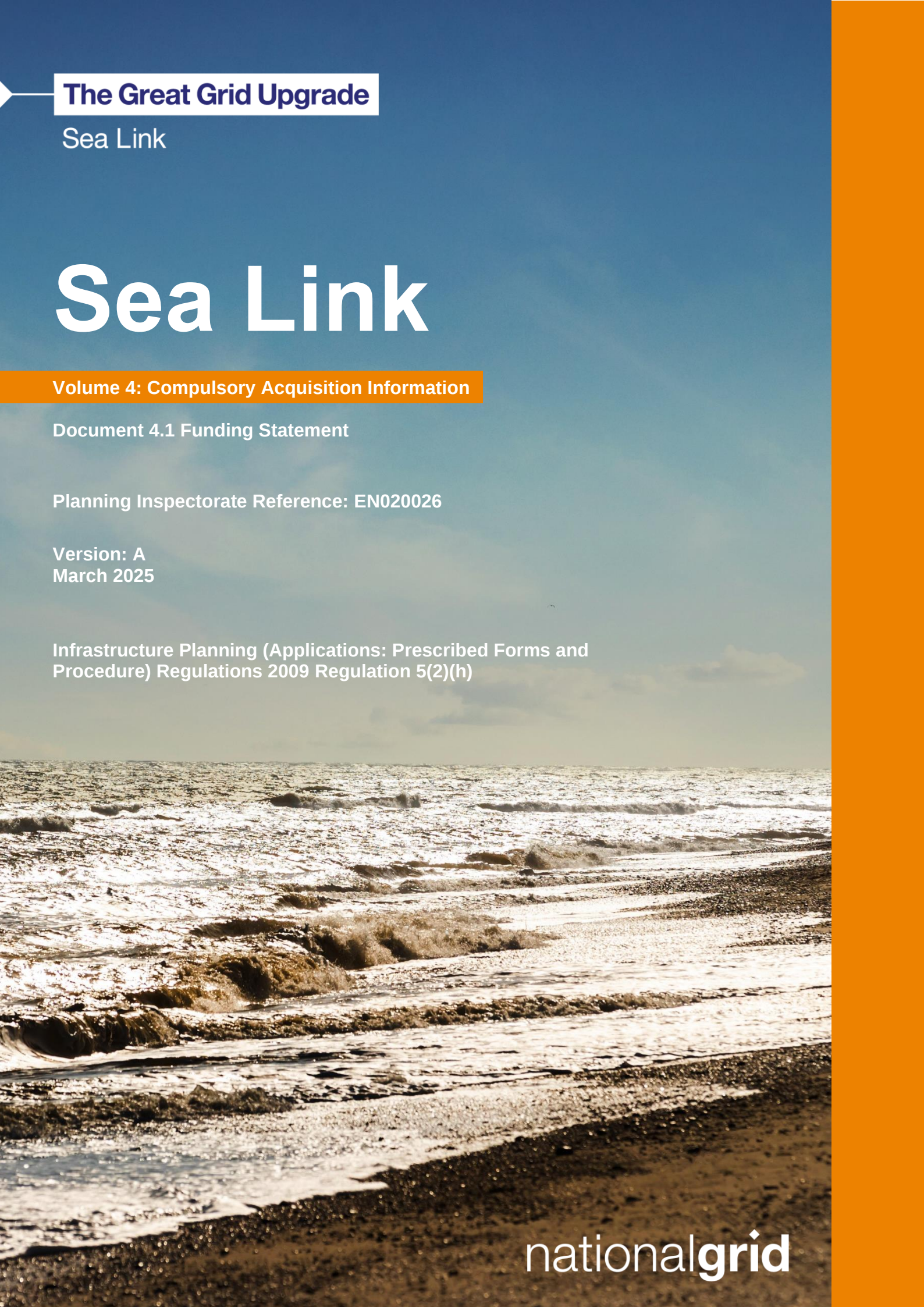




The Great Grid Upgrade

Sea Link

Sea Link

Volume 4: Compulsory Acquisition Information

Document 4.1 Funding Statement

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

nationalgrid

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Executive Summary

Ex1.1 Introduction

- Ex1.1.1 This document outlines the funding strategy for the Proposed Project, a proposal by National Grid Electricity Transmission plc to reinforce the transmission network in the Southeast and East Anglia. The project aims to accommodate additional power flows from renewable and low carbon generation and new interconnections with mainland Europe.
- Ex1.1.2 The document details the Proposed Project's components, including onshore and offshore schemes, and emphasises the need for the project due to the existing network's insufficient capacity to handle future energy demands. It also highlights National Grid's regulatory framework, business model, and the financial mechanisms in place to ensure the project's successful implementation.
- Ex1.1.3 The funding statement confirms that the estimated cost of the project is approximately £1.1 billion (2018/19 price base, the price base of the RIIO-T2 price control) and the mechanisms National Grid has to secure the necessary funding.
- Ex1.1.4 The document also addresses the acquisition of land and rights required for the Proposed Project, with a total estimated cost of £22.2 million for land acquisition and compensation (2024/2025 figures).
- Ex1.1.5 National Grid is committed to securing these acquisitions through voluntary agreements or compulsory acquisition if necessary. The statement concludes by assuring that all aspects of the Proposed Project will be fully funded within the relevant time period, ensuring the Proposed Project's progression without any financial shortfall.

1. Introduction

1.1 Introduction

- 1.1.1 The Sea Link Project (hereafter referred to as the 'Proposed Project') is a proposal by National Grid Electricity Transmission plc (hereafter referred to as National Grid) to reinforce the transmission network in the Southeast and East Anglia. The Proposed Project is required to accommodate additional power flows generated from renewable and low carbon generation, as well as accommodating additional new interconnection with mainland Europe.
- 1.1.2 National Grid owns, builds and maintains the electricity transmission network in England and Wales. Under the Electricity Act 1989, National Grid holds a Transmission Licence under which it is required to develop and maintain an efficient, coordinated, and economic electricity transmission system and to facilitate competition in the supply and generation of electricity.
