



Making a positive difference
for energy consumers

Company Secretary
National Grid Electricity System
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Dear Company Secretary,

Electricity Network Innovation Competition (NIC) Funding Direction

The NIC Funding Direction¹ sets out the amount that National Grid Electricity System Operator Ltd (NGESO) can recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGESO and other electricity Network Licensees in relation to their NIC projects.

Two electricity NIC projects received Successful Delivery Rewards (SDR) in 2023², totalling £2.5 million. Through the Funding Return Mechanism (FRM), five concluded NIC project are returning £3.4 million of unspent funds to customers. There are no disallowed expenditure or royalty incomes to be returned.

The net effect of funds to be awarded to and returned by Network Licensees is that NGESO will have a negative balance of £-0.88 million through its 2024/25 Transmission Network Use of System (TNUoS)³ charges. NGESO will subsequently transfer amounts to the Network Licensees as set out below.

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

² [Decision on the 2023 Network Innovation Competition Successful Delivery Reward \(SDR\) applications \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/decision-on-the-2023-network-innovation-competition-successful-delivery-reward-sdr-applications)

³ More information on TNUoS charges available here: <https://www.ofgem.gov.uk/electricity/transmission-networks/charging>

Background

We⁴ issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Electricity NIC Governance Document⁵ and pursuant to the licence conditions set out below in Table 1.

Table 1 – Licence conditions

Network Licensee	Licence Condition
National Grid Electricity Distribution	Charge Restriction Condition 5A ⁶
Northern Powergrid	Charge Restriction Condition 5A
National Grid Electricity System Operator Ltd	Special Condition 3.3

There are a number of changes affecting the NIC Funding Direction each year. These are set out below.

Funding awarded for successful NIC projects

The NIC is closed for operation and is no longer running as a yearly competition as we reach the close out of RIIO ED-1. No project was awarded Electricity NIC Funding in 2023.

Table 2 – projects awarded funding under the Electricity NIC

Project	Network Licensee	Funding awarded (£)
N/A	N/A	N/A

Funding awarded through the 2023 Successful Delivery Reward

In 2023, there were two Successful Delivery Rewards for electricity Network Licensees.

Table 3 – projects awarded through the SDR

Project	Network Licensee	Funding awarded (£)
NeSTS	SHE Transmission	750,062.13
Phoenix	SP Energy Networks	1,764,375.59

Funding returned to customers through the Funding Return Mechanism

⁴ The terms “we”, “us”, “our” and “the Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority

⁵ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

⁶ There will be an amendment to this licence condition in the 2023/2024 financial year. The new licence condition replacing CRC 5A will be SpC 7.9 RIIO-ED1 Network Innovation Competition.

Five completed Electricity NIC projects are returning funds to customers through the Funding Return Mechanism in 2023 due to delivering the projects under budget. The other project is returning funds due to the project being halted. The total funds to be returned are detailed in Table 4.

Table 4 - Funding to be returned under the Funding Return Mechanism

Project	Network Licensee	Funding to be returned (£)
Optimise Prime	UKPN	1,784,350.00
Powerful CB	UKPN	1,618,695.68
Fusion	SPD	974,545.00
Charge	SPD	312,993.00
MTTE	SSEN	386,967.67

Implementation

As the potential learning from the NIC projects provides benefits to all Network Licensees, they are funded by all electricity customers through TNUoS charges. We implement this funding by amending the Maximum Allowed Revenue for the Regulatory Year 2024/25 in accordance with the provisions of Special Condition 3.3 of the Electricity Transmission Licence held by NGESO, and setting the amount that NGESO must transfer to the Network Licensees (taking into account any funding return).

In accordance with Special Conditions 3.3 of the Electricity Transmission Licence held by NGESO and in accordance with Chapter 7 of the Electricity NIC Governance Document, the schedule to this Funding Direction:

- (a) sets the value of the NIC Funding (NICF) term for NGESO (being the amount, to be recovered by NGESO in order to provide for its own and other electricity Network Licensees' NIC Funding for that Regulatory Year) – see Table 5 in the Schedule appended to this letter.
- (b) identifies the net amounts that are to be transferred between NGESO and other Network Licensees in order to ensure that each such licensee receives an amount equal to the proportion of the NIC Funding for the Regulatory Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 6 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 paragraph Special Condition 3.3 of the Electricity Transmission Licence held by NGESO and in accordance with the Electricity NIC Governance Document, the Authority hereby requires NGESO to comply with the conditions set out in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Yours faithfully,

David McCrone
Head of Price Control Operations Policy
Networks
For and on behalf of the Authority

Schedule to Funding Direction

1. The value that NGESO must recover from customers to cover NIC and Discretionary Funding in each Year

Table 5 contains the amount that NGESO must recover in Regulatory Year 2024/25 commencing 1 April 2024. The amount that NGESO must recover is based on the total Approved Amounts for the NIC Competition in Relevant Year 2023/24, 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 6 contains the net amounts that must be transferred by NGESO to electricity Network Licensees in Relevant Year 2024/25 commencing 1 April 2024. 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

In accordance with Paragraph 7.5 of the NIC Governance Document, the transfers must be made on an equal monthly basis for the entirety of the Regulatory Year 2024-25 commencing 1 April 2024 such that the total amount transferred over the Relevant Year 2023/24 commencing 1 April 2024 equals the net amount set out in Table 6.

The Network Licensee that will be receiving funding from NGESO must provide its bank account details to NGESO by 1 March 2024. NGESO will make transfers to the specified bank accounts on the day of the month agreed by NGESO.

Table 5 – NICF term

Network Licensee	NICF Term (£)
National Grid Electricity System Operator Ltd	-888,608.00

Table 6 – Amount to be transferred by NGESO to Network Licensees

Network Licensee	Amount to be transferred by NGESO (£)
SHE Transmission	750,062.13
SPEN	1,764,375.59