

Electricity Network Innovation Competition Governance Document

Governance Document

**Publication
date:**

26 June 2015

Contact: Judith Ross

Team: Innovation

Tel: 020 3263 2782

Email: Judith.ross@ofgem.gov.uk

Deleted: XX

Deleted: 2

Deleted: April

Overview:

This document is version 2.1 of the Electricity Network Innovation Competition (NIC) Governance Document referred to in the NIC Licence Condition.

One of the key innovation proposals for the RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls was the introduction of a NIC for gas and electricity. The purpose of the NIC is to encourage Network Licensees to innovate to address issues associated with the move to a low carbon economy and address issues that can deliver wider environmental benefits to customers.

This Governance Document sets out the regulation, governance and administration of the Electricity NIC. Network Licensees are required by the NIC Licence Condition to comply with this document as if it formed part of the licence. Section A sets out guidance for the competition. Section B sets out the requirements that a Network Licensee must adhere to once funding is awarded.

We have attempted to make this document accessible and informative to parties other than the Network Licensees, especially those who may be looking to partner with Network Licensees to try out new technological, operational or commercial arrangements.

It is the responsibility of each Network Licensee to understand the provisions of this Governance Document and how those provisions apply to them.

Context

Innovation is a key element of the new RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls. The RIIO model was introduced for gas distribution companies (RIIO:GD1), electricity and gas transmission companies (RIIO:T1) from 1 April 2013 and introduced for electricity distribution companies (RIIO:ED1) from 1 April 2015.

One of the key innovation proposals was the introduction of a Network Innovation Competition (NIC) for gas and electricity. The purpose of the NIC is to encourage Network Licensees to innovate to address issues associated with the move to the low carbon economy and addresses issues that can deliver wider environmental benefits to customers.

This document sets out the regulation, governance and administration of the Electricity NIC. This document is issued by the Authority under Part E (The NIC Governance Document) of the NIC Licence Condition and in accordance with Part F (Procedure for Issuing the NIC Governance document) of the NIC Licence Condition. This document may be revised and reissued in accordance with Part E of the NIC Licence Condition.

Network Licensees are required by the NIC Licence Condition to comply with this document as if it formed part of the licence. However we have attempted to make this document accessible and informative to parties other than the Network Licensees, especially those who may be looking to partner with Network Licensees to try out new technological, operational or commercial arrangements.

This document is subordinate to Special Licence Condition 3I of the Electricity Transmission Licence, Charge Restriction Condition 5A and condition XX of the Electricity Distribution Licence and Amended Special Condition E12-J11 of the Offshore Electricity Transmission Licence. Consequently, this document will not change any definitions or obligations contained within the Electricity Transmission Licence applicable to each of the Network Licensees and, in the event of any inconsistency between the NIC Licence Condition and this document, the NIC Licence Condition will take precedence.

Associated documents

Electricity Act 1989

Electricity Transmission Licence – Special Condition 3I

Electricity Distribution Licence – Charge Restriction Condition 5A

Electricity Distribution Licence - XXX

Offshore Electricity Transmission Licence – Amended Standard Condition E12-J11

Contents

1. Introduction	5	
The NIC	6	
Differences between the NIC and the NIA	7	
The Electricity NIC Governance Document	7	Deleted: 78
Compliance	8	Deleted: 89
NIC Review	9	
2. Collaboration and Learning Portals	10	
Collaboration Portal	10	
Requirements	10	
Additional information	11	
Learning Portal	11	
Requirements	11	
Additional information	12	
SECTION A: Process for running the Electricity NIC	13	
3. Annual competitive process	14	
Introduction	14	
NIC Funding Mechanism	14	
Funding Bid Preparation Costs	15	
4. Initial Screening Process	16	
Introduction	16	
Eligibility Requirements	17	
ISP criteria	17	
Screening process	20	
Screening Submission	22	Deleted: 2221
Publication	24	
Project changes	24	
5. Full Submission Process	26	
Eligible submissions	26	
Project ownership	26	
Full Submission process	26	
Full Submission Pro-forma and appendices	27	
Derogations and requests to change regulatory arrangements	28	
Customer impacts	29	
Projects involving interruptions to customers supply	29	
Funding request	29	
Request for Bid Preparation Costs	31	
Successful Delivery Reward	32	Deleted: 3231
Evaluation process	32	
Evaluation Criteria	34	
Award notification	42	
SECTION B: Implementation requirements	44	
6. Introduction	45	
7. Funding Direction	46	

8. Project implementation

Compliance	48
Project Bank Account	48
Customer Engagement Plan	49
Data protection	51
Reporting requirements	52
Project Progress Report (PPR)	52
Project changes	54
Close Down Report	54
Halting a Project	55
Applications for Contingency Funding	55
Successful Delivery Reward	57
Disallowed Expenditure and Halted Project Revenues.	57
Project audits	58
Annual conference requirements	58

9. Intellectual Property Rights (IPR)

Introduction	59
Scope	59
Ownership and transfer of ownership of IPR	59
Licensing of Background IPR	60
Licensing of Foreground IPR	60
Right to protect IPR	62

10. Royalties

Appendices

Appendix 1 – Definitions

Appendix 2 - Glossary

48

48
48
49
51
52
52
54
54
55
55
57
57
58
58

Deleted: 5556

Deleted: 5960

Deleted: 5960

Deleted: 5960

Deleted: 6061

Deleted: 6061

Deleted: 6061

Deleted: 6263

Deleted: 6364

Deleted: 6566

Deleted: 6667

Deleted: 7677

1. Introduction

Chapter summary

This chapter sets out the purpose and objectives of the Network Innovation Competition (NIC).

1.1. Innovation is a key element of the new RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls. The RIIO framework provides strong incentives to innovate as part of normal business. However, certain Research, Development and Demonstration projects are speculative in nature and yield uncertain commercial returns. In addition, where benefits are linked to the decarbonisation of the network, it may be difficult to commercialise the respective carbon and/or environmental benefits and shareholders may be unwilling to speculatively fund such projects.

1.2. Over time, we expect the incentives within the RIIO framework to encourage Network Licensees to innovate as part of business as usual. In the meantime, we have also introduced a time-limited innovation stimulus package within the RIIO framework to provide an additional incentive to kick start a cultural change where Network Licensees establish the ethos, internal structures and third party contacts to facilitate innovation as part of business as usual.

1.3. The innovation stimulus¹ consists of three measures:

- A Network Innovation Allowance (NIA) – to fund smaller innovation Projects that can deliver benefits to customers as part of a RIIO-Network Licensees price control settlement;
- A Network Innovation Competition (NIC) – an annual competition to fund selected flagship innovative Projects that could deliver low carbon and environmental benefits to customers; and
- An Innovation Roll-out Mechanism (IRM) – to fund the roll-out of proven innovations which will contribute to the development in Great Britain (GB) of a low carbon energy sector or broader environmental benefits.

1.4. The NIA and NIC are successors to the Low Carbon Networks (LCN) Fund. The NIA and NIC broadly replicate the structure of the LCN Fund² which consisted of a first tier allowance and a second tier annual competition for funding. The scope of the NIC is broader than the second tier of the LCN Fund as it includes Development as well as Demonstration Projects. In addition to the LCN Fund first tier, the NIA also

¹ Further information on the high level policy of the Innovation Stimulus can be found in the RIIO-T1/GD1 [March Strategy Document and the RIIO-ED1 Decision on Strategy](#).

² More information on the LCN Fund is available [here](#).

builds upon elements of the Innovation Funding Incentive (IFI) that was in place under previous price controls.

The NIC

1.5. The Electricity NIC is open to Network Licensees who wish to bid for funding for innovative Projects which could deliver carbon or environmental benefits for electricity customers and that would not be funded by the Network Licensee without additional funding being made available.

1.6. The Electricity NIC will run annually from April 2013 – March 2023 and at least £27m³ will be available each year until March 2021. This amount will be raised from transmission customers. An additional £54m will be available in the years 2015/16 and 2016/17 and reflects the introduction of DNOs into the competition. This additional amount will also be raised from transmission customers. All Transmission and Distribution licensees will compete against one another in a single competition. The amount available in the subsequent years of RIIO-ED1 will be considered as part of a review of learning in 2016.

1.7. A further £3m each year will be set aside for the Successful Delivery Reward⁴ during RIIO-T1 with a further £6m in 2015 and 2016. The amounts for the subsequent RIIO-ED1 period will be considered as part of the learning review. Network Licensees may apply for this once they have successfully completed their Project. Further details of this reward can be found in chapter 5.

1.8. For the Purposes of this Governance Document, a Network Licensee is the holder of an Electricity Transmission Licence or Electricity Distribution Licence, ie the National Electricity Transmission System Operator (NETSO), a Transmission Owner (TO) an Offshore Transmission Owner (OFTO), a Distribution Network Operator (DNO) or an Independent Network Operator (IDNO).

1.9. We expect Network Licensees to collaborate with each other and with Non-Network Licensees on Projects. For the purpose of this Governance Document the term Non-Network Licensees includes generators and suppliers as well as any other interested third parties. Network Licensees can collaborate with each other and Non-Network Licensees on Electricity NIC projects as Project Partners. Project Partners are able to contribute External Funding to a Project but are eligible to lead bids for funding only through a Network Licensee.

1.10. All electricity customers fund Electricity NIC Projects. A key feature of the NIC is the requirement that learning gained through Projects is disseminated in order that customers gain significant return on their funding through the broad roll-out of

³ Where funding levels are referred to it will be flat (ie there will be no adjustment for inflation).

⁴ As set out in our March 2012 decision on the policy aspects of the NIC. More information can be found [here](#).

successful Projects and the subsequent delivery of network savings and/or carbon and environmental benefits. Even where Projects are deemed unsuccessful, Network Licensees will gain valuable knowledge that could result in future network savings.

1.11. We have introduced the NIC Licence Condition to enable the creation of the Electricity NIC.

Differences between the NIC and the NIA

1.12. The NIA is a set annual allowance that each RIIO-Network Licensee will receive to fund small-scale innovative Projects as part of their price control settlement. A RIIO-Network Licensee is a Network Licensee that is regulated under the RIIO price control framework. The NIA will fund smaller scale Research, Development, and Demonstration Projects, and can cover all types of innovation, including commercial, technological and operational. Unlike the NIC, the NIA is not focussed solely on innovative Projects with potential low carbon and environmental benefits.

1.13. Compared to the NIA, we expect the NIC to be focussed on funding larger scale, more complex innovative Projects, however there is no restriction on the size of Projects. NIC Funding will be awarded through an annual competitive process. All types of innovation including commercial, operational and technical are eligible for funding so long as the Project has the potential to deliver low carbon and/or environmental benefits to electricity customers.

1.14. The scope of Network Licensee involvement in the NIC is also broader than the NIA. The NIA is only available to RIIO-Network Licensees as part of their price control settlement, whereas Non-RIIO Network Licensees may lead bids for funding under the NIC.

1.15. For the purpose of this Governance Document, Network Licensees include RIIO-Network Licensees who are Licensees regulated under the RIIO price control framework (ie the TOs, DNOs and NETSO) and Non-RIIO Network Licensees who are not regulated under the RIIO price control framework (ie OFTOs and IDNOs).

1.16. The regulation, governance and administration for the NIA are set out in the NIA Governance Document.

The Electricity NIC Governance Document

1.17. This document is the Electricity NIC Governance Document and sets out the regulation, governance and administration of the Electricity NIC.

1.18. This document is divided into two sections. Section A sets out the annual competitive process that Network Licensees should follow to submit Project bids to Ofgem for funding. Section B sets out the Project implementation requirements if a Network Licensee is successful in winning NIC Funding.

1.19. In this document we use the terms Ofgem and the Authority interchangeably. Ofgem is the Office of the Gas and Electricity Markets Authority. The Authority is the governing body for Ofgem, consisting of non-executive and executive members.

1.20. Defined terms are capitalised throughout the text, with the definitions set out in Appendix 1.

1.21. Throughout this document we use the terms Project, Method, Problem, Solution and Dissemination, defined as follows:

- **Problem:** means the issue that needs to be resolved in order to facilitate the low carbon future or deliver wider environmental benefits;
- **Method:** means the proposed way of investigating or solving the Problem. This may be done by one or both of the following⁵:
 - Development (TRL 4-6)⁶ which means activity focussed on generating and testing Solutions to the Problem; and
 - Demonstration (TRL 7-8) which means activity focussed on generating and testing Solutions on the network and then taking it to a stage where they can be transferred to business as usual.
- **Project:** means the Development or Demonstration being proposed or undertaken;
- **Solution:** means the outcome if the Problem is solved;
- **Dissemination:** means the activity undertaken to share learning from a Project.

Compliance

1.22. Network Licensees are required by the NIC Licence Condition to comply with this document as if it formed part of their licence.

1.23. The NIC Licence Condition and this NIC Governance document in no way relieves affected parties, including Network Licensees and Project Partners, from their responsibility to ensure ongoing compliance with their licence obligations or legislation including competition, environment and consumer protection laws.

⁵ Technology readiness levels (TRLs) is used to assess the maturity of evolving technologies, graded on a scale of 1-9.

⁶ TRL 1-3 (Research activities) and 9 (proven activities) will not be eligible for funding from the NIC.

NIC Review

1.24. Ofgem may from time to time, following consultation with Network Licensees and other interested parties, revise this NIC Governance Document in accordance with the NIC.

1.25. Ofgem will undertake a review of the Electricity NIC after it has been in operation for at least two years. It is possible that, following this review, we will make changes to aspects of the NIC operations and governance and amend the Governance Document to facilitate these changes.

2. Collaboration and Learning Portals

Chapter summary

This chapter sets out that Network Licensees should collaborate with a range of parties to develop and facilitate Projects supported by the NIC. Network Licensees should work collaboratively to maintain a Collaboration and Learning Portal at all times.

Collaboration Portal

2.1. We expect Network Licensees to collaborate with each other and Project Partners on many of the Projects supported by the NIC. Network Licensees are likely to have to work closely with other parties in the electricity supply chain (from generators to suppliers) to explore what technological, operational or commercial arrangements best address changes in network use and what role they can play in facilitating low carbon and/or wider environmental benefits. Similarly, Network Licensees may benefit from the technologies used and lessons learned in other industries, including the telecoms and information technology sectors, in which case partnerships with technology providers and others outside the energy industry will be valuable. Other parties such as local authorities and universities may be carrying out pilot studies and these could offer opportunities for Network Licensees to get a better understanding of how to respond to these studies.

2.2. For the purposes of the LCN Fund⁷ established as part of Distribution Price Control Review 5 (DPCR5), the DNOs established an area on the website of the Energy Networks Association (ENA) through which external parties can bring forward ideas to the DNOs for LCN Fund Projects⁸.

2.3. The requirements in this chapter apply to a Network Licensee who has the NIC Licence Condition in their licence and who has applied to the NIC for funding. These Network Licensees must comply with the requirements of this chapter unless otherwise consented to by the Authority.