- 1.1.3 This would be achieved by reinforcing the network with a High Voltage Direct Current (HVDC) Link between the proposed Friston substation in the Sizewell area of Suffolk and the existing Richborough to Canterbury 400kV overhead line close to Richborough in Kent.
- 1.1.4 National Grid is also required, under Section 38 of the Electricity Act 1989, to comply with the provisions of Schedule 9 of the Act. Schedule 9 requires licence holders, in the formulation of proposals to transmit electricity, to:
- 1.1.5 Schedule 9(1)(a) '...have regard to the desirability of preserving natural beauty, of conserving flora, fauna and geological or physiographical features of special interest and of protecting sites, buildings and objects of architectural, historic or archaeological interest;' and
- 1.1.6 Schedule 9(1)(b) '...do what [it] reasonably can to mitigate any effect which the proposals would have on the natural beauty of the countryside or on any such flora, fauna, features, sites, buildings or objects'.
- 1.1.7 The purpose of this document is to confirm how the Proposed Project generally is to be funded and how the acquisition of land and rights in on or over land which are necessary to build the Proposed Project will be funded.

1.2 The Proposed Project

- 1.2.1 The Proposed Project would comprise the following elements:

The Suffolk Onshore Scheme

- A connection from the existing transmission network via Friston Substation, including the substation itself. Friston Substation already has development consent as part of other third-party projects. If Friston Substation has already been constructed under another consent, only a connection into the substation would be constructed as part of the Proposed Project.

- A high voltage alternating current (HVAC) underground cable of approximately 1.9 km in length between the proposed Friston Substation and a proposed converter station (below).
- A 2 GW high voltage direct current (HVDC) converter station (including permanent access from the B1121 and a new bridge over the River Fromus) up to 26 m high plus external equipment (such as lightning protection, safety rails for maintenance works, ventilation equipment, aerials, similar small scale operational plant, or other roof treatment) near Saxmundham.
- A HVDC underground cable connection of approximately 10 km in length between the proposed converter station near Saxmundham, and a transition joint bay (TJB) approximately 900 m inshore from a landfall point (below) where the cable transitions from onshore to offshore technology.
- A landfall on the Suffolk coast (between Aldeburgh and Thorpeness).

