

Electricity Network Innovation Competition Governance Document

Governance Document v.3.0

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Overview:

This document is version 3.0 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 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.

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 its licence, this Governance Document and how those provisions apply to it.

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) and electricity and gas transmission companies (RIIO-T1) from 1 April 2013. It was 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: (i) address issues associated with the move to the low carbon economy; and (ii) 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 and Revising the NIC Governance Document) of the NIC Licence Condition. This document may be revised and reissued in accordance with Part F of the NIC Licence Condition.

This is version 3.0 of the NIC Governance Document. This version supersedes all previous versions of the NIC Governance Document. In certain areas, separate provision has been made in relation to specified categories of Projects. In all other cases, the Governance Document applies in the same manner to all Projects. It does not apply retrospectively and does not impose new, or alter the existing, rights and obligations of Network Licensees or of Ofgem as they existed prior to the coming into force of this Governance Document.

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 the NIC Licence Condition (Special Condition 3I of the Electricity Transmission Licence and Charge Restriction Condition 5A 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 or Electricity Distribution Licences 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.

References in this document to licence conditions and to Project Directions are to these documents as amended from time to time. Unless a Project Direction otherwise specifies, this document takes precedence over the Project Direction where the Governance Document so provides – for example paragraph 8.17 of this document amends all Project Directions issued in Relevant Year 2016/2017 or before.

Associated documents

Electricity Act 1989

Electricity Transmission Licence – Special Condition 3I

Electricity Distribution Licence – Charge Restriction Condition 5A

Offshore Electricity Transmission Licence – Amended Standard Condition E12-J11

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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 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 that was in place under previous price controls.

The Electricity 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 began in April 2013 and will run annually until March 2023. We committed to making £30m³ available each year until March 2021 as part of the RIIO-T1 price control. An additional amount of £40m will be available each year until the end of RIIO-ED1. These amounts will be raised from transmission customers. To bid for funding, all transmission and distribution licensees compete against one another in a single electricity competition.

1.7. We expect Network Licensees to collaborate with each other and with Non-Network Licensees on Projects. 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.

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

Differences between the NIC and the NIA

1.9. The NIA is a set annual allowance that each RIIO-Network Licensee will receive to fund small-scale innovative projects as part of its price control settlement. 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.

1.10. Compared to the NIA, the NIC is focussed on funding larger scale, more complex, innovative Projects, however there is no restriction on the size of Projects (subject to the amount of funding which is available in the Relevant Year). NIC Funding is awarded through an annual competitive process. All types of innovation

³ Funding levels remain constant in nominal terms, ie no adjustment for inflation.

including commercial, operational and technical innovation are eligible for NIC funding so long as the Project has the potential to deliver low carbon and/or environmental benefits to electricity customers.

1.11. The scope of Network Licensee involvement in the NIC is also broader than in 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.

1.12. 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).

1.13. The regulation, governance and administration of the NIA is set out in the NIA Governance Document.

The Electricity NIC Governance Document

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

1.15. This document sets out: (i) the annual competitive process that Network Licensees should follow to submit Project bids to Ofgem for funding; and (ii) the Project implementation requirements if a Network Licensee is successful in winning NIC Funding.

1.16. In this document we use the terms 'Ofgem', 'the Authority', 'we', 'us' and 'our' 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.

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

Technology Readiness Levels

1.18. Technology Readiness Level (TRL) 1 – 3 (Research activities) and 9 (proven activities) will not be eligible for funding from the NIC. The term Technology Readiness Level is defined in Appendix 1.

Compliance

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

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

NIC Review

1.21. 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 Licence Condition.

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 including maintaining Collaboration and Learning Portals as well as issuing a call for ideas from Non-Network Licensees.

The requirements in this chapter apply to a Network Licensee which has the NIC Licence Condition in its licence and which has applied to the NIC for funding. These Network Licensees must comply with the requirements of this chapter unless the Authority has given its consent in writing for the relevant Network Licensee not to comply.

Collaboration Portal

2.1. We expect Network Licensees to collaborate with each other and with 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. Since the NIA Governance Document and the NIC Governance Document were first published on 1 February 2013, Network Licensees have established an online Collaboration Portal⁴ through which Non-Network Licensees can bring forward ideas to the Network Licensees for NIC Projects/NIA projects.

Requirements

2.3. Network Licensees must work collaboratively with holders of gas transporter licences and with each other to maintain the Collaboration Portal, or develop an equivalent portal (if more effective or cost-efficient than the existing portal), for the NIC and NIA so that the following content is available:

- Links to the Ofgem website, to direct potential collaborators to the NIC Governance Document;

⁴ <http://www.niccollaborationportal.org/>

- Screening Submissions and Full Submission Pro-formas;
- 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; and
- A contact point for each Network Licensee to which potential Project Partners can submit Project ideas.

2.4. 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 consultation with interested parties on the quality of information provided and the usability of the Collaboration Portal.

Additional information

2.5. 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.

Facilitating access for Non-Network Licensees

2.6. RIIO Network Licensees intending to make an application for NIC funding in a Relevant Year must first issue a call to Non-Network Licensees for Project proposals to be taken forward in the same or in a subsequent Relevant Year. The RIIO Network Licensee may submit up to two applications for NIC funding in each Relevant Year for Projects to be implemented in partnership with a Non-Network Licensee.

2.7. A Network Licensee may issue an annual call to Non-Network Licensees either individually, collectively with other Network Licensees or through organisations such as the Energy Networks Association (ENA) or the Energy Innovation Centre (EIC). When issuing the call and assessing submissions Network Licensees should follow industry best practice. However, it should be made clear that Non-Network Licensees wishing to submit a NIC proposal to a RIIO Network Licensee are not required to do so in connection with the call (ie they can separately approach one or more Network Licensees with a proposal). In the event of a collective call (whether through an organisation such as the ENA, EIC or otherwise), it should be made clear to Non-Network Licensees that they may respond to as many or as few RIIO Network Licensees as they choose.

2.8. Following each call, RIIO Network Licensees must provide feedback to Non-Network Licensees which made submissions, explaining why the submission will or will not be progressed. The feedback must also be provided to Ofgem upon request.

Knowledge Transfer Portal

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

2.10. Through the Smart Grid Forum⁵, Network Licensees have established a portal to share learning from innovative Projects. This Learning Portal is an area on the ENA website through which external parties can access the learning generated as a result of innovative Projects.

Requirements

2.11. We require Network Licensees to work collaboratively (both together and with gas network licensees) to develop and maintain the 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 Project Progress Report (PPR) for each NIC Project; and
- The Close Down Report for each finished Project.

2.12. Network Licensees must ensure that 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

2.13. 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.

2.14. 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.

⁵ The Smart Grid Forum was established by Ofgem and the (former) Department for Energy and Climate Change (DECC). The functions of DECC have since been merged with the functions of the (former) Department for Business, Innovation and Skills to form a new Department for Business, Energy and Industrial Strategy.

2.15. 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.

Sharing Project data

2.16. Network Licensees must make clear how any network or consumption data they gather in the course of a Project can be requested by interested parties. From 30 September 2017, they must have in place a publicly available data sharing policy setting out the terms on which such data will be provided. Ofgem expects Network Licensees to share network and consumption data if the party requesting it can demonstrate it is in consumers' interests to do so (subject to anonymisation and/or redaction for reasons of commercial confidentiality or other sensitivity).

3. Annual competitive process

Chapter Summary

We 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 compete to obtain funding from the NIC. Ofgem holds an annual call for submissions and allocates funding across Projects which have the potential to deliver carbon or environmental benefits and represent good value for money for customers.

3.2. Funding is 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 four Projects at the ISP stage. Any or all of those Projects which pass the ISP stage can then be developed into Full Submissions by the Network Licensee Group. However, a maximum of two of those Full Submissions may result from the Network Licensee Group's own proposals; the remainder must have resulted from Non-Network Licensee proposals (whether in connection with the call for ideas required under paragraphs 2.6 to 2.8 or otherwise). In relation to the Non-Network Licensee proposals, the Network Licensee must: (i) provide evidence of the source of the idea; and (ii) confirm its intention to implement the proposed Project in partnership with the Non-Network Licensee which submitted it.

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

3.4. Full Submissions are evaluated against a set of criteria – Evaluation Criteria – by an Expert Panel. The Expert Panel makes a recommendation to the Authority on which Projects should be awarded funding. The Authority considers the recommendation made by the Expert Panel and decides which Projects will be funded.

3.5. The maximum lifetime funding that a Project may apply for (and receive) from the Electricity NIC is £70m.

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 can be found in chapter 8 of this document and Part C of the NIC Licence Condition.