Requirements

2.4. Network Licensees must work collaboratively with Gas Transporters and each other to develop this Collaboration Portal to incorporate the NIC and NIA, or develop an equivalent portal (if more effective or cost-efficient than the existing ENA portal) for the NIC and NIA so that the following content is available by 1 October 2013:

⁷<http://www.ofgem.gov.uk/Networks/ElecDist/lcnf/Documents1/LCN%20Fund%20Governance%20document%20v5.pdf>

⁸<http://www.ena-eng.org/lcn/Home.aspx>

- Links to the Ofgem website, to direct potential collaborators to the NIC Governance Document, as well as submitted Screening Submissions and Full Submission Pro-formas in each year;
- A function which enables potential Project Partners to record their name, contact details and a brief summary of their idea, proposal or service, the output of which is available to all Network Licensees;
- A contact point for each Network Licensee for potential Project Partners to submit Project ideas.

2.5. Network Licensees must work collaboratively with each other to ensure the Collaboration Portal is up to date. In addition Network Licensees should annually review this portal and make appropriate changes to improve its accessibility and content. We expect this review to be informed by interested parties consultation on the quality of information provided and the usability of the Collaboration Portal.

Additional information

2.6. The provision of the Collaboration Portal is not intended to provide any constraint on, or specify, the mechanism through which the Network Licensee will select Project Partners. The portal should not be used as the sole basis upon which an award of a contract for services provided by a Project Partner should be based. It is for the Network Licensee to ensure that its actions, in this regard, comply with any applicable procurement rules.

Learning Portal

2.7. Facilitating knowledge transfer is one of the key principles of the NIC. Ultimately, customers are funding this work and we want the learning generated to be disseminated as effectively as possible to ensure that all Network Licensees, and therefore all customers, are able to benefit from Projects.

2.8. Through the DECC/Ofgem Smart Grids Forum, DNOs are establishing a portal to share learning from innovative Projects. This portal will be an area on the ENA website through which external parties can access the learning generated as a result of innovative Projects.

Requirements

2.9. We require Network Licensees to work collaboratively to develop and maintain a Learning Portal so that the following content is available:

- A link to the Screening Submission and Full Submission Pro-formas published on Ofgem's website;
- The six monthly Project Progress Reports (PPR) for each NIC Project;

- Links to the Customer Engagement Plan for each NIC Project, if applicable;⁹
- The Close Down Report for each Project (once a Project has finished).

2.10. Network Licensees must ensure the latest PPR has been published, all previous PPRs are accessible and links published on the portal are up to date at all times.

Additional information

2.11. The provision of this Learning Portal is not intended to provide any constraint on, or specify the Dissemination mechanisms of the Network Licensee. The portal should not be used as the sole means of Dissemination.

2.12. The requirements of this chapter could be fulfilled by creating a single web address which encompasses the Collaboration Portal and the Learning Portal or separate addresses for each portal.

2.13. A Network Licensee who submits Projects to the NIC will be expected to contribute to the efficiently incurred costs associated with implementing and maintaining the portal through the ENA. Network Licensees may use a proportion of their Bid Preparation Costs for this purpose.

⁹ See paragraph 8.10-8.14 for further information

SECTION A: Process for running the Electricity NIC

3. Annual competitive process	14
Introduction	14
NIC Funding Mechanism	14
Funding Bid Preparation Costs	15
4. Initial Screening Process	16
Introduction	16
Eligibility Requirements	17
ISP criteria	17
Screening process	20
Screening Submission	22
Publication	24
Project changes	24
5. Full Submission Process	26
Eligible submissions	26
Project ownership	26
Full Submission process	26
Full Submission Pro-forma and appendices	27
Derogations and requests to change regulatory arrangements	28
Customer impacts	29
Projects involving interruptions to customers supply	29
Funding request	29
Request for Bid Preparation Costs	31
Successful Delivery Reward	32
Evaluation process	32
Evaluation Criteria	34
Award notification	42

Deleted: 2221

Deleted: 3231

3. Annual competitive process

Chapter summary

We will run an annual competition for funding innovative electricity Projects. This chapter sets out an introduction to the two stage competitive process and outlines the mechanism for funding Projects.

Introduction

3.1. Projects submitted by Network Licensees will compete to obtain funding from the NIC. Ofgem will hold an annual call for submissions and will allocate funding across Projects which have the potential to deliver carbon or environmental benefits and represent good value for money for customers.

3.2. Funding will be awarded following a two stage competitive process. Projects must first pass through an Initial Screening Process (ISP) to demonstrate they are eligible to be considered for funding. Each Relevant Year, a Network Licensee Group can submit up to five Projects to ISP and can develop up to two Projects which have passed through ISP into Full Submissions as a Funding Licensee. A Funding Licensee is a Network Licensee who applies for funding from the Electricity NIC and is the main point of contact for the Project.

3.3. Each year we expect the ISP deadline to be in April and the Full Submission deadline to be in July or August. Ofgem will notify Network Licensees of the exact dates at least two Calendar Months in advance of each deadline.

3.4. Full Submissions will be evaluated against a set of criteria – Evaluation Criteria – by an Expert Panel. The Expert Panel will make a recommendation to the Authority on which Projects should be awarded funding. The Authority will decide which Projects will be funded.

3.5. The maximum lifetime funding that a Project may apply for (and receive) from the Electricity NIC is £81m.

NIC Funding Mechanism

3.6. The general principles and allowed revenues associated with the NIC Funding Mechanism are set out in the NIC Licence Condition. Each year, the Authority will specify the total value of funding awarded for that Relevant Year. This value will be the aggregate of the Approved Amounts by the Authority for individual Projects under the NIC for the year and will cover the approved costs for the life of the Projects. We will annualise any multi-year Project costs and allow them to be expensed in the first year of the Project.

3.7. This funding will be recovered through Transmission Network Charges and transferred to the Network Licensee(s) implementing the winning Project(s). The

Authority reserves the right to disallow, in accordance with the provisions set out in the NIC Licence Condition, any funding awarded (or part thereof) which has not been spent in accordance with the provisions of this Governance Document or relevant Project Direction. Further details of the procedures relating to Halted Project Revenues and Disallowed Expenditure (as defined in the NIC Licence Condition) can be found in chapter 8 of this document and Part C of the NIC Licence Condition.

Funding Bid Preparation Costs

3.8. A Network Licensee Group can use up to a maximum of £175,000 or 5 per cent of the Outstanding Funding Required, whichever is smaller, in any Relevant Year to cover expenditure it incurs in submitting all its bids to the NIC. A Network Licensee Group can only recover its Bid Preparation Costs if their proposed Project passes the ISP stage of the competition and is eligible to be developed into a Full Submission.

3.9. A Network Licensee Group consisting of RIIO Network Licensees may use a proportion of their NIA, up to the £175,000 or 5 per cent of the Outstanding Funding Required, whichever is smaller, in any Relevant Year to recover their Eligible NIC Bid Preparation Costs for that year. The NIA Licence Condition and NIA Governance Document set out the mechanism for recovering these costs.

3.10. A Network Licensee Group consisting of Non-RIIO Network Licensees will be required to outline in their Full Submission, the total Bid Preparation Costs for their Project up to the £175,000 cap or 5 per cent of the Outstanding Funding requested, whichever is smaller.

3.11. For the avoidance of doubt, where a RIIO Network Licensee and a Non-RIIO Network Licensee have the same Ultimate Controller the combined cap on bid costs will be £175,000 or 5 per cent of the Outstanding Funding Required, whichever is smaller.

3.12. For both Non-RIIO Network Licensees and RIIO Network Licensees, we reserve the right to audit Bid Preparation Costs.

4. Initial Screening Process

Chapter summary

We will run an annual competition for funding innovative electricity Projects. This chapter sets out the details of the first stage – the Initial Screening Process (ISP) – of the NIC competitive process.

Introduction

4.1. All proposed Electricity NIC Projects must pass the ISP before they are eligible to be developed into Full Submissions to be evaluated by the Expert Panel and considered by the Authority for funding.

4.2. The purpose of the ISP is to reduce the risk of Network Licensees spending time and money developing ineligible Projects by providing an early indication of which Projects are eligible for funding.

4.3. Furthermore, the ISP provides Network Licensees and Ofgem with an early view of the Projects which Network Licensees are developing in a given year and are considering for Full Submission. It will provide an indication of the funding which will be requested and the Project Partners or External Funders who intend to invest (ie commit time, resources and/or funding) in the Project. This information will be useful in informing Network Licensees' decisions over which Projects to progress to Full Submission and will also help Ofgem avoid any conflict of interest amongst members of the Expert Panel or any external consultants used by Ofgem to review Full Submissions. The ISP also provides an opportunity for Network Licensees to identify opportunities to collaborate on Projects with each other and other potential Project Partners.

4.4. If Network Licensees collaborate on a NIC Project, they must appoint a Funding Licensee who will act as the single point of contact with Ofgem. The Funding Licensee is the Network Licensee that applies for funding from the Electricity NIC in respect of the Project. References to Network Licensee or Network Licensee Group in this section refer to this Funding Licensee where there is Network Licensee collaboration.

4.5. Those Projects which do not meet the Eligibility Requirements will be screened out and not permitted to proceed to Full Submission. Network Licensees will not be able to recover Bid Preparation Costs for Projects which do not pass the ISP.

4.6. Ofgem will announce a Screening Submission¹⁰ deadline (see paragraph 3.3) by which Network Licensees must submit a summary proposal – the Screening

¹⁰ The Network Licensee's submission for the ISP.

Submission - of any Project they wish to be considered for NIC Funding that year. A Network Licensee Group will not be permitted to submit more than five Screening Submissions to Ofgem for consideration in any given year in their capacity as Funding Licensee. Ofgem will assess Screening Submissions against the Eligibility Requirements and notify the Funding Licensee where a Project fails to meet them. This means that Projects are deemed to have passed ISP unless the Funding Licensee is informed otherwise.

Eligibility Requirements

4.7. In order to pass the ISP, a Project must meet the Eligibility Requirements. Under the Eligibility Requirements, a NIC Project must meet the requirements of paragraph 4.8. below and each of the four ISP criteria detailed in paragraphs 4.9 to 4.19 below in order to pass the ISP. Once a Project proposal has passed the ISP, it can be developed into a Full Submission to be evaluated by the Expert Panel and the Authority.

Specific requirements

4.8. A NIC Project must have the potential to have a Direct Impact on a Network Licensee's network or on the operations of the GB System Operator and involve the Development or Demonstration of at least one of the following:

- A specific piece of new (ie unproven in GB) equipment (including control and/or communications systems and/or software);
- A specific novel arrangement or application of existing electricity transmission and/or distribution equipment (including control and communications systems software);
- A specific novel operational practice directly related to the operation of the electricity Transmission System/Distribution System; or
- A specific novel commercial arrangement.

ISP criteria

4.9. In addition to meeting one or more of the requirements set out in paragraph 4.8 in order to pass ISP, a Network Licensee must also demonstrate in its completed Screening Submission that the Project meets all of the following ISP criteria.

- a) Accelerates the development of a low carbon energy sector and/or delivers environmental benefits while having the potential to deliver net financial benefits to existing and/or future network customers**

4.10. The Network Licensee will need to identify how the proposed Project Solution has the potential to accelerate the development of the low carbon energy sector in GB and/or deliver wider environmental benefits to GB Customers. In addition, the Network Licensee will need to demonstrate that the Project Solution has the potential to deliver net financial benefits to existing and/or future customers.

4.11. To demonstrate compliance with this criterion, the Network Licensee will be expected to provide the following information in their ISP submission:

- i. How the proposed Project will make a contribution to the Government's current strategy for reducing greenhouse gas emissions, as set out in the document entitled "the Carbon Plan¹¹" published by DECC. In particular the Network Licensee should outline:
 - What aspects of the Carbon Plan the Solution facilitates;
 - The contribution the roll-out of the Method across GB can have in facilitating these aspects of the Carbon Plan;
 - How the roll-out of the proposed Method across GB will deliver the Solution more quickly than the current most efficient Method in use in GB; and/or
- ii. How the proposed Project could deliver environmental benefits to customers; and
- iii. The expected financial benefits the Project could deliver to customers.

b) Delivers value for money for electricity customers

4.12. The Electricity NIC will be focussed on Projects which can derive benefits and resulting learning that can be attributed to or are applicable to the electricity Transmission System/to the electricity Distribution System rather than elsewhere, taking into account the level of funding requested.

4.13. We also expect Network Licensees to collaborate with each other and Non-Network Licensees on many of the Projects supported by the NIC. Such collaboration can enhance the benefits efficiency and learning delivered from Projects.

4.14. To demonstrate compliance with this criterion the Network Licensee will be required to provide the following information in their ISP submission:

- i. What is the potential Direct Impact of the Project on a Network Licensee's electricity network or on the operations of the GB System Operator;

¹¹ [The Carbon Plan](#): Delivering Our Low Carbon Future December 2011. Where this document is amended or replaced by Government, Ofgem will notify the Licensees of any changes in writing.

- ii. Justification that the scale/cost of the Project is appropriate in relation to the learning that is expected to be captured;
- iii. The processes that will be employed to ensure that the Project is delivered at a competitive cost;
- iv. The expected proportion of the benefits which will accrue to the electricity Transmission System/to the electricity Distribution System as opposed to other parts of the energy supply chain; and
- v. The internal systems, procedures and processes used by the Network Licensee to identify Project Participants and Project ideas.

c) Creates knowledge that can be shared across energy networks in Great Britain (GB) or create opportunities for roll-out across a significant proportion of GB networks

4.15. A Project must demonstrate that it can generate knowledge that does not exist before the Project is implemented. It is also a requirement that the learning from the Project (whether successful or not) is disseminated amongst other Network Licensees.

4.16. To demonstrate compliance with this criterion the Network Licensee will be required to provide the following information in their ISP submission:

- i. What new knowledge is intended to be generated from completing the Project;
- ii. What methodology will be used to capture results from the Project and how the Project's results will be disseminated to other Network Licensees; and
- iii. Whether the Network Licensee wishes to conform to the default IPR arrangements as set out in chapter 9. If the Network Licensee wishes to deviate from the default IPR arrangements it must outline the proposed alternative arrangements, justify why the arrangements are more suitable than the default arrangements and justify how the new arrangements will deliver value for money for customers.

d) Is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development or Demonstration Project to demonstrate its effectiveness

4.17. The NIC is specifically targeted at innovative Projects that a Network Licensee would not perform in its normal course of business because the specific commercial,

technical, operational or regulatory risks associated with the Project are so large that shareholders will not speculatively fund them.

4.18. The Network Licensee must demonstrate that the Project they would like to fund is innovative, untested at the scale and circumstance in which the Network Licensee wishes it to be deployed and that new learning will result from the Project. This will prevent widespread deployment of proven technologies or practices using NIC funding.

4.19. To demonstrate compliance with this criterion the Network Licensee will be expected to provide the following information in their ISP submission:

- i. Why the Project is innovative and has not been tried before;
- ii. Why the Network Licensee will not fund such a Project as part of their business as usual activities; and
- iii. Why the Project can only be undertaken with the support of the NIC, including reference to the specific risks (eg commercial, technical, operational or regulatory) associated with the Project.

Screening process

4.20. In order for a NIC Project to pass the ISP it must conform to the process set out below.

4.21. Network Licensees must submit their Screening Submission by the specific Screening Submission date set by Ofgem. This date may alter from year to year but will be communicated to Network Licensees at least two Calendar Months in advance of the deadline for Screening Submissions. It will also be published on Ofgem's website.

