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10 September 2024

Dear James,

**Response from National Grid Electricity Transmission plc (NGET) to Ofgem's consultation (dated 13 August 2024) on the Minded-to position for the Yorkshire GREEN (OPN2) Accelerated Strategic Transmission Investment (ASTI) Project following Project Assessment.**

This is NGET's response to the minded-to position consultation published by Ofgem on the Yorkshire GREEN OPN2 ASTI Project. We welcome the publication of the consultation following NGET's Yorkshire GREEN OPN2 ASTI Project Assessment (PA) submission made on 17<sup>th</sup> January 2024. We welcome Ofgem's acceptance of the need to progress the project.

NGET have addressed the questions raised in Ofgem's consultation, with further detail captured in this consultation response.

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

NGET agree with Ofgem's position on the direct costs for Yorkshire GREEN except for the allowance provision for Wellbeing of £500k (18/19 Prices). Please see our response in section 1 (Wellbeing Funding) below.

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

NGET agree with Ofgem's position on the indirect costs and risk for Yorkshire GREEN. However, we set out in section 2 (Biodiversity Net Gain) below how in our view Ofgem should consider treatment of Biodiversity Net Gain (BNG) funding for Yorkshire GREEN.

It should also be noted that in our PA submission, we included a placeholder for overheads at 2% of project cost (consistent with other PA submissions). This topic is subject to ongoing discussions with Ofgem and further refinement of our bottom-up cost build in relation to overheads. There is a plan in place to progress this discussion over the next few months to agree how these overheads will be recovered.

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

NGET agree with Ofgem's position on the Price Adjustment Mechanism (PAM) funding for Yorkshire GREEN.

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

NGET agree with Ofgem's position on the Cost and Output Adjusting Events (COAE) threshold adjustment for Yorkshire GREEN.

## 1 Wellbeing Funding

**“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”.**

A key risk to the timely delivery of this (and other ASTI projects) is the availability and retention of staff / labour. Provision of targeted, specifically considered wellbeing initiatives and facilities is essential to mitigate this risk.

At the time of the PA submission in January 2024, the project included an allowance of £500k - £700k which was identified as an early estimate (classification 6 as per Table 3 in the the ASTI Guidance and Submission Requirements Document) that was aligned to the project stage; the EPC main works contracts, which had just been awarded in November 2023. As such we understand the position Ofgem has outlined in its consultation.

Since that time, we have taken steps to implement a positive wellbeing culture, with a proactive approach to physical and mental health to support timely project delivery, by working collaboratively with our Contractors to;

- identify project-specific risks given the pressures on individuals associated with delivery of the project, recognising the industry has a constrained resource pool, and
- review the locality of the project and standard welfare provisions to establish initiatives to address those risks and support delivery teams.

This has resulted in us now being in a position to provide a defined project wellbeing scope. Following assessment of estimates specific to Yorkshire GREEN provided by our EPC Main Works Contractors in August 2024, the current project estimate to deliver the scope is £ [REDACTED] (18/19 prices), which is defined as Estimated (classification 5) as per the ASTI Guidance.

As detailed within the PA submission, proactive and effective wellbeing initiatives and interventions provide a monetary benefit to the industry, with an average return of £5 for every £1 spent on wellbeing support (Deloitte, 2022), creating better value for consumers. Therefore, NGET would welcome further discussion with Ofgem on the above, and seeks Ofgem’s consideration to adjust allowances to £ [REDACTED] within the final PA decision (from the currently proposed £500,000).

## 2 Biodiversity Net Gain

**“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”.**

Due to the lack of maturity with regards to scoping BNG requirements at the time of PA submission, a Use it or lose it (UIOLI) allowance was proposed by NGET to pass on actualised costs of BNG delivery back to consumers. Since submission of the PA, NGET has received Yorkshire GREEN’s Planning Decision, which has confirmed a requirement to deliver 10% BNG under s.106 of the Town and

Country Planning Act 1990. The exercise to refine the BNG requirement and develop a proposed delivery strategy is now underway, we will discuss the refined delivery strategy with Ofgem.

Delivery of the BNG requirements is likely to include a mixture of solutions, with different delivery routes i.e. delivery on NGET owned property, via external strategic partners, commercial providers or the purchase of statutory BNG units. These will have different cost formats (e.g. up-front lump sum, annual maintenance cost or both).

NGET understand the position put forward by Ofgem and believe the reopener can work successfully, in line with this range of potential solutions for delivering the required level of BNG. As part of this, NGET anticipate that there may be circumstances where the most efficient delivery mechanism will involve us paying up-front costs that include the transfer of lifetime obligations to other parties. In this circumstance, NGET believe that Ofgem's position would allow us to be funded for the full cost to be paid through the 0% annual threshold reopener and would welcome your agreement.

Conversely, where BNG solutions include ongoing operational costs over the 30 year period, NGET would welcome further conversation regarding Ofgem's proposal to fund up to one year post delivery costs through the PA. NGET understand from engagement to date that Ofgem expect ongoing costs to be funded through future price controls and seek formal comfort on this position.

NGET note that BNG delivery may not occur in the same year as project delivery (i.e. target delivery date / energisation), and that the length of time to the start of the next price control period may be greater than one year. In this regard we ask Ofgem to review this scenario and clarify the proposed treatment of full cost recovery for BNG. NGET suggest that the 0% reopener should cover BNG costs up to the start of the next price control period post-BNG delivery or one year post-BNG delivery (whichever is the later).

### 3 PAMs Reopener Mechanism

NGET agree with Ofgem's position on the PAM funding for Yorkshire GREEN and look forward to working with you on developing the reopener mechanism.

### 4 Table 2 Inaccuracies

We have noticed an apparent inaccuracy in Table 2 in the consultation document (proposed cost allowances). The total ASTI reopener funding proposed adjustment should sum to -£23,385,095, (not -£43,011,356). We request this is amended in Ofgem's final PA decision.

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
<b>Total ASTI Re-opener Funding</b>	<b>318,186,402</b> PAMs [redacted]	<b>-43,011,356</b>	Re-opener: PAMs [redacted]	294,801,307 PAMs: Nil
COAE	1%	+4%		5%

**Confidentiality**

We confirm that this response can be published on Ofgem's website except for the commercially sensitive elements identified which we request are redacted.

Yours sincerely,

[By email]

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