Funding Bid Preparation Costs (for Projects which passed the ISP in or before Relevant Year 2017/2018)

3.8. Paragraphs 3.9 to 3.13 only apply to Projects which passed the ISP in or before Relevant Year 2017/2018. For RIIO Network Licensees, any Bid Preparation Costs for a Project which passed the ISP in or before Relevant Year 2017/2018 must be recovered by the Network Licensee during that Relevant Year. For Non-RIIO Network Licensees, any Full Submission seeking Bid Preparation Costs for a Project which passed the ISP in or before Relevant Year 2017/2018 must be submitted by the Network Licensee during that Relevant Year.

3.9. A Network Licensee Group can use up to a maximum of £175,000 or 5 per cent of the Outstanding Funding Required, whichever is the smaller amount, 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 its proposed Project passes the ISP stage of the competition and is eligible to be developed into a Full Submission.

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

3.11. A Network Licensee Group consisting of Non-RIIO Network Licensees will be required to outline in its Full Submission in 2017, the total Bid Preparation Costs for its Project up to the £175,000 cap or 5 per cent of the Outstanding Funding requested, whichever is smaller.

3.12. 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.

3.13. 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 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 may become eligible for funding. The fact that a Project has passed the ISP is without prejudice to any future decisions we may make in relation to the Project (including whether funding should be granted) and does not affect the requirements with which the Project has to comply including all relevant legislation, licence requirements and the Governance Document.

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 in relation to 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 with 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 chapter refer to the 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.

4.6. Ofgem will announce a Screening Submission⁶ deadline (see paragraph 3.3) by which Network Licensees must submit a summary proposal – the Screening Submission - of any Project they wish to be considered for NIC Funding that year. A Network Licensee Group may submit up to four Screening Submissions to Ofgem for consideration in any Relevant Year in its capacity as Funding Licensee. A maximum of two Screening Submissions may result from the Network Licensee Group’s own proposals; the remainder must have resulted from Non-Network Licensee proposals (whether in connection with the call for ideas required under paragraphs 2.6 to 2.8 or otherwise). In relation to the Non-Network Licensee proposals, the Network Licensee must: (i) provide evidence of the source of the idea; and (ii) confirm its intention to implement the proposed Project in partnership with the Non-Network Licensee which submitted it.

4.7. 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

4.8. In order to pass the ISP, a Project must meet the Eligibility Requirements. The Eligibility Requirements comprise the specific requirements of paragraph 4.9 below and each of the four ISP criteria detailed in paragraphs 4.10 to 4.20 below. 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

4.9. 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.

⁶ The Network Licensee’s submission for the ISP.

ISP criteria

4.10. In addition to meeting one or more of the requirements set out in paragraph 4.9, 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

4.11. 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.

4.12. To demonstrate compliance with this criterion, the Network Licensee will be required to provide the following information in its 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 Plan" published by DECC (now known as BEIS⁷), or its successor. In particular, the Network Licensee should outline:
 - What aspects of the Carbon Plan (or its successor) the Solution facilitates;
 - The contribution the roll-out of the Method across GB can have in facilitating these aspects of the Carbon Plan (or its successor); 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; 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.

⁷ The Department for Business, Energy & Industrial Strategy, which merged the functions of the former Department of Energy and Climate Change and the Department for Business, Innovation and Skills.

b) Delivers value for money for electricity customers

4.13. 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.

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

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

- i. What the potential Direct Impact of the Project on a Network Licensee's electricity network or on the operations of the GB System Operator is;
- 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 GB or create opportunities for roll-out across a significant proportion of GB networks

4.16. 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.

4.17. To demonstrate compliance with this criterion, the Network Licensee will be required to provide the following information in its 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 Intellectual Property Rights (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

4.18. 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 would not speculatively fund them.

4.19. The Network Licensee must demonstrate that the Project it 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.

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

- i. Why the Project is innovative and has not been tried before;
- iii. Why the Network Licensee will not fund such a Project as part of its business as usual activities; and
- iv. 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

4.21. In order for a NIC Project to pass the ISP it must conform to the process set out below in paragraphs 4.22 to 4.33.

4.22. Network Licensees must submit their Screening Submissions by the specific Screening Submission date set by Ofgem – see paragraph 3.3 in relation to the ISP deadline.

4.23. Network Licensees should submit their Screening Submissions via a secure online portal or secure email, or through 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.

4.24. 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 Submissions. The information which we will require in the Screening Submission Pro-forma is set out in Table 4.1 below.

4.25. In relation to a Cross-Industry Project, Network Licensees must submit a joint Screening Submission stating what funding they are requesting from which competition. The level of funding requested from each competition should be commensurate with the expected benefits for customers in the relevant sector.

4.26. Ofgem will confirm receipt of the Screening 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.

4.27. 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 made by Ofgem. If the missing information is not provided within these two Working Days then the Project will be deemed to have failed the ISP.

4.28. 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 its Screening Submission has failed to meet the Eligibility Requirements. This notification will set out Ofgem's reasons. Ofgem will publish a list of Projects which have passed the ISP twenty Working Days following the Screening Submission date.

4.29. If, during the twenty Working Day evaluation period following the date of the ISP submission, Ofgem considers that additional information will be needed to assess whether the Screening Submission has met the Eligibility Requirements then the Authority may extend the evaluation period by twenty Working Days, or any part thereof, from the day when Ofgem receives the additional information. The purpose of any extension is for Ofgem to confirm whether the Screening Submission has met the Eligibility Requirements.

4.30. All notification letters will be first sent to Network Licensees (via email) and will then be published on Ofgem's website. Publication of the Screening Submissions is described in the publication section below – paragraph 4.35.

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

4.32. 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 through the submission of a Full Submission.

Screening Submission

4.33. The table below sets out the information which a Network Licensee will be required to provide in a completed Screening Submission Pro-Forma.

4.34. In the table below, for the purposes of Cross-Industry Projects, references to 'customers' include both gas and electricity customers.

Table 4.1

Pro-forma category	Information required
Project title	
Funding Licensee	The Funding Licensee for the Project.
Network Licensee Project Partners	Where there is collaboration between Network Licensees, the Funding Licensee's partner(s) should be identified here.
Will the Project be implemented in partnership with a Non-Network Licensee?	Yes/No. If yes, confirm the identity of the Non-Network Licensee.
Cross-Industry Project?	Yes/No.
Estimated Project funding	The Funding Licensee must provide an approximate figure of the total cost of the Project and the amount of funding from the Electricity NIC (and the Gas NIC in relation to a Cross-Industry Project) for which it considers it will apply in the Full Submission. The Network Licensee should also indicate if the Project is requesting funding from the NIA. In relation to Projects which passed the ISP in or before Relevant Year 2017/2018, a Network Licensee Group (consisting of Non-RIIO Network Licensees) which intends to request recovery of Bid Preparation Costs in its Full Submission must provide details

	and evidence to support its approximate Bid Preparation Costs ⁸ .
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 it will develop or demonstrate. 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 4.9. A Project must meet at least one specific requirement in order to pass the ISP.
Technology Readiness Level at start	TRL number (4 to 8).
Technology Readiness Level at completion	TRL number (4 to 9).
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 (or its successor) and/or has wider environmental benefits for its customers. In relation to Cross-Industry Projects, any differential impact on gas and electricity customers should be described.
Delivers net financial benefits to existing and/or future customers	The Funding Licensee must demonstrate how the Method(s) that it will develop or demonstrate has/have 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. In relation to Cross-Industry Projects, any differential

⁸ Paragraph 3.8 describes when Bid Preparation Costs may be applied for in a Full Submission.

	<p>impact on gas and electricity customers should be described.</p>
<p>Provides value for money for electricity customers</p>	<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 customers. In relation to Cross-Industry Projects, any differential impact on gas and electricity customers should be described.</p>
<p>Demonstrates the Project is innovative and generates knowledge that can be shared amongst all Network Licensees</p>	<p>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. In relation to Cross-Industry Projects, any differential impact on gas and electricity customers should be described.</p>
<p>Project Partners and External Funding</p>	<p>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.</p>
<p>Derogations or exemptions</p>	<p>The Funding Licensee should outline if it considers that the Project will require</p>

	any derogations, exemptions or changes from/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). In relation to Cross-Industry Projects, any differential impact on gas and electricity customers should be described.
Data access details	The Funding Licensee should describe how any network or consumption data gathered in the course of a Project can be requested by interested parties. This requirement may be met by including a link to the publicly available data sharing policy which is required by paragraph 2.16.

Publication

4.35. Following the ISP deadline, Ofgem will publish the Screening Submissions 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.

Project changes

4.36. The purpose of the ISP is to prevent Network Licensees from incurring costs in developing Projects which would not be eligible to receive funding through the NIC and to identify Projects which may be eligible to receive such funding. 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 could change their Projects substantially between the ISP and Full Submission, then the purpose of the ISP would be defeated.

4.37. 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).