4.22. Network Licensees should submit their Screening Submissions via a secure online portal or secure email, or any other means notified to the Network Licensees by Ofgem. Ofgem will provide details of the relevant arrangements one Calendar Month prior to the Screening Submission date.

4.23. Screening Submissions must be submitted using the Screening Submission Pro-forma provided by Ofgem. This Pro-forma limits the length of the Screening Submission. Network Licensees are not permitted to submit any appendices or supplementary information alongside their Screening Submission. The information which we will require in the Screening Submission Pro-forma is set out in Table 4.1. below.

4.24. Ofgem will confirm receipt of the submission one Working Day following the successful upload of a Screening Submission to the secure online portal or receipt via secure email, or via email.

4.25. Where Ofgem deems that any necessary information is missing within the Screening Submission, Network Licensees will have two Working Days in which to provide this information following any request. If the missing information is not provided within these two Working Days then the Project will be deemed to have failed the ISP.

4.26. The Project will be deemed to have passed the ISP unless, within twenty Working Days of the Screening Submission date, Ofgem has sent to the Network Licensee written notification saying that their Screening Submission has failed to meet the Eligibility Requirements. This notification will outline Ofgem's reasons in full. Ofgem will publish a list of Projects which have passed the ISP twenty Working Days following the Screening Submission date.

4.27. If, during the twenty Working Day evaluation period following the ISP submission, Ofgem considers that additional information will be needed to assess whether the Screening Submission has met the eligibility criteria then the Authority may extend the ISP deadline by twenty Working Days, or any part thereof, from the day when Ofgem receives the additional information.

4.28. All notification letters will be first sent to Network Licensees (via email and in the post) and will then be published on Ofgem's website. Publication of the Screening Submissions is described in the publication section below.

4.29. The Authority may provide separate feedback on some Projects which have passed the ISP where it feels the Network Licensee will need to provide greater clarity on aspects of the Project for Full Submission.

4.30. A Project must be submitted for the ISP in the Relevant Year in which the Network Licensee intends to develop it into a Full Submission. This includes Projects which have passed the ISP in previous Relevant Years but were not awarded funding. This ensures that Ofgem, Network Licensees and wider interested parties have full visibility of the Projects which could be competing for funding as part of a Full Submission.

Screening Submission

4.31. Below is the information which a Network Licensee will be required to provide in a completed Screening Submission Pro-Forma.

Table 4.1

Pro-forma category	Information required
Project Title	
Funding Licensee	The Funding Licensee for the Project.
Network Licensee Partners	Where there is collaboration between Network Licensees, the Funding Licensee's Partner(s) should be identified here.
Estimated Project Funding	<p>The Funding Licensee must provide an approximate figure of the total cost of the Project and the amount of funding from the Electricity NIC for which they consider they will apply for in the Full Submission. The Network Licensee should also indicate if the Project is requesting funding from the Gas NIC or the NIA.</p> <p>A Network Licensee Group (consisting of Non-RIIO Network Licensees) who expects to request recovery of Bid Preparation Costs in their Full Submission must provide details and evidence to support its approximate Bid Preparation Costs.</p>
Funding commentary	The Funding Licensee should provide a commentary on the accuracy of its funding estimate and state any potential for phasing the Project.
Project start date and end date	The start and end date for the Project.
Network Licensee area (or where the licensee does not operate in a specific area the geographic location(s) of the Project)	The Network Licensee area(s) and/or geographic area(s) in which the Project will take place.
Problem(s)	The Funding Licensee must provide a narrative which explains the Problem(s) which the Project is seeking to address.
Method(s)	The Funding Licensee should describe the Method(s) which are being Developed or Demonstrated. It must also outline how the Method(s) could solve the Problem. The type(s) of Method(s) should be identified where possible eg technical or commercial.

Specific requirements	The Funding Licensee must identify how its Project meets the requirements detailed in paragraph 4.8. A Project must meet at least one specific requirement in order to pass the ISP.
Accelerates the development of a low carbon energy sector and/or delivers wider environmental benefits	The Funding Licensee must demonstrate how the Solution could make a contribution to the Carbon Plan and/or has wider environmental benefits for its customers.
Delivers net financial benefits to existing and/or future customers	The Funding Licensee must demonstrate how the Method(s) they are being Developed or Demonstrated has the potential to deliver the Solution at a lower cost than the most efficient method currently in use on the National Electricity Transmission System and/or on the Distribution System.
Provide value for money for electricity customers	<p>The Funding Licensee must demonstrate the Method(s) it will Develop or Demonstrate has a potential Direct Impact on at least one of:</p> <ul style="list-style-type: none"> the operation of its transmission network, the operation of its distribution network, or the operations of the GB System Operator. <p>It must also set out how it will deliver value for money for electricity customers.</p>
Demonstrates the Project is innovative and generates knowledge that can be shared amongst all Network Licensees	The Funding Licensee must explain the learning which it expects the Project to deliver. It must also outline why the Project is innovative and would not happen as part of business as usual. If the Funding Licensee wishes to deviate from the default requirement for IPR then it must demonstrate that the IPR arrangements will deliver value for money for customers.
Project Partners and External Funding	The Funding Licensee should provide a description of the internal systems, procedures and processes used by the Funding Licensee to identify Project Participants and Project ideas. The Funding Licensees should also include details of any Project Partners, External Funders or Non-Network Licensees who will be actively involved in the Project and are prepared to devote time, resources and/or funding to the Project.

	A summary of any existing or planned contractual arrangements with these parties in relation to the Project should also be detailed at this stage if in place. If the Funding Licensee has not identified any specific Project Partners, it should provide details of the type of Project Partners it wishes to attract to the Project.
Derogations or exemptions	The Funding Licensee should outline if they consider that the Project will require any derogations, exemptions or changes to the regulatory arrangements.
Customer impact	The Funding Licensee should outline any planned interaction with Relevant Customers or Relevant Customers' premises as part of the Project, and any other impacts (such as amended contractual or charging arrangements, or supply interruptions).

Publication

4.32. Following the ISP deadline, Ofgem will publish the Screening Submission(s) in full. This is to provide full transparency of the Projects being developed and enable Network Licensees and other potential Project Partners to identify where there are opportunities to collaborate. A Network Licensee must clearly identify any information contained in the Screening Submission that it does not consent to being published in full. It must demonstrate that it (or its Project Partners) will face commercial harm from its disclosure and that the information is considered eligible for exemption under the Freedom of Information Act 2000 or Environmental Information Act 2004.

Project changes

4.33. The purpose of the ISP is to prevent Network Licensees from incurring costs in developing Projects which are not eligible to receive funding through the NIC. A further objective of the ISP is to provide an early indication of the Projects being developed and to allow both Network Licensees and Ofgem to plan accordingly. If Network Licensees can change their Projects substantially between the ISP and Full Submission, then the purpose of the ISP will be defeated.

4.34. Once a submission has passed ISP, a Network Licensee must not alter the high level Solution(s) it wishes to facilitate in order to solve the Problem(s) or the Method(s) which it will use to deliver the Solution(s).

4.35. The methodology used to capture learning from the Project should remain largely unaltered and the Full Submission should expand on (rather than materially alter) the methodological details provided within the Screening Submission and/or to

provide new ideas on how learning from the Project could be disseminated. Furthermore, where a NIC Project deviates from the default requirements for the IPR and has been deemed to meet the Eligibility Requirements, the IPR arrangements for that Project can only be altered ahead of a Full Submission where the Network Licensee wishes to revert to the default IPR arrangements or if additional Project Partners join the Project between the ISP and Full Submission, the IPR arrangements may be updated for these Project Participants. This should be clearly stated in the Full Submission.

4.36. If, subsequent to the evaluation period following the ISP deadline, two or more Network Licensees decide to merge or combine elements of Projects which have passed the ISP, they must notify Ofgem, in writing as early as possible and at least 10 Working Days prior to the Full Submission date.

5. Full Submission Process

Chapter summary

We will run an annual competition for funding innovative electricity Projects. This chapter sets out the process for Full Submission of NIC Projects. We also set out how these Projects will be evaluated and how funding will be awarded.

Eligible submissions

5.1. A Network Licensee may not submit a Project for Full Submission if Ofgem has provided written confirmation that the Project has not met the Eligibility Requirements within 20 Working Days of the Screening Submission deadline (or another date thereafter if Ofgem has extended the deadline in accordance with paragraph 4.27). Further, for each Project submitted at Full Submission, the Network Licensee must demonstrate that it has complied with the rules on Project changes set out in chapter 4.

5.2. A Network Licensee Group may submit a maximum of two Projects for Full Submission in any given year in the capacity of Funding Licensee. There is no restriction on the number of Full Submissions in which a Network Licensee Group can participate in collaboration with other Network Licensees where the Network Licensee is not the Funding Licensee.

Project ownership

5.3. If a Network Licensee decides to collaborate with another Network Licensee on an Electricity NIC Project, they must appoint a Funding Licensee who will act as a single point of contact with Ofgem. The Funding Licensee will be the Network Licensee that applies for funding in respect of a Project and submits the Full Submission. Further, the Funding Licensee will be the recipient of any Electricity NIC Funding for that Project and will be responsible for ensuring that the Project, including any work undertaken by the Project Partners, adheres to this Governance Document, the NIC Licence Condition, and any subsequent Project Direction for the Project.

Full Submission process

5.4. For it to be considered by Ofgem, a Network Licensee must submit a Full Submission by the Full Submission date set by Ofgem. This date may alter from year to year but will be communicated to Network Licensees at the latest twenty Working Days following the ISP deadline.

5.5. A Network Licensee must ensure that the Full Submission (consisting of the Full Submission Pro-forma and Full Submission appendices) are submitted in their original formats and also provide a single PDF file which is formatted to print out the whole submission on A4 pages¹². The Network Licensee should also provide eight ring bound copies of its Full Submission to Ofgem within two working days of the Full Submission date. Any Full Submission submitted electronically after 17:00 on the Full Submission date will not be considered for funding. The Network Licensee is responsible for ensuring that all required information is provided within its Full Submission.

5.6. A Network Licensee should submit Full Submissions via a secure online portal into the relevant folder for that Network Licensee (or secure email, or by any other means notified to the Network Licensees by Ofgem. Ofgem will provide details of the relevant arrangements one Calendar Month prior to the Screening Submission date) . If this portal is unavailable, Ofgem may permit the Network Licensee to submit its Full Submission by email. As part of granting this permission, Ofgem will notify the Network Licensee of the email address it must use for the submission.

5.7. Ofgem will acknowledge receipt of the Full Submission one Working Day following its successful submission.

5.8. While Full Submissions will be published after the notification of the NIC Funding award (see award notification, paragraph 5.63), following submission Ofgem may publish, and may provide to third parties, summary information on the Projects submitted. This could include the Project title, a high level summary of the Project and who the Funding Licensee and Project Partners are.

Full Submission Pro-forma and appendices

5.9. The Licensees will be required to submit information in the Full Submission including, but not limited to, the items listed below:

- The Funding Licensee;
- Project description and related information;
- Total Project Costs, External Funding, Network Licensee's Compulsory Contribution, Direct Benefits and the NIC Funding Request;

¹² If required the Full Submission costs spreadsheet may be submitted in a separate file and formatted to print in A3.

- Requested threshold for the funding of cost over-runs¹³ if different to the default;
- Requested protection on Direct Benefits¹⁴ if different to the default;
- Customer impact of Project implementation;
- Project management structure and related information;
- Derogations/exemptions that the Project would/may require;
- Proposed Successful Delivery Reward Criteria (SDCR) for the Project¹⁵;
- Explanation and evidence of how the Method, Project or Solution performs against the Evaluation Criteria; and
- The key learning outcomes which the Project aims to deliver.

5.10. The length of the Full Submission Pro-forma (including appendices) should be no more than 100 pages¹⁶. For any Project that a Network Licensee wishes to submit for consideration for NIC Funding, it must complete a Full Submission Pro-forma, as provided by Ofgem at least two months before the Full Submission deadline. Ofgem will issue guidance for completing the Full Submission alongside the Full Submission Pro-forma which will specify the detail required within each of the categories, and rules/advice on completion of the Pro-forma and content of appendices.

5.11. The Network Licensee must clearly identify any information contained in the Full Submission that it does not consent to being published in full. It must demonstrate that it (or its Project Participants) will face commercial harm from its disclosure and that the information is considered eligible for exemption under the Freedom of Information Act 2000 or Environmental Information Act 2004. The Network Licensee must provide Ofgem with a non-confidential version which may be published by Ofgem.

Derogations and requests to change regulatory arrangements

5.12. If a Network Licensee considers that there is any possibility that it will require a derogation or exemption, either as a known requirement or as a contingency, from any of the regulatory arrangements then it must state this in the Full Submission. It

¹³ See paragraph 8.35 for further details.

¹⁴ See paragraph 8.40 for further details.

¹⁵ See paragraphs 5.26-5.29 for further details.

¹⁶ [This does not include any spreadsheets that are submitted.](#)

must also provide, as part of its Full Submission, the evidence that it would put forward as part of its subsequent formal request to seek a derogation or exemption from those arrangements (should the Project be awarded funding), as well as details as to how and when it would apply for such a derogation.

5.13. The evidence that should be submitted for potential derogations requests should follow the latest guidance on licence derogation requests, as published on the derogations page of the Ofgem website¹⁷. The Network Licensee must also provide the evidence for why the derogation or exemption is necessary and justified, and outline the likely impact on customers or other parties. It must also indicate whether, if the Method(s) being Developed and/or Demonstrated is proved successful, similar derogations or exemptions would be required in order to roll-out the Method(s). The Network Licensee must indicate where there would need to be changes to industry code arrangements in order to enable the roll-out. It will also need to set out whether it would withdraw the request for funding in the event that Ofgem would not support the change to the regulatory arrangements that it requested within its Full Submission.

Customer impacts

5.14. A Licensee must outline in its Full Submission any interaction or engagement with a Relevant Customer or Relevant Customer's premises as part of the Project, or any impact the Project may have on a Relevant Customers (eg through charging or contractual arrangements or supply interruptions). If the Project is selected for funding, the Network Licensee will have to set out further details of its proposed Customer Engagement Plan - which is detailed in chapter 8.

Projects involving interruptions to customers supply

5.15. A Network Licensee must, in its Full Submission, detail the expected number and duration of any interruptions to customers' supply that will be required in order to implement the Project (ie planned interruptions) and the reason for these interruptions. It should also indicate if there is any risk of the Project causing unplanned interruptions, the potential number and duration and the potential cause of these interruptions.

5.16. The Network Licensee must set out the steps it has undertaken to investigate alternative ways to implement the Project which could reduce or avoid the need for customer interruptions. The Network Licensee must set out the alternatives it has investigated and provide a summary of why these alternatives were rejected.

Funding request

¹⁷ See [Ofgem's website](#) for further information on Derogation requests.

5.17. In the annual call for Projects, the maximum amount of Electricity NIC Funding that a Network Licensee can request as part of a Full Submission is £81m. Ofgem has no obligation to make Electricity NIC Funding awards totalling this amount in any year, and the difference between the maximum amount and the amount awarded will not be carried over for the remaining years of the scheme.

