



Making a positive difference
for energy consumers

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Date: 11 June 2014

Dear David,

BioSNG Demonstration Plant – Project Accounting Arrangements

On 16 April 2014, you wrote to us asking for a derogation from complying with the project bank account arrangements required by the Gas NIC Governance Document. This derogation request is for the National Grid Gas Distribution (NGGD) project "BioSNG Demonstration Plant". We have decided to grant the derogation. In this letter we explain our reasons and set out the conditions of the derogation.

You requested a derogation from the requirement to pay all project funding into the project bank account at the start of the year in which it will be spent. This requirement is set out in paragraph 8.9 of the Gas NIC Governance Document. We understand that you requested this derogation because it will not be possible to pay the funds you will receive from BESTF into the bank account. This is because the BESTF funding, administered by the Technology Strategy Board (TSB), is paid in arrears when you provide the TSB with receipts for project expenditure.

Decision

The derogation as described above for the "BioSNG Demonstration Plant" project is granted on the basis that NGGD complies with the conditions set out in this letter and continues to abide with the other requirements set out in the Gas NIC Governance Document and the Project Direction.

This letter constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986 of our reasons to grant NGGD a derogation from complying with the project bank account arrangements as required by the Gas NIC Governance Document.

Reasons for our decision

We are granting your derogation request because we consider, in this case, that it is in customers' best interests. We assess all derogation requests on a case-by-case basis and only grant them in exceptional circumstances. We consider that you demonstrated that there are exceptional circumstances warranting a derogation. We are also satisfied that you provided sufficient evidence to show that the funding from BESTF has now been secured.

We understand from Schedule 3 of the TSB offer letter that the BESTF funding mechanism is not compatible with the usual bank account requirements for NIC projects. We consider that this constitutes an exceptional circumstance and therefore that a derogation is warranted.

We strongly encourage funding licensees to seek external funding. We believe that this helps to deliver NIC projects at even better value for money to customers. We acknowledge that in some cases external funding may be subject to conditions that are not compatible with the NIC funding rules. In this case, we consider that without a derogation the project would be at risk of being unable to receive the BESTF funding while complying with the requirements of the Gas NIC governance document.

You also provided us with copies of the formal funding grant letters from the TSB. We are satisfied that these letters demonstrate that the BESTF funding has been secured and will be made available to the project partners.

The requirement that all funds be placed in the project bank account at the start of the year is intended to ensure that the funding from all parties will be available for the project to proceed. This helps to mitigate the risk that projects are delayed or fail because the expected funding fails to materialise in time. In this case, the TSB has provided assurance that the BESTF funding will be made available. On this basis, we consider that there is sufficient certainty for us to grant a derogation from the usual requirements.

We do not consider that any competitive advantage arises for NGGD, or any other party, as a result of this derogation. The requested derogation will only apply to the BioSNG project and will not play a role in the assessment of projects submitted to future Gas NIC competitions.

This derogation is only granted in respect of allowing the licensee to not have to comply with the banking requirements set out in the Gas NIC Governance Document in so far as it relates to the BioSNG innovation project. We are, therefore, satisfied that the derogation will not result in any additional costs to consumers or affect the carbon and environmental benefits which the project is seeking to deliver. We are also satisfied that this derogation will have no impact on the health and safety standards that NGGD must ensure when carrying out this project.

We considered the potential wider impact of this derogation and concluded that there are no affected third parties.

Conditions of the derogation

The derogation only applies to the funding provided through the TSB. The banking requirements set out in the Gas NIC governance document still apply to the funding from you and your project partners. These funds must, therefore, still be paid into the separate bank account at the start of the year in which you plan to spend them.

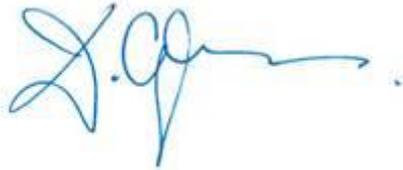
You are responsible for maintaining appropriate accounting arrangements for administering the TSB funding. These arrangements should ensure transparency and a clear audit trail. We would expect, at a minimum, the arrangements described in your letter of 16 April to apply. These include -

- Detailed record keeping of all project spending
- Detailed record keeping of funds recovered from the NIC project bank account and from the TSB
- Annual external auditing of funds claimed from the TSB
- Separate identification and charging of expenditure for NIC funding and BESTF elements of the project.

Please note that we reserve the right to audit your project. This applies to all Gas NIC projects under paragraph 8.52 of the Governance Document.

If you have any questions please contact Andrew White on 0203 263 2790 or by e-mail at andrew.white@ofgem.gov.uk

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'D. Guzeleva', with a long horizontal stroke extending to the right.

Dora Guzeleva
Head of Networks Policy, Local Grids