4.38. 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

provide new ideas on how learning from the Project could be disseminated. 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 in the following circumstances: (i) where the Network Licensee wishes to revert to the default IPR arrangements; or (ii) where 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.

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

5. Full Submission Process

Chapter Summary

We 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 Project which has failed the ISP may not be submitted by a Network Licensee for Full Submission - see paragraphs 4.27 to 4.32 for further information about the screening process. For each Project submitted at Full Submission, the Network Licensee must demonstrate that it has complied with the requirements set out in this chapter.

5.2. In any Relevant Year, a Network Licensee Group may submit up to four Projects which have passed the ISP for Full Submission in its capacity as Funding Licensee. A maximum of two Projects may result from the Network Licensee Group's own proposals; the remainder must have resulted from Non-Network Licensee proposals (whether in connection with the call for ideas required under paragraphs 2.6 to 2.8 or otherwise). In relation to the Non-Network Licensee proposals, the Network Licensee must: (i) provide evidence of the source of the idea; and (ii) confirm its intention to implement the proposed Project in partnership with the Non-Network Licensee which submitted it. 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 Ofgem to consider a Project for funding, a Network Licensee must submit a Full Submission by the Full Submission date set by Ofgem – see paragraph 3.3.

5.5. A Network Licensee must:

- submit the Full Submission (consisting of the Full Submission Pro-forma and Full Submission appendices) in its original format and also in a single PDF file which is formatted to print out the whole submission on A4 pages⁹;
- provide eight ring bound copies of the Full Submission to Ofgem within two Working Days of the Full Submission date.

5.6. Any Full Submission submitted electronically after 17:00 on the Full Submission date will not be considered for funding.

5.7. A Network Licensee should submit Full Submissions via a secure online portal into the relevant folder for that Network Licensee (or via 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.

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

5.9. While Full Submissions will be published after the notification of the NIC Funding award (see 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

5.10. Network 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;
- Customer impact of Project implementation;
- Project management structure and related information;

⁹ If required the Full Submission costs spreadsheet may be submitted in a separate file and formatted to print in A3.

- Derogations/exemptions that the Project would/may require;
- Proposed Project Deliverables for the Project;
- Data access details (see paragraph 2.16);
- 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.

5.11. The length of the Full Submission Pro-forma (including appendices) should be no more than 100 pages¹⁰. 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 Calendar 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 details required within each of the categories, and rules/advice on completion of the pro-forma and content of appendices.

5.12. 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 one or more of its Project Participants), will face commercial harm from its disclosure. The Network Licensee must provide Ofgem with a non-confidential version which may be published by Ofgem.

Derogations and requests to change regulatory arrangements

5.13. 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 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.

5.14. The evidence that should be submitted for potential derogation requests should follow the latest guidance on licence derogation requests, as published on the derogations page of the Ofgem website¹¹. 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 and 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

¹⁰ This does not include any spreadsheets that are submitted.

¹¹ See [Ofgem's website](#) for further information on Derogation requests.

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

5.15. A Network 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 Customer (eg through charging or contractual arrangements or supply interruptions).

Projects involving interruptions to customers' supply

5.16. 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.

5.17. 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

5.18. 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 £70m. 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.

5.19. 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 Project¹²; and
- **Bid Preparation Costs (only for Projects which passed the ISP in or before Relevant Year 2017/2018):** A Network Licensee Group (consisting of Non-RIIO Network Licensees) applying for Bid Preparation Costs in Relevant Year 2017/2018 should provide detailed evidence of the amount of Bid Preparation Costs it has incurred up to £175,000 or 5 per cent of Outstanding Funding required. Paragraph 5.26 describes when Bid Preparation Costs may be applied for in a Full Submission.

5.20. The Network Licensee's Funding Request is automatically calculated within the Full Submission Spreadsheet which Ofgem will provide two Calendar Months prior to the Full Submission deadline. The bank interest shall be calculated at mid-year 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.

Adjustments and assumptions

5.21. 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.

5.22. In addition, the following adjustments and assumptions should be made when determining the value of the terms defined in paragraph 5.19:

- **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 Network 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's Compulsory Contribution, then the Initial Net Funding

¹² 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.

Required less the Network Licensee's 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 Network Licensee has to transfer funding equal 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 paragraphs 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.
- **Retail Price Index (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 (for Projects which passed the ISP in or before Relevant Year 2017/2018)

5.23. Paragraphs 5.24 – 5.27 apply only to Projects which passed the ISP in or before Relevant Year 2017/2018. For RIIO Network Licensees, any Bid Preparation Costs for a Project which passed the ISP in or before Relevant Year 2017/2018 must be recovered by the Network Licensee during that Relevant Year. For Non-RIIO Network Licensees, any Full Submission seeking Bid Preparation Costs for a Project which passed the ISP in or before Relevant Year 2017/2018 must be submitted by the Network Licensee during that Relevant Year.

5.24. 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.

5.25. 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).

5.26. 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 with the NIC annual conference.

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

Project Deliverables

5.28. A Network Licensee must set out the Project Deliverables that it proposes for its Project as part of its Full Submission.

5.29. There should be no more than ten Project Deliverables for each Project. The Network Licensee must propose the percentage of Project funding which should be assigned to each Project Deliverable. The proposed percentage must be proportionate to the Project Deliverable. Where a Project Deliverable is not delivered at the end of the Project we will consider whether funding should be returned to customers using the Funding Return Mechanism (see paragraphs 8.66 – 8.69). If the Network Licensee is deemed by Ofgem to be at fault for the non-delivery of the Project Deliverable, Ofgem may decide to return the funding associated with the Project Deliverable in question.

5.30. It is the proportion of funding assigned to a Project Deliverable in the Project Direction that Ofgem may decide to return. It is not necessarily the specific amount allocated to each Project Deliverable in the Project budget set out in the Project Direction, because that may be amended.

5.31. The Expert Panel and Ofgem may suggest changes to the Project Deliverables proposed within the Full Submission as part of their consideration of the Full Submission. The Network Licensee does not have to accept these changes, but if it does then the revised Project Deliverables will be deemed to be part of the Full Submission. The Expert Panel and the Authority will consider the quality of the Project Deliverables as part of the Evaluation Criteria (see paragraphs 5.41 – 5.62).

Evaluation process

5.32. Ofgem will appoint an Expert Panel that will provide a recommendation to the Authority as to which Projects should receive funding. The Authority will make the decision in relation to which Projects should be awarded funding and will take into account the recommendation of the Expert Panel in awarding funding from the Electricity NIC.

5.33. Ofgem may appoint consultants to assist the Expert Panel or the Authority as appropriate.

5.34. Any materials/documents produced by the consultants, together with the Full Submissions (including any written clarifications), will be made available to the Expert Panel and to 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.

5.35. For each Full Submission that complies with the requirements of paragraphs 5.4 - 5.12, the Expert Panel will have a meeting or meetings, to discuss that Project with the Funding Licensee and the Project team (when considering a Cross-Industry Project, there will be a joint meeting of the gas and electricity Expert Panels). 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).

5.36. 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 ask further questions during the meeting. These questions may include asking the Network Licensee whether it will consider changing its proposed Project Deliverables. The Network Licensee may submit written responses to these questions, or choose to answer them orally at the meeting(s). 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 be deemed to be part of the Full Submission and the requirements as regards confidentiality will apply.

5.37. 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 be deemed to be part of the Full Submission and the requirements as regards confidentiality will apply.

5.38. 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 its Full Submission. The Network Licensees must state which sections of the Full Submission its responses alter.

5.39. 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.

5.40. Network Licensees must resubmit their Full Submissions via the secure online portal (or by other means described in paragraph 5.7) 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 set out either: (i) in an addendum, in which case the original Full Submission should not be amended; or (ii) in a track-changed version of the Full Submission which is submitted alongside a clean version of the revised Full Submission. This revised copy will be published on Ofgem's website following the end of the Full Submission process.

Evaluation Criteria

5.41. 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 (having taken account of the Expert Panel's recommendation), 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: (i) NIC Projects that have been awarded funding in the past, or are seeking funding as part of the same Full Submission process; (ii) NIA projects; and (iii) the first tier and second tier LCN Fund projects that were awarded funding in the past.

5.42. In relation to a Cross-Industry Project, Network Licensees must submit a joint submission stating what funding they are requesting from which competition. As set out in paragraph 5.35, there will be a joint meeting of the gas and electricity Expert Panels. The level of funding requested from each competition should be commensurate with the expected benefits for customers in the relevant sector.

5.43. 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.

5.44. 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 will conduct their own evaluation to allow consistent comparisons to be made between Full Submissions.

5.45. The Evaluation Criteria that will be taken into account in evaluating NIC Projects are set out below in paragraphs 5.46 to 5.62.

(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

5.46. 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.

5.47. When evaluating how Projects perform against this criterion, consideration will be given to the information outlined in paragraph 5.48 below.