5.18. To calculate the level of funding that can be requested for a Project from the Electricity NIC as part of the Full Submission (the Electricity NIC Funding Request), the Network Licensee must determine the following:

- **Total Project Costs:** These are the forecast costs the Network Licensee expects will be required to undertake the Project.
- **Initial Net Funding Required:** This is the Total Project Costs minus any funding from Project Partners, External Funders and the Network Licensee which is in excess of the Network Licensee's Compulsory Contribution.
- **Network Licensee's Compulsory Contribution:** Equal to 10 per cent of the Initial Net Funding Required.
- **Outstanding Funding Required:** Initial Net Funding Required minus the Network Licensee's Compulsory Contribution.
- **NIC Funding Request:** The Outstanding Funding Required, including a deduction for the bank account interest that the Network Licensee will earn on the balance of funding over the duration of the Project¹⁸.
- **Bid Preparation Costs:** A Network Licensee Group (consisting of Non-RIIO Network Licensees) should provide detailed evidence of the amount of Bid Preparation Costs they have incurred up to £175,000 or 5 per cent of Outstanding Funding required.

5.19. The Network Licensee's Funding Request is automatically calculated within the Full Submission Spreadsheet which Ofgem will provide two months prior to the Full Submission deadline. The bank interest shall be calculated at midyear using the Bank of England base rate plus 0.5 percentage points on 30 June of the year in which the Full Submission is made.

Deleted: 1

Deleted:

Adjustments and assumptions

5.20. The Network Licensee should clearly identify the assumptions that underlie the way in which the costs, External Funding and hence the Outstanding Funding Required have been assumed to be phased throughout the duration of the Project.

¹⁸ The costs and Direct Benefits of the NIC Project will arise over the duration of the Project, whereas the NIC funding will be provided to the Licensee over the course of the Relevant Year following the award of funding to the Project.

5.21. In addition, the following adjustments and assumptions should be made when determining the value of the terms defined in paragraph 5.18:

- **Direct Benefits:** The Network Licensee may choose to use Direct Benefits to cover all or part of the Network Licensee's Compulsory Contribution. Direct Benefits are benefits of the Project accruing to the Licensee during Project Implementation, and comprise expenditure included in the Network Licensee's business plan submission for RIIO-T1 or ED1 that will be saved through undertaking the Project. If Direct Benefits do not exceed the value of the Network Licensee Compulsory Contribution, then the Initial Net Funding Required less the Network Licensee Compulsory Contribution is the Outstanding Funding Required. If Direct Benefits exceed the value of the Network Licensee's Compulsory Contribution, then the Initial Net Funding Required less the Direct Benefits is the Outstanding Funding Required. The Licensee has to supply funding to the amount of the Direct Benefits identified in the Full Submission into the Project Bank Account at the time the Direct Benefits are realised (the Project Bank Account is described in paragraph 8.2–8.9).
- **Reliability penalties:** Where a Network Licensee wishes to request protection from penalties associated with planned interruptions under its reliability outputs, or for OFTOs the availability incentive, it must include the value of these penalties in its NIC Funding Request. The Network Licensee will not be exempted from any resultant penalties incurred through interruptions, but will have received funding to cover these forecast costs associated with planned interruptions. A full justification for any such protection must be provided.
- **RPI forecast:** In forecasting the Project costs, the Network Licensee should use the RPI forecast that Ofgem will provide at least two Calendar Months prior to the date Ofgem has set for receipt of Full Submissions.

Request for Bid Preparation Costs

5.22. Network Licensees may recover costs incurred for bidding in the NIC up to a cap of £175,000 or 5 per cent of Outstanding Funding Required per Network Licensee Group, whichever is smaller, in any Relevant Year subject to passing ISP.

5.23. RIIO-Network Licensees may spend a proportion of the NIA up to the cap on Bid Preparation Costs. Non-RIIO Network Licensees must request in their Full Submission the amount of Bid Preparation Costs they wish to recover. They will then receive this through the annual Funding Direction (see chapter 7 for further details).

5.24. Bid Preparation Costs include costs associated with submitting a bid or number of bids to the Electricity NIC in any given year and any reasonable costs associated with the Collaboration and Learning Portals or the NIC annual conference.

5.25. The Authority reserves the right to audit a request for Bid Preparation Costs. The audit may be undertaken by Ofgem or a third party appointed at the discretion of Ofgem.

Successful Delivery Reward

5.26. A Successful Delivery Reward will be available to Network Licensees to incentivise efficient delivery of Projects. A Successful Delivery Reward will only be made if there is sufficient evidence that the NIC Project has been well managed (including any change requests) and has achieved the Successful Delivery Reward Criteria. No NIC Project that puts in a request to recover cost overruns will be eligible to receive a Successful Delivery Reward.

5.27. Ten percent of the total NIC funds available each year will be set aside each year for the Successful Delivery Reward for all Network Licensees, ie of the £90m available in the year 2015/16 £9m will be set aside. The maximum Successful Delivery Reward amount that can be awarded to a Network Licensee for successfully completing a Project is the amount equal to the Network Licensee's Compulsory Contribution¹⁹.

5.28. The Successful Delivery Reward Criteria will be Project specific. A Network Licensee must set out the Successful Delivery Reward Criteria that it proposes for its Project as part of its Full Submission. The proposed Successful Delivery Reward Criteria must comply with the following principles in that they must be:

- Linked to meeting identified targets for the outputs that will be expected to be delivered through the Project;
- Linked to meeting identified Project milestones on at least an annual basis;
- Linked to achieving the proposals it puts forward for the generation of new knowledge to be shared amongst all Network Licensees; and
- SMART - specific, measurable, achievable, relevant and time bound.

5.29. The Expert Panel and Ofgem may suggest changes to the Successful Delivery Reward Criteria proposed within the Full Submission as part of their consideration of the Full Submissions. The Network Licensee does not have to accept these changes, but if it does then the revised Successful Delivery Reward Criteria will be deemed to be part of the Full Submission. The Expert Panel and the Authority will consider the quality of the Successful Delivery Reward Criteria as part of their Evaluation.

Evaluation process

5.30. Ofgem will appoint an Expert Panel that will provide a recommendation to the Authority as to which Projects should receive funding. The Authority will take into

¹⁹ See our [March 2012 decision](#) for further information.

account the recommendation of the Expert Panel in awarding funding from the Electricity NIC.

5.31. Ofgem may appoint consultants to review the Full Submissions and otherwise assist the Expert Panel or the Authority as appropriate. The consultants will be required to have relevant expertise, including of the Transmission System and of the Distribution System. The consultants will conclude their review with the production of a report (or reports) which will, inter alia:

- Seek to place the information provided for each Project on a comparable basis (so far as possible) to allow the Expert Panel to compare them more easily;
- Provide an assessment of whether each Full Submission appears objectively credible, including an assessment of the costs and benefits that have been assumed as well as an evaluation of the aims of the Project and the timetable over which the Project will be undertaken;
- Identify and assess the materiality of any risks to the Project that it considers have not been made transparent in the Full Submission and provide an assessment of the feasibility of the Project; and
- Provide an assessment of the applicability of the resultant learning.

5.32. Ofgem, or its consultants, may request that the Funding Licensee provides clarification about aspects of its Full Submission. Any requests for clarification will be issued on specified day(s) in each week. These days will be communicated to Network Licensees prior to the Full Submission deadline. If the Network Licensee wishes to provide clarification, it must do so in writing within the specific time period requested by Ofgem. This time period will be no less than two Working Days. Any written clarification provided by the Network Licensee will be deemed to be part of the Full Submission and the requirements as regards confidentiality will apply.

5.33. The report(s) produced by the consultants, together with the Full Submissions (including any written clarifications), will be made available to the Expert Panel and the Authority. This will form part of the evidence base that the Expert Panel will use to make its recommendation and the Authority may use to make its decision. Ofgem will circulate a draft version of the report(s) produced by the consultants to Network Licensees for their information prior to the consultants producing their final version(s). Network Licensees will be able to highlight any information contained in the draft report which they consider to be factually incorrect.

5.34. For each Full Submission that complies with the requirements of paragraphs 5.4-5.11, the Expert Panel will have a meeting or meetings to discuss that Project with the Funding Licensee and the Project team. The length of the meeting(s) will be set in advance and each Project will receive the same time allocation. The Funding Licensee will be provided with at least ten Working Days' notice of the date of this meeting(s).

5.35. In advance of the meeting(s) the Expert Panel may (at its discretion) provide the Network Licensee with a list of questions that it intends to ask at the meeting. It may then ask further questions during the meeting. These questions may include asking the Network Licensee whether it will consider changing its proposed Successful Delivery Reward Criteria. The Network Licensee may submit written responses to these questions, or choose to answer them orally at the meeting(s). However, to the extent that an answer either clarifies or changes something contained within the Full Submission, revised text for the relevant section of the Full Submission must be submitted in writing to Ofgem no more than two Working Days after the date of the meeting, or as otherwise agreed with Ofgem. This will then be deemed to be part of the Full Submission and the requirements as regards confidentiality will apply.

5.36. Ofgem may also ask the Network Licensee questions about a Project. The Network Licensee may submit written responses to these questions, or choose to answer them orally if the Authority offers to have a meeting. However, to the extent that an answer either clarifies or changes something contained within the Full Submission, this must be submitted in writing to Ofgem within two Working Days of the date of the meeting, or as otherwise agreed with Ofgem. This will then be deemed to be part of the Full Submission and the requirements as regards confidentiality will apply.

5.37. The Network Licensee must highlight if any of its responses to either requests for clarification from Ofgem (or its consultants), or to questions from the Expert Panel, alter part of their Full Submission. The Network Licensees must state which sections of the Full Submission its responses alter.

5.38. In addition, following their final meeting with the Expert Panel, Network Licensees will have three Working Days to notify Ofgem whether they wish to make any changes to their submission in light of questions raised by the Expert Panel or points raised in the report prepared by Ofgem's consultants. From the time the Network Licensee has made this notification to Ofgem, it will have no more than ten Working Days to resubmit its Full Submission. Any resubmission should not substantially change the underlying Problem, Method or Solution of the Project. Network Licensees should not amend the Full Submission except where it is necessary to provide information required as a result of the evaluation process or to correct factual errors in the original Full Submission.

5.39. Network Licensees must resubmit their Full Submission via the secure online portal (or by other means described in paragraph 5.6 of this section) in a printable PDF format no more than 13 Working Days following their final meeting with the Expert Panel. The amendments or clarifications to the original Full Submission, resulting from requests for clarification, questions raised by the Expert Panel or points raised by Ofgem's consultants, must be clearly identified in an addendum. This revised copy will be published on Ofgem's website following the end of the Full Submission process.

Evaluation Criteria

5.40. This section sets out the Evaluation Criteria that will be used to evaluate the Projects put forward in the Full Submissions. The Expert Panel will use its judgement to recommend, and the Authority will use its judgement to decide, which Projects should receive funding, based on the different strengths and weaknesses of each Project across all the Evaluation Criteria. They may also consider the impact of the Project on the overall portfolio of NIC, NIA and the first tier and second tier LCN Fund Projects that either have been awarded funding in the past, or are seeking funding as part of the same Full Submission process.

5.41. Cross industry Projects that wish to apply for funding from more than one competition (ie the Electricity NIC and the Gas NIC) must submit bids separately to each competition stating what funding has been requested from which competition. The level of funding requested from each competition should be commensurate with the expected benefits for customers in the relevant sector.

5.42. The Authority is not obliged to award NIC Funding even to those Projects that perform best against the criteria in a given year, if it deems them, on balance against the relevant criteria, to be of insufficient quality or to offer insufficient carbon or environmental benefits or to offer insufficient value for money for customers.

5.43. Although the Expert Panel and the Authority will consider the information provided by Network Licensees, including any quantitative estimates supplied in the Full Submission, they may also conduct their own research or assessment, which can be made available to the Network Licensee, and conduct their own evaluation to allow consistent comparisons to be made between Full Submissions.

5.44. The Evaluation Criteria that will be taken into account in evaluating NIC Projects are set out below.

(a) Accelerates the development of a low carbon energy sector and/or delivers environmental benefits whilst having the potential to deliver net financial benefits to future and/or existing customers

5.45. The Network Licensee will need to demonstrate that the proposed Project Solution has the potential to accelerate the development of the low carbon energy sector, or deliver wider environmental benefits to customers, or deliver a combination of both. In addition, the Network Licensee will need to demonstrate that the Project has the potential to deliver net financial benefits to existing and/or future customers.

5.46. When evaluating how Projects perform against this criterion, consideration will be given to the information outlined in paragraph 5.47 below.

5.47. If a Project has potential carbon benefits, information under part (i) below will be considered and part (ii) below will be considered if applicable to the Project. A Project which has potential environmental benefits must provide the information under part (iii) below and all Projects must provide the information under part (iv) below.

- i. How the Project could make a contribution to the Government's current strategy for reducing greenhouse gas emissions, as set out in the document entitled "the Carbon Plan" published by DECC, in particular:
 - What aspects of the Carbon Plan the Solution facilitates;
 - The contribution the roll-out of the Method across GB can play in facilitating these aspects of the Carbon Plan; and
 - How the roll-out of the proposed Method across GB will deliver the Solution more quickly than the current most efficient method in use in GB.
- ii. If applicable to the Project, the network capacity²⁰ released by each separate Method:
 - The Network Licensee must outline how much quicker the Method(s) being trialled releases this capacity compared to the most efficient method currently in operation on the National Electricity Transmission System/on the Distribution System. The Network Licensee must set out the potential for replication of the Method(s) across GB in terms of the number of sites, or the percentage of the Transmission System/of the Distribution System where the Method could be rolled out.
 - The Network Licensee must use these to calculate the capacity the Method(s) will release across GB and how quickly this capacity could be released compared to the most efficient Method currently in operation on the National Electricity Transmission System/on the Distribution System.
 - In assessing the most efficient Method currently in use on the Transmission System/on the Distribution System, Network Licensees should look at the minimum cost scheme under which they would deliver the Solution (at the scale being tested within the Project). We also expect that they take into account lower cost methods which other Network Licensees have deployed successfully on their network which could deliver the Solution (at the scale being tested in the Project).
 - Consideration may also be given to a qualitative account of carbon benefits which are not captured in this analysis.
 - If the Network Licensee considers that the capacity calculation is not applicable to the Project it must provide a qualitative explanation in place of the calculation, including a justification for why the calculation is not applicable.

²⁰ The more quickly the capacity can be released, the greater the size of that capacity (based on a GB roll-out) and the greater the financial benefit of the Project, the higher the Project will be ranked against this criterion, taking into account the level of funding requested.

- iii. The proposed environmental benefits the Project can deliver to customers:
 - The Network Licensee should justify and provide references for all assumptions used to calculate the proposed environmental benefits of the Project.
 - If the Network Licensee considers that the calculation of environmental benefits is not applicable to the Project it must provide a qualitative explanation in place of the calculation including a justification for why the calculation is not applicable.
- iv. The expected financial benefit the Project could deliver to customers:
 - A Network Licensee must detail the financial benefit by first estimating the costs of delivering the Solution(s) (at the scale being tested within the Project) through the most efficient method currently in use on the National Electricity Transmission System or on the Distribution System - the Base Case Costs. Network Licensees must then compare the Base Case Costs to the costs of replicating the Method, once it has been proven successful, at the scale being tested in the Project - the Method Costs. The difference between the Base Case Cost and the Method Costs is the financial benefit of the Project. Where a Licensee is looking to test more than one Method it should outline the financial benefit of each separate Method.

