



Making a positive difference  
for energy consumers

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Date: 15 December 2016

Dear Company Secretary,

**Project Direction ref: NGGD/ HyDeploy/ 16 December 2016**

National Grid Gas Distribution Limited (NGGD) submitted the HyDeploy project (the Project)<sup>1</sup> in August 2016 to be considered for funding through the Gas Network Innovation Competition (NIC). In this year's decision<sup>2</sup>, we selected HyDeploy for funding.

This Project Direction contains the terms to be followed by NGGD as a condition of the Project receiving funding through the Gas NIC. It must comply with these terms, which can be found in Schedule 1 to this Project Direction.

**Project Direction**

Chapter 5 of the Gas NIC Governance Document<sup>3</sup> states that a Project Direction will:

- set out the Project-specific conditions that the Network Licensee (which for this Project is NGGD) 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 Funding 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 section 4 of the Funding Direction.

These are described for the Project in Schedule 1 to this Project Direction.

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<sup>1</sup> Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/gas-network-innovation-competition-2016-funding-decision>

<sup>3</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/gas\\_nic\\_2-1\\_stat\\_con.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/gas_nic_2-1_stat_con.pdf)

## **Decision**

Provided NGGD complies with the NIC Governance Document and with Schedule 1 to this Project Direction, the Project is deemed to be an Eligible NIC Project<sup>4</sup>.

This Project Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.



**Pete Wightman**

**Head of RIIO Gas Networks**

Signed on behalf of the Authority and authorised for that purpose

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<sup>4</sup> Eligible NIC Project has the meaning given in the definitions in the Gas Distribution licence.

# **Schedule One**

## **Schedule to Project Direction**

### **1. TITLE**

Project Direction ref: NGGD/ HyDeploy/ 16 December 2016

### **2. PREAMBLE**

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority"<sup>5</sup>) to NGGD (the "Funding Licensee") pursuant to the Gas NIC Governance Document issued pursuant to Special Condition 1I (Network Innovation Competition) of the Gas Distribution Licence (the "Licence"). It sets out the terms to be followed by the Funding Licensee in relation to its HyDeploy project ("the Project") as a condition of the Project being funded under the NIC and the Funding Return Mechanisms<sup>6</sup>.

Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

References to specific sections of the Funding Licensee's Full Submission in this Project Direction are, for ease of reference, made by referring to the section number in the Funding Licensee's Full Submission pro-forma.

### **3. CONDITION PRECEDENT**

The Funding Licensee will not access any funds from the Project Bank Account until it has signed contracts with the Project Partners named in Table 1.

#### **Table 1. Project Partners**

Northern Gas Networks Keele University Health and Safety Laboratory ITM Power Progressive Energy
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### **4. COMPLIANCE**

The Funding Licensee must comply with Special Condition 1I of the Licence and with the Gas NIC Governance Document (as may be modified from time to time in accordance with Special Condition 1I and as modified and/or augmented in respect of the Project by this Project Direction) and with this Project Direction.

Any part of the Approved Amounts that the Authority determines not to have been spent in accordance with this Project Direction (or in accordance with the Gas NIC Governance Document) is deemed to be Disallowed Expenditure.

Pursuant to Special Condition 1I, Disallowed Expenditure is revenue received (whether by the Funding Licensee or by another Licensee) under the NIC and Funding Return Mechanisms that the Authority determines not to have been spent in accordance with the provisions of the Gas NIC Governance Document or with those of the relevant Project Direction.

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<sup>5</sup> The terms 'the Authority', 'Ofgem', 'we', 'us' and 'our' are used interchangeably in this document.

<sup>6</sup> The Funding Return Mechanism is defined in Special Condition 1I (Network Innovation Competition).

Pursuant to Chapter 8 of the Gas NIC Governance Document, Disallowed Expenditure includes any funds that must be returned if the Project is halted without Ofgem's permission, any funds that have not been spent in accordance with the approved Project Budget contained within the Project Direction, and any unspent funds on the completion of the Project.

## **5. APPROVED AMOUNT FOR THE PROJECT**

The Approved Amount is £6,777,241.27.

## **6. PROJECT BUDGET**

The Project Budget is set out in Annex 1 to this Project Direction.

The Funding Licensee will report on expenditure against each line under the category total in the Project Budget, and explain any projected variance against each line total in excess of 5% as part of its detailed report which will be provided, in accordance with Chapter 8 of the Gas NIC Governance Document. Ofgem will use the reported expenditure and explanation to assess whether the funding has been spent in accordance with the Gas NIC Governance Document and with this Project Direction.

For the avoidance of doubt this reporting requirement does not change or remove any obligations on the Funding Licensee with respect to reporting that are set out in the Gas NIC Governance Document.

## **7. PROJECT IMPLEMENTATION**

The Funding Licensee must undertake the Project in accordance with the commitments it has made in the Full Submission approved by the Authority pursuant to the Gas NIC Governance Document and with the terms of this Project Direction. These include (but are not limited to) the following:

- (i) undertake the Project in accordance with the description set out in Section 2 (Project Description);
- (ii) provide a Network Licensee Compulsory Contribution of £763,453.76 (50% from NGGD, 50% from Northern Gas Networks);
- (iii) complete the Project on or before the Project completion date of 31 March 2020; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

## **8. REPORTING**

Ofgem may issue guidance (as amended from time to time) about the structure and content of the Project Progress Report required by Chapter 8 of the Gas NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports.

As required by Chapter 8 of the Gas NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

## **9. COST OVERRUNS**

The maximum amount of Contingency Funding that the Funding Licensee can request as additional funding for cost overruns on the Project is 5%<sup>7</sup> of the Approved Amount.