The Offshore Scheme:

- Approximately 122 km of subsea HVDC cable, running between the Suffolk landfall location (between Aldeburgh and Thorpeness), and the Kent landfall location at Pegwell Bay.

The Kent Onshore Scheme:

- A landfall point on the Kent coast at Pegwell Bay.
- A TJB approximately 800 m inshore to transition from offshore HVDC cable to onshore HVDC cable, before continuing underground for approximately 1.7 km to a new converter station (below).
- A 2 GW HVDC converter station (including a new permanent access off the A256), up to 28 m high plus external equipment such as lightning protection, safety rails for maintenance works, ventilation equipment, aerials, and similar small scale operational plant near Minster. A new substation would be located immediately adjacent.
- Removal of approximately 2.2 km of existing HVAC overhead line, and installation of two sections of new HVAC overhead line, together totalling approximately 3.5 km, each connecting from the substation near Minster and the existing Richborough to Canterbury overhead line.

1.2.2 The Proposed Project also includes modifications to sections of existing overhead lines in Suffolk (only if Friston Substation is not built pursuant to another consent) and Kent, diversions of third-party assets, and land drainage from the construction and operational footprint. It also includes opportunities for environmental mitigation and compensation. The construction phase will involve various temporary construction activities including overhead line diversions, use of temporary towers or masts, working areas for construction equipment and machinery, site offices, parking spaces, storage, accesses, bellmouths, and haul roads, as well as watercourse crossings and the diversion of public rights of way (PROWs) and other ancillary operations.

1.3 This Document

- 1.3.1 This Funding Statement ('this Statement') has been prepared for submission to the Planning Inspectorate as part of National Grid's application for development consent for the Proposed Project and should be read alongside other application documents.
- 1.3.2 The purpose of this document is to confirm how the Proposed Project, and how the acquisition of land and rights in on or over land which are necessary to build the Proposed Project, will be funded and confirm the necessary funding for the Proposed Project is available.

1.4 Legal context and relevant guidance

- 1.4.1 This Statement has been prepared pursuant to the requirement of Regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 (as amended) and in accordance with paragraphs 25 and 26 of (the former) Department for Communities and Local Government guidance 'Planning Act 2008: Application Form Guidance' and paragraphs 9 and 17-18 of (the former) Department for Communities and Local Government (DCLG) guidance 'Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land', published September 2013.
- 1.4.2 This Statement is required because the proposed Development Consent Order (the "DCO") would authorise the compulsory acquisition of land or interests in land. Regulation 5(2)(h) requires in respect of such an order, a statement indicating how the order, including powers for compulsory acquisition of land, will be funded.

1.5 Objectives of this Statement

- 1.5.1 The DCLG guidance in relation to compulsory acquisition explains that, "Applicants should be able to demonstrate that adequate funding is likely to be available to enable the compulsory acquisition within the statutory period following the order being made, and that the resource implications of a possible acquisition resulting from a blight notice have been taken account of."
- 1.5.2 This Statement explains how:
- the proposed project generally is to be funded; and
 - how the acquisition of land and rights in on or over land which are necessary to build the Proposed Project will be funded.
- 1.5.3 This Statement should be read alongside National Grid's other application documents and, in particular, the **Application Document 4.2 Statement of Reasons** which justifies the powers of compulsory acquisition that are sought in the DCO and explains how National Grid intends to use the land which it is proposed to acquire.

