

Decision

Yorkshire Green – Project Assessment

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This document confirms our decision on the project assessment of National Grid Electricity Transmission’s Yorkshire GREEN 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 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.

Summary of our decision on the PA

This document confirms our decision to provide NGET with a total funding allowance of £295,585,307³ (2018/19 prices) for NGET to deliver the project. This includes £235,856,843 of direct costs (an increase of £784,000 on our minded-to position) as well as £59,728,464 on indirect costs and risk. In light of additional evidence provided by NGET in their consultation response, we have reinstated £784,000 of direct cost to reflect a more mature scope of works.

We will use the existing Cost and Output Adjusting Event (COAE) mechanism, and we will utilise the new uncertainty re-opener 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 5% (equivalent to a threshold of £15.6m) 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](#)

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 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 decision⁴ 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)⁵, confirmed that delivering the Yorkshire GREEN project is essential to achieving the Government’s 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 framework⁶. Given this, the Yorkshire GREEN PA is being assessed under the ASTI framework.
- 1.3 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 Green Link 1⁷ (E2DC) which is a separate project.
- 1.4 In December 2022,⁸ we decided to introduce a new ASTI regulatory framework. This framework will assess, fund and incentivise the accelerated delivery of the

⁴ [Yorkshire GREEN project - Final Needs Case decision | Ofgem](#)

⁵ [Network Options Assessment \(NOA\) refresh | National Grid ESO](#)

⁶ [Decision on accelerating onshore electricity transmission investment | Ofgem](#)

⁷ [Eastern HVDC - Conditional Decision on the projects’ Final Needs Case | Ofgem](#)

⁸ [Decision on accelerating onshore electricity transmission investment \(ofgem.gov.uk\)](#)

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 2023,⁹ 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).

- 1.6 In August 2024, we published our minded-to consultation on the project assessment for Yorkshire GREEN. 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 Yorkshire GREEN and have consulted on our proposed allowances of the economic and efficient costs. Following analysis of the responses received we have outlined our decision in this publication and the dates of the full decision-making process are outlined in the table below.

⁹ [Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem](#)

Decision-making stages

Date	Stage description
13/08/2024	Stage 1: Consultation open
10/09/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses
08/11/2024	Stage 3: Responses reviewed and published
08/11/2024	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 Yorkshire GREEN, as submitted by NGET. It sets out key points that we set out in our August 2024 consultation, and an overview of the responses that we received to that consultation.

Requested cost allowances for Yorkshire GREEN

2.1 NGET submitted its initial costs for delivering Yorkshire GREEN to Ofgem in January 2024.

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.

Indirect costs and Risks

2.3 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).

2.4 As part of the PA submission, NGET 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 £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.
- Yorkshire GREEN is the first project under the ASTI portfolio to opt for compliance 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; this will be in line with new legislation for Town and Country Planning Act developments and for Nationally Significant Infrastructure Projects (NSIPs).¹⁰

2.6 NGET applied for £23,185,095 to deliver the 10% or greater environmental value BNG. The estimate used the Environment Bank’s biodiversity units¹¹ and was based around initial delivery plus 30 years of management and maintenance.

P70 level of confidence

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

PAMs

¹⁰ [The Biodiversity Net Gain Statutory Instruments | GOV.UK](#)

¹¹ [Biodiversity Net Gain - Local Biodiversity Units Available | Environment Bank](#)

- 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 PAMs are increasingly being requested 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 NGET's estimated the total exposure to the PAMs on Yorkshire GREEN at being between [redacted] and [redacted] at the lower and top end of the range respectively. NGET has noted that these are not fixed limits, but instead are subject to change as indices change.
- 2.13 NGET therefore sought allowances for these risk-related costs at PA.

Cost and Output Adjustment Event (COAE)

- 2.14 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.
- 2.15 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.

Our minded-to consultation position

- 2.16 In August 2024, we presented our minded-to position to allow NGET a total of £294,801,307 for the delivery of Yorkshire GREEN and to maintain the COAE at 5%. The reasons for this are set out below.

Direct construction costs

- 2.17 NGET requested £235,272,843 to fund direct construction works for Yorkshire GREEN.
- 2.18 A range of costs between £500,000 and £700,000 were provided for welfare costs. We were minded to remove a requested £200,000 of costs to proceed with the most efficient figure and to allow the proposed direct costs of £235,072,843 for the project.