5.48. If a Project has potential carbon benefits, information under parts (i) and (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 (now known as BEIS), or its successor, in particular:
 - What aspects of the Carbon Plan (or its successor) the Solution facilitates;
 - The contribution the roll-out of the Method across GB can play in facilitating these aspects of the Carbon Plan (or its successor); 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 capacity¹³ 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

¹³ 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.

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; and
 - 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.
- 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; and
 - 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

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

5.50. 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.

5.51. 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 whose actions may have an impact on the operation of the Network Licensee's network.

5.52. The better the value for money of the components of the Project, the better the Project will be considered to have performed 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

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

5.54. 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 and/or 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;

- iv. The robustness of the methodology to capture the results from the Project and disseminate the learning to other Network Licensees; and
- 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

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

5.56. 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.

5.57. 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; and
- 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

5.58. 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 seek 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 its Compulsory Contribution.

5.59. 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 of the Collaboration Portal, and how the Network Licensee has utilised the Collaboration Portal to seek collaborators;
 - How the Network Licensee has actively sought out ideas for Projects; and
 - The processes the Network Licensee goes through to decide which of the available ideas it takes 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 to obtain External Funding will be taken into account, even if it has not resulted in collaboration or funding from parties outside the ownership group of which the Network Licensee is part; and
- v. Accessing secure additional funding will be a positive factor: the higher the proportion of External Funding to requested NIC Funding the better. This may be from other External Funders or from Project Partners which 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.

(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 the fact that both knowledge and technology are 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 the Network Licensee's 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 have sufficient evidence 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 that the Network Licensee will employ to minimise the possibility of cost overruns or shortfalls in Direct Benefits;

- vi. 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;
- vii. The quality of the Project Deliverables proposed by the Network Licensee;
- viii. The proportion of funding the Network Licensee proposes to allocate to each Project Deliverable;
- ix. The verification of all of the 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 to (subject to giving Project Directions), by 30 November in each Relevant Year. In addition to publishing the Authority's decision, Ofgem will publish the report by the Expert Panel (excluding any confidential information – see paragraph 5.12), setting out its recommendation to the Authority and all non-confidential information provided as part of the Full Submission process.

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 under paragraph 5.63, 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 by 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 with 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 to which the Network Licensee is committing 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/rejected; 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 of the terms within it (subject to amendment or revocation of the Project Direction and the provisions concerning project changes set out in this Governance Document). 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.

6. Implementation requirements overview

Chapter Summary

This chapter provides an overview of chapters 6 to 10 of this Governance Document which cover the Project implementation requirements.

- 6.1. Chapters 6 to 10 outline the Project implementation requirements to which a Funding Licensee must adhere once a Project has been awarded NIC Funding and the Funding Licensee has accepted the Project Direction issued by the Authority. These requirements are designed to ensure customers, who have funded NIC Projects, are getting value for money from their investment.
- 6.2. Chapter 7 sets out the information that will be published in the Funding Direction and the process for issuing the Funding Direction each year.
- 6.3. Chapter 8 sets out the requirements to which a Network Licensee must adhere if it is awarded funding for a NIC Project including: bank account arrangements; customer protection; reporting obligations; project changes; and the requirement to organise an annual conference. It also describes the mechanisms by which additional funds may be provided to the Funding Licensee or a proportion of funds may be returned to customers by Ofgem.
- 6.4. Chapter 9 describes the default treatment of Intellectual Property Rights (IPR) which Ofgem has created to facilitate knowledge transfer.
- 6.5. Chapter 10 sets out the treatment and calculation of royalties generated through a NIC Project.

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 out 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
- Set out 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 plus any Successful Delivery Reward and less any Funding Return. NIC Funding includes any Approved Amounts.

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 of 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. In relation to Projects where a Project Direction was issued in or before Relevant Year 2016/2017 only, the Contingency Funding that has been awarded for each Network Licensee for the recovery of cost overruns and shortfalls in Direct Benefits;
- iii. In a Funding Direction issued in or before Relevant Year 2017/2018 only, the Bid Preparation Costs that a Non-RIIO Network Licensee can recover;
- iv. In relation to Projects where a Project Direction was issued in or before Relevant Year 2016/2017 only, any Successful Delivery Reward amounts that have not already been funded through previous Funding Directions for each Network Licensee;

- v. Halted Project Revenues, Disallowed Expenditure and Returned Project Revenues that have not already been recovered through previous Funding Directions for each Network Licensee;
- vi. Returned Royalty Income to be returned to customers from each Network Licensee, as calculated in accordance with chapter 10;
- vii. The calculation determining the Approved Amounts in (i); where applicable, the Contingency Funding in (ii); where applicable, the Bid Preparation Costs in (iii); where applicable, the Successful Delivery Reward Criteria in (iv); the Halted Project Revenues, Disallowed Expenditure and Returned Project Revenues in (v); and Returned NIC Royalties in (vi) above for each Network Licensee; and
- viii. 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 Network Licensees to ensure that the Network Licensees receive the Approved Amounts in (i); where applicable, the Contingency Funding in (ii); where applicable the Preparation Costs in (iii); where applicable the Successful Delivery Reward amounts in (iv); and refund the Halted Project Revenues, Disallowed Expenditure and Returned Project Revenues in (v) and Returned Royalty Income in (vi).

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 to which a Network Licensee must adhere if it is awarded funding for a NIC Project.

Compliance

8.1. The Funding Licensee must ensure the Project, in its entirety, is undertaken in accordance with the NIC Licence Condition, this Governance Document and the relevant Project Direction. This includes ensuring compliance with the NIC Licence Condition, this Governance Document and the relevant Project Direction 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 or where the Funding Licensee is unable to keep the funds in a separate bank account, it may keep the funds in a manner which meets the criteria set out in paragraphs 8.3 to 8.7 below.

Arrangements where the Funding Licensee is unable to keep the NIC funds in a separate bank account

8.3. Where the Funding Licensee is unable to keep the NIC funds in a separate bank account, it 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.

8.4. The 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 paragraph 8.4(vi) above), as part of its Project Progress Reports (PPR) to Ofgem.

Use of the Project Bank Account

8.8. The Project Bank Account must be used for the sole purpose of holding any Approved Amounts, the Network Licensee's 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. 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 in which the Funding Licensee identified they would be used in the Full Submission.

8.9. 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 protection requirements

8.10. The Funding Licensee (and/or its contractors) and its Project Partners must:

- 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 in the geographical area relevant to the Project to ensure that the Project does not impede the implementation of the roll-out in any way.

Reporting requirements: Project Progress Report (PPR)

8.11. The Funding Licensee will be required to provide a detailed report, the Project Progress Report (PPR), which contains sufficient detail to allow Ofgem to evaluate the progress of the Project.

8.12. For Projects in respect of which the decision was taken to award funding in Relevant Year 2017/2018 or later, a PPR should be provided no later than one year after the date of the Project Direction. For Projects in respect of which the decision was taken to award funding in Relevant Year 2016/2017 or earlier, a PPR should be provided no later than one year after the date of the Project Direction or one year after the date of the last PPR provided in relation to the Project, whichever is earlier. Network Licensees may wish to combine the requirements of the annual PPR with reporting requirements under the NIA Governance Document.

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

8.14. When sending the PPR to Ofgem, the Funding Licensee should clearly identify any information in the PPR that it does not consent to being published in full. This information must be included in a separate confidential annex to Ofgem. The Funding Licensee must demonstrate that it (or its Project Partners) will face commercial harm from disclosure of the information.

8.15. 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 an account of the progress of the Project in the relevant 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 relevant period; and details of any Dissemination activities carried out in the relevant 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 the 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 year. It should describe any issues of note that were faced in the relevant 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 it is against where it 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.
- **Project Bank Account:** The Funding Licensee should provide a bank statement or statements detailing the transactions of the separate bank account for the NIC funds over the relevant reporting period or, where the alternative arrangements described in paragraph 8.3 to 8.7 apply, an audited schedule of all the memorandum account transactions including interest as stipulated in the Project Direction.
- **Successful Delivery Reward Criteria:** In relation to Projects in respect of which a Project Direction was issued in or before Relevant Year 2016/2017, the Funding Licensee should provide a brief narrative against each of the SDRCs set out in its Project Direction. The narrative should describe progress towards the SDRCs and any challenges the Funding Licensee may face in the next reporting period.
- **Project Deliverables:** In relation to Projects in respect of which a Project Direction was issued in or after Relevant Year 2017/2018 only, the Funding Licensee should provide a brief narrative against each of the Project Deliverables set out in its Project Direction. The narrative should describe progress towards the Project Deliverables and any challenges the Funding Licensee may face in the next reporting period.
- **Data access details:** The Funding Licensee should describe the process by which interested parties can request and Network Licensees will make available network and consumption data gathered as a result of innovation projects. This requirement may be met by including a link to the publicly available data sharing policy which is required by paragraph 2.16.
- **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 it generated as part of the Project over the reporting period.

