

Company Secretary
Northern Gas Networks Limited
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Date: 01 February 2022

Dear Company Secretary,

Gas Network Innovation Competition (NIC) - Funding Direction

The NIC Funding Direction¹ sets out the amount that Northern Gas Networks (NGN) must transfer to National Grid Gas Plc (NGG). NGN is returning £753,812.94 due to the halting of its City CNG project. This funding must be returned in the Regulatory Year 2022/23.

Background

We issue Funding Directions every year under the provisions of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Gas NIC Governance Document² and pursuant to Special Condition 7.7 of NGN's Gas Transporter licence.

Funding returned to customers through the Funding Return Mechanism

Following the halting of the City CNG project, NGN indicated that the project had been completed within the proposed budget. NGN confirmed the remaining funds in the contingency would be returned to customers through the Funding Return Mechanism.

Implementation

As the potential learning from the relevant projects provides benefits to all Network Licensees, they are funded by all customers through Transmission Network Charges., recovered by NGG. Accordingly, we are requiring NGN to return funding to NGG. We have issued a separate direction adjusting NGG's Maximum Allowed Revenue in accordance with the provisions of Special Condition 7.7 of the NGG licence for the Relevant Year 2022/23 and setting the amount that NGG needs to transfer to the Network Licensees.

In accordance with Special Condition 7.7 of the NGN's Licence and in accordance with the Gas NIC Governance Document, the schedule to this Funding Direction:

- (a) identifies the net amounts that are to be transferred to NGG from NGN – see Table 1;
and
- (b) sets out the process through which the net amounts will be transferred and the associated timescales.

¹ Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

² <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

The schedule to this Funding Direction includes the above information for the Regulatory Year 2022/23.

In accordance with Special Condition 7.7 of the Gas Transmission Licence, and in accordance with the Gas NIC Governance Document, the Authority hereby requires NGN to comply with the conditions set out in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Steven McMahon', written in a cursive style.

Steven McMahon

Deputy Director, Networks

Signed for and on behalf of the Authority

Schedule to Funding Direction

1. The net amounts that must be transferred between Network Licensees

Table 1 contains the net amounts that must be transferred by NGN to National Grid Gas Plc (NGG) in the Regulatory Year commencing 1 April 2022. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

2. The manner in which and the timescale over which the net amounts will be transferred

The transfers must be made on an equal monthly basis, for the entirety of the Relevant Year commencing 1 April 2022 such that the total amount transferred over the Relevant Year commencing 1 April 2022 equals the net amount set out in Table 1.

NGG must provide its bank account details to NGN by 1 March 2022. NGN will make transfers to the specified bank account on the day of the month agreed by NGG.

Table 1 – Amount to be transferred by NGN to NGG

Network Licensee	Amount to be transferred to NGG
NGN	£753,812.94