(b) Provides value for money to electricity customers

5.48. The Electricity NIC will be focussed on Projects which can derive benefits and resulting learning that can be attributed to or are applicable to the electricity Transmission System/to the Distribution System versus elsewhere, taking into account the level of funding requested.

5.49. When evaluating how Projects perform against this criterion, consideration will be given to the following information:

- i. How the Project has a potential Direct Impact on the Network Licensee's network or on the operations of the GB System Operator;
- ii. Justification that the scale/cost of the Project is appropriate in relation to the learning that is expected to be captured;
- iii. The processes that have been employed to ensure that the Project is delivered at a competitive cost;
- iv. What expected proportion of the potential benefits will accrue to the electricity network as opposed to other parts of the energy supply chain, and what assumptions have been used to derive the proportion of expected benefits;

- v. How Project Partners have been identified and selected including details of the process that has been followed and the rationale for selecting Project Participants and ideas for the Projects; and
- vi. The costs associated with protection from reliability or availability incentives and the proportion of these costs compared to the proposed benefits of the Project.

5.50. This criterion does not confine Projects to those that only impact on the electricity Transmission System or on the electricity Distribution System. It does not favour a Project focussed solely on a Network Licensee activity, rather than one that focuses on third parties' activities that actions may have an impact on the operation of the Network Licensee's network.

5.51. The better the value for money of the components of the Project, the higher the Project will be ranked against this criterion. In addition, as part of the evaluation process, consideration will be given to the impact the proposed Project may have on other parties, including the Network Licensee's current and future customers.

(c) Generates knowledge that can be shared amongst all relevant Network Licensees

5.52. One of the main purposes of the NIC is to generate and share knowledge from Projects.

5.53. When evaluating how Projects perform against this criterion, consideration will be given to the following aspects:

- i. The level of incremental learning expected to be provided by the Project;
- ii. The applicability of the new learning related to the planning development and operation of an efficient Transmission System/of an efficient Distribution System to the other Network Licensees;
- iii. The plans to disseminate learning from the Project, both to Network Licensees and to other interested parties, with credit being given to innovative plans, tools and techniques which enable learning to be shared openly and easily with other Network Licensees; and
- iv. The robustness of the methodology to capture the results from the Project and disseminate the learning to other Network Licensees;
- v. The treatment of Intellectual Property Rights (IPR):
 - A Network Licensee must outline how it intends to conform to the default arrangements for IPR set out in chapter 9.
 - If the Network Licensee wishes to deviate from the default arrangements it must demonstrate how any Network Licensee can reproduce the outcomes of the Project. This must take into

- account any potential constraints or costs caused by the alternative arrangements. The Network Licensee must justify how these alternative arrangements will be able to deliver value for money for customers.
- The Network Licensee must also set out its approach to agree fair and reasonable terms for the future use of any Background IPR and Commercial Products needed for other Network Licensees who wish to reproduce the Project outcomes. This should demonstrate how the approach delivers value for money for customers.

(d) Is innovative (ie not business as usual) and has an unproven business case where the innovation risk warrants a limited Development and/or Demonstration Project to demonstrate its effectiveness

5.54. The NIC is specifically targeted at innovative Projects that a Network Licensee would not perform in its normal course of business because the specific commercial, technical, operational or regulatory risks associated with the Project are so large that shareholders will not speculatively fund them.

5.55. The Network Licensee must demonstrate that the Project it would like to have funded is innovative, untested at the scale and circumstance in which the Network Licensee wishes it to be deployed and that new learning will result from the Project. This is to prevent the deployment of proven technologies or practices using funding from the NIC.

5.56. When evaluating how Projects perform against this criterion, consideration will be given to the following aspects:

- i. Justification for why the Project is innovative and evidence it has not been tried before;
- ii. Justification for why the Project can only be undertaken with the support of the NIC, including reference to the specific risks (eg commercial, technical, operational or regulatory) associated with the Project.

(e) Involvement of other Project Partners and External Funding

5.57. Collaboration between Network Licensees and other parties in the energy supply chain is a central objective of the NIC. Further, we expect Network Licensees to raise alternative funding arrangements where these are available, either through alternative funding mechanisms or from other parties that will get value from being part of the Project. Further, the Network Licensee itself could choose to contribute more funding than the Network Licensee Compulsory Contribution.

5.58. When evaluating how Projects perform against this criterion, consideration will be given to the following aspects:

- i. Collaboration that is appropriate to the Project being undertaken will be looked on favourably although Network Licensees proposing to collaborate with OFTOs and/or offshore generators which are involved in an OFTO tender process will need to demonstrate an appropriate degree of separation and confidentiality so as not to undermine the OFTO tender process. Consideration will also be given to whether the Project Partner is under different ownership from the Network Licensee, and whether the contractual arrangements (that have already been put in place with Project Partners or Project Participants) are robust, including the specific measures in place to procure the cooperation of collaborators to ensure compliance with the requirements of this Governance Document.
- ii. The systems or processes the Funding Licensee used to identify potential Project Partners including:
 - How the Network Licensee has made interested parties aware of the NIC and the Collaboration Portal, and how the Network Licensee has utilised the website to seek collaborators;
 - How Network Licensees have actively sought out ideas for Projects; and
 - The processes Network Licensees go through to decide which of the available ideas they take forward as NIC Projects.
- iii. Where a Project Partner is involved in identifying other Project Partners, we would expect the Network Licensee to outline the steps it has taken to ensure that the Project Partner has put in place systems or processes as set out in point (ii);
- iv. Evidence of reasonable attempts to collaborate or obtain External Funding will be taken into account, even if it has not resulted in collaboration or funding from parties outside the ownership group the Network Licensee is part of;
- v. Accessing secure additional funding will be looked on favourably: the higher the proportion of External Funding to requested NIC Funding the better. This may be from other External Funders or from Project Partners who have an interest in the results of the Project, or from the Network Licensee contributing more funding than the Network Licensee's Compulsory Contribution. Indeed, where the benefits from the Project lie outside of the Transmission System or of the Distribution System (as identified under criterion (b) above) we would expect collaborators to be involved and to provide funds commensurate with the benefits they could be expected to get from participating in the Project.

5.59. For the avoidance of doubt, there will be no option for the Network Licensee to seek to subsequently have this External Funding replaced by additional funding from the NIC. If a Project has already started, the Network Licensee may choose to apply for Contingency Funding subject to the provisions of paragraphs 8.35-8.42.

(f) Relevance and timing

5.60. When evaluating how Projects perform against this criterion, consideration will be given to the appropriateness of the timing of the proposed Project. This is to reflect that knowledge and technology will both be expected to change over the duration of the NIC.

5.61. When evaluating how Projects perform against this criterion, consideration will be given to the following aspects:

- i. Why the Problem the Network Licensee is looking to investigate or solve is relevant and warrants funding in the context of the current low carbon or environmental challenges the electricity sector faces; and
- ii. How, if the Method proves successful, it would form part of their future business planning and how it would impact on its business plan submissions in future price control reviews or future offshore transmission tender rounds.

(g) Demonstration of a robust methodology and that the Project is ready to implement

5.62. The Expert Panel and the Authority will need to be confident that the Network Licensee can be reasonably expected to deliver the Project. When evaluating Projects against this criterion, consideration will be given to the following:

- i. The detailed project plan, with responsibilities clearly established and inter-dependencies identified;
- ii. The resources to deliver the Project, which should be of a sufficient size and quality to be reasonably expected to ensure its delivery;
- iii. Demonstration that the Project can be started in a timely manner;
- iv. The customer impact of Project implementation, including planned mitigations;
- v. That costs and benefits of the Project have been reasonably estimated. Any uncertainties in those estimates should be identified, together with any measures the Network Licensee will employ to minimise the possibility of cost overruns or shortfalls in Direct Benefits;
- vi. The circumstances under which the Network Licensee would apply to the Authority to request Contingency Funding to cover cost overruns or shortfalls in Direct Benefits should be identified (as provided for under paragraphs 8.35 to 8.42). Credit will be given if limitations are placed on either the scale of protection or the circumstances under which it will be sought;

- vii. The robustness of the proposed methodology on which the Project is based. For example, if the extrapolation of an outcome demonstrated through the Project is required to solve the Problem, the Network Licensee must clearly show that the approach to undertake such an extrapolation is both statistically and technically sound, reliable and verifiable;
- viii. The quality of the Successful Delivery Reward Criteria;
- ix. The verification of all information included in the proposal;
- x. The identification of appropriate risk mitigation processes, including:
 - a risk register;
 - risk management, mitigation and contingency plans; and
- xi. The processes that will be in place to identify circumstances where the most appropriate course of action will be to suspend the Project, pending permission from Ofgem that it can be halted.

Award notification

5.63. The Authority will issue its decision about which, if any, Projects it intends to award funding (subject to agreeing Project Directions), by 30 November in each year. In addition to publishing the Authority's decision, Ofgem will publish the report by the Expert Panel (excluding any confidential information) setting out its recommendation to the Authority and all non-confidential information provided as part of the Full Submission process. These will all be published on Ofgem's website.

5.64. If a Network Licensee wishes to receive further feedback on why a Project has not been awarded funding, then it must make the request in writing to Ofgem within 20 Working Days of the Authority issuing its decision.

5.65. Ofgem will send a draft Project Direction for each Project that has been provisionally awarded NIC Funding to the Funding Licensee. In advance of sending out a draft Project Direction, Ofgem may circulate wording for the Project Direction to Network Licensees shortly after issuing its decision. If the Network Licensee cannot accept the draft Project Direction (subject to any clarification and amendments as agreed in writing with Ofgem) within four Working Days of receipt of the draft, a Project Direction in respect of the Project will not be issued and the Project will not receive NIC Funding. Once a Project Direction has been issued by the Authority, and provided the Network Licensee complies with this Governance Document and the Project Direction, the Project identified within it is deemed to be an Eligible NIC Project, as defined in the NIC Licence Condition.

5.66. The Project Direction will:

- Set out the Project-specific conditions that the Network Licensee is committing to in accepting funding;

- Require the Network Licensee to undertake the Project in accordance with the commitments it has made in the Full Submission. Where appropriate, the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission;
- Set out the Approved Amount for the Project, that will form part of the calculation contained in the direction issued by the Authority under chapter 7;
- Set out the Project budget that the Network Licensee must report against and how variances against the Project budget will be reported and approved; and
- Set out the mechanism for the Network Licensee receiving the Approved Amount as set out in the Funding Direction.

5.67. The Project Direction is a direction issued by the Authority setting out the terms to be followed during Project implementation as a condition of it being funded. Once a Project Direction has been issued, the Network Licensee must comply with all terms within it. Failure to do so means that Ofgem may determine all or part of the Approved Amount as received by the Network Licensee to be Disallowed Expenditure.

SECTION B: Implementation requirements

6. Introduction 45

7. Funding Direction 46

8. Project implementation 48

Compliance 48

Project Bank Account 48

Customer Engagement Plan 49

Data protection 51

Reporting requirements 52

Project Progress Report (PPR) 52

Project changes 54

Close Down Report 54

Halting a Project 55

Applications for Contingency Funding 55

Successful Delivery Reward 57

Disallowed Expenditure and Halted Project Revenues. 57

Project audits 58

Annual conference requirements 58

9. Intellectual Property Rights (IPR) 59

Introduction 59

Scope 59

Ownership and transfer of ownership of IPR 60

Licensing of Background IPR 60

Licensing of Foreground IPR 60

Right to protect IPR 62

10. Royalties 63

Deleted: 5556

Deleted: 5960

Deleted: 5960

Deleted: 5960

Deleted: 6061

Deleted: 6061

Deleted: 6061

Deleted: 6263

Deleted: 6364

6. Introduction

Chapter summary

This chapter provides an introduction to the Project implementation requirements that a Network Licensee should adhere to once a Project is successfully awarded NIC Funding.

6.1. Once a Project has been awarded NIC Funding and the Funding Licensee has accepted the Project Direction issued by the Authority, the Funding Licensee must adhere to the Project Implementation requirements that are outlined in this section.

6.2. These requirements are designed to ensure customers, who have funded NIC Projects, are getting value for money from their investment.

6.3. The Funding Licensee will be required to keep NIC Funding in a separate bank account (the Project Bank Account) unless alternative arrangements have been approved by Ofgem. The Funding Licensee will also provide Ofgem with a detailed report at least every six months which outlines the progress of the Project. The first report will be required six months after the Project Direction is issued. At the end of the Project the Funding Licensee is required to provide a Close Down Report that provides sufficient information for third parties to understand what has been learnt from the Project.

6.4. Chapter 9 of this section sets out the default IPR conditions; the information and process for issuing the NIC Funding Direction each year and the treatment of Royalties generated through a NIC Project.

6.5. For Projects that are awarded funding in the latter years of the RIIO-T1 and RIIO-ED1 price controls, we will consult on any necessary transitional arrangements nearer the time, for Projects that will continue into the RIIO-T2 or RIIO-ED2 periods.

7. Funding Direction

Chapter summary

This section sets out the information that will be published in the Funding Direction and the process for issuing the Funding Direction each year.

7.1. As set out in the NIC Licence Condition, Ofgem will issue a direction (the Funding Direction) that will:

- Set the total amount that can be recovered from or returned to GB customers by the System Operator to cover Electricity NIC Funding in each year, termed (NICF term) in the NIC Licence Condition,
- Identify the net amounts that must be transferred between the System Operator and other Network Licensees, and
- The manner in which and the timescale over which the net amounts will be transferred.

7.2. Each Funding Direction will include any NIC Funding less any Funding Return. NIC Funding includes any Approved Amounts plus any Contingency Funding and, if applicable, any Eligible Bid Preparation Costs. Funding Return includes any Halted Project Revenues, Disallowed Expenditures and Returned Royalty Revenue that have not been included in a previous Funding Direction.

7.3. Ofgem will usually issue the Funding Direction to each Network Licensee, once a year, to allow sufficient time for the impact of NIC funding to be reflected in Transmission Network Charges from 1 April of the following year. This will be after the Project Directions have been issued and usually in December each year.

7.4. The Funding Direction will set out:

- i. The Approved Amounts that have not already been funded through previous Funding Directions for NIC Funding for each Network Licensee;
- ii. Contingency Funding that has been awarded for each Network Licensee for the recovery of Cost Overruns and Shortfalls in Direct Benefits;
- iii. Bid Preparation Costs that a Non-RIIO Network Licensee can recover;
- iv. Halted Project Revenues and Disallowed Expenditures that have not already been recovered through previous Funding Directions for each Network Licensee;
- v. Returned NIC Royalties to be returned to customers from each Network Licensee, as calculated in accordance with chapter 10;

- vi. The calculation determining the Approved Amounts in (i), the Contingency Funding in (ii), the Eligible Bid Submission Funding in (iii), the Halted Project Revenues and Disallowed Expenditures in (iv), and Returned NIC Royalties in (v) above for each Network Licensee; and
- vii. The amounts to be recovered by the System Operator on behalf of all Network Licensees through Transmission Use of System Charges and the amounts to be transferred to the System Operator from all Licensees to ensure that the Network Licensees receive the Approved Amounts in (i), the Contingency Funding in (ii), the Eligible Bid Submission Funding in (iii) and refund the Halted Project Revenues and Disallowed Expenditures in (iv) and Returned NIC Royalties in (v).