- **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 from it. 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 relevant 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.
- **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.
- **Material change information:** In relation to Projects in respect of which a Project Direction was issued in or after Relevant Year 2017/2018 only, details of any Material Change which has occurred in the relevant reporting period.
- **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.

8.16. 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.

Amendment to Project Directions issued in Relevant Year 2016/2017 or before

8.17. In all Project Directions issued in Relevant Year 2016/2017 or before, for the paragraph in the Schedule titled 'Amendment or Revocation' substitute:

"AMENDMENT OR REVOCATION

This Project Direction may be amended or revoked:

- i. in accordance with Chapter 8 of the Electricity NIC Governance Document;

- ii. to reflect amendments to the Licence; or
- iii. at such other times as the Authority considers it reasonable.”.

Project changes

8.18. Paragraphs 8.19 to 8.34 describe how and when changes may be made to a Project. Different provision is made in relation to Projects in respect of which a Project Direction was issued in or before Relevant Year 2016/2017 and those in respect of which a Project Direction is issued in or after Relevant Year 2017/2018.

Project changes in relation to Projects in respect of which a Project Direction was issued in or before Relevant Year 2016/2017

8.19. Paragraphs 8.20 to 8.25 apply to Projects in respect of which a Project Direction was issued in or before Relevant Year 2016/2017.

8.20. Changes to the Project Direction will only be made where there has been a Material Change in circumstances. The term Material Change is defined in Appendix 1.

8.21. If a Funding Licensee considers that there has been a Material Change in circumstances, it must submit a request to Ofgem to change the Project Direction. 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 interests of customers. Once Ofgem has enough information to make this decision, it will provide its response in writing to the Funding Licensee, including any revisions it has decided to make to the Project Direction.

8.22. Any change to the Project which is not a Material Change may be made by the Funding Licensee without notification to Ofgem or a change to the Project Direction subject to the overarching change restrictions in paragraphs 8.25 and 8.25 below.

8.23. A Material Change includes (but is not limited to) the following:

- A change which alone or together with other changes delays the Project end date by more than one year;
- A change which alone or together with other changes delays the achievement of one or more Successful Delivery Reward Criteria by more than one year;
- A change to any project learning which the Network Licensee is expected to deliver in compliance with the Project Direction;

- A change to the Project Partner(s) set out in the Project Direction (because an additional or replacement Project Partner is sought by the Network Licensee).

8.24. The following non-exhaustive list of examples do not constitute a Material Change:

- A change in the allocation of funds to the cost categories set out in the Project Direction, provided the change does not increase the overall Project budget (unless any increase is met by additional contributions from the Network Licensee or its Project Partners);
- An overspend in the Project budget set out in the Project Direction, provided the overspend is met by additional contributions from the Network Licensee or its Project Partners.

8.25. In the event that the Project end date is delayed, the new Project end date must be no later than two years after the original Project end date.

8.26. In the event that the achievement of a Successful Delivery Reward criterion is delayed by more than one year, the new date for its achievement must be on or before the Project end date (whether the original end date or an end date delayed in line with paragraph 8.25 above).

Project changes in relation to Projects in respect of which a Project Direction was issued in or after Relevant Year 2017/2018

8.27. Paragraphs 8.28 to 8.33 apply to Projects in respect of which a Project Direction was issued in or after Relevant Year 2017/2018.

8.28. The Network Licensee must record and notify Ofgem of all Material Changes in the Project Progress Report (or Close Down Report if applicable) which falls due after the Material Change being made. It is not necessary to submit a request to Ofgem to change the Project Direction in respect of any change to the Project, subject to the overarching change restrictions set out in paragraphs 8.30 to 8.32.

8.29. A Material Change includes (but is not limited to) the following:

- A change which alone or together with other changes delays the Project end-date by more than one year;
- A change which alone or together with other changes delays the achievement of one or more Project Deliverables by more than one year;
- A change to any project learning which the Network Licensee is expected to deliver in compliance with the Project Direction;

- A change to the Project Partner(s) set out in the Project Direction (because an additional or replacement Project Partner is sought by the Network Licensee).

8.30. In the event that the Project end date is delayed, the new Project end date must be no later than two years after the original Project end date.

8.31. In the event that a Project Deliverable is delayed by more than one year, the new date for achievement of the Project Deliverable must be on or before the Project end date (whether the original end date or an end date delayed in line with paragraph 8.30 above).

8.32. A Project Deliverable may not be changed by the Network Licensee except in relation to the date of its delivery, as described in paragraph 8.31. Any other change to a Project Deliverable must be submitted to Ofgem as a change request.

8.33. A Material Change does not include the following non-exhaustive list of examples:

- A change in the allocation of funds to the cost categories set out in the Project Direction, provided the change does not increase the overall Project budget (unless any increase is met by additional contributions from the Network Licensee or its Project Partners);
- An overspend in the Project budget set out in the Project Direction, provided the overspend is met by additional contributions from the Network Licensee or its Project Partners.

Reporting requirements: Close Down Report

8.34. Network Licensees must provide a Close Down Report for each Project that has received NIC Funding. The Close Down Report must provide sufficient information for third parties to understand what has been learnt from the Project, including complying with the requirements of paragraph 9.13 of this document. If the Project has generated IPR that Ofgem has provided 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.

8.35. The Network Licensee must submit its Close Down Report to Ofgem within three Calendar Months of the Project end date set out in the Project Direction (or an alternative Project end date which has been changed in accordance with paragraphs 8.19 – 8.32), or if a Project has been halted, within three Calendar Months of Ofgem approving the halting of the Project.

8.36. As part of the Close Down Report, the Network Licensee must identify any unspent Approved Amounts and additional funding for the Project. This will be deemed to be Disallowed Expenditure.

8.37. Subject to its obligations to generate new knowledge that can be shared among all Network Licensees, a Network Licensee can withhold information from the Close Down Report if Ofgem considers that it has demonstrated that it (or one or more of its Project Partners) will face commercial harm from disclosure.

8.38. Detailed guidance on what should be included within this Close Down Report is in Appendix 2 to this document. In addition, the Network Licensee must provide, for review, a draft of each Close Down Report to at least one other Network Licensee. The reviewing Network Licensee will need to review the draft Close Down Report before its publication. Evidence of robust peer review will be a key consideration in our decision of whether to accept the Close Down Report¹⁴.

8.39. The reviewing Network Licensee should review the Close Down Report and evaluate whether the Close Down Report is clear and understandable and provides sufficient information to enable a Network Licensee, not closely involved in the Project, to effectively consider whether and how to implement the Project's learning in to its business as usual activities. Where the report provides sufficient information this should be confirmed in writing.

8.40. Where the reviewer provides this confirmation, the Network Licensee developing the Close Down Report should publish it alongside the final version of the report. Where the reviewer does not consider the Close Down Report meets these requirements, it should provide feedback on the areas for improvement. Before publishing the report the Network Licensee should update its Close Down Report to account for such feedback. It should also demonstrate how it has addressed the reviewing Network Licensee's comments.

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

8.42. The Funding Licensees should make the Close Down Report publicly available on the Learning Portal or equivalent (see paragraphs 2.9 – 2.10).

Halting a Project

8.43. 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

¹⁴ In the event that there are no other Network Licensees to review the Close Down Report (eg because they are all participating in the Project), the Network Licensee may use an alternative peer reviewer who is a party not directly affiliated with the Project. In this case, the choice of peer reviewer must be justified in the Close Down Report.

reasons why it is not efficient, or it is otherwise 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 for 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:

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

8.44. As part of the process to evaluate whether a Project should be halted, either at the request of Ofgem or at the request of 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 interests of customers and identifying any costs it will incur and the actions required in halting the Project.

8.45. If Ofgem is satisfied that it is appropriate in the circumstances, including that 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.

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

8.47. 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 categorising expenditure as Disallowed Expenditure is set out in paragraphs 8.66 – 8.69.

Applications for Contingency Funding (for Projects in respect of which a Project Direction was issued in or before Relevant Year 2016/2017)

8.48. Paragraphs 8.49 to 8.55 apply to Projects in respect of which a Project Direction was issued in or before Relevant Year 2016/2017.

8.49. We previously said we may provide some protection for cost overruns and non-realisation of Direct Benefits as set out below. Protection will not be provided for poor project management and Network Licensees are required to employ all

reasonable endeavours to deliver Projects 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.

8.50. 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.

8.51. 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 interests 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.

8.52. If a Funding Licensee applies to Ofgem for Contingency Funding for a cost overrun, it will not be eligible to receive the NIC Successful Delivery Reward for that Project. A Funding Licensee 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.

8.53. 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.

8.54. 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 interests 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.

