

National Gas Transmission PLC
National Grid House, Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Direct Dial: 020 7901 7295

Email: Marzia.Zafar@ofgem.gov.uk

Date: 25 September 2023

Dear National Gas Transmission PLC,

SIF Project Direction ref: NGG/Electrolyser Improvements driven by Waste Heat Recovery/SIFPNZPS/Rd2 Alpha

National Gas Transmission PLC submitted HyNTS Waste Heat Recovery for Electrolysis (the Project) to be considered for funding through the Alpha Phase of round 2 of the Strategic Innovation Fund (SIF). As explained in greater detail below, this Project previously received SIF Funding and completed a Discovery Phase for round 2 of the SIF. In our¹ SIF Funding Decision issued on 22 September 2023, we selected the Project² for conditional funding for the round 2 Alpha Phase and as a result we are now issuing this SIF Project Direction to implement that decision.

National Gas Transmission PLC must comply with the conditions contained in this SIF Project Direction as a condition of the Project receiving funding through the SIF. These conditions can be found in the Schedule to this document.

Progression through SIF Phases

The SIF consists of a multi-phase approach for Projects in order to mitigate the risk associated with innovations. The Discovery Phase focuses on feasibility, the Alpha Phase on experimental development, and the Beta Phase on deployment and demonstration.

The Project previously received SIF Funding for the round 2 Discovery Phase³ and submitted an Application for the Project to be considered for SIF Funding for the round 2

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Unless otherwise specified, defined terms in this SIF Project Direction have the meaning given to them in Appendix 1 of the SIF Governance Document.

³ The Project Directions for round 2 of the Discovery Phase are available at: <https://www.ofgem.gov.uk/publications/strategic-innovation-fund-round-2-discovery-projects-approved-funding>

Alpha Phase of the SIF. As stated above, the Project has been selected by Ofgem to receive SIF Funding for the Alpha Phase of round 2.

Role of UK Research & Innovation (UKRI)

As per Chapter 1 of the SIF Governance Document⁴ the role of UKRI is to deliver the SIF in line with the SIF Governance Document - administering the funding programme, monitoring the delivery of Projects, collating data from Projects on benefits, making recommendations to Ofgem on operational matters, supporting third-party innovators and, where possible, successful Projects to become 'business as usual' activities. To support the success of the Projects and the SIF programme, we expect that the Funding Party and Project Partners collaborate with Ofgem and UKRI.

SIF Project Direction

Paragraph 5.14 of the SIF Governance Document states that a SIF Project Direction will:

- Set out the Project-specific conditions, to which the Funding Party is committing in accepting SIF Funding.⁵
- Require the Funding Party to undertake the Project in accordance with the commitments made in the Application. Where appropriate, the SIF Project Direction may therefore include extracts from the Application or refer to specific sections of the SIF Application.⁶
- Where applicable, set out conditions (such as Project stage gates) linked to milestones and deliverables, which Projects must meet.⁷
- Set out the SIF Approved Amount for the Project, that will form part of the calculation contained in the SIF Funding Direction issued by the Authority under chapter 7 of the SIF Governance Document.⁸
- Set out the Project budget that the Funding Party must report against and how variations in the Project budget will be reported.⁹
- Where applicable, set out special information sharing requirements applicable to the Project.¹⁰
- Set out the mechanism for the Funding Party receiving the SIF Approved Amount as set out in the SIF Funding Direction.¹¹

⁴ <https://www.ofgem.gov.uk/publications/sif-governance-document>

⁵ 'Project specific conditions' detailed under Point 3 – 'Condition President' of this SIF Project Direction.

⁶ 'Project specific conditions' detailed under Point 3 – 'Condition President' of this SIF Project Direction.

⁷ 'Project specific conditions' detailed under Point 3 – 'Condition President' of this SIF Project Direction.

⁸ 'SIF Funding Amount' detailed under Point 5 – 'Condition President' of this SIF Project Direction.

⁹ Annex 1 – Project Budget.

¹⁰ 'Project specific conditions' detailed under Point 3 – 'Condition President' of this SIF Project Direction.

¹¹ 'SIF Funding Amount' detailed under Point 5 – 'Condition President' of this SIF Project Direction.

All SIF Project Direction requirements are detailed in the Schedule to this SIF Project Direction.