7.5. Transfer of revenue between the System Operator and one or more Network Licensees, must be made monthly on an equal basis, for the entirety of the Relevant Year, on the day of the month agreed by the Network Licensee making the transfer.

7.6. A Network Licensee that is due to receive funds under the terms of the Funding Direction is responsible for notifying the System Operator of the bank account details to which the transfers must be made. If a Network Licensee is required to return funding to the System Operator, the reverse applies.

8. Project implementation

Chapter summary

The chapter sets out the requirements a Network Licensee must adhere to if they are awarded funding for a NIC Project.

Compliance

8.1. The Funding Licensee must ensure the Project, in its entirety, is undertaken in accordance with NIC Licence Condition, this Governance Document and the relevant Project Direction. This includes work undertaken by its Project Partners.

Project Bank Account

8.2. A Funding Licensee that is awarded NIC Funding must keep these funds in a separate bank account (the Project Bank Account), unless alternative arrangements have been approved by Ofgem.

8.3. Where a Funding Licensee that is awarded NIC Funding demonstrates to Ofgem that it is unable to keep the funds in a separate bank account, Ofgem may approve that it uses the alternative arrangements set out in paragraphs 8.4 to 8.7 below. If a separate bank account is used then sections 8.4 to 8.7 do not apply.

8.4. Unless otherwise agreed by Ofgem, the Funding Licensee must provide a financial tracking and reporting system which is functionally equivalent to a separate bank account for a Project. This means it must hold any Approved Amounts, the Network Licensee's Compulsory Contribution and all other funding from the Network Licensee, Project Partners and External Funders that the Network Licensee has identified within its Full Submission as funding the Project in a memorandum account. The memorandum account must be capable of providing all the information that would be available from a separate bank account.

This memorandum account must:

- i. Show all transactions relating to (and only to) the Project;
- ii. Be capable of supplying a real time statement (of transactions and current balance) at any time;
- iii. Accrue expenditures when a payment is authorised (and subsequently reconciled with the actual bank account);
- iv. Accrue payments from the moment the receipt is advised to the bank (and then subsequently reconciled with the actual bank account);
- v. Calculate a daily total; and

- vi. Calculate interest on the daily total according to the rules applicable to the account within which the funds are actually held.

8.5. The Funding Licensee's auditors must review the systems and processes that the Funding Licensee is proposing to use to conform to the requirements set out in this section and provide a signed statement to Ofgem that the systems and processes are fit for purpose, before the Project is initiated and any funds are spent.

8.6. The Funding Licensee's auditors must provide an annual report to Ofgem to confirm that the Network Licensee is conforming to the requirements set out in this section.

8.7. The Funding Licensee must provide an audited schedule of all the memorandum account transactions, including interest (calculated according to sub point (vi) of paragraph 8.4 above), as part of its detailed progress reports to Ofgem.

8.8. For the remainder of this document, the term Project Bank Account applies to the separate bank account set out in paragraph 8.2 or, where Ofgem has given the Funding Licensee approval for use of alternative arrangements, the alternative arrangements set out in paragraphs 8.4 to 8.7 above.

8.9. The Project Bank Account must be used for the sole purpose of holding any Approved Amounts, the Network Licensee Compulsory Contribution and all other funding from the Funding Licensee, Project Partners and External Funders that the Licensee has identified within its Full Submission as being used to fund the Project, unless otherwise agreed by Ofgem. For the avoidance of doubt this does not include funding for initiatives which are being implemented independently of the Project and which would have proceeded regardless of the Project being awarded funding. Deposits to the Project Bank Account from the different funding sources will be made no later than the start of the Relevant Year that the Funding Licensee identified they would be used in the Full Submission. A Funding Licensee can only access funds from the Project Bank Account if it meets the requirements for use of these funds as set out in the NIC Licence Condition, this Governance Document and the Project Direction.

Customer Engagement Plan

8.10. Where the Project involves any interaction with a Relevant Customer or a Relevant Customer's premises, or any impact on or engagement with Relevant Customers (eg through charging or contractual arrangements or supply interruptions) the Funding Licensee must comply with the conditions set out in this section.

8.11. The Funding Licensee must submit to Ofgem, at least two months prior to initiating any form of Customer engagement, a Customer Engagement Plan of how it, or any of its Project Partners, will engage with, or impact upon, Relevant Customers as part of the Project. The Funding Licensee and its Project Partners cannot initiate any form of customer engagement until the plan has been approved by the

Authority, and the Funding Licensee and its Project Partners must comply with the approved plan at all times. The Customer Engagement Plan must include:

- A communications strategy which sets out inter alia:
 - Any proposed interaction with a Relevant Customer or premises of a Relevant Customer or proposed interruption to the supply of any Relevant Customer for the purposes of the Project, and how the Relevant Customer will be notified in advance;
 - Ongoing communications with the Relevant Customers involved in the Project; and
 - Arrangements for responding to queries or complaints relating to the Project from Relevant Customers.
- Information on the Priority Services Register Customers who will be involved in the Project and how they will be appropriately treated (including providing information of any person acting on behalf of a Priority Services Register Customer in accordance with condition 26 of the Electricity Supply Licence, where applicable)
- Details of any safety information that may be relevant to the Project; and
- Details of how any consents that may be required as part of the Project will be obtained.

8.12. The Funding Licensee must publish the plan by making it readily available on its website and on the Learning Portal.

8.13. The Funding Licensee and its Project Partners must also:

- Not visit a premises of any Relevant Customer for sales or marketing activities in connection with, in the context of or otherwise under the guise of the Project; and
- Have regard to the implementation of the smart meter roll-out to ensure that the Project does not impede the implementation in any way.

8.14. In addition, if the Funding Licensee or its Project Partners is installing any equipment at the Customer's premises as part of the Project, the Funding Licensee and its Project Partners must comply with the following conditions:

- Not enter the premises of a customer, other than for the purposes contained in the Licence or for communication purposes (set out above), unless it first obtains the prior consent of the customer, with such consent to be formally recorded;

- Where the equipment is any form of meter, the Funding Licensee or its Project Partners must first notify the customer's electricity supplier; and
- Provide the customer with information (which should be identified as part of the communications strategy) on how the equipment will be installed, how long it will be installed for, and how it will be decommissioned.

Data protection

8.15. Where the Project involves the collection of any personal data (as defined in the Data Protection Act 1998) the Funding Licensee must submit a strategy for dealing with this additional personal data to Ofgem at least two months prior to collecting or using the data. The Funding Licensee or its Project Partners cannot collect or use any personal data until the strategy has been approved by the Authority. The strategy must set out the following:

- What personal data will be collected for the purposes of the Project;
- How this personal data will be used;
- How consent for use of the personal data will be obtained;
- What information will be provided to the customer prior to consent being sought;
- If Priority Services Register Customers are included in the Project, how their personal data will be obtained;
- Who owns the personal data;
- How long the personal data will be retained; and
- How this personal data will be managed (which should be based on a "privacy by design" approach, as advocated by the Information Commissioner's Office²¹).

²¹ See http://www.ico.gov.uk/news/current_topics/privacy_by_design_conference.aspx.

Reporting requirements

8.16. During the Project, the Funding Licensee will be expected to comply with the reporting requirements outlined below.

Project Progress Report (PPR)

8.17. The Funding Licensee will be required to provide a detailed report, the PPR, at least every six months (starting from six months after the date the Project Direction is issued), of sufficient detail to allow Ofgem to evaluate the progress of the Project.

8.18. The Funding Licensee should send a copy of the PPR to Ofgem and also make it available publically, either on its website or on the Learning Portal (see chapter 2 for further details).

8.19. If there is any confidential information in the PPR, this must be included in a separate confidential annex to Ofgem, which will not be published.

8.20. The following information should be provided in the PPR in the order listed below:

- **Executive summary:** This section should be able to stand alone and provide a picture of the progress of the Project in the period to all interested parties not involved in the Project. The Funding Licensee should describe the general progress of the Project, including details of any delays or problems encountered; any notable milestones or deliverables achieved in the period and details of any Dissemination activities carried out in the period.
- **Project manager's report:** The Project manager's report should be a more detailed version of the executive summary. This section should describe the progress made in the reporting period. Any key issues, deliverables or events should be drawn out and described in detail; referring where necessary to other sections of PPR. This section should also provide an outlook onto the next reporting period. It should describe any key issues or concerns which the Project manager considers will be a major challenge in the next reporting period.
- **Business case update:** The Funding Licensee should note any developments or events which might affect the benefits to be gained from the NIC Project. Where possible the Funding Licensee should quantify the changes these developments or events have made to the Project benefits compared to those outlined in the full submission proposal.
- **Progress against plan:** This section should summarise the progress of the Project in the previous six month period. It should describe any issues of note that were faced in the reporting period, and how these issues were managed. Key achievements/notable events should be highlighted. The Funding Licensee should briefly describe key planned activities for the next reporting period. This should include any issues the Funding Licensee envisages facing in the next reporting period.

- **Progress against budget:** The Funding Licensee should report on expenditure against each line in the Project Budget, detailing where they are against where they expected to be at this stage in the Project. The Funding Licensee should explain any projected variance in excess of five per cent against each line.
- **Bank Account:** The Funding Licensee should provide a bank statement or statements detailing the transactions of the Project Bank Account for the reporting period. Where the Funding Licensee has received an exemption from Ofgem regarding the requirement to establish a Project Bank Account it will provide an audited schedule of all the memorandum account transactions including interest as stipulated in the Project Direction.
- **SDRC:** The Funding Licensee should provide a brief narrative against each of the SDRCs set out in their Project Direction. The narrative should describe progress towards the SDRCs and any challenges the Funding Licensee may face in the next reporting period.
- **Learning outcomes:** The Funding Licensee should briefly describe the main learning outcomes from the reporting period. It should update Ofgem on how it has disseminated the learning they generated as part of the Project over the last six months.
- **IPR:** The Funding Licensee should report any relevant IPR that has been generated or registered during the reporting period along with details of who owns the IPR and any royalties which have resulted. The Funding Licensee must also report any relevant IPR that is forecast to be registered in the next reporting period.
- **Risk management:** The Funding Licensee should report on the risks highlighted in the Full Submission pro forma, plus any other risks that have arisen in the reporting period. The Funding Licensee should describe how it is managing the risks it has highlighted and how it is learning from the management of these risks.
- **Other:** Any other information the Funding Licensee wishes to include in the report which it considers will be of use to Ofgem in understanding the progress of the Project and performance against the SDRC.
- **Accuracy assurance statement:** The Funding Licensee should outline the steps it has taken to ensure that information contained in the report is accurate. In addition to these steps, we require a Senior Manager responsible for NIC Projects of the Funding Licensee to sign off the PPR. This sign off must state that he/she confirms that processes in place and steps taken to prepare the PPR are sufficiently robust and that the information provided is accurate and complete.

8.21. The Funding Licensee can provide more sections or information than that specified above. Such extra information should follow on from the sections we have set out.

Project changes

8.22. The Funding Licensee must inform Ofgem promptly in writing of any event or circumstance likely to affect the ability of it to deliver the Project as set out in its Full Submission.

8.23. If a Funding Licensee considers that there has been a material change in circumstance that requires a change to the Project Direction, it may submit a request for a change to Ofgem. This includes changes to the end date of the Project. This request should provide sufficient detail to allow Ofgem to decide whether the change would be appropriate in the circumstances, including whether it would be in the best interest of customers. Once Ofgem has enough information to make this decision, it will provide its response in writing to the licensee, including any revisions it has accepted to the Project Direction. Ofgem expects that changes to the Project Direction will only be made when there has been a material change in circumstance that requires a change to the Project Direction.

Close Down Report

8.24. The Funding Licensee must provide a Close Down Report for each Project that receives funding through the NIC. It needs to provide sufficient information for third parties to understand what has been learnt from the Project. If the Project has generated IPR that Ofgem has agreed, as part of the Project Direction, does not need to be shared then this should be explained in the Close Down Report. The Close Down Report must provide sufficient information for other Network Licensees to determine whether the IPR would be of value.

8.25. The Funding Licensee must submit its Close Down Report to Ofgem within three Calendar Months of the Project completion date set out in the Project Direction, or if a Project has been halted, within three Calendar Months of Ofgem approving the halting of the Project.

8.26. As part of the Close Down Report, the Funding Licensee must identify any unspent Approved Amounts or Contingency Funding for the Project. This will be deemed to be Disallowed Expenditure.

8.27. We have issued detailed guidance on what should be included within the Close Down Report and will amend this in the future should it be necessary to do so.²²

8.28. In the event that Ofgem considers that a Close Down Report is of an unacceptable standard, it may ask the Funding Licensee to resubmit the Close Down Report.

²² <https://www.ofgem.gov.uk/publications-and-updates/low-carbon-networks-lcn-fund-content-and-structure-second-tier-close-down-reports>

8.29. The Funding Licensees should make the Close Down Report publically available on the Learning Portal or equivalent (see chapter 2).

Halting a Project

8.30. A Funding Licensee may seek permission from Ofgem to halt a Project, for example because it has become clear that the Method is not viable or there are other reasons why it is not efficient or it is not possible to continue with the Project. The Funding Licensee may suspend the Project from the time it puts in this request, pending a decision from Ofgem on the request to halt. Ofgem may also call a Funding Licensee to stop a Project. From the time that either a Funding Licensee seeks permission to halt a Project or in cases where Ofgem has called for a Project to be stopped, the Funding Licensee must not make any further withdrawals from the Project Bank Account unless:

- Funds have already been committed to the Project; or
- The Funding Licensee can demonstrate to Ofgem that the funds are required to be incurred as part of the suspension of the Project.

8.31. As part of the process to evaluate whether a Project should be halted, either at the request of Ofgem or the Funding Licensee, the Funding Licensee will need to provide Ofgem with sufficient information to evaluate whether halting the Project will be appropriate in the circumstances, including whether it would be in the best interest of customers and identifying any costs it will incur and the actions required in halting the Project.

8.32. If Ofgem is satisfied that it is appropriate in the circumstances, including whether it would be in the best interests of customers to halt the Project, then it will confirm in writing that it shall require that the Project be halted. Ofgem will also identify any funds that have been received by the Funding Licensee which have not yet been spent; less funds already committed and less any costs that Ofgem has agreed can be incurred to halt the Project. These funds will be deemed to be Halted Project Revenues and will be returned through a subsequent Funding Direction, as described in chapter 7.

8.33. A Project that is halted must still comply with the other requirements of this Governance Document, including the requirement to provide a Close Down Report.

8.34. If a Project is halted without Ofgem's permission, all Approved Amounts that the Funding Licensee has received for that Project will be deemed to be Disallowed Expenditure. The process for Disallowed Expenditure is set out in paragraphs 8.48 and 8.51.

Applications for Contingency Funding

8.35. We recognise that innovation and trialling involves an element of risk in that the costs, benefits and impacts of the Project are not fully understood. This is one of

the main reasons why Network Licensees may not undertake these Projects under the normal regulatory framework. We therefore will provide some protection for cost overruns and non-realisation of Direct Benefits, as set out below.

