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National Grid Gas Plc  
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Date: 17 December 2020

Dear Company Secretary,

**Project Direction ref: NGGT / HyNTS FutureGrid Phase 1 / 10 December 2020<sup>1</sup>**

National Grid Gas Plc (NGGT) submitted to Ofgem the project HyNTS FutureGrid Phase 1 (the Project) in July 2020 to be considered for funding through the Gas Network Innovation Competition (NIC). In the 2020 NIC decision<sup>2</sup>, we selected the Project<sup>3</sup> for conditional funding.

NGGT must comply with the terms contained in this Project Direction as a condition of the Project receiving funding through the Gas NIC. These terms can be found in the Schedule to this Project Direction.

**Project Direction**

Chapter 5 of the Gas NIC Governance Document<sup>4</sup> states that a Project Direction will:

- set out the Project-specific conditions that the Network Licensee (which for this project is NGGT) is committing to in accepting funding;

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<sup>1</sup> This Project Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

<sup>2</sup> <https://ofgem.gov.uk/publications-and-updates/network-innovation-competition-2020-funding-decision>

<sup>3</sup> Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/version-31-gas-network-innovation-competition-governance-document>

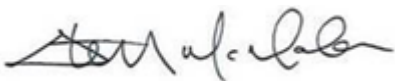
- require the Network Licensee to undertake the Project in accordance with the commitments it has made in the Full Submission<sup>5</sup>;
- set out the Approved Amount for the Project, that will form part of the calculation contained in the Funding Direction issued by the Authority under Chapter 7 of the Governance Document;
- 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.

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

## **Decision**

Provided NGGT complies with the Gas NIC Governance Document and with the Schedule to this Project Direction, the Project is deemed to be an Eligible NIC Project.<sup>6</sup>

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



**Steven McMahon**

**Deputy Director, Electricity Distribution and Cross Sector Policy**

**For and on behalf of the Authority**

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<sup>5</sup> Where appropriate, the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission.

<sup>6</sup> Eligible NIC Project has the meaning given in definitions of the Gas Transporter licence.

## Schedule to Project Direction

### 1. TITLE

Project Direction ref: NGGT / HyNTS FutureGrid Phase 1 / 10 December 2020

### 2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to National Grid Gas Plc (the "Funding Licensee") pursuant to the Gas NIC Governance Document issued pursuant to Special Condition 2F (The Network Innovation Competition) of the NGGT Gas Transporter Licence (the "Licence"). It sets out the terms to be complied with in relation to HyNTS FutureGrid Phase 1 (the "Project") as a condition of it being funded under the NIC and the Funding Return Mechanism.<sup>7</sup>

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

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

### 3. CONDITION PRECEDENT

In accepting funding for the Project, the Funding Licensee is subject to the following Project-specific conditions:

#### ***Condition 1***

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

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<sup>7</sup> The Funding Return Mechanism is defined in Part C of Special Condition 2F of the Licence.

**Table 1. Project Partners**

GL Industrial Services UK Ltd