2. National Grid Electricity Transmission plc and Regulatory Framework

2.1 Role of National Grid

- 2.1.1 Within the National Grid Group there are distinctly separate legal entities, each with their individual responsibilities and roles.
- 2.1.2 National Grid holds the Transmission Licence for England and Wales and is thus obligated to develop and maintain an efficient, coordinated and economical system of electricity transmission and to facilitate competition in the generation and supply of electricity, as set out in the Electricity Act 1989.
- 2.1.3 National Grid is regulated by Ofgem, which sets price controls and monitors how the company develops and operates the network on behalf of consumers.
- 2.1.4 National Grid owns and manages the national high-voltage electricity transmission system throughout England and Wales. National Grid owns, builds and maintains the infrastructure; overhead lines, buried cables and substations as a few examples, to allow power to move around the country. The key role of this transmission system is to connect the electricity generators' power stations with regional Distribution Network Operators (DNOs) who then supply businesses and homes. In return for the connection, users of the transmission network pay a tariff to National Grid.
- 2.1.5 As a licence holder National Grid has specific duties to uphold in relation to the desirability of preserving amenity of certain aspects of the environment and to mitigate the effects of its activities on the environment under Section 38 and Schedule 9 of the Electricity Act 1989.
- 2.1.6 National Grid also has a duty under the Electricity Act 1989 to develop and maintain an efficient, coordinated and economical system of electrical transmission. In return, the users of the transmission network pay a tariff to National Grid. This revenue is then used by National Grid to maintain, improve and invest in the transmission network. As there is a stable demand for the use of the transmission network in the UK, there is a reliable revenue stream for National Grid.
- 2.1.7 National Grid publishes its full accounts on an annual basis. The financial results set out in the 'Annual Report and Accounts 2023/2024 show that National Grid Group has underlying operating profits of £4,773 million and National Grid has underlying operating profits of £1,314 million. National Grid Group has a regulatory asset value of £55,453 million and National Grid has a regulatory asset value of £18,462 million.

2.2 Other Relevant Bodies

- 2.2.1 National Energy System Operator Limited (NESO) is a separate publicly owned company which controls the movement of electricity around the country, transporting power from generators (such as wind farms) to local distribution network operators ensuring that supply meets demand.

- 2.2.2 Every year it produces, in regular cycles, Future Energy Scenarios to examine ways of achieving Net Zero by 2050. These inform the Electricity Ten Year Statement and, finally, the Network Options Assessment (NOA). The NOA recommends which reinforcement projects should receive investment during the year.
- 2.2.3 National Grid Ventures is part of National Grid Group but sits outside the core regulated businesses, investing in technologies and partnerships that help accelerate its move to a clean energy future. That includes interconnectors - connecting the Great Britain with countries across the North Sea, allowing trade between energy markets and efficient use of renewable energy resources.

3. Need for the Proposed Project

- 3.1.1 The Proposed Project is needed because the existing electricity transmission network does not have enough capacity to reliably and securely transport all the new energy expected to be connected to the network in the future, while working to the required standards.
- 3.1.2 The way electricity is generated in the UK is changing rapidly, with the country transitioning to more secure, cheaper, and cleaner forms of energy such as new offshore windfarms. This is a result of the UK Government's commitment to net zero by 2050 and the delivery of up to 50 GW of offshore wind energy by 2030.
- 3.1.3 The energy industry is key to this transition, from developing renewable energy generation, to upgrading the existing electricity transmission network, enabling other sectors to decarbonise, and enabling communities across the country to benefit from clean energy.
- 3.1.4 As part of this, the electricity transmission network is undergoing its largest overhaul in generations, with more than five times the amount of transmission infrastructure built in the last 30 years in the UK needed to be delivered in the next seven years. National Grid has a key part to play in this work, which is known as The Great Grid Upgrade. The Proposed Project is one of the projects being delivered to make sure the network is ready for the anticipated increase in supply and demand of electricity.
- 3.1.5 The existing transmission network infrastructure in East Anglia and the southeast of England was not originally designed to accommodate the large volumes of generation capacity that is planned to connect to the network in these areas. The network in and between East Anglia and the southeast of England therefore needs reinforcing for four main reasons:
- the existing transmission network was not designed to transport electricity from where it is increasingly being generated (largely offshore);
 - the growth in offshore wind, interconnectors and nuclear power means that more electricity will be generated in the years ahead than the current network is able to reliably transport;
 - as a country, electricity demand is forecast to at least double by 2050, increasing the amount of energy needed to be transported to homes and businesses; and
 - upgrading the existing network as it is today (such as through replacing cables to carry more power) will not be enough to meet the increasing need for electricity whilst operating to required standards.
- 3.1.6 The Proposed Project is just one of several electricity network reinforcements that are needed to ensure the electricity transmission network is fit for the future.
- 3.1.7 Further detail of the need that the Proposed Project is addressing can be found in **Application Document 7.2 Strategic Options Back Check Report**.