Decision

Provided the Funding Party complies with the SIF Governance Document and with the Schedule to this SIF Project Direction, the Project is deemed to be an Eligible SIF Project¹².

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

Marzia Zafar

Deputy Director, Decentralisation & Digitalisation

For and on behalf of the Authority

¹² The meaning 'Eligible SIF Project' is described in Chapter 2 of the SIF Governance Document.

Schedule to SIF Project Direction

1. PROJECT DETAILS

SIF Project Direction reference: NGG/Electrolyser Improvements driven by Waste Heat Recovery/SIFPNZPS/Rd2_Alpha

Application number: 10079461

Project title: HyNTS Waste Heat Recovery for Electrolysis

Innovation Challenge/Project Phase: Preparing for a net zero power system / Alpha Phase round 2

Project start date: 01 October 2023

Project end date: 31 March 2024

SIF Approved Amount for SIF Funding: £386,732.00

2. PREAMBLE

This SIF Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to National Gas Transmission PLC (the "Funding Party") pursuant to the SIF Governance Document issued pursuant to Special Condition 5.7 of the Gas Transporter licence (the "Licence"). It sets out the conditions to be complied with in relation to HyNTS Waste Heat Recovery for Electrolysis (the "Project") as a condition of it being funded under the SIF Funding Mechanism.¹³

Unless otherwise specified, defined terms in this SIF Project Direction have the meaning given to them in the Licence or Appendix 1 of the SIF Governance Document.

References to specific sections of the Funding Party's Application in this SIF Project Direction are, for ease of reference, made by referring to the section number in the Funding Party's Application.

3. PROJECT SPECIFIC CONDITIONS

In accepting funding for the Project, the Funding Party is subject to the following Project-specific condition(s):

Condition 1

The Funding Party must not spend any SIF Funding until contracts are signed with the Project Partners named in Table 1 for the purpose of completing the Project.

¹³ The SIF Funding Return Mechanism is defined in the SIF Governance Document.

Table 1. Project Partners

ANGLIAN WATER SERVICES LIMITED
ALFA LAVAL AALBORG OY
HYDROGENUS GROUP LTD
CARDIFF UNIVERSITY
SOUTHERN GAS NETWORKS PLC

Condition 2

The Funding Party must report on the financial contributions made to the Project as set out in its Application. Any financial contributions made over and above that stated in its Application should also be reported and included within the Project costs template.

Condition 3

The Funding Party must make reasonable endeavours to participate in all meetings related to the Project that they are invited to by Ofgem, UKRI and DESNZ during the Alpha Phase.

Condition 4

The Funding Party must provide to the monitoring officer by the mid-point monitoring meeting an explanation on its approach for local community engagement in the Alpha Phase and how it plans to address and, where possible, mitigate any potential opposition to the Project's proposed solution.

Condition 5

The Funding Party must provide to the monitoring officer by the mid-point monitoring meeting an explanation as to whether there are plans to include an electrolyser technology provider as a Project Partner and a justification as to its reasoning.

4. COMPLIANCE

The Funding Party must comply with Special Condition 5.7 of the Gas Transporter licence (the "Licence"), the SIF Governance Document and with this SIF Project Direction.

5. SIF APPROVED AMOUNT

The SIF Approved amount of £386,732.00 (as detailed under Section 1: Project details of this Project Direction) will be recovered by National Gas Transmission from GB customers and transferred to the Funding Party. The Funding Party is responsible for

notifying National Gas Transmission of the bank account details to which transfers must be made, in addition to completing Annex 2 of this SIF Project Direction. If a Funding Party is required to return funding to National Gas Transmission, the reverse applies. The Funding Party must provide bank account details to National Gas Transmission within two weeks of accepting this SIF Project Direction.

6. PROJECT BUDGET

The Project Budget is set out in Annex 1 of this SIF Project Direction.

The Funding Party must report on expenditure against each line under the category total in the Project Budget and explain any projected variance against each line as part of its detailed report which will be provided, in accordance with Chapter 7 of the SIF Governance Document. The Funding Party must report variations in the Project budget as outlined in Chapter 6 of the SIF Governance Document.