8.55. If Ofgem does allow Contingency Funding to be recovered, 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 (for Projects where a Project Direction was issued in or before Relevant Year 2016/2017)

8.56. The NIC Successful Delivery Reward is designed to reward those Projects that are well managed and completed at least to the standard that could be expected given the information provided in the Full Submission. The Successful Delivery Reward Criteria against which the Projects will be judged are set out in the Project Directions.

Process

8.57. The Network Licensee can apply to Ofgem to receive a NIC Successful Delivery Reward for a NIC Project once its Close Down Report for that Project has been peer reviewed and published as described in paragraphs 8.38 – 8.40 above. Submissions for the Successful Delivery Reward must be made by 1 May each Relevant Year to be considered during that year's assessment window. Ofgem will assess submissions in an annual assessment window between 1 May and 31 July.

8.58. The Network Licensee can enter any assessment window once the Project has concluded and the Close Down Report has been published. The last window will occur one year after the final NIC Project has concluded.

8.59. Ofgem has issued guidance (contained in Appendix 3) on the application process to applicants in advance of the assessment. Ofgem may issue further guidance from time to time. Any new guidance will be issued two Calendar Months in advance of the assessment.

8.60. The Network Licensee must provide sufficient evidence to allow Ofgem to evaluate the application. The Network Licensee may be permitted to resubmit its application in light of any clarification asked by Ofgem. Any resubmission or additional evidence submission may affect the timing of our decision. Ofgem may also use any other information it has gathered throughout the duration of the Project to inform its evaluation. If Ofgem considers that there is insufficient evidence to evaluate the application then the request for a Successful Delivery Reward will be rejected and the Network Licensee will be notified.

8.61. The maximum level of the Successful Delivery Reward is set out in the Project Direction and cannot exceed the level of the Network Licensee's Compulsory Contribution. The Authority will determine the level of the Successful Delivery Reward that may be awarded to the Network Licensee. This may be all, part or none of the amount requested.

8.62. Ofgem will notify the Network Licensee of the value of its reward by 31 July or as soon as reasonably practicable thereafter. This notification will set out whether the Project has been awarded a Successful Delivery Reward and, if so, its value. This additional amount will be included in a subsequent Funding Direction.

Assessment

8.63. 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. Ofgem will assess whether the Project delivered Successful Delivery Reward Criteria outputs in a timely, cost effective manner and whether the outputs were of sufficient quality to have satisfied the requirements of the Successful Delivery Reward Criteria which were included in the Project Direction. The Network Licensee should provide evidence of this and should also consider consulting on its application with stakeholders, including Non-Network Licensees. Ofgem reserves the right to publish and seek comments from stakeholders on applications.

8.64. The Network Licensee should provide robust evidence demonstrating how the Project has managed uncertainty and change. This should include evidence of appropriate Project governance and risk management, including timely mitigation and the impact of any residual risks on the outcomes of the Project. Projects which have submitted change requests should provide evidence to Ofgem on how well the change was managed and how well the Project performed against what was originally intended.

8.65. A NIC Project that puts in a request to recover cost overruns will not be eligible to receive a NIC Successful Delivery Reward. NIC Projects which have submitted change requests can apply to the NIC Successful Delivery Reward.

Disallowed Expenditure and Halted Project Revenues.

8.66. 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. In particular, it includes the proportion of funds associated with a Project Deliverable (as proposed by the Network Licensee), where the Network Licensee is deemed by Ofgem to be at fault for the non-delivery of that Project Deliverable (see paragraphs 5.28 – 5.31 and 8.82).

8.67. 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.

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

8.69. 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.

Returned Project Revenues

8.70. Returned Project Revenues are revenues that fall into one of the categories below and may be returned to customers, or retained by the Funding Licensee, through the Funding Return Mechanism. The categories of revenues are:

- Category 1: revenues generated by the Project that are specifically identified in the Project Direction, other than Returned Royalty Income; and
- Category 2: underspent NIC Funding, as a result of the Project acting in line with its Project Direction.

8.71. Returned Project Revenues may be returned to customers (or retained by the Funding Licensee) through the Funding Direction (see chapter 7 above) in accordance with the guidance below.

Return of revenues generated by the NIC Project

8.72. Paragraphs 8.73 to 8.75 apply to Category 1 revenues as defined in paragraph 8.70 above:

Notification of revenues

8.73. Any revenues earned that are subject to return under this mechanism, must be identified in the Project Direction. In determining what, if any, revenues should be subject to this mechanism:

- *For Projects in relation to which a Project Direction was issued in or after Relevant Year 2018/2019* - it is for the Funding Licensee in its Full Submission, to identify any revenues that could be earned from its Project that may be subject to this mechanism. The revenue stream will be reflected in the Project Direction.
- *For Projects in relation to which a Project Direction was issued in or before Relevant Year 2017/2018* - it is for the Funding Licensee to identify and liaise with the Ofgem project officer, on a potential revenue stream that may be subject to this mechanism. The Project Direction will be amended to identify this revenue stream.

Time limit for revenues to be returned

8.74. The default position is that there is no limitation on the period of time over which customers could receive funds generated by a Project. This is consistent with the approach taken for Returned Royalty Income.

8.75. Should the Funding Licensee consider that it is necessary to have alternative arrangements (eg a timescale that aligns with the Project end date), it may identify and justify a deviation from the default, which may be reflected in the Project Direction.

Return of underspent NIC Funding

8.76. Paragraph 8.77 applies to Category 2 revenues as defined in paragraph 8.70 above.

8.77. Any underspent NIC Funding should be clearly identified as part of the Project Close Down Report and returned to customers through the next available Funding Direction.

Recipients of any Returned Project Revenues

8.78. Paragraphs 8.79 to 8.80 apply to both Category 1 and Category 2 revenues as defined in paragraph 8.70 above.

8.79. Ofgem can direct Returned Project Revenues to be returned to customers, or retained by the Funding Licensee. Unless specified in the Project Direction, the default position is for the relevant funds to be returned to customers.

8.80. The Authority may consider it appropriate for a proportion of any revenues subject to this mechanism to be retained by the Funding Licensee (which may subsequently redistribute them amongst parties involved in the Eligible NIC Project as appropriate). Should the Funding Licensee consider that it is necessary to have alternative arrangements, it may justify a deviation from the default (clearly stating why it's in the customers' interests), which may be reflected in the Project Direction. For example, it could be possible to return some money to the Funding Licensee, where it has made additional financial contributions to the Project (over and above the Funding Licensee's compulsory contribution), which has meant that the Project can take place with a lower amount of NIC Funding.

Project audits

8.81. All NIC Projects may be subject to an audit at any time. This will include requiring the Funding Licensee to demonstrate that the Project is compliant with the 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.

Projects in relation to which a Project Direction is issued in or after Relevant Year 2017/2018

8.82. At the end of a Project, the Funding Licensee must commission a report from an independent third party that verifies whether the Project Deliverables have been achieved. The third party must: (i) have sufficient levels of expertise and knowledge to enable it to verify that the Project Deliverables have been achieved and, if not, the reasons for this; and (ii) not be affiliated with the Network Licensee or its Project Partners. Where a Project Deliverable has not been achieved the report must explain why and whether the Network Licensee is responsible for this. Where Ofgem deems the licensee to be at fault for the failure to deliver a Project Deliverable, Ofgem may decide to recover the relevant proportion of the funds assigned to the Project Deliverable in the Full Submission as Disallowed Expenditure – see paragraphs 5.29, 5.30 and 8.66.

8.83. The cost of commissioning the report referred to in paragraph 8.82 may be paid for by the Network Licensee out of NIC Funding up to a maximum of two percent of the overall NIC Funding awarded to the Network Licensee for the relevant Project. However, where Ofgem is not satisfied that the report is independent and/or of sufficient quality, it may require the Network Licensee to commission an alternative report and the cost of any such report will not be met by NIC Funding.

Annual conference requirements

8.84. The Network Licensee must work collectively with the other Network Licensees required to comply with 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.

8.85. 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.

8.86. 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.

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 created a default treatment for IPR where the Network 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 comply with 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 Licensee's Full Submission. Further information is set out in paragraph 5.54.

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 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. Each Project Participant in the Project 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 work done in its creation.

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

9.9. A Funding Licensee can only transfer any of its rights, 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 comply with 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 completed, 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 Network 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 Project Progress Report (PPR) in sufficient detail to enable others to identify whether they wish to use that IPR. 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 Submission¹⁵.

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 instructions 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 right to use Relevant Foreground IPR 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 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.

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.

¹⁵ See paragraph 5.54(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, it 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 are shared with customers in proportion to the funds that customers have contributed to the Project. This section sets out how we treat these royalties and how they are calculated.