Indirect costs and risk

- 2.19 NGET requested £82,913,559 for indirect costs and P70 risk funding. We were minded-to remove £23,185,095 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 re-opener.

P70 level of confidence

- 2.20 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.
- 2.21 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.
- 2.22 Our minded-to position was to provide £59,728,464 of funding for indirect costs and P70 risk.

PAMs

- 2.23 In our minded-to consultation, we accepted that the supplier market in which Yorkshire GREEN is delivered is one with significant commodity inflation. Although NGET 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 NGET could require further funding.
- 2.24 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.
- 2.25 We were minded-to subject the PAM costs to the new cost uncertainty re-opener.

COAE

- 2.26 We considered that NGET's proposed COAE threshold of 1% (equivalent to £3.1m) was too low a figure for a threshold that is intended to be for very low probability, very high impact events. We were therefore minded-to maintain a COAE threshold of 5%, equivalent to £15.6m.

The minded-to consultation questions

- 2.27 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 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?

Summary of responses to our minded-to consultation

2.28 We received 1 response to our minded-to consultation on Yorkshire GREEN from NGET. We have published this on our website.¹²

NGET's response

2.29 In their response NGET agree with our position on direct and indirect cost funding for the project, PAMs and the maintenance of the COAE threshold. They brought our attention to a revised quotation from their supply chain for wellbeing funding which reflects a more mature state of development. They also flagged some inaccuracies in Table 2.

Biodiversity net gain

2.30 NGET understand the position put forward by Ofgem in relation to BNG and hold that the new uncertainty re-opener can work successfully. NGET anticipated that there may be circumstances where the most efficient delivery mechanism will involve paying up-front costs that include the transfer of lifetime obligations to other parties. NGET sought confirmation that in these circumstances they would be funded for the full cost to be paid through the new uncertainty re-opener.

2.31 NGET also sought confirmation that BNG solutions that include ongoing operational costs over the 30-year period will be funded through future price controls.

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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 NGET in their response and how these informed our final decision. It also covers our decision regarding the cost allowances for the Yorkshire GREEN project.

Direct Costs

3.2 The revised quotation for welfare costs that NGET provided in their consultation response, replaced the high-level range that the project initially submitted. In light of direct evidence from the market we have adjusted our allowance to reflect the actual forecast cost to the project.

3.3 We have adjusted the direct costs of the project to reflect the more mature quote received from NGET and corrected the errors in Table 2 which showed an inaccurate adjustment of –43,011,356 and not –23,385,095 as should have been the case (the revised figures, reflecting our final decision, are shown below as Table 1).

Indirect Costs

Biodiversity Net Gain

3.4 Where NGET consider it best to transfer lifetime obligations to 3rd parties we will review on a case-by-case basis under the new uncertainty re-opener. Where we agree it is best to transfer the obligations the costs will be recoverable.

3.5 We agree that where BNG solutions involve ongoing operational costs over 30 years, we will consider funding for efficient cost incurred in this process through future price controls.

Overview of our decision on cost allowances

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

3.7 In summary, we have decided to allow £295,585,307 of costs for the overall delivery of Yorkshire GREEN. This includes £235,856,843 on direct construction

costs and confirms the minded-to position to fund £59,728,464 on indirect costs and risk.

- 3.8 We have also decided to maintain the COAE threshold at 5%.
- 3.9 As per the minded-to decision, we will subject the PAMs to the new uncertainty re-opener.
- 3.10 All non-Price Adjustment Mechanism (PAM) costs are set ex-ante and will be indexed to CPIh. For PAM costs, we expect NGET to submit these as actual incurred costs, which will be reviewed ex post. Once reviewed and included in the total project allowance, the PAM figure will not be subject to any further inflationary protection.

Summary of submitted and proposed funding

- 3.11 The table below summarises the final cost allowances under the ASTI Re-opener for Yorkshire GREEN.

ASTI Project Funding

Cost Category	Submitted Cost (£)	Proposed Adjustment (£)	Subject to new Uncertainty 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	+£584,000	0	235,856,843
Total ASTI Re-opener Funding	318,186,402 PAMs [redacted]	-£22,601,095	Re-opener: PAMs [redacted]	£295,585,307 PAMs: Nil
COAE	1%	+4%		5%

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

- 3.12 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. We will consult on the licence changes in 2025.

Next steps

- 3.13 We aim to publish a statutory consultation on the proposed modifications to the TOs' licence conditions that will give effect to this decision in Summer 2025. 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.