Branxton substation for delivering the benefits of EGL1, we have been monitoring the progress of this planning application, prior to our final decision on the PA for EGL1.
- 3.15 East Lothian Council has granted planning permission for the Branxton substation on 5 November 2024.¹⁷

Community benefits Fund

- 3.16 We appreciate the feedback from ELCC on the amount of funding we were minded to allow for community benefits and would like to take this opportunity to set out some background information on our approach to community benefits.
- 3.17 The purpose of community benefits funding is to ensure the community that hosts the infrastructure benefits from that. It is not intended to be a compensation for

¹⁵Planning application documents can be found at [22/00852/PPM | Planning permission in principle for a converter station and associated development including a landfall at Thorntonloch and connecting buried cabling, all in association with the Scottish Power Eastern Link 1 project, for a new subsea High Voltage Direct Current \(HVDC\) link | Land Adjacent To Dunbar Landfill Site Oxwell Mains Dunbar East Lothian EH42 1SW](#) and pre-planning application consultation can be found at [Document library - Eastern Green Link 1](#)

¹⁶ The works in the Branxton substation are currently subject to the Medium Sized Investment Projects (MSIP) re-opener. We published our decision to approve the project's needs on the first stage assessment in April 2022 [Provisional decision on the first stage assessment of SPT's MSIP re-opener applications \(ofgem.gov.uk\)](#), a further application will be required for funding to be allocated.

¹⁷ [Planning Committee approves electricity substation near Dunbar | East Lothian Council](#)

the disturbance of the works, which is, in any event, provided for under statutory compensation schemes. Until now, it has been the sole responsibility of the TOs to decide how to offer these benefits to the communities it works with.

- 3.18 However, the Government believes the levels of benefits must be more consistent, and allocated under a mandatory scheme, combining electricity bill discounts and wider community benefits (with specific amount of funding to be given per overhead lines, underground cables and substation). The Government has consulted on specific rates to be applied for community benefits based on the technical specifications of each project.¹⁸ We anticipate further guidance to be published in the future as a result of the consultation
- 3.19 Based on the expectations set out by government in terms of proposals for community benefits, the JV's submission detailing how they proposed the funding will be used and historic precedents for community benefit expenditure on projects, we consider that allowing £8m for community benefits for EGL1 is a reasonable amount of funding.
- 3.20 We welcome the feedback from ELCC and we would like to confirm our understanding that projects are assessed on their own merits with regards to planning.
- 3.21 In the minded-to consultation document, paragraph 2.9 we said: *The indirect costs also included £7.9m for a proposed social value and community benefit fund. This is to ensure that the communities in Scotland and North-West England that host the infrastructure also secure some benefit from it. This also supports the project in obtaining and discharging planning consents, thereby reducing project delivery risk and expediting the project's programme of works.*
- 3.22 We appreciate from ELCC's response that the wording used in the minded-to consultation document may have been misinterpreted.
- 3.23 In its PA submission, the JV stated that *'the effective community engagement will support the project in obtaining and discharging planning consents, thereby reducing project delivery risk and expediting the project's programme of works'*.

Funding mechanisms

¹⁸ [Community benefits for electricity transmission network infrastructure - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

- 3.24 Based on the feedback we got from the JV since the PA submission, the feedback to the minded-to consultation as well as the engagement after that point, we have formed our final position. We have decided to take a slightly different approach to funding compared to our minded-to consultation position.
- 3.25 We have engaged with the JV to understand the scope for potential hedging. It said that it would like to have the option to access hedging related funding, in case it becomes efficient in the future and beneficial for consumers. Although the JV is not able to confirm that it will necessarily need to use a hedging option fee, but if it does, it will be in a position to support any request for further funding with the detailed explanation and associated costs.
- 3.26 Although this was not raised in the PA submission, we believe there is merit in including hedging as part of the uncertainty mechanism for EGL1. If the JV believes there is need and benefit to hedge some costs during the progress of the project, it will have the opportunity to submit a request for further funding. At that point, we will require a full explanation of the hedging option it is considering and the benefits. As part of any future reopener application, these costs will be consulted on. Therefore, we think it would be in the interest of consumers to allow the JV to request that funding if necessary.
- 3.27 In our minded-to consultation position we proposed to divide the uncertainties identified at the PA stage between two funding mechanisms: the existing COAE and the new reopener.
- 3.28 Our final position is that the COAE mechanism is not the most appropriate funding route to address the uncertainty on the P80 contingency funding. Instead, we have decided to include all uncertainties under the new reopener, and we explain the reasons for this below.
- 3.29 Part E of SpC 3.41 provides for a COAE re-opener mechanism to adjust allowances and/or scope where an unforeseen event happens. The definition of an ASTI COAE as per SpC 1.1 is '[ASTI COAE] means events outside of the licensee's reasonable control, which the licensee could not have economically and efficiently planned a contingency for which have a material impact on the scope or cost of an ASTI Output.'
- 3.30 Considering the funding routes for these costs holistically, we agree that the COAE might not, in fact, be the best mechanism to assess any adjustment for these costs. The reason is that an 'event' that meets the definition of the licence has not happened yet. The JV has foreseen these costs and has already estimated them. Based on the fact that these costs are relevant to the confidence levels for