10.1. Any royalties earned by a Network Licensee through Foreground IPR (whether Relevant Foreground IPR or not), are shared with customers in proportion to the funds that customers have contributed to the Project. Where a Network Licensee has transferred its rights, title or interest in or to any Foreground IPR in return for an income, this income is 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 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's 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:

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

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 ;

$DAC_{k,y}$ 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 (Regulatory Instructions and Guidance) 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 earned by the Network Licensees minus the RNICR. This amount is defined as NIC Returned Royalty Income.

10.10. Each Network Licensee will be required to return any Returned 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.

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.

Authority

The Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000.

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 in relation to a Project. Paragraphs 3.3 and 5.23 describe the Projects in relation to which Bid Preparation Costs may be recovered.

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 2 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 in respect of a Project in relation to which a Project Direction was issued in or before Relevant Year 2017/2018.

Cross-Industry Project

A Project in relation to which the Network Licensee applies for funding from both the Electricity NIC and the Gas NIC.

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 Licensee's 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 revenue 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 relation to which Section B of the standard conditions of the Electricity Distribution Licence has 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.

Electricity Distribution Licence

A licence granted under section 6(1)(c) of the Electricity Act 1989 authorising a person to distribute electricity for the purpose of giving a supply to any premises or enabling a supply to be so given.

Electricity Transmission Licence

A licence granted under section 6(1)(b) of the Electricity Act 1989 authorising a person to participate in the transmission of electricity for the purpose of giving a supply to any premises or enabling a supply to be so given.

Eligible NIC Bid Preparation Costs

The amount of expenditure spent or accrued by the Network Licensee when preparing submissions for the Network Innovation Competition that appear to the Authority to have been spent in such a way that satisfies the requirements of the NIA Licence Condition and 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 (set out in paragraphs 4.8 to 4.20) used to assess whether a Project has passed or failed the Initial Screening Process.

Energy Networks Association (ENA)

The industry body funded by UK and Irish gas and electricity transmission and distribution and gas transporter licence holders.

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, Network Licensees to whom they licence intellectual property, 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 which applies for funding from the Electricity NIC and which is named in the Full Submission as the Funding Licensee. The Funding Licensee receives the Approved Amount and is responsible for ensuring the Project, including any work undertaken by Project Partners, complies with the NIC Licence Condition, this Governance Document and the terms of the Project Direction(s). It is also the main point of contact for the Project.

Funding Return

As defined in the NIC Licence Condition.

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.

Independent Distribution Network Operator (IDNO)

Any Electricity Distributor who does not have a Distribution Services Area specified in its licence.

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.

Initial Screening Process (ISP)

A screening process which proposed electricity NIC Projects must pass before they are eligible to be developed into Full Submissions and considered by the Authority for funding.

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.

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 paragraphs 2.9 – 2.15 of this document.

Low Carbon Networks (LCN) Fund

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

Material Change

A change which could reasonably be believed to have caused: (i) the Expert Panel to change its recommendation to the Authority that the Project should be funded; and/or (ii) the Authority to change its original decision that the Project should be funded. A non-exhaustive list of examples that constitute a Material Change is set out at paragraph 8.23 (in relation to a Project for which a Project Direction was issued in or before Relevant Year 2016/2017) and at paragraph 8.29 (in relation to a Project for which a Project Direction was issued in or after Relevant Year 2017/2018). A non-exhaustive list of examples that do not constitute a Material Change is set out at paragraph 8.24 (in relation to a Project for which a Project Direction was issued in or before Relevant Year 2016/2017) and at paragraph 8.33 (in relation to a Project for which a Project Direction was issued in or after Relevant Year 2017/2018).

Method

The proposed way of investigating or solving the Problem. This may be done by one or both of the following:

- Development (TRL 4-6) 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.

Method Cost

The cost 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 293,000 kWh of gas a year;
- consumes less than 100,000 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 Transmission System

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

National Electricity Transmission 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 Network Innovation Allowance (NIA).

NIA Licence Condition

Special Condition 3H (The Network Innovation Allowance) for the holders of a transmission licence or Charge Restriction Condition 2H (The Network Innovation Allowance) for the holders of a distribution licence.

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 Licensee 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.

NIC Royalties

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

Non-Network Licensee

A party which is not a Network Licensee as defined in this Governance Document. This includes (but is not limited to) generators, suppliers and any other interested third parties.

Non-RIIO Network Licensee

The holder of an Electricity Transmission Licence or an Electricity 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 in relation to which Part E of the Standard Licence Conditions is 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

The bank account used for the purpose of all financial transactions associated with a NIC Project. It is either a separate bank account or a bank account which meets the requirements of paragraph 8.3 to 8.7 of this Governance Document.

Project Deliverable

A project specific output which is:

- 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.

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 the 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 Partner

Any Network Licensee or any 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 Progress Report (PPR)

The report which the Funding Licence is required to provide to Ofgem at least annually, in accordance with Chapter 9 of this Governance Document.

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 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.

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.

Reporting instructions and Guidance (RIGs)

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

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 Project Revenues

Has the meaning given in the NIC Licence Condition.

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 (Revenue = Incentives + Innovation + Outputs)

Ofgem's framework, stemming from the conclusions of the RPI-X@20 project, implemented in price controls. It builds on the previous RPI-X regime, but better meets the investment and innovation challenge by placing much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network at value for money to existing and future customers.

RIIO Network Licensee

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

Screening Submission

The submission for the Initial Screening Process (ISP) to Ofgem.

Solution

The outcome if the Problem is solved.

System Operator

The holder for the time being of an Electricity Transmission Licence in relation to which licence the Authority or the Secretary of State, where appropriate, has issued a Section C (system operator standard conditions) Direction and where Section C remains in effect (whether or not subject to any terms included in a Section C (system operator standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject.

Successful Delivery Reward

A reward for completed Projects in relation to which a Project Direction was issued in or before Relevant Year 2016/2017 and which are judged by Ofgem against the Successful Delivery Reward Criteria.

Successful Delivery Reward Criteria (SDRC)

In relation to the Successful Delivery Reward, the Project specific criteria set out in the Project Direction against which the Project will be judged for the Successful Delivery Reward.

Technology Readiness Level (TRL)

The 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 Network Charges

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

Transmission Owner (TO)

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

Transmission System

As defined in section 4(4) of the Electricity Act 1989.

Transmission Use of System Charges

As defined in Standard Condition C1 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 – Guidance on contents of the Close Down Report

Information required in NIC Close-Down Reports	Description
Project Title	As per Full Submission
Project Background	As per Full Submission
Executive summary (no more than 5 pages)	<p>The Network Licensee should provide a summary of the work undertaken. It should outline:</p> <ul style="list-style-type: none"> • the Project background; • the scope of the Project; • the outcomes of the Project; • which objectives it met successfully, including Successful Delivery Reward Criteria (SDRC)/Project Deliverables; • which objectives it did not meet successfully, including Successful Delivery Reward Criteria (SDRC)/Project Deliverables; • the main learning generated by the Project; and • the main learning derived from the Method(s).
Details of the work carried out	<p>The Network Licensee should provide details of the Method(s) it trialled.</p> <p>It should also describe the methodology that it used.</p>
The outcomes of the Project	<p>The Network Licensee should provide enough detail on the Project's outcomes so that other Licensees are able to understand how the Method(s) could be applied on their networks.</p> <p>Where quantitative data is available to describe these outcomes, it should be included in the report.</p> <p>The Network Licensee should discuss the improvement in network performance attributable to the Method(s). If the TRL of the Method(s) has changed as a result of the Trial, this should be reported.</p>
Performance compared to the original Project aims, objectives and SDRC/Project Deliverables	<p>The Network Licensee should include details of whether, and how, the Project helped solve the issue described in its Full Submission.</p> <p>It should also provide details of how the Project performed relative to its aims, objectives and success criteria.</p>
Required modifications to the planned approach during the course of the Project	The Network Licensee should summarise any changes to its planned methodology. It should describe why the planned approach proved to be inappropriate and how the alternative approach improved the original methodology.
Significant variance in expected costs	The Network Licensee should describe if any parts of the Project ended up costing more or less than expected (+/- 10 per cent). In relevant cases, the Network Licensee can link

