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Dear Company Secretary

Electricity Network Innovation Competition (NIC) - Funding Direction

The Authority¹ issues a direction (the Funding Direction²) every year pursuant to the provisions of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Electricity NIC Governance Document³ and pursuant to the licence conditions set out in Table 1.

Table 1 – licence conditions

Licensee	Licence Condition
National Grid Electricity Transmission plc	Special Condition 3I
Scottish Hydro Electric Transmission Limited	Special Condition 3I
Scottish Power Transmission Limited	Special Condition 3I
TC Ormonde OFTO Limited	Amended Standard Condition E12-J11

This Funding Direction sets out the amount of authorised NIC Funding National Grid Electricity Transmission plc (NGET) can recover from customers through its Transmission Network Charges to enable NGET to fund Eligible NIC Projects and the net amounts to be transferred between NGET and electricity Transmission Licensees in any Relevant Year.

The amount that NGET can recover includes any funding for NIC projects funded in the 2014 competition and the bid costs of non-RIIO Network Licensees.

On 25 July 2014, electricity Transmission Licensees submitted to us four projects to be considered for funding through the Electricity NIC.⁴ In this year's decision⁵ we selected three of these projects for funding. These projects are listed in Table 2.

Table 2 – projects awarded funding

Project	Network Licensee	Funding awarded (£)
Enhanced Frequency Control Capability	National Grid Electricity Transmission Plc	6,911,880.00

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Defined terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document

³ [Electricity](#) NIC Governance Document

⁴ Information on these projects is available [here](#).

⁵ This year's decision document is available [here](#).

Modular Approach to Substation Construction	Scottish Hydro Electric Transmission Limited	2,835,044.02
Offshore Cable Repair Vessel and Universal Joint	TC Ormonde OFTO Limited	9,016,330.00

As the potential learning from these projects would provide benefits to all Transmission Licensees, they are funded by all customers through Transmission Network Charges. Therefore we are amending the Maximum Revenue in accordance with the provisions of Special Condition 3A of the NGET licence for the Relevant Year 2015/16 and have set the amount that NGET needs to transfer to the Transmission Licensees listed in Table 2 of the schedule to this Funding Direction.

Under paragraph 3.10 of the Electricity NIC Governance Document, non-RIIO licensees are allowed to recover Bid Preparation Costs from the funds available for NIC projects each year. The total Bid Preparation Costs for the TC Ormonde Limited's submission was £60,655.92. These funds will be collected through this Funding Direction. This Funding Direction is in line with the NIC decision document. We are allowing TC Ormonde OFTO Limited to recover these costs to ensure a level playing field as RIIO licensees can recover these costs through their Network Innovation Allowance.

To implement these amendments to the NGET's Maximum Revenue, in accordance with Special Conditions 3I and 3A of the NGET Electricity Transmission Licence and in accordance with the Electricity NIC Governance Document, this Funding Direction:

- (a) sets the value of the NICF term for NGET (being the amount, if any, to be recovered by NGET in order to provide for its own and other electricity Transmission Licensees' NIC Funding for that Relevant Year);
- (b) sets out the net amounts that are to be transferred between NGET and other electricity Transmission Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return);
- (c) identifies the amount to be transferred to TC Ormonde OFTO Limited to fund Bid Preparation Costs; and
- (d) sets out the manner in which and the timescale over which the net amounts referred to in paragraph (b) and (c) are to be transferred.

The schedule to this Funding Direction includes the above information for the Relevant Year 2015/16. In accordance with paragraph 3I.16 of Special Conditions 3I and Amended Standard Condition E12-J11 of the Electricity Transmission Licence, and the Electricity NIC Governance Document, the Authority hereby requires NGET and all Transmission 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.

Yours faithfully,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy
For and on behalf of the Authority

Schedule to Funding Direction

1. The value that the NGET can recover from customers to cover NIC and Discretionary Funding in each year

Table 1 contains the amount that NGET must recover in Relevant Year commencing 1 April 2015. The amount that the NGET must recover is based on the total Approved Amounts⁶ for Relevant Year 2015/16 plus the Bid Preparation Costs for TC Ormonde OFTO Limited. The amount that the NGET 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 2 contains the net amounts that must be transferred by NGET to the other Transmission Licensees in the Relevant Year commencing 1 April 2015. 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 Relevant Year commencing 1 April 2015 such that the total amount transferred over the Relevant Year commencing 1 April 2015 equals the net amount set out in Table 2.

The Transmission Licensee that will be receiving funding from NGET must provide its bank account details to NGET which will be transferring funding by 1 March 2015. NGET will make transfers to the specified bank accounts on the day of the month agreed by the NGET.

Table 1

Network Licensee	NICF Term
National Grid Electricity Transmission Plc	£18,823,909.94

Table 2

Network Licensee	Amount to be transferred by NGET
National Grid Electricity Transmission Plc	£6,911,880.00
TC Ormonde OFTO Limited (Approved Amount)	£9,016,330.00
TC Ormonde OFTO Limited (Bid Preparation Costs)	£60,655.92
Scottish Hydro Electric Transmission Limited	£2,835,044.02

⁶ The term Approved Amount has the meaning given in Appendix 1 to the Electricity NIC Governance Document.