



## Making a positive difference for energy consumers

Company Secretary  
National Energy System Operator  
Faraday House  
Warwick Technology Park  
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Warwick, CV34 6DA

Email: networks.innovation@ofgem.gov.uk  
Date: 19<sup>th</sup> February 2026

Dear Company Secretary,

# Electricity Network Innovation Competition (NIC) Funding Direction

The NIC Funding Direction<sup>1</sup> sets out the amount that the National Energy System Operator (NESO) can recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NESO and other electricity Network Licensees in relation to their NIC projects.

One electricity NIC project received a Successful Delivery Reward (SDR) in 2025,<sup>2</sup> totalling £1,242,758.35. Through the Funding Return Mechanism (FRM), three concluded NIC projects are returning £5,313,167.24 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 NESO will have a balance of £4,070,408.89 through its Transmission Network Use of System (TNUoS) charges. NESO will subsequently transfer amounts to the Network Licensees as set out below.

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

<sup>2</sup> The SDB decision is published on the same web page as this electricity NIC funding decision.

## **The Office of Gas and Electricity Markets**

10 South Colonnade, Canary Wharf, London, E14 4PU Tel 020 7901 7000

[www.ofgem.gov.uk](http://www.ofgem.gov.uk)

## Background

We<sup>3</sup> issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Electricity 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
SP Distribution	Special Condition 7.9
SP Manweb	Special Condition 7.9
Scottish Hydro Electric Power Distribution	Special Condition 7.10
Southern Electric Power Distribution	Special Condition 7.9
Eastern Power Networks	Special Condition 7.9
London Power Networks	Special Condition 7.9
South Eastern Power Networks	Special Condition 7.9
National Energy System Operator	Condition F2

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. No project was awarded Electricity NIC Funding in 2024/2025 or 2025/2026.

### Table 2 – projects awarded funding under the Electricity NIC

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

<sup>3</sup> 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

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

## Funding awarded through the 2024/2025 and 2025/2026 Successful Delivery Reward

In 2025/2026, there was one Successful Delivery Reward for electricity Network Licensees.

**Table 3 – projects awarded through the SDR**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding awarded (£)</b>
Angle-DC	SP Energy Networks (SPEN)	1,242,758.35

## Funding returned to customers through the Funding Return Mechanism

Three completed Electricity NIC projects are returning funds to customers through the Funding Return Mechanism in 2024/2025 and 2025/2026 due to delivering the projects under budget. The total funds to be returned are detailed in Table 4.

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

<b>Project</b>	<b>Network Licensee</b>	<b>Funding to be returned (£)</b>
Transition	SSE Networks (SSEN)	3,082,653.24
LV Engine	SPEN	1,541,548
Active Response	UK Power Networks (UKPN)	688,966

## 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 2026/27 in accordance with the provisions of Condition F2 of the Electricity System Operator Licence

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held by NESO, and setting the amount that NESO must transfer to the Network Licensees (taking into account any funding return).

In accordance with Condition F2 of the Electricity System Operator license held by NESO 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<sup>5</sup> for NESO (being the amount, to be recovered by NESO 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 NESO 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 Condition F2 of the Electricity System Operator Licence held by NESO and in accordance with the Electricity NIC Governance Document, the Authority hereby requires NESO 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,

**Luke Blackaby**

**Head of Innovation Hub**

**Innovation Hub**

**For and on behalf of the Authority**

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<sup>5</sup> [In December 2025](#), we consulted on removing the NICF term from NESO's licences from April 2026 onwards. Upon further review, we now understand that some NIC funding will continue to be recovered by NESO through TNUoS after April 2026. We are therefore re-considering this original consultation position, and we are currently minded to reinstate this term as part of our licence decision in March.

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# Schedule to Funding Direction

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

Table 5 contains the amount that NESO must recover relating to Regulatory Year 2026/27 commencing 1 April 2026. The amount that NESO must recover is based on the total Approved Amounts for the NIC Competition in Relevant Years 2024/2025 and 2025/2026, 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 NESO to electricity Network Licensees in Regulatory Year 2026/27 commencing 1 April 2026. 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 2026/27 commencing 1 April 2026 such that the total amount transferred over the Regulatory Year 2026/27 commencing 1 April 2026 equals the net amount set out in Table 6.

The Network Licensee that will be receiving funding from NESO must provide its bank account details to NESO by 1 March 2026. NESO will make transfers to the specified bank accounts on the day of the month agreed by NESO.

**Table 5 – NICF term**

Network Licensee	NICF Term (£)
National Energy System Operator	-4,070,408.89

## Table 6 – Amount to be transferred by NESO to Network Licensees

<b>Network Licensee</b>	<b>Amount to be transferred by NESO (£)</b>
SPEN	1,242,758.35