8.36. However, protection will not be provided for poor project management, and it is our expectation that Network Licensees will employ all reasonable endeavours to deliver the Project without recourse to Contingency Funding for cost overruns or shortfalls in Direct Benefits. Ofgem will decide whether it is appropriate and justified to provide additional funding in such circumstances.

8.37. A Funding Licensee may request Contingency Funding if it anticipates that the Project will cost more than it had forecast as part of its Full Submission. The maximum amount that can be requested as additional funding for cost overruns is capped at five per cent of the Approved Amount unless an alternative arrangement is set out within the Project Direction. For the avoidance of doubt, a Funding Licensee could choose to identify in its Full Submission that it will not seek to recover any cost overruns and this will be included within its Project Direction.

8.38. If a Funding Licensee wishes to make an application to Ofgem for Contingency Funding to cover anticipated cost overruns, it must notify Ofgem of its intention at least three Calendar Months before it incurs any additional costs. It will provide Ofgem with sufficient information to allow Ofgem to evaluate the request. The Authority will decide whether it would be appropriate in the circumstances, including whether it would be in the best interest of customers to award Contingency Funding for that Project, the size of any award and any changes that may need to be made to the Project Direction before it would be awarded. The Authority may decide that no additional funding is warranted. In particular, the Authority is unlikely to be minded to provide additional funding for a Project where it has concerns about the quality of Project management that, in its opinion, outweigh any benefits expected to be generated by the provision of additional funding.

8.39. If a Funding Licensee applies to Ofgem for Contingency Funding for a cost overrun then it will not be eligible to receive the NIC Successful Delivery Reward for that Project. A Funding Licence that reserves the option in its Full Submission to recover cost overruns but does not apply for any Contingency Funding may still apply for the Successful Delivery Reward.

8.40. A Funding Licensee can also request Contingency Funding if it experiences Direct Benefits that were lower than it forecast in its Full Submission. The default position is that a Funding Licensee can apply for up to 50 per cent of any shortfall in Direct Benefits in excess of the Network Licensee's Compulsory Contribution, unless an alternative arrangement is set out within the Project Direction.

8.41. If a Funding Licensee wishes to make an application for Contingency Funding to cover a decrease in Direct Benefits, it will provide Ofgem with sufficient information to allow Ofgem to evaluate the request. The Authority will decide whether it would be appropriate in the circumstances, including whether it would be in the best interest of customers to award Contingency Funding for that Project, the size of any award and any changes that may need to be made to the Project

Direction before it would be awarded. The Authority may decide that no additional funding is warranted.

8.42. If Ofgem does allow Contingency Funding, Ofgem will reissue the Project Direction, if required, and will notify the Funding Licensee of when it will issue a Funding Direction to allow recovery of the Contingency Funding. This process is set out in chapter 7.

Successful Delivery Reward

8.43. The Successful Delivery Reward is designed to reward those Projects which are well managed and completed at least to the standard that could be expected given the information provided in the Full Submission as described in chapter 5, paragraph 5.26-5.29. The Successful Delivery Reward Criteria which the Project will be judged by will be set out in the Project Direction.

8.44. A Successful Delivery Reward will only be made if there is sufficient evidence that the Project has been well managed and has achieved the Successful Delivery Reward Criteria. No Projects that request to receive cost overruns will be eligible to receive a Successful Delivery Reward.

8.45. A Funding Licensee can apply to Ofgem to receive a Successful Delivery Reward once Ofgem has approved the Close Down Report. The maximum level of the Successful Delivery Reward will be set out in the Project Direction and cannot exceed the level of Network Licensee Compulsory Contribution.

8.46. The Funding Licensee must provide sufficient evidence to allow Ofgem to evaluate the application. If Ofgem does not think it has sufficient information to make a judgement it will notify the Network Licensee who may choose to resubmit its application. If, following resubmission, Ofgem considers there is still insufficient information to make a judgement the request for the Successful Delivery Reward will be rejected. Ofgem may use any other information it has gathered throughout the duration of the Project to inform its evaluation.

8.47. The Authority will determine the level of the Successful Delivery Reward that will be payable to the Network Licensee. This may be part, none, or all of the amount requested. Ofgem will notify the Funding Licensee of whether it has been approved within 30 Working Days of having received sufficient information to make its decision. This will set out if any Successful Delivery Reward has been funded and, if so, its value. This additional amount will be included as part of a subsequent Funding Direction, as described in chapter 7.

Disallowed Expenditure and Halted Project Revenues.

8.48. Disallowed Expenditure is funding that the Funding Licensee receives for NIC Projects or recovers as Directly Attributable Costs that Ofgem determines not to have been spent or recovered in accordance with this Governance Document or with the relevant Project Direction. It includes any funds that must be returned if the Project

is halted without Ofgem's permission, any funds that have not been spent in line with the approved Project budget contained within the Project Direction, any unspent funds for completed Projects, and any Directly Attributable Costs that the Authority deems to have been misreported following a Project audit.

8.49. Halted Project Revenues are funds received by the Network Licensee that have not yet been spent or otherwise committed at the time that a Project is halted.

8.50. If Ofgem considers that any funds are Disallowed Expenditure or Halted Project Revenues it will notify the Funding Licensee who will then have 20 Working Days to make representations as to why the funds should be allowed.

8.51. Ofgem will consider any representation from the Funding Licensee before finalising the determination as regards Disallowed Expenditure and Halted Project Revenues. Any Disallowed Expenditure and/or Halted Project Revenues will be returned through a subsequent Funding Direction, as described in chapter 7.

Project audits

8.52. All NIC Projects may be subject to an audit. This will include requiring the Funding Licensee to demonstrate that the Project is compliant with the appropriate conditions in NIC Licence Condition, the Reporting Instructions and Guidance (RIGs), this Governance Document and the relevant Project Direction. This audit may be undertaken by Ofgem, or by a third party appointed at the discretion of Ofgem.

Annual conference requirements

8.53. The Network Licensee must work collectively with such other Network Licensees as are subject to this Governance Document to organise an annual conference. The annual conference will be held every Relevant Year for Network Licensees, Project Partners and interested third parties. The Network Licensee must (subject to any confidentiality or IPR arrangements approved before Registration) highlight the key learning that has been developed by the Network Licensee since the previous annual conference.

8.54. This conference may form part of the same event as any NIA conference and the Network Licensee may charge attendees a nominal sum for attending the conference. The Network Licensee's income from charges is not to exceed the efficient cost to the Network Licensee of organising the conference.

8.55. The conference may be a single event for gas and electricity or multiple events, we expect Licensees to work together to agree the format of the annual conference.

9. Intellectual Property Rights (IPR)

Chapter summary

To facilitate knowledge transfer we have created default treatment for Intellectual Property Rights (IPR). This chapter sets out these default arrangements.

Introduction

9.1. We recognise that the projects financed by the NIC may create IPR either for the Funding Licensee or for any Project Partners (whether for one, both or jointly), and that these rights could restrict the Dissemination of knowledge and also provide a valuable income stream from royalties earned.

9.2. We have therefore created a default treatment for IPR where the Licensee or any Project Partners deem any work product or output of the Project to be IPR. We expect that in the majority of cases they will conform to the default IPR conditions. However, we recognise that in some circumstances potential Project Partners may not be prepared to enter into agreements on this basis. We are therefore willing to consider alternative arrangements on a case by case basis. The information required to justify these alternative arrangements should be set out in the Network Licensees Full Submission. Further information is set out in paragraph 5.53.

9.3. Knowledge transfer is one of the key aims of the NIC. The benefits of a Project are maximised by the ability of other Network Licensees to be able to learn from the Project so as to create improved outcomes or reduce costs for customers. Not all IPR generated by a Project will necessarily be pertinent to this knowledge transfer, or required to support the wider roll-out of the Project into “business as usual”.

Scope

9.4. The default IPR conditions apply to IPR which is material to the Dissemination of knowledge gained from the learning in respect of a Project. This knowledge may be the information, understanding or skills necessary to reproduce or simulate the outcome of a Project. It may also be the knowledge necessary to avoid a negative outcome. Where the deployment of IPR materially reduces the cost, difficulty or time associated with reproducing the outcome of a Project, this would also constitute an IPR which is material to the Dissemination of knowledge.

9.5. It will be the Network Licensee’s responsibility to describe all work products generated during the course of a Project that are material to the Dissemination of knowledge and relevant to a Project, and to identify where such work products constitute IPR and how this will be shared so as to create improved outcomes for customers.

Ownership and transfer of ownership of IPR

9.6. For the avoidance of doubt, each Project Participant in the Project, whether a Licensee or a Project Partner shall retain all rights in and to its Background IPR.

9.7. Each Project Participant shall own all Foreground IPR that it independently creates as part of the Project, or where it is created jointly then it shall be owned in shares that are in proportion to the effort made and work done in its creation.

9.8. Where any Project Participant transfers any of its right, title or interest in or to any Foreground IPR to any other person, it shall only do so where the assignee/transferee agrees to abide by these default IPR conditions.

9.9. A Funding Licensee can only transfer any of its right, title or interest in or to any Foreground IPR to any other person, subject to:

- Having regard to the true commercial value of the IPR; and
- The assignee/transferee agreeing to abide by these default IPR conditions.

Licensing of Background IPR

9.10. Where access to a Project Participant's Background IPR is required to undertake the Project, the Project Participant shall grant a non-exclusive licence to this Background IPR (Relevant Background IPR) to the other Project Participants, solely for the purposes of the Project during the term of the Project.

9.11. Once the Project is over, Relevant Background IPR will be licensed for use by the Project Participants in connection with another Project Participant's Foreground IPR solely to the extent necessary to use that Foreground IPR, upon terms to be agreed.

Licensing of Foreground IPR

9.12. Foreground IPR which is produced by a Project could comprise of IPR which describes the application of a Method to a network and the benefits that can accrue. It could also include the IPR that describe how a product (for example a piece of equipment and or software), that is used to implement a Method achieves its functionality. Foreground IPR can be informal, (eg know how) or formal, (eg registered).

9.13. Relevant Foreground IPR is Foreground IPR that other Licensees will need to utilise in order to implement the Method(s) being Developed or Demonstrated in a Project. This must be identified in the PPR in sufficient detail to enable others to identify whether they wish to use that IPR. For clarification it is not expected that the confidential details of IPR would be disclosed in the PPR only sufficient information to

enable others to identify whether the IPR is of use to them. Where Background IPR is required to use the Relevant Foreground IPR, this must also be clearly stated.

9.14. Foreground IPR within Commercial Products is not deemed Relevant Foreground IPR. However these Commercial Products must be made available to other Network Licensees to purchase in line with the approach the Network Licensee outlines in its Full Submission.²³

9.15. Licensing of the Foreground IPR shall be agreed between the Network Licensee and Project Partners consistent with the principles of this chapter.

9.16. All Project Partners which are academic institutions will have the freedom in accordance with normal academic practice (notwithstanding the requirements of this document) to:

- Discuss work undertaken as part of the Project in seminars;
- Give instruction on questions related to such work; and
- Publish results obtained during the course of the work undertaken as part of the Project.

9.17. All other Network Licensees will have the automatic right to use Relevant Foreground IPR for use within their network royalty-free.

9.18. Where the Relevant Foreground IPR can only be used with a Project Participant's Background IPR, other Licensees will have the automatic right to request a limited licence of such Background IPR for that sole purpose in line with the approach outlined in the Network Licensees Full Submission.²⁸

9.19. The licensees of IPR may be required by the licensor to enter into a confidentiality agreement to protect the IPR licensed to it.

9.20. Other parties (who are not Project Participants and are not a Network Licensee) may request a licence to use Relevant Foreground IPR, such licence to be on arms-length terms, which may include payment of a commercial royalty.

²³ See paragraph 5.53 sub bullet (v) for further information.

Right to protect IPR

9.21. Each Project Participant will warrant that it has the right, power, title and authority to license its Relevant Background IPR on the terms of the licence agreement.

9.22. Each Project Participant will warrant that use of the Relevant Background IPR in accordance with the terms of the licence agreement will not infringe any third party rights.

9.23. Each Project Participant will warrant that it will pay all fees necessary to maintain registered rights that form part of its licensed Relevant Background IPR.

9.24. Each Project Participant will undertake to protect Relevant Foreground IPR (subject to the transfer options above) in the following terms:

- A Project Participant must seek registered protection where that is available and maintain such registered protection for as long as the subject matter of that Relevant Foreground IPR is licensed and used by the other Project Participants;
- Where a Project Participant believes that registered protection should not be filed, they must agree terms with the other Project Participants setting out how this unregistered IPR will be protected and demonstrate how this is consistent with the knowledge transfer and Dissemination of information requirements of the Project;
- A Project Participant must comply with agreed publication requirements, including as necessary to comply with academic requirements and co-authoring of publications;
- A Project Participant must set up a regime whereby unrelated third parties can access the Relevant Foreground IPR so that it can be further disseminated throughout the relevant industry whilst protecting the Project Participants' rights as owners and licensors.

10. Royalties

Chapter summary

Any royalties earned by a Network Licensee through Foreground IPR will be shared with customers in proportion to the funds that customers have contributed to the Project. This sections sets out how we intend to treat these royalties and how they will be calculated.

10.1. Any royalties earned by a Network Licensee through Foreground IPR (whether Relevant or not) will be shared with customers in proportion to the funds that customers have contributed to the Project. Where a Network Licensee has transferred its right, title or interest in or to any Foreground IPR in return for an income, this income should be treated in the same way.

10.2. A Network Licensee is able to recover Directly Attributable Costs, as defined in the NIC Licence Condition. These are the costs of maintaining and managing Foreground IPR. Therefore, for each Project, the Network Licensee will return the gross revenue generated through royalties or income generated through IPR less the Directly Attributable Costs.

10.3. We will treat royalties (or income generated from the transfer of Foreground IPR) as regulated revenue and apply the following treatment:

- The proportion of royalties (or income generated from the transfer of Foreground IPR) equivalent to the proportion of the total amount contributed by the Network Licensee (ie the Network Licensee's Contribution which is in excess of the Network Licensee's Compulsory Contribution plus the Network Licensee Compulsory Contribution) versus the Outstanding NIC Project Funding and the Network Licensee Contribution will be retained by the Network Licensee as additional profit; and
- The proportion of royalties (or income generated from the transfer of Foreground IPR) equivalent to the proportion of the Outstanding Funding Required versus the Outstanding NIC Funding and the Network Licensee's Compulsory Contribution will be returned to customers.

10.4. In each Relevant Year, the Authority will calculate the royalties earned through NIC Projects that are to be returned to customers. These are Returned Royalty Income. Returned Royalty Income will be included in the Funding Direction as outlined in chapter 7.