	<p>the cost changes to the section on required modifications to the planned approach.</p> <p>If costs were different to what the Network Licensee expected, it should provide details of why this was the case.</p>
Updated Business Case and lessons learnt for the Method	<p>The Network Licensee should provide an updated business case for the Project’s Method(s).</p> <p>The Network Licensee should note any developments or events which affected the benefits gained from the Project. Where possible, the Network Licensee should quantify the changes that the developments or events have made to the Project benefits compared to those outlined in the Full Submission. The Network Licensee should also state if the Project discovered significant problems with the approach and technique being trialled.</p> <p>The Network Licensee should give an estimate of the future value to customers of the approach trialled.</p>
Lessons learnt for future innovation Projects	<p>The Network Licensee should discuss whether it encountered any difficulties with the particular Project in order to build on the understanding of how to undertake innovation Projects effectively.</p> <p>To utilise learning from the Project, the Network Licensee should clearly state how these difficulties and problems informed thinking going forward.</p>
Project replication	<p>The Network Licensee should provide a list of all physical components and knowledge required to replicate the outcomes of this Project, also showing how the required and, where relevant, newly generated Intellectual Property can be accessed by other GB Network Licensees.</p> <p>The Network Licensee should also include details of the anticipated business-as-usual costs of replicating the outcome of the Project.</p>
Planned implementation	<p>The Network Licensee should include details on whether and how it plans to modify its network based on learning from the Project.</p> <p>If the Method is not ready to be implemented, the Network Licensee should explain what needs to happen, including any necessary further work, before the Method(s) can be implemented. The Network Licensee should comment on the likelihood that the Method(s) will be deployed on a large scale in future.</p> <p>The Network Licensee should break down the requirements into actions required by Network Licensees and actions required by Non-Network Licensee parties.</p> <p>The Network Licensee should include recommendations on how the outcome of the Project could be exploited further. This may include recommendations of what form of trialling will be required to move the Method to the next TRL.</p>

Learning dissemination	<p>Use of a Project’s learning by other Network Licensees is crucial. The Network Licensee should provide details of the information sharing mechanisms it has undertaken, and what the outcomes of these mechanisms were. The Network Licensee should specifically state what the other Network Licensees required information on. The Network Licensee should also explain how it has taken this feedback into account in developing the Close Down Report.</p> <p>If the Network Licensee has not undertaken a written consultation, it should explain the other activities it has undertaken to deliver the same result. This could include workshops or dissemination events, where it has received feedback on what other Network Licensees would like information on in order to replicate the Project.</p>
Key Project learning documents	<p>The Network Licensee should include the details (title and publication date), and web-links of the main documents on Project learning that it has published prior to the publication of the Close Down Report. The Network Licensee should also provide enough information on the content of each document so that other parties can judge whether or not the document will be of use to them.</p> <p>The Network Licensee should include links to all Project Progress Reports.</p>
Data access details	<p>The Network Licensee should include a description of how any network or consumption data gathered in the course of the Project can be requested by interested parties. This requirement may be met by including a link to the publicly available data sharing policy which is required by paragraph 2.16 of the NIC Governance Document.</p>
Material change information	<p>In relation to Projects in respect of which a Project Direction was issued in or after Relevant Year 2017 /2018 only, details of any Material Change which has occurred in the relevant reporting period.</p>
Contact details	<p>The Network Licensee should state name and contact details (email address, telephone number, and postal address) of the best contact to provide access to the Project’s learning.</p>

Appendix 3 – Guidance Notes for Successful Delivery Reward Application

1. The main body of the SDR application is limited to 24 pages and 24 pages for the appendices, with a minimum permitted font size of ten. The network companies can include images and tables where appropriate. It is suggested that the following number of pages are allocated to each section:
 - executive summary (to include justification of proposed proportion of SDR) – one page;
 - evidence of timeliness and quality for Successful Delivery Reward Criteria (SDRCs) – eight pages;
 - evidence of cost effectiveness for SDRCs - six pages; and
 - project management - six pages.
2. Where possible, evidence should be linked or referenced to specific paragraphs in the progress reports, SDRC reports, project close down reports, publicly available information or any other submission to Ofgem. If evidence is required that cannot be referenced or succinctly included in the application, this evidence should be added as an appendix to the application. The appendices should not exceed an additional 24 pages. The evidence will form an auditable trail that will be sampled and verified by Ofgem during the assessment window.
3. The application will be made public (published on the Ofgem website). If there is confidential material, relevant to the application set out in the application, separate public and confidential versions should be submitted.
4. The annual assessment window for the SDR begins on 1 May and will end on 31 July each year.
5. Ofgem will notify the network company if we consider the application has insufficient evidence. The company may choose to resubmit its application. If a resubmission is made, Ofgem maintains the right to extend the decision process.
6. Electricity Distribution Network operators should submit their SDR application by email to networks.innovation@ofgem.gov.uk. The deadline for the applications is 5pm on 1 May. Any application submitted after this time will not be assessed.
7. If the data size of the application is above 28 MB, please contact Ofgem prior to submission to find an alternative means of file transfer.

Section 1: Evidence for Successful Delivery Reward Criteria

8. In accordance with our decisions in August 2014¹⁶ following consultation on implementing the Discretionary Funding Mechanism under the LCN Fund, the SDRCs will be assessed against timeliness and quality of delivery. The cost effectiveness of delivering the SDRC outputs will also be evaluated.

Timeliness and Quality

9. Assessment of the SDRCs will include an evaluation of whether the project was delivered in a timely manner. It will therefore be necessary for the network companies to provide sufficient evidence demonstrating that the SDRC deadlines were met. References to six monthly progress reports or other documents can be used to demonstrate timely delivery. The specific location of the relevant reference should be provided. If an SDRC was delivered after the deadline it is advisable that a justification for the delay is provided.

10. If the requirements for meeting the SDRC have been changed through an approved change proposal the new deliverables should be cited and a reference provided for the relevant change proposal. The application needs to demonstrate that the project has met its changed SDRC requirements if a change has been approved by us.

11. The SDRC must be delivered to sufficient quality. The types of evidence for quality may include:

- peer-reviewed, published journal articles or reports;
- independent verification of delivery;
- third party endorsement;
- feedback from stakeholders and consumer engagement;
- feedback on consultation;
- feedback from learning dissemination events; and
- user uptake of and/or user feedback on products and services.

12. This is not an exhaustive list and any further supporting evidence for the quality of the SDRCs will be considered.

Cost Effectiveness

13. To demonstrate the cost effectiveness for the SDRCs, the actual project expenditure should be presented against each line in the project budget and any variances in excess of 5 per cent should be explained. For projects predating 2012 the project budget should be taken from the Project Direction and for projects post-2012 the project budget should be taken from Whole Project Total Cost part of the submission.

¹⁶ Decision on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund (21 August 2014) – <https://www.ofgem.gov.uk/publications-and-updates/decision-implementing-discretionary-funding-mechanism-under-low-carbon-networks-fund>

14. Any reallocation of the budget between categories needs to be explained and justified. If further funding was procured by the project internally or through partners it must be clear what the purpose of additional funding was.

15. Details of the use of the contingency budget should be provided along with the processes for determining if and when contingency funds were required, how much was to be used and the value provided by its use.

16. If there were commitments to return consumers' funding it is advisable to explain to what extent these commitments have or will be met.

17. Network companies should provide evidence that SDRCs have been delivered in a cost effective manner that gives the consumers value for their investment.

- For each line in the project budget greater than 5 per cent of the total project budget, the processes, including competition where appropriate, that were implemented should be described; and
- Where possible, efficiencies that were employed in delivering the SDRCs and/or in delivering outputs that have produced further savings for consumers should be described.

18. In order to provide evidence of cost effectiveness we suggest that companies describe their procurement processes or how competitive prices were obtained.

19. The table below gives an indication of some of the detail required for demonstrating the cost effectiveness against the project budget:

Budget Category	Budget Line Item	Proposed Budget	Actual Cost	Reasons for variance > 5%	Process for deriving an efficient cost
	1.				
	2.				
Total Budget Cost					

Section 2: Evidence of Project Management

20. To demonstrate that projects have been well managed, evidence of the management of uncertainty and change is required as stated in our decisions in August 2014¹⁷. It will be important to provide evidence of the following:

- Best practice principles, processes and practices for project management were employed; and

¹⁷ Decision on implementing the Discretionary Funding Mechanism under the Low Carbon Networks Fund (21 August 2014) – <https://www.ofgem.gov.uk/publications-and-updates/decision-implementing-discretionary-funding-mechanism-under-low-carbon-networks-fund>

- Processes for change, uncertainty and risk management, including a focus on positive risks and project opportunities, were implemented and communicated during the project lifetime.

21. The application should reference the specific sections on risk management in the project progress reports and the management of risk should be evidenced by the following:

- pre-emptive identification of risks and uncertainties during the project lifetime;
- implementation and communication of any mitigation measures;
- consideration of opportunities as part of the risk identification process; and
- whether or not the project was adversely affected by any issues and the circumstances of the issue.

22. It will be important for the network company to demonstrate its management, if applicable, of change proposals. The application should explain all changes to the project method, solution or delivery plan and whether a change proposal was requested. The application should reference the change proposal and demonstrate the following regarding change proposals:

- the timely identification of change proposals;
- the reason any change proposals were modified or rejected;
- the identification of all practicable measures implemented to rectify the issue that required a change proposal;
- the provision of sufficient justification for the proposal; and
- the overall management of the change proposal.