project delivery, we do not believe that an 'event' is what would be required to assess an application for further funding. Therefore, the definition of the 'event' will not necessarily be met at the point of application for the P80 contingency.

- 3.31 Therefore, we consider that requesting any further allowance that is relevant to the P80 contingency will need to be addressed through a wider mechanism that does not require an 'event' to happen.
- 3.32 Our minded-to position was to introduce a new reopener to cover PAMs and currency hedging. We are now of the view that this reopener should also be used for the P80 contingency.
- 3.33 Our final position and accordingly, our decision, is to have one new reopener that covers all foreseeable uncertainties that are raised at a PA stage, for which the TOs would have different levels of control. These will be uncertainties that can be foreseen but cannot be effectively estimated. We expect these to be linked to the element of risks in their PA submission.
- 3.34 We expect that such an approach should minimise the need for multiple submissions from the TO's end. Also, this will provide clarity to the TOs in terms of which funding route they should be using for their requests based on the reason they are asking for funding. This should provide a clearer framework for the TOs to submit their requests for further funding, by distinguishing between unforeseeable events (handled under the COAE) and foreseeable uncertainties (handled under the new reopener).

Licence changes and other items

- 3.35 As mentioned in our minded-to position, we will be consulting on the licence changes required to implement our decision. We understand that there is further work to be done regarding the availability standards, to ensure that we conclude on the best practical way to provide for them in the licence. We have been engaging with the TOs and our intention is to consult on the availability standards separately to the rest of the licence changes required for the purposes of implementing our decision on EGL1.

Overview of our decision on cost allowances

- 3.36 Following the close of our March 2024 consultation we considered the response we received and engaged with the JV, to clarify aspects of its response to ensure that the final position which we set out in this decision is robust.

3.37 In summary, we have decided to allow £2,001,104,429 of costs for the overall delivery of EGL1. This includes £1,657,441,102 on direct construction costs and £343,663,327 on indirect costs and risk.

3.38 The above level of funding on indirect costs and risk includes our final position to:

- remove £43,011,356 of funding requested for the NGET Strategic Investment element;
- allow 343,663,327 for indirect costs and the P50 level of confidence;
- subject the PAMs, currency hedging and P80 contingency to a new reopener.

3.39 We have also decided to set the COAE threshold at 1%.

Summary of submitted and proposed funding

3.40 The table below summarises the final cost allowances under the ASTI Re-opener for EGL1.

ASTI Project Funding

Cost Category	Submitted Cost (£)	Adjustment (£)	Subject to a new Uncertainty Reopener	Final Allowance (£)
Indirect Costs, P50 and Risk	386,674,683 P80 Risk [redacted] PAMs [redacted]	-43,011,356	P80 contingency [redacted] PAMs [redacted] Currency hedging	343,663,327 P80: Nil PAMs: Nil Currency Hedging: Nil
Direct Construction Costs	1,657,441,102			1,657,441,102
Total ASTI Reopener Funding	2,044,115,785 P80 Contingency [redacted] PAMs [redacted]	-43,011,356	New Reopener: P80 contingency PAMs Currency hedging	2,001,104,429 P80: Nil PAMs: Nil
COAE	0.5%	+0.5%		1%

Table 1: Final cost allowance under the ASTI Re-opener for the EGL1 Project (in 18/19 prices)

3.41 We will engage with the JV to ensure that the licence changes we will be proposing will give effect to our minded-to position on EGL1. We will consult on the licence changes when we publish our final decision on the PA.

Next steps

3.42 We aim to publish a statutory consultation on the proposed modifications to the TOs' licence conditions that will give effect to this decision in the coming weeks. Our final decision regarding the elements covered in this decision is subject to consideration of any further information and views submitted in response to the statutory consultation.