## **10. INTELLECTUAL PROPERTY RIGHTS (“IPR”)**

In Section 5 of its Full Submission (Knowledge Dissemination) the Funding Licensee has stated that the Project conforms to the default IPR arrangements set out in Chapter 9 of the Gas NIC Governance Document. The Funding Licensee must therefore undertake the Project in accordance with the default IPR arrangements.

## **11. SUCCESSFUL DELIVERY REWARD CRITERIA**

The Project will be assessed by the Authority for the purposes of the NIC Successful Delivery Reward against the SDRCs set out in Table 2 below (which comply with Chapter 5 of the Gas NIC Governance Document).

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<sup>7</sup> This is the amount requested by the Funding Licensee in its Full Submission, or the default of 5%.

**Table 2. Successful Delivery Reward Criteria (“SDRCs”)**

Successful Delivery Reward criterion	Evidence
<p><b>9.1 Communications Plan</b>            Development of a Communications Plan (encompassing a Customer Engagement Plan and Data protection plan)            Allows proceeding to SDRC 9.3 and remaining SDRCs.            24 Nov 2017</p>	<p>Sign off of Communications Plan by Keele University Ethics Committee and compliance of the plan with the conditions relating to Customer Engagement Plans and data protection as set out in the NIC Governance Document.</p> <p>Communication Plan (approved by Keele University) sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.2 Laboratory Appliance Tests</b>            Work completed as outlined in the ‘Laboratory testing’ section of 2.3.2 of the Full Submission. This covers both the initial 18 appliances and the longevity testing.            30 Mar 2018</p>	<p>Evidenced by Laboratory Report sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.3 Onsite Survey programme</b>            Completion of onsite installation and appliance survey.            25 May 2018</p>	<p>Evidenced by Summary Report sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.4 Exemption &amp; Quantitative Risk Assessment (QRA)</b>            Completion of Exemption and QRA documentation.            29 Jun 2018</p>	<p>Evidenced by Summary Report sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.5 Exemption Approval</b>            Grant of exemption to GS(M)R by Health and Safety Executive (HSE)            31 Aug 2018</p>	<p>Evidenced by Granting of Exemption sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.6 Gateway to Phase 2</b>            Steering Committee sign agreement to proceed to Phase 2 of the Project.            31 Aug 2018</p>	<p>Evidenced by Steering committee minutes showing approval sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.7 Hydrogen system installation</b>            Completion of the installation of the hydrogen production &amp; Injection system.            26 Apr 2019</p>	<p>Evidenced as a completion report by Otto Simon as Construction Manager sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.8 Completion of Field Trial</b>            Blended hydrogen injection into Keele University’s gas network with evidence to support performance of the network as outlined in Section 2.3.4 of the Full Submission.            28 Feb 2020</p>	<p>Evidenced by Trial Report sent to Ofgem and subsequently published on the Project website.</p>
<p><b>9.9 Public network trial definition</b>            Completion of definition of follow on network trial, including application of learning from the Keele customer engagement plan - as outlined in Section 2.3.4 of the Full Submission.            31 Mar 2020</p>	<p>Evidenced by Definition Report sent to Ofgem and subsequently published on the Project website.</p>

**9.10 Dissemination & Final Project report**  
Final Project report summarising the project outputs described in Section 2.3 and the knowledge dissemination in Section 5.0 of the Full Submission  
31 Mar 2020

Evidenced by Final Project Report, including summary of dissemination activities.

The maximum amount of the Gas NIC Successful Delivery Reward (which will not exceed the Network Licensee Compulsory Contribution) that the Project will be eligible for is £763,453.76 (50% to NGGD, 50% to Northern Gas Networks).

## **12. USE OF LOGOS**

The Funding Licensee and Project Partners, External Funders and Project Supporters<sup>8</sup> may use the NIC logo for purposes associated with the Project but not use the Ofgem or Ofgem E-Serve logos in any circumstances.

## **13. AMENDMENT OR REVOCATION**

As set out in Chapter 8 of the Gas NIC Governance Document and this Project Direction, this Project Direction may be amended or revoked under the following circumstances:

- (i) if the Funding Licensee considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees; or
- (ii) if Ofgem agrees to provide Contingency Funding, which requires the re-issue of the Project Direction; or
- (iii) if the Funding Licensee applies for Contingency Funding to cover a decrease in Direct Benefits and the Authority decides it would be in the best interest of customers to make changes to the Project Direction before the Contingency Funding would be awarded; or
- (iv) to reflect amendments made to the Licence.

## **14. HALTING OF PROJECTS**

This Project Direction is subject to the provisions contained in Chapter 8 of the Gas NIC Governance Document relating to the halting of projects. By extension, this Project Direction is subject to any decision by the Authority to halt the Project to which this Project Direction relates and to any subsequent relevant Funding Direction issued by the Authority pursuant to Special Condition 1I of the Licence.

In the event of the Authority deciding to halt the Project to which this Project Direction relates, the Authority may issue a statement to the Funding Licensee clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Project Direction.

### **NOW THEREFORE:**

In accordance with the powers contained in the Gas NIC Governance Document issued pursuant to Special Condition 1I of the Licence the Authority hereby issues this Project Direction to the Funding Licensee in relation to the Project.

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<sup>8</sup> As listed in Box 1.6 in Section 1 of the Full Submission.

This Project Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A of the Gas Act 1986.

**ANNEX 1: PROJECT BUDGET**

<b>Cost Category</b>	<b>Cost(£)</b>
Partner Labour	3,156,691.53
Equipment	1,339,400.00
Contractors	2,727,494.43
IT	-
IPR Costs	-
Travel & Expenses	28,000.00
Payments to users	-
Contingency	372,951.69
Decommissioning	10,000.00
Other	-
<b>Total</b>	<b>7,634,537.64</b>