

Special Condition 2. The Network Innovation Competition

Introduction

1. The purpose of this condition is to establish arrangements known as the Network Innovation Competition (“NIC”) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
2. This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

Part A: Function of the Network Innovation Competition (NIC)

3. The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of payments received from the NTS Operator in accordance with the determination process described in Part B of this condition and as varied, where appropriate, by the Funding Return Mechanism described in Part C of this condition.

Part B: The NIC Funding Mechanism

4. The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC Funding in any Formula Year from the NTS Operator, less any Funding Return as described in Part C of this condition.

Part C: The Funding Return Mechanism

5. The Funding Return Mechanism relates to payments to be made by the licensee to the NTS Operator, in each case to such extent (if any) as may be relevant, of:
 - (a) Halted Project Revenues;
 - (b) Disallowed Expenditure; and
 - (c) Returned Royalty Income.
6. The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 5 of this condition.
7. Halted Project Revenues are any revenues received by the licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
8. Disallowed Expenditure is any revenue received by the licensee from the NTS Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
9. Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

10. For the purposes of paragraph 9 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee.
11. In each Formula Year t , in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
 - (a) the amount of any Funding Return that the licensee must pay to the NTS Operator; and
 - (b) the manner in which and the timescale over which that amount is to be so paid.
12. The licensee must comply with any direction that is issued by the Authority under paragraph 11 of this condition.

Part D: Determination of the amount of the NIC term

13. The NIC term is the net amount of NIC Funding less any Funding Return for the Formula Year t that is to be paid to the licensee by the NTS Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of Special Condition 2F (The Network Innovation Competition) in the gas transporter licence held by the NTS Operator.
14. The NIC Funding to which paragraph 4 of this condition refers is the proportion (if any) of total NIC Funding raised by the NTS Operator in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C of this condition).
15. In each Formula Year t , as provided for by the NIC Governance Document and in accordance with the appropriate provisions of the NTS Operator's licence the Authority will calculate and then, by direction given to the licensee and other licensees, will specify, in accordance with the appropriate provisions set out in the NIC Governance Document:
 - (a) the net amount of the NIC term;
 - (b) how the amount of that term has been calculated, taking account of any Funding Return; and
 - (c) the manner in which and the timescale over which the NTS Operator is required to transfer that amount to the licensee or vice versa.

Part E: The NIC Governance Document

16. The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.
17. The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
 - (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;

- (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);
 - (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
 - (d) arrangements to ensure that relevant matters learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other licensees;
 - (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
 - (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
 - (g) any other matters relating to the regulation, governance, or administration of the NIC.
18. Where provisions of the NIC Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIC Governance document were part of this condition.

Part F: Procedure for issuing and revising the NIC Governance Document

19. Before issuing the NIC Governance Document under this condition, the Authority, by notice given to the licensee and all other licensees with a condition of similar effect to this condition in their licence, will:
- (a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the document should take effect;
 - (b) set out the text of the NIC Governance Document and the Authority's reasons for proposing to issue it; and
 - (c) specify the date (which will not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIC Governance Document may be made.
20. The Authority will consider any representations that are duly made and not withdrawn.
21. The requirements of paragraphs 19 and 20 (of this condition) may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
22. In paragraph 19 of this condition, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part F: Interpretation

23. For the purposes of this condition:

Authority	means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000;
Disallowed Expenditure	has the meaning given to that term in paragraph 8 of this condition;
Directly Attributable Costs	has the meaning given to that term in paragraph 10 of this condition;
Eligible NIC Project	means a project undertaken by the licensee or any other gas transporter licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism;
Formula Year	means a period of twelve months commencing on 1 April at 06:00 hours;
Funding Return	has the meaning given to that term in paragraph 6 of this condition;
Funding Return Mechanism	has the meaning given to that term in paragraph 5 of this condition;
Halted Project Revenues	has the meaning given to that term in paragraph 7 of this condition;
Network Code	has the meaning given in Standard Condition 9 (Network Code);
NIC Funding	has the meaning given to that term in paragraph 14 of this condition;
NIC Funding Mechanism	means the arrangements (pursuant to Special Condition 2F of the NTS Operator's gas transporter licence) for the recovery by the NTS Operator of the amount of total authorised NIC Funding in any Formula Year and the apportionment of that amount between the NTS Operator, the licensee, and all other licensees;
NIC Governance Document	means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E of this condition, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism;
NTS	means the national transmission system as defined

	in the Network Code;
NTS Operator	means a licence holder who is obliged to comply with one or more conditions in Part B: Standard Special Conditions applicable to all NTS licensees (as a whole or in part) as a result of any direction issued pursuant to Standard Special Condition B1 (Application/Disapplication of standard conditions in Section A (Interpretation, Application and Payments) and Section B (General) and Application/Disapplication of Standard Special Conditions applicable to NTS licensees);
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism;
Relative Price Control	means the arrangements set out in Special Condition 1; and
Returned Royalty Income	has the meaning given to that term in paragraph 9 of this condition.

24. Defined terms in paragraph 23 of this condition are to be read and given effect subject to any further clarification that might be set out in the NIC Governance Document in relation to such terms.