- 3.1.8 The Secretary of State and Ofgem, when carrying out their duties, have an obligation to have regard to the ‘need’ to secure that National Grid, as the holder of a Transmission Licence, is able to finance the activities which it is required to undertake.

3.2 National Grid’s Business Model

- 3.2.1 National Grid operates as a regulated monopoly. Regulators safeguard consumers’ interests by setting allowances for the delivery of transmission assets. National Grid is regulated by Ofgem.

Revenue

- 3.2.2 Most of National Grid’s revenue is set in accordance with its regulatory agreements. This is referred to as its “allowed revenue” and is calculated based on a number of factors.
- 3.2.3 These include:
- investment in network assets;
 - performance against incentives;
 - return on equity and cost of debt.
- 3.2.4 National Grid’s allowed revenue gives it a level of certainty over future revenues if it continues to meet safety and reliability targets, as well as the efficiency and innovation targets included in the “Revenue=Incentives+Innovation+Outputs” (RIIO) (as defined in Section 3.2.9 of this document) regulatory framework.

Investment

- 3.2.5 National Grid invests efficiently in its networks to deliver strong, regulated asset growth over the long term. This allows it to continue generating revenue growth and growth in its regulated asset base. This in turn generates additional cash flows and allows National Grid to continue reinvesting in its networks and providing sustainable dividends to its ultimate shareholders.
- 3.2.6 This approach is critical to the sustainability of National Grid’s business. By challenging its investment decisions, it continues to deliver reliable, cost-effective networks that benefit its customers. The way in which its investment is funded is also an important part of its business. The long-term, sustainable nature of its assets and its credit ratings helps National Grid secure efficient funding from a variety of sources.
- 3.2.7 In May 2024, National Grid announced a new five-year financial framework to fund the group’s £60bn investment plan out to March 2029. The investment programme is backed by a balanced, comprehensive financing plan, including a £7 billion fully underwritten Rights Issue, providing funding clarity out to March 2029.

Cash Flow

- 3.2.8 National Grid’s ability to convert revenue to cash is an important factor in the ongoing reinvestment in its business. Securing low-cost funding, carefully managing its cash flows and efficient development of its networks are essential to maintaining strong sustainable returns. Cash generation is underpinned by agreeing appropriate regulatory arrangements. It is through this business model, with a mixture of revenue, investment,

and cash flow, that it is able to fund major infrastructure projects including the Proposed Project.

RIIO Mechanism

- 3.2.9 In 2013, Ofgem introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs) that became effective on 1 April 2013. The first RIIO period (RIIO T1) lasted eight years. This was then followed by a second RIIO period RIIO-T2 which will last five years and began on 1 April 2021. It puts in place funding arrangements to allow National Grid to discharge its duties as transmission operator and owner.
- 3.2.10 The framework includes mechanisms to be reimbursed for the capital costs of constructing new transmission equipment, and also for associated costs including compulsory acquisitions and foreseeable incidental costs.
- 3.2.11 The Proposed Project has confirmed Pre-Construction Funding allowances and as part of the RIIO-T2 price control set by Ofgem, the Proposed Project was given an allowance of £34.02m (2018/19 Price Base) in order to deliver pre-construction activities required to secure development consent.

Accelerated Strategic Transmission Investment

- 3.2.12 The Accelerated Strategic Transmission Investment (ASTI) framework was implemented by Ofgem to facilitate the expedited delivery of projects (including the Proposed Project) which are required to meet the Government's 2030 Net Zero ambitions.
- 3.2.13 The ASTI framework confirms National Grid as the delivery body for 17 ASTI projects and removes the option of competitive third-party delivery. The Proposed Project has been identified as needed by 2030 and is therefore an ASTI Project. National Grid now has a Licence Obligation to deliver it.
- 3.2.14 The ASTI regulatory allowance arrangements follow a similar process as the RIIO-T2 Large Onshore Transmission Investments (LOTI) mechanism, with National Grid Electricity Transmission submitting a Project Assessment. Ofgem's decision on the Project Assessment sets the allowances that determine efficient spend to deliver the Proposed Project, which can be recovered over 45 years.
- 3.2.15 The Project Assessment for the Proposed Project is currently due to be submitted to Ofgem in Q3 2025, with a decision expected to be received from Ofgem in Q3 2026 following confirmation of the development consent.