10.5. The Authority will follow these steps to calculate the amounts to be defined in the Funding Direction.

10.6. In a given year, Retained NIC Royalties (RNICR) is the total royalties earned through all NIC Projects to be retained by each Network Licensee y as additional profit in each year t and is calculated through the following formula:

$$AP_{k,y} = (RR_{k,y} - DAC_{ky}) \times \frac{NLCC_k + NLECK}{RA_k + NLCC_k + NLECK}$$

10.7. Where:

$AP_{k,y}$ is the additional profit earned through royalties to be retained by each Network Licensee y for a Project k ;

$RR_{k,y}$ is the pre-tax sum of the NIC Royalties reported by Network Licensee, y on the Project k ;

DAC_{ky} is the Directly Attributable Costs reported by Network Licensee y of maintaining and managing IPR generated through the Project k ;

$NLCC_k$ is the Network Licensee's Compulsory Contribution to the Project k ;

$NLECK$ is the Extra Network Licensee's Contribution to the Project k ; and

RA_k is the Approved Amount set out in the Project k Direction.

10.8. The Network Licensee must record RNICR as such in its internal accounting records and show it as a reconciling revenue item in the reconciliation inputs section of the detailed return required under Standard Condition B15 (Reporting of Price Control Revenue Information) of the Electricity Transmission Licence, Standard Condition 46 (Regulatory Instructions and Guidance) of the Electricity Distribution Licence or E12-D1 (Offshore Regulatory Reporting) of the OFTO licence.

10.9. The remaining royalties are to be returned to customers. This is the Royalty Revenue (RR) earned by the Network Licensees minus the RNICR. This amount is defined as NIC Royalties Return Income (RRI).

10.10. Each Network Licensee will be required to return any Retuned Royalty Income to the System Operator who will return it to customers through Transmission Network Charges. The Returned Royalty Income that each Licensee is required to return to customers will be set out in the Funding Direction.

Appendices

Appendix 1 – Definitions

Appendix 2 - Glossary

Appendix 1 – Definitions

Approved Amounts

Amounts approved by the Authority in relation to a claim submitted by a Network Licensee to receive funding for an Eligible NIC Project, where such claim complies in all respects with such requirements as are imposed by the NIC Governance Document in respect of such claims.

Background IPR

Intellectual Property Rights owned by or licensed to a Project Participant at the start of a Project.

Base Case Costs

The lowest cost method of delivering the Solution (on the scale outlined as part of the Project) which has been proven on the National Electricity Transmission System or on the Distribution System.

Bid Preparation Costs

The costs incurred when preparing and entering a bid into the NIC.

Calendar Month

Calendar Month is the period of time between any day in one month and the day numerically corresponding to that day in the subsequent month; save that, if the period starts at the end of a month which contains more days than the subsequent month, the period expires at the end of the latter month.

Close Down Report

The report, as set out in chapter 8, that a Network Licensee must provide to Ofgem and publish at the end of a NIC funded Project.

Collaboration Portal

An online portal to inform collaborators about NIC Projects that complies with the requirements set out in chapter Two of this document.

Commercial Products

Products which have Background IPR identified prior to the commencement of the Project.

Contingency Funding

Funding approved by the Authority in relation to the recovery of cost overruns and unrealised benefits.

Customer Engagement Plan

The plan that the Network Licensee must submit to Ofgem setting out how it or any of its Project Partners, will engage with, or impact upon, Relevant Customers as part of the Project.

Demonstration

Activity focussed on generating and testing Solutions on the network and then taking it to a stage where they can be transferred to business as usual

Development

Activity focussed on generating and testing Solutions to the Problem

Direct Benefits

Direct Benefits are the benefits of a Project accruing to the Network Licensee during the Project implementation and comprise any expenditure included within the Network Licensees Business Plan for RIIO-T1 or ED1 that will be saved as a result of undertaking the Project.

Direct Impact

Where the deployment of the Method will cause a measurable change in the operation of the Transmission System or in the operation of the Distribution System in a controllable way.

Directly Attributable Costs

As set out in the NIC Licence Condition - costs related to the maintenance and management of Intellectual Property Rights generated through Eligible NIC Projects.

Disallowed Expenditure

As set out in the NIC Licence Condition this is revenues received under the NIC by the Network Licensee that the Authority determines has not been spent in accordance with the applicable provision of the NIC Governance Document or the terms of the relevant Project Direction.

Dissemination

The activity undertaken to share learning from a Project.

Distribution System

The system consisting (wholly or mainly) of electric lines owned or operated by an Authorised Distributor that is used for the distribution of electricity from grid supply points or generation sets or other Entry Points to the points of delivery to Customers or Authorised Electricity Operators or any Transmission Licensee in its capacity as operator of that licensee's Transmission System or the GB Transmission System, and includes

any Remote Transmission Assets (owned by a Transmission Licensee within England and Wales) that are operated by that Authorised distributor and any electrical plant, Electricity Meters, and Metering Equipment owned or operated by it in connection with the distribution of electricity, but does not include any part of the GB Transmission System.

Distribution Network Operator (DNO)

Any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).

Electricity NIC

The annual competition for funding innovative electricity Projects with potential low carbon or environmental benefits.

Electricity Distributor

Any person who is Authorised by an Electricity Distribution Licence to distribute electricity.

Eligible NIC Bid Preparation Costs

The amount of expenditure spent or accrued by the Network Licensee when preparing submissions for the Network Innovation Competition have been spent in such a way that satisfies the requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of the NIC Governance Document.

Eligible NIC Projects

A Project undertaken by a Network Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary for the Project to be funded under the NIC Funding Mechanism.

Eligibility Requirements

Criteria and specific requirements used to assess whether a Project has passed or failed the Initial Screening Process.

Evaluation Criteria

The criteria used to evaluate and compare NIC Projects at Full Submission, in order to assess which Projects (if any) should receive funding.

Expert Panel

A panel of independent experts who together provide knowledge and expertise under the following headings: energy network industries, environmental policy, technical and engineering, economics and financial and consumer interests. The panel is

appointed by Ofgem to advise the Authority's decision making process on the selection of Projects for funding.

External Funder

An entity (that is not a Network Licensee) that provides funding for the Project without requiring a return on their investment.

External Funding

Project funding provided by an External Funder or Project Partner.

Foreground IPR

All Intellectual Property Rights created by or on behalf of any of the Project Participants, their sub-Licensees, agents and sub-contractors as part of, or pursuant to, the Project, including all that subsisting in the outputs of the Project.

Full Submission

The full application for funding under the NIC. The Full Submission consists of the completed Full Submission Pro-forma and any appendices.

Full Submission Pro-forma

A pro-forma which Network Licensees must complete and submit to Ofgem in order to apply for funding under the NIC.

Funding Direction

A direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to funding for NIC Projects.

Funding Licensee

The Network Licensee named in the Full Submission as the Funding Licensee, which receives the Approved Amount and is responsible for ensuring the Project complies with this Governance Document and the terms of the Project Direction.

Funding Return

As defined in the NIC Licence Condition.

Gas Transporter

The holder of a Gas Transporters Licence.

Halted Project Revenues

As set out in the NIC Licence Condition - revenues received 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 this governance document and the terms of the relevant Project Direction.

Initial Net Funding Required

This is the Total Project Costs minus any funding from Project Partners, External Funders and the Network Licensee which is in excess of the Licensee Compulsory Contribution.

Intellectual Property Rights (IPR)

All industrial and intellectual property rights including patents, utility models, rights in inventions, registered designs, rights in design, trademarks, copyrights and neighbouring rights, database rights, moral rights, trade secrets and rights in confidential information and know-how (all whether registered or unregistered and including any renewals and extensions thereof) and all rights or forms of protection having equivalent or similar effect to any of these which may subsist anywhere in the world and the right to apply for registrations of any of the foregoing.

Learning Portal

An online portal for sharing learning from NIC Projects that complies with the requirements set out in chapter Two of this document.

Method

The proposed way of solving the Problem.

Method Cost

The costs of replicating the Method, at the scale being tested in the Project, once it has been proven successful.

Micro-business

A micro business is defined as a company which meets one of the following criteria:

- consumes less than 200,000 kWh of gas a year;
- consumes less than 55,000 kWh of electricity a year; or

has fewer than ten employees (or their full-time equivalent) and an annual turnover or annual balance sheet total not exceeding £2m.

National Electricity System Operator (NETSO)

The holder of an Electricity Transmission Licence with Part C of the Standard Licence Conditions switched on.

Network Licensee

The holder of an Electricity Transmission Licence or an Electricity Distribution Licence, ie the GB System Operator (GBSO), a Transmission Owner (TO) an Offshore Transmission Owner (OFTO), Distribution Network Operator (DNO) or an Independent Distribution Network Operator (IDNO).

Network Licensee's Compulsory Contribution

The minimum contribution by the Network Licensee to the Total Project Cost which is 10 per cent of the value of the Initial Net Funding Required.

Network Licensee Group

A group of Transmission Owners, System Operators or Distribution Network Operators in which the Network Licensee and every other Network Licensee within the group are affiliates of each other, have the same Ultimate Controller and the licences are of the same type, ie distribution or transmission.

NIA Governance Document

Document that sets out the regulation, administration and governance of the NIA.

NIC Funding

As defined in the NIC Licence Condition.

NIC Funding Mechanism

As defined in the NIC Licence Condition.

NIC Funding Request

The Outstanding Funding Required, including a deduction for the bank account interest that the Network Licensee will earn on the balance of funding over the duration of the Project.

NIC Licence Condition

The NIC Licence Condition is the licence condition which sets out the requirements a Network Licence must adhere to for the purposes of the NIC. In relation to the GBSO and TOs this is Special Licence Condition 3I. In relation to OFTOs this is Amended Standard Condition E12-J11. In relation to DNOs this is Charge Restriction Condition 5A. In relation to IDNOs this is XXX.

NIC Royalties

The pre-tax sum of the NIC Royalties reported by Network Licensee, on a Project.

Non-Network Party

A party which does not hold an electricity transmission or distribution licence or gas transporters licence that has been issued by Ofgem.

Non-Network Licensee(s)

A party which is not a Network Licensee as defined in this Governance Document but holds another licence issued by Ofgem, eg a Supply Licence.

Non-RIIO Network Licensee

The holder of an electricity transmission or distribution licence who is not regulated through the RIIO price control framework, eg an OFTO or an IDNO.

Outstanding Funding Required

Initial Net Funding Required minus the Network Licensee's Compulsory Contribution.

Offshore Transmission Owner (OFTO)

The holder of an Electricity Transmission Licence which Part E of the Standard Licence Conditions switched on.

Priority Services Register Customers

Domestic customers at premises connected to the distribution system that fall within the description set out in standard condition 10 of the Electricity Distribution Licence.

Problem

The obstacle or issue that needs to be resolved in order to facilitate the low carbon future and/or provide some environmental benefits to customers.

Project

The Development or Demonstration being proposed or undertaken.

Project Bank Account

A separate bank account opened and used solely for the purpose of all financial transactions associated with a NIC Project.

Project Direction

A direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to the Eligible NIC Project as a condition of its being funded pursuant to NIC Funding Mechanism.

Project Participant

A party who is involved in a Project. A participant will be one of the following: Network Licensee, Project Partner, External Funder, Project Supplier or Project Supporter.

Project Partners

Any Network Licensee or any other Non-Network Licensee that makes a contractual commitment to contribute equity to the Project (eg in the form of funding, personnel, equipment etc.) the return on which is related to the success of the Network Licensee's Project.

Project Supplier

A party that makes a contractual commitment to supply a product or service to the Project according to standard commercial terms that are not related to the success of the Project.

Project Supporter

A party that makes no contractual or binding commitment to the Network Licensee or any other Project Participant in relation to the Project but who intends to endorse and provide support to the Project and agrees to be publicly named as a supporter of the Project.

Relevant Year

A period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year.

Relevant Background IPR

Any Background IPR that is required in order to undertake the Project.

Relevant Customer

A domestic or Micro-business customer.

Relevant Foreground IPR

Any Foreground IPR that is required in order to undertake the Project.

Research

Activity undertaken to investigate the Problem based on observable facts.

Retained NIC Royalties (RNICR)

Total royalties earned through all NIC Projects to be retained by each Network Licensee.

Returned Royalty Income

Revenue earned from intellectual property generated through Eligible NIC Projects, less any Directly Attributable Costs, and that is payable to customers under the NIC as calculated in accordance with this NIC Governance Document.

RIIO Network Licensee

The holder of an electricity transmission licence who is regulated through the RIIO price control framework (ie the DNOs, GBSO or TOs).

Screening Submission

The submission for ISP to Ofgem.

Solution

The outcome if the Problem is solved.

Successful Delivery Reward

A reward for completed Projects which are judged by Ofgem against the Successful Delivery Reward Criteria.

Successful Delivery Reward Criteria

The Project specific criteria set out in the Project Direction against which the Project will be judged for the Successful Delivery Reward.

Technology Readiness Levels

Technology Readiness Level is a measure used to assess the maturity of evolving technologies. It is graded on a scale from 1 to 9, where, for the purposes of the NIC:

- TRL 1: Pure research that is theoretical or experimental work undertaken to acquire new scientific or technical knowledge for its own sake rather than directed towards an application;
- TRL 2-3: Applied research driven by a desire to broaden scientific and technical knowledge for application on the network, related to an identified Problem. It typically includes investigating the underlying foundation of phenomena and observable facts;
- TRL 4-6: Development activities with a more commercial application including technology validation and or demonstration in a working environment;
- TRL 7-8: Full scale demonstration in a working environment to test and improve technologies so they are ready for commercial deployment;
- TRL 9: Application of technology in its final form, ie the technology has been proven.

Total Project Costs

This is the forecast costs the Network Licensee expects to require to undertake the Project.

Transmission Owner (TO)

The holder of an Electricity Transmission Licence which Part D of the Standard Licence Conditions switched on.

National Electricity Transmission System

As defined in Special Condition 1A of the Electricity Transmission Licence.

Transmission Network Charges

As defined in Special Condition 1A of the Electricity Transmission Licence.

Ultimate Controller

- (a) a holding company of the licensee which is not itself a subsidiary of another company;
- (b) any person who (whether alone or with a person or persons connected with him) is in a position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of:
 - (i) rights under contractual arrangements to which he is a party or of which he is a beneficiary; or
 - (ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or of which he is a beneficiary, but excluding any director or employee of a corporate body in his capacity as such; and
- (c) for the purposes of subparagraph (b), a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph.

Working Day

Any day other than a Saturday, a Sunday, Christmas Day, Good Friday, or any other day that is a bank holiday within the meaning of the Banking and Financial Dealing Act 1971.

Appendix 2 - Glossary

A

Authority

The Gas and Electricity Markets Authority is the governing body for Ofgem, consisting of non-executive and executive members.

D

Department of Energy and Climate Change (DECC)

E

Energy Networks Association (ENA)

ENA is the industry body funded by GB electricity transmission and distribution licence holders and gas transporter licence holders. It lobbies on common issues in the operating environment, both at domestic and European levels, and provides technical services for the benefit of members.

G

Great Britain (GB)

I

Innovation Funding Incentive (IFI)

Scheme established under previous price control settlements. The IFI is intended to encourage Licensees to invest in appropriate research and development activities that are designed to enhance the technical development of networks and to deliver value (ie financial, supply quality, environmental, safety) to end customers.

L

Low Carbon Networks (LCN) Fund

Funding to encourage the DNOs to innovate to deliver the networks we will need for a low carbon economy.

R

Reporting instructions and guidance (RIGs)

A document that is published as part of the price control settlement which sets out further detail on how the price control is to be implemented and how compliance with it will be monitored.