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for energy consumers

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Date: 01 February 2022

Dear Company Secretary,

## **Gas Network Innovation Competition (NIC) Funding Direction**

The NIC Funding Direction<sup>1</sup> sets out the amount that National Grid Gas Plc (NGGT) must recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGGT and other gas Network Licensees in relation to their NIC projects. The amount that NGGT can recover includes any funding for NIC projects funded in the 2021 competition and the amount awarded through the Successful Delivery Reward (SDR).<sup>2</sup>

Under the SDR process, one completed NIC project was awarded £0.69 million.<sup>3</sup> In addition, one halted NIC project is returning £0.75 million of unspent funds through the Funding Return Mechanism (FRM). There were no disallowed expenditure or royalty incomes to be returned.

The net amount of funds to be awarded to and returned by Network Licensees is that NGGT will return £0.055 million from customers through its 2022/23 charges, and will then transfer amounts to the Network Licensees as set out below.

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

<sup>2</sup> The SDR only applies to Projects where the Project Direction was issued during or after 2016.

<sup>3</sup> This year's SDR decisions document can be found here - [Decision on the 2021 NIC Successful Delivery Reward Application | Ofgem](#)

## Background

We issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Gas NIC Governance Document<sup>4</sup> and pursuant to the licence conditions set out below in Table 1.

**Table 1 – Licence conditions**

Network Licensee	Licence Condition
SGN (Scotland Gas Networks Plc & Southern Gas Networks Plc)	Special Condition 7.7
National Grid Gas Transmission Plc	Special Condition 7.7
Northern Gas Networks Ltd	Special Condition 7.7

There are two broad categories of changes potentially affecting the Funding Direction each year: the amount of funding awarded for new NIC projects and funding returned to customers through the Funding Return Mechanism. These are set out below.

### *Funding awarded for successful NIC projects in 2021*

The NIC only applied to the electricity distribution networks this year because the other sectors are now subject to the RIIO-2 price control, as part of which the NIC is being wound down and instead innovation funding is available under other mechanisms such as the Strategic Innovation Fund (SIF). Accordingly no new gas Projects have been awarded NIC funding.

### *Funding awarded through the 2021 SDR*

In 2021, we conducted an assessment of the SDR for one completed gas NIC project. We assessed the expected outputs of the projects based on quality, cost and time, as required under paragraph 8.63 of the Gas NIC Governance Document. The maximum available reward for each Project is equal to the Network Licensee's 10% compulsory contribution to the NIC Project. The awards for each successful project are listed in Table 2.

**Table 2 – Projects awarded through the SDR**

Project	Network Licensee	Funding rewarded (£)
Real Time Networks	SGN (Scotland Gas Networks Plc & Southern Gas Networks Plc)	698,976.00

<sup>4</sup> <https://www.ofgem.gov.uk/publications/version-31-gas-network-innovation-competition-governance-document>

### *Funding returned to customers through the Funding Return Mechanism*

One halted project is returning funds to customers through the Funding Return Mechanism in 2021, due to delivering the projects under budget. The project will be returning funds to customers through the Funding Return Mechanism. The total funds to be returned are detailed in Table 3.

**Table 3 - Funding to be returned under the Funding Return Mechanism**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding to be returned (£)</b>
City CNG	Northern Gas Networks Ltd	753,812.94

### *Implementation*

As the potential learning from the NIC projects provides benefits to all Network Licensees, they are funded by all customers through NTS Transportation Owner Charges. We implement this funding by amending the Maximum NTS Transportation Owner Revenue in accordance with the Special Condition 7.7 of the Gas Transporter Licence held by NGG for the Regulatory Year 2022/23, and setting the amount that NGGT must transfer to the Network Licensees (taking in to account any funding return) in accordance with Special Condition 7.7

In accordance with Special Condition 7.7 of the Gas Transporter Licence held by NGG and in accordance with the Gas NIC Governance Document, the schedule to this Funding Direction:

- (a) sets the value of the NIC Funding (NICF) term for NGGT (being the amount, if any, to be recovered by NGGT in order to provide for its own and other gas Network Licensees' NIC Funding for that Regulatory Year) – see Table 4 in the Schedule appended to this letter.
- (b) identifies the net amounts that are to be transferred between NGGT and other Network Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Regulatory Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 5 in the Schedule appended to this letter.
- (c) sets out the process through which the net amounts will be transferred and the associated timescales.

In accordance with, Special Condition 7.7 of the Gas Transporter Licence held by NGG and the Gas NIC Governance Document, the Authority hereby requires NGGT to comply with the conditions in the Schedule to this Funding Direction.

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

If you have further questions or want to discuss, please contact Mohammad Miah on [mohammad.miah@ofgem.gov.uk](mailto:mohammad.miah@ofgem.gov.uk).

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 value that NGGT must return to customers to cover NIC and Discretionary Funding in each Year**

Table 4 contains the amount that NGGT must return in the Regulatory Year 2022/23 commencing 1 April 2022. The amount that NGGT must return is based on the total Approved Amounts for the NIC in Regulatory Year 2022/23. The amount that NGGT must recover, less any Funding Return constitutes the value for the NIC Funding (NICF) term.

### **2. The net amounts that must be transferred between Network Licensees**

Table 5 contains the net amounts that must be transferred by NGGT to gas Network Licensees in the Regulatory Year 2022/2023 commencing 1 April 2022. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

### **3. The manner in which and timescale over which the net amounts will be transferred**

The transfers must be made equally on a monthly basis, for the entirety of the Regulatory Year 2022/2023 commencing 1 April 2022 such that the total amount transferred over the Regulatory Year 2022/23 commencing 1 April 2022 equals the net amount set out in Table 5.

The Network Licensee that will be receiving funding from NGGT must provide its bank account details to NGGT by 1 March 2022. NGGT will make transfers to the specified bank accounts on the day of the month agreed by NGGT.

**Table 4 – NICF term**

<b>Network Licensee</b>	<b>NICF Term (£)</b>
National Grid Gas Transmission Plc	-54,836.94

**Table 5 – Amount to be transferred by NGGT**

<b>Network Licensee</b>	<b>Amount to be transferred by NGGT (£)</b>
SGN (Scotland Gas Networks Plc & Southern Gas Networks Plc)	698,976.00