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## **Version 2.1 of the Network Innovation Competition (NIC) Governance Documents**

This letter explains our<sup>1</sup> approach to issuing version 2.1 of the NIC governance documents (the "governance documents"). We intend to issue these governance documents pursuant to the "NIC Licence Conditions"<sup>2,3,4,5,6</sup>. The governance documents contain the regulation, governance and administration of the NICs.

This consultation letter is formal notice that we intend to issue version 2.1 of the NIC governance documents. We have attached a draft of each of the governance documents to this letter. We currently plan to issue each of the governance documents, incorporating the representations we receive by 23 July 2015.

**Please send any representations or objections to this notice to [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk) on or before 23 July 2015. We will consider representations or objections and will incorporate them as appropriate into each of the governance documents ahead of issuing the governance documents on or before 29 July 2015.**

### ***Changes to the gas and electricity NIC governance documents***

We recently consulted<sup>7</sup> on whether there was an issue with the level of interest payments the governance documents presume licensees receive for deposits to the project bank account. Consultees argued that there was a problem and that the level of presumed interest was too high. In response<sup>8</sup> we said we intended to consult on changes to the governance documents to reduce the presumed level of interest from 1.5 to 0.5 percentage points above the Bank of England base rate, in time for this year's competitions.

By setting the presumed level of interest at a lower level for the 2015 competitions, we are seeking to strike a balance between: (i) reducing the costs of innovation to gas and electricity customers and (ii) mitigating the risks of a shortfall in project funding for licensees undertaking innovation through the NICs.

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<sup>1</sup> The terms "the Authority", "Ofgem", "we" "us" and "our" are used to refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

<sup>2</sup> Electricity Transmission Licence – Special Condition 3I

<sup>3</sup> Electricity Distribution Licence – Charge Restriction Condition 5A

<sup>4</sup> Gas Transporters Licence – National Grid Gas Transmission (NGGT) Special Condition 2F

<sup>5</sup> Gas Transporters Licence – Distribution Network Operators (DNOs) – Special Condition 1I

<sup>6</sup> Gas Transporters Licence – IGTs – Special Condition

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-presumed-interest-rate-network-innovation-competition-nic-projects>

<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/update-presumed-interest-rate-network-innovation-competition-nic-projects>

We have made this change in the draft governance documents attached. The change is in paragraph 5.19 of both documents.

The Carbon Plan has been updated. We committed in the Governance Documents to write to licensees informing them of any changes to the plan, so we are taking the opportunity to do so in this letter. We have also amended the link in the Governance Documents so that it links to the amended Carbon Plan.

### **Next steps**

Please send any representations or objections to this notice to [networks.innovation@ofgem.gov.uk](mailto:networks.innovation@ofgem.gov.uk) on or before 23 July 2015. We will consider representations or objections and will incorporate them as appropriate into the governance documents ahead of issuing each of the governance documents on or before 29 July 2015.

When we undertake our review of the NIC and Network Innovation Allowance later this year we intend to consult on whether to amend the NIC governance documents so that we can advise licensees what interest rate will be used each year. Such an approach is analogous to the setting of the RPI forecast for the licensees to use in their NIC submissions, which we issue in advance of the Full Submissions for each competition. Adopting this method should prevent a similar issue arising in future. We will consult on the detail of this proposal as part of a wider NIC governance review.

Yours sincerely,

A handwritten signature in blue ink that reads "Andy Burgess".

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