Cost of Delivering the Scheme

- 3.2.16 National Grid has already committed significant funds in relation to securing resources for the Proposed Project to date.
- 3.2.17 The estimated cost of implementing the Proposed Project is approximately £1.1bn (18/19 price).
- 3.2.18 National Grid is satisfied that the funding required to meet the estimated implementation costs will be made available for the Proposed Project within the relevant time period to meet National Grid's Licence Obligations. Release of this funding will be subject to the appropriate internal governance and sanction approval process. All major investments

carried out by companies within the National Grid Group require the approval of the board of National Grid Group or another designated Committee or Board with the appropriate level of delegated authority.

4. Land Acquisition

- 4.1.1 National Grid is currently seeking to secure the necessary acquisitions and land rights through voluntary agreement but will utilise the powers of compulsory acquisition included in the **Application Document 3.1 draft Development Consent Order** if necessary. Negotiations with affected landowners will continue after the submission of the application for development consent.
- 4.1.2 National Grid has published guidance – ‘Guidance on Land Rights for New Electricity Transmission Assets’– which sets out how it will seek to obtain, from the very outset of a project, by negotiation, permanent and temporary land rights for all new electricity transmission assets. National Grid seeks to reach early agreement with all Landowners.
- 4.1.3 **Application Document 4.2.2 Statement of Reasons Appendix B Schedule of Negotiations with Land Interests** is a summary of the status of all negotiations with landowners to secure voluntary agreement.
- 4.1.4 National Grid has taken expert advice on the likely costs of implementing the Proposed Project, including the cost of construction and the funding of the acquisition of the interests in land described in the **Application Document 4.3 Book of Reference**.
- 4.1.5 The assessment of the required funding has taken into account the total cost of payments for acquiring both freehold land and rights over land. This total cost has included the estimated value of compensation payable in relation to disturbance, severance and injurious affection, third party professional fees, blight and claims arising under both Section 10 of the Compulsory Purchase Act 1965 and Part 1 of the Land Compensation Act 1973. The cost of acquiring all the necessary land and rights is estimated at £22.2 million.
- 4.1.6 Specialist property consultants who use national, regional and local data are employed to compile the Property Cost Estimate (PCE). National Grid’s in-house specialists cross check the data given to an individual project against data supplied to recent and current Proposed Project to ensure greater overall accuracy.
- 4.1.7 It is possible that some local factors may emerge after the initial estimates have been prepared. Experience across National Grid projects indicates that a 10% contingency is sufficient to contain such costs. The figures quoted in this Statement contain such contingency.
- 4.1.8 The land acquisition costs and potential compensation claims for blight will be fully met as and when they are required under the provisions of the DCO, and this would include any “early payments” under the blight provisions of the Town and Country Planning Act 1990.
- 4.1.9 The overall costs of the Proposed Project include securing the necessary resources for land related activities in connection with the construction of the Proposed Project. These resources will be procured through a tender process that will commence in advance of a decision being made on the DCO by the Secretary of State.

5. Conclusions

- 5.1.1 The Proposed Project is required to fulfil National Grid's existing licence obligations, to deliver a safe, economic, efficient and reliable transmission network which supports the UK Government's legally binding Net Zero commitments, and is identified in the NOA.
- 5.1.2 For the reasons set out above, the Secretary of State can be satisfied that all aspects of the Proposed Project will be fully funded within the relevant time period and that there is no reason to believe that, should the DCO be made, the Proposed Project will not proceed due to an absence or shortfall in available funding.
- 5.1.3 The Secretary of State can be satisfied that funding will be available for the acquisition of any land and other interests required for the Proposed Project, for any compensation or blight claims brought by those interested in the land affected by the DCO, and for the costs of implementing the Proposed Project.

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