7. PROJECT IMPLEMENTATION

The Funding Party must undertake the Project in accordance with the commitments it has made in the Application and with the conditions of this SIF Project Direction. These include (but are not limited to) the following:

- (i) undertake the Project in accordance with its Application,
- (ii) complete the Project on or before the Project completion date as detailed under section 1 of the schedule of this SIF Project Direction, and
- (iii) disseminate the learning from the Project at least to the level described in chapter 3 of the SIF Governance Document. Dissemination of learning must be carried out whether the Project was concluded successfully or otherwise.

8. REPORTING

Ofgem and UKRI may issue guidance (and amend it from time to time) about the structure and content of the Project reporting required by Chapter 6 of the SIF Governance Document. The Funding Party must follow this guidance in preparing the reports.

As set out in chapter 6 of the SIF Governance Document, the Funding Party may be required to submit an end of Phase report to the UKRI monitoring officer for the round 2 Alpha Phase. An end of Phase report is required for the round 2 Alpha Phase if the Project is not planning on submitting an Application to the round 2 Beta Phase and, if

the Funding Party submits an Application for the Project for the round 2 Beta Phase but is not successful. Within this report, the Funding Party must submit information related to questions on Project delivery as detailed in chapter 6, table 6 of the SIF Governance Document.

9. MONITORING

The Funding Party must comply with any reasonable request for information by its monitoring officer at UKRI and related deadlines. Ofgem, with the support of UKRI, will together monitor Project delivery, impacts and benefits. Throughout the term of the Project, progress is monitored by UKRI through a monitoring officer. The monitoring officer is the first point of contact for official notifications, queries and correspondence with UKRI and the Authority, unless otherwise required by this SIF Project Direction.

As detailed in Chapter 6 of the SIF Governance Document, meetings with the monitoring officer will take place at regular intervals, as advised by Ofgem or the monitoring officer during the delivery of the Project, and at the end of each Project Phase.

10. EVALUATION

The Funding Party has acknowledged when it submitted its Application for this Project, that reporting information and data gathered during the Project's timescales (as detailed in Section 1 of this SIF Project Direction) will be used to evaluate Project performance. In addition, the Funding Party may be required to provide requested information outside of the Project timescales and, in particular, for the period from the Project end date to the end of the SIF Programme. Further data and reporting information may be requested (frequency and method based on requirement) outside of standard monitoring and reporting requirements as deemed necessary. Further data and information requirements must be complied with by the Funding Party and Project Partners.

11. DATA SHARING

As set out in Chapter 3 of the SIF Governance Document, the Funding Party must follow Data Best Practice Guidance with regards to all data gathered or created in the course of a Project. We expect the Funding Party to document any reasons, such as commercial sensitivities, for desensitising data. As defined by, and in accordance with, Data Best Practice Guidance, Funding Parties must have a data triage process. Where multiple Project Partners are collaborating on a Project, the consortium must adopt a consistent Open Triage Process for the data related to the Project. Ofgem may require that Project information and data is also shared with other specified parties, such as parties working

on complementary innovation funding programmes (subject to redaction of sensitive data).

12. CYBER SECURITY

It is the responsibility of the Funding Party and all Project Partners to implement and maintain appropriate security measures to protect personal data in accordance with The GDPR (General Data Protection Regulation)¹⁴ and DPA (Data Protection Act) 2018¹⁵. Protection of computer systems from unauthorised access or being otherwise damaged or made inaccessible must be in place alongside effective working practices. These must be maintained in line with the Funding Party's IT Management Strategies and policies.

13. PROJECT MILESTONES

The Funding Party must provide an outline in its end of Project Phase meeting with its UKRI monitoring officer that verifies the Project milestones have been achieved or explains why they have not.

Project milestones are outlined below in Table 3, based upon details contained within Question 7 and Appendix Question 9 in the Funding Party's.

¹⁴ https://ec.europa.eu/info/law/law-topic/data-protection/data-protection-eu_en

¹⁵ <https://www.legislation.gov.uk/ukpga/2018/12/contents/enacted>

Table 3. Project milestone¹⁶

Reference	Project milestone	Deadline	Overall objectives and key tasks	Summary of milestones	SIF Funding Request
Milestone 1	Project Management	31 March 2024	<p>Overall Work Package Objectives:</p> <p>The project will be managed through close monitoring of the project plan and early identification of risks to the programme. Weekly project meetings, monthly steering reviews and monitoring officer assessments will be undertaken to ensure the project is running to time and cost.</p> <p>Key Tasks:</p> <ol style="list-style-type: none"> 1. Weekly project meetings 2. Management of risk register 3. Updates to SharePoint for document sharing between the project partners, similar to that used in the Discovery phase. 	<p>M1: Beta application (£10,716.75).</p> <p>M2: Peer Review (£41,312.00).</p>	£52,028.75

¹⁶ As outlined in in the Application or Project Plan appendix.

