

Network Licensees

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Dear Company Secretary

Electricity Network Innovation Competition (NIC) - Funding Direction

Under the requirements of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Electricity NIC Governance Document¹ and paragraphs 3I.7 and 3I.8 of Part B of Special Condition (The NIC Funding Mechanism) of the National Grid Electricity Transmission Plc Licence, we issue a direction (the Funding Direction) every year. This direction details how much money National Grid Electricity Transmission, in its role as National Electricity Transmission System Operator (NETSO), can recover from customers to cover the costs of the Electricity NIC and specifies the net amounts to be apportioned between and transferred to the Network Licensees.

The value that National Grid Electricity Transmission can recover includes any funding for NIC projects funded in the 2013 competition and the bid costs of non-RIIO Network Licensees.

On 9 August 2013, Network Licensees submitted to us three projects to be considered for funding through the Electricity NIC.² In this year's decision³ we selected two of these projects for funding. These projects are described in table 1.

Table 1 – projects awarded funding

Project	Network Licensee	Funding awarded
Multi Terminal Test Environment for HVDC Systems	Scottish Hydro Electric Transmission Limited	£11,332,801
Visualisation of Real Time System Dynamics using Enhanced Monitoring	SP Transmission Limited	£6,492,110

¹ The Electricity NIC Governance Document is available here: <https://www.ofgem.gov.uk/publications-and-updates/electricity-network-innovation-allowance-governance-document>

² Information on these projects is available here: <https://www.ofgem.gov.uk/network-regulation-%E2%80%93-riio-model/network-innovation/electricity-network-innovation-competition>

³ This year's decision document is available here: <https://www.ofgem.gov.uk/publications-and-updates/decision-first-year-electricity-network-innovation-competition>

As the potential learning from these projects would provide benefits to all Network Licensees, they are funded by all customers through transmission use of system charges. Therefore we are amending the allowed revenue of the NETSO for the regulatory year 2014/15 and here set the amount that the NETSO must transfer to the Network Licensees listed in Table 1 of the schedule to this direction.

In addition, at the Initial Screening Process (ISP) stage of the competition, TC Ormonde OFTO Limited submitted three bids. Under the Electricity NIC Governance Document, non-RIIO licensees are allowed to recover Bid Preparation Costs. The total Bid Preparation Costs for the three proposals was £24,303. The NETSO will also need to raise these funds and transfer them to TC Ormonde Limited. These funds will be collected through this Funding Direction. We reserve the right to audit bid costs. This Funding Direction is in line with the NIC Decision Document. We are allowing TC OFTO Limited to these costs to ensure a level playing field, as RIIO licensees can recover these costs through their Network Innovation Allowance.⁴

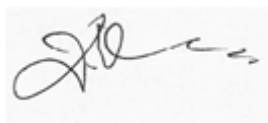
To implement these amendments to the NETSO's allowed revenues, in accordance with the Electricity NIC Governance Document, this direction:

- sets the total amount that can be recovered from or returned to GB customers through NTS Charges to cover Electricity NIC Funding in each year, termed (NICF term) in the NIC Licence Condition;
- identifies the net amounts that must be apportioned by and transferred from the NETSO to the successful Licensees;
- identifies the amount to be transferred to TC Ormonde Limited to fund Bid Preparation Costs; and
- identifies the manner in which and the timescale over which the net amounts will be transferred.

The schedule to this Funding Direction includes the above information for the regulatory year 2014/15.

In accordance with Special Condition 3I of both the NETSO licence and the Electricity Transmission Licence and the Electricity NIC Governance Document, the Authority hereby requires all Network Licensees to comply with the conditions in the Schedule to this Funding Direction.

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



Dora Guzeleva
Head of Networks Policy: Local Grids
For and on behalf of the Authority

⁴ Please see page 16 of the decision document for the reasons for our decision.

Schedule to Funding Direction

1. The value that the NTS Owner can recover from customers to cover NIC and Discretionary Funding in 2014/15

Table 1 contains the amount that the NETSO must recover in Regulatory Year commencing 1 April 2014. The amount that the NETSO must recover is based on the total Approved Amounts⁵ for Regulatory Year 2014/15. The amount that the NETSO owner must recover, less any Funding Return constitutes the value for the NIC term.

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

Table 2 contains the net amounts that must be transferred by NGET to the other Network Licensees over the Regulatory Year commencing 1 April 2014. 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

The transfers must be made on an equal monthly basis, for the entirety of the Regulatory Year commencing 1 April 2014 such that the total amount transferred over the Regulatory Year commencing 1 April 2014 equals the net amount set out in Table 2.

The Network Licensee that will be receiving funding from other Network Licensees must provide their bank account details to the Network Licensee that will be transferring funding by 1 March 2014. Network Licensees will make transfers to the specified bank accounts on the day of the month agreed by the Network Licensee making the transfer.

Table 1

Network Licensee	NIC Term
National Grid Electricity Transmission	£17,849,214

Table 2

Network Licensee	NGET
OFTO Ormonde Ltd	£24,303
SHETL	£11,332,801
SPTL	£6,492,110

⁵ Approved Amount has the meaning given in the Electricity NIC Governance document.