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for energy consumers

Company Secretary

Email: networks.innovation@ofgem.gov.uk

National Gas Transmission

Date: 19<sup>th</sup> February 2026

National Grid House

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Dear Company Secretary

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

The NIC Funding Direction<sup>1</sup> sets out the amount that National Gas Transmission (NGT) must recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGT and other gas Network Licensees in relation to their NIC projects.

Three completed NIC project are returning project revenues of £1,024,460.64<sup>2</sup> to customers through the Funding Return Mechanism. There were no halted project revenues, disallowed expenditure, successful delivery rewards (SDRs), or royalty incomes to be returned.

The net effect of funds to be awarded to and returned by Network Licensees means that Network Licensees will return £1,024,460.64 to NGT in 2026/2027.

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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 or Special Condition 1.1 of the Gas Transporter License held by NGT

<sup>2</sup> Any monetary values in these special conditions are in sterling in a 2023/24 price base unless otherwise indicated.

## Background

We<sup>3</sup> issue the NIC Funding Direction every year in accordance with 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     |
|---------------------------|-----------------------|
| Scotland Gas Networks     | Special Condition 7.7 |
| Northern Gas Networks     | Special Condition 7.7 |
| National Gas Transmission | Special Condition 7.7 |

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

### Funding awarded for successful NIC projects

### Table 2 – project awarded funding

The NIC is closed for operation and is no longer running as a yearly competition. No project was awarded Gas NIC Funding in 2024/2025 or 2025/2026.

| Project | Network Licensee | Funding awarded (£m) |
|---------|------------------|----------------------|
| 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/sites/default/files/docs/2021/03/gas\\_nic\\_governance\\_v3.1\\_corrected\\_03.21.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/gas_nic_governance_v3.1_corrected_03.21.pdf)

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

In 2024/2025 and 2025/2026, there were no Successful Delivery Rewards for gas Network Licensees.

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

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

## Funding returned to customers through the Funding Return Mechanism

Three completed gas NIC projects are returning funds to customers through the Funding Return Mechanism 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**

| Project  | Network Licensee | Funding to be returned (£) |
|--|------------------|----------------------------|
| Robotic Roadworks and Excavation System (RRES) | SGN              | 449,573.83                 |
| H21 Phase 1                                    | Northern Gas     | 482,425.12                 |
| H21 Phase 2                                    | Northern Gas     | 92,461.68                  |

## Implementation

As the potential learning from NIC projects would provide benefits to all Network Licensees, they are funded by all gas consumers through NGT's NTS Transportation Owner Charges.

Therefore, we are incorporating the NIC Funding term (NICF term) into the NTS Transportation Owner Revenue for the Regulatory Year 2026/27 and here set the amount

Network Licensees need to transfer to NGT's bank account for the projects listed in Table 4.

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

- Sets the value of the NIC Funding (NICF) term for NGT (being the amount, if any, to be recovered by NGT in order to provide for its own and other gas Network Licensees' NIC Funding for that Regulatory Year) – see Table 5 in the Schedule appended to this letter.
- Sets out the net amounts that are to be transferred between NGT 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 6 in the Schedule appended to this letter.
- Identifies the manner in which and timescale over which the net amounts will be transferred.

The schedule to this Funding Direction includes the above information for Regulatory Year 2026/27.

The amendments to the NGT Gas Transporter Licence effective 1 April 2026 remove Special Condition 7.7 with the effect that there is no provision in the licence to accommodate a NIC funding return for Regulatory Year 2026/27. For this Funding Direction to take effect for Regulatory Year 2026/27, NGT are directed to include the return value in the Strategic Innovation Fund (SIF) total for Regulatory Year 2026/27.

In accordance with Special Condition 7.7 of the NGT Gas Transporter Licence and Chapter 7 of the Gas NIC Governance Document, the Authority hereby requires NGT 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.

Yours faithfully,

**Luke Blackaby**

**Head of Innovation Hub**

**Innovation Hub**

**For and on behalf of the Authority**

**The Office of Gas and Electricity Markets**

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# Schedule to Funding Direction

## 1. The value that NGT can recover from customers to cover NIC and Discretionary Funding in 2026/27

Table 5, below, contains the amount that NGT must recover in Regulatory Year commencing 1 April 2026.

The amount NGT must recover is based on the total Approved Amounts for the NIC Competition in Relevant Years 2024/2025 and 2025/2026.<sup>5</sup> The amount that NGT must recover, less any Funding Return, constitutes the value for the NICF term.

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

Table 6 contains the net amounts that must be transferred by NGT to gas 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 the 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 NGT must provide its bank account details to NGT by 1 March 2026. NGT will make transfers to the specified bank accounts on the day of the month agreed by NGT.

### Table 5 – NICF term

| Network Licensee          | NICF Term (£) |
|---------------------------|---------------|
| National Gas Transmission | -1,024,460.64 |

<sup>5</sup> Approved Amount has the meaning given in the Gas NIC Governance document.

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

| <b>Network Licensee</b> | <b>Amount to be transferred by NGT (£)</b> |
|-------------------------|--|
| N/A                     | N/A  |