			<p>4. Monthly project progress and status updates</p> <p>5. Monthly finance reporting</p> <p>6. External communications activities</p>		
Milestone 2	Business Case & Requirements Development	31 March 2024	<p>Overall Work Package Objectives:</p> <p>This work package includes the detailed development of the requirements for the demonstration and the wider network rollout of the proposed solution, including refinement of the business case. This work package will also ensure the project direction is aligned with other hydrogen activities including NGT's Hybrid Storage and UKPN's Connectrolyser projects. Finally the project outputs will be peer reviewed to ensure the approach taken is appropriate.</p> <p>Key Tasks:</p> <p>1. Refine requirements for demonstration.</p> <p>2. Refine requirements for network rollout</p>	M1: Project Completion (£8,538.75).	£8,538.75

			3. Continue to develop business case 4. Engage with related hydrogen projects and share outputs and findings 5. Peer review project approach		
Milestone 3	Waste Heat Recovery	31 March 2024	<p>Overall Work Package Objectives: WP3 will deliver the detailed design of the waste heat recovery system by conducting site surveys and safety/risk assessments. The outputs of this work package will inform the Beta phase costs and schedule for the demonstration of the system.</p> <p>Key Tasks:</p> <ol style="list-style-type: none"> 1. Site surveys 2. HAZID/HAZOP 3. Detailed design of waste heat recovery boiler and ancillaries 4. Detailed steam gas turbine design 5. Costs and schedule for Beta phase 	<p>M1: Site surveys (£15,000.00).</p> <p>M2: Mid-project milestone (£48,000.00).</p> <p>M3: Project completion (£76,600.00).</p>	£139,600.00
Milestone 4	Solid Oxide Electrolyser	31 March 2024	<p>Overall Work Package Objectives: This work package will undertake the procurement process for the solid oxide</p>	M1: Mid-project milestone (£8,538.75).	£37,038.75

			<p>electrolyser (SOE) to determine the requirements, costs and plan for demonstration of the system in Beta.</p> <p>Key Tasks:</p> <ol style="list-style-type: none"> 1. Develop the scope of work required for the electrolyser system to procure against 2. Work with Hydrogenous to understand system requirements for other users 3. Undertake early supplier engagement to understand key capabilities of the various systems 4. Develop procurement timeline 	M2: Project completion (£28,500.00).	
Milestone 5	System Demonstration	31 March 2024	<p>Overall Work Package Objectives:</p> <p>This work package will deliver the design for the demonstration bringing together the different component parts, including system layout and integration on site. Also included is other key elements to the demonstration including electricity and water connections for the</p>	<p>M1: Project completion (£8,538.75).</p> <p>M2: Project completion (£49,875.00).</p> <p>M3: Project completion (£49,800.00).</p>	£149,525.75

		<p>electrolyser, permit requirements and finance strategy.</p> <p>Key Tasks:</p> <ol style="list-style-type: none"> 1. Design of full system including layout of equipment and integration with existing assets on site. 2. Commercial and technical requirements for electricity and water connections for electrolyser 3. Build and test plan 4. Finance strategy 5. Water connection, supply, treatment, storage design 6. System optimisation through modelling 	<p>M4: System optimisation (£41,312.00).</p>	
--	--	---	--	--

14. USE OF LOGO

The Funding Party and the Project Partners, External Funders and Project Supporters or subcontractors¹⁷ must not use the Innovate UK/UKRI and/or Ofgem logo for purposes associated with the Project in any circumstances.

As an alternative for use of both Ofgem and UKRI logos, all external Project communications must include the following standard form of wording:

- (i) "this project is funded by network users and consumers under the Strategic Innovation Fund, an Ofgem programme managed in partnership with UKRI."

For additional guidance, refer to the communications and media guidelines for competition winners, detailed as part of your delivery pack. These guidelines are designed to help with some suggestions and encourage you to take a proactive approach to communicating about your Project.

15. SHARING OF LESSONS LEARNED

The Funding Party is required to ensure that the sharing of lessons learned and the facilitation of knowledge transfer is conducted as effectively as possible, to ensure that all parties, and therefore all consumers including future consumers, can benefit from Projects.

As contained within Chapter 3 of the SIF Governance Document, we require the Funding Party to work collaboratively to maintain the ENA Smarter Networks Portal so that all reporting and dissemination of learnings on Projects (as required by chapter 6 of the SIF Governance Document) is available via the ENA Smarter Networks Portal.

16. COLLABORATION

The Funding Party must collaborate with third-party innovators as Project Partners, as well as work closely with other parties in the energy supply chain, as set out in Chapter 3 of the SIF Governance Document.

The Funding Party must collaborate with other parties and with UKRI to organise an annual conference in a format appropriate to enabling the building of consortiums and disseminating learning widely. The conference may be a single event for gas and electricity, or more than one event, as appropriate.

¹⁷ As detailed in the Application.

17. AMENDMENT OR REVOCATION

As set out in Chapter 7 of the SIF Governance Document, this SIF Project Direction may be amended or revoked under the following circumstances:

- (i) if the Funding Party considers that there has been a material change in circumstance that requires a change to the SIF Project Direction, and the Authority agrees; or
- (ii) to reflect amendments made to the Licence.

18. HALTING OF PROJECTS

This SIF Project Direction is subject to the provisions contained in Chapter 7 of the SIF Governance Document relating to the halting of Projects. By extension, this SIF Project Direction is subject to any decision by the Authority to halt the Project to which this SIF Project Direction relates and to any subsequent relevant SIF Funding Direction issued by the Authority pursuant to Special Condition 5.7 of the Gas Transporter licence (the "Licence").

Further to the requirements in Chapter 7 of the SIF Governance Document, in the event the Authority decides to halt the Project, to which this SIF Project Direction relates, the Authority may issue a statement to the Funding Party clarifying the effect of that halting decision as regards to the status and legal force of the conditions contained in this SIF Project Direction.

NOW THEREFORE:

In accordance with the SIF Governance Document issued pursuant to Special Condition 5.7 of the Gas Transporter licence (the "Licence") of the Licence the Authority hereby issues this SIF Project Direction to the Funding Party in relation to the Project.

This constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

Failure to comply with the conditions of this SIF Project Direction means that Ofgem may treat all or part of the SIF Approved Amount received by the Funding Party as SIF Disallowed Expenditure.

ANNEX 1: PROJECT BUDGET

SIF Project Direction costs	
Cost Category	Total Project costs (£)
Labour	336,517
Materials	0
Subcontracting	24,492
Travel and subsistence	7,325
Other costs	61,369
Total	£429,703

Project Partner	Total project costs (£)	Project contribution (£)	Total SIF Funding requested (£)	Project contribution (%)
NATIONAL GAS TRANSMISSION PLC	£77,126.00	£42,971.00	£34,155.00	
ANGLIAN WATER SERVICES LIMITED	£49,800.00	£-	£49,800.00	
ALFA LAVAL AALBORG OY	£139,600.00	£-	£139,600.00	
HYDROGENUS GROUP LTD	£78,375.00	£-	£78,375.00	
CARDIFF UNIVERSITY	£82,624.00	£-	£82,624.00	
SOUTHERN GAS NETWORKS PLC	£2,178.00	£-	£2,178.00	
Total	£429,703.00	£42,971.00	£386,732.00	11%

ANNEX 2 TO SCHEDULE: TEMPLATE OF BANK ACCOUNT DETAILS TO BE PROVIDED TO EITHER NGT (BOX.GSOSETTLEMENTS@NATIONALGRID.COM) OR NG ESO (revenue.invoice@nationalgrideso.com)

Company name:

Primary Contact Details (only one contact permitted)

First Name:

Last Name:

Email address:

Mobile phone number:

Work phone number:

Address details

Address name:

Street address:

City:

State / region:

Post code:

PO box: (if applicable)

PO box post code: (if applicable)

Banking details

These should be evidenced in non-editable format. The evidence provided must show company name and bank details and it should be dated within the last 6 months.

Any of the below documents will suffice:

- Bank statement (scanned document)
- Void cheque
- Paying in slip
- Screenshot of online banking (showing a logged in account with bank account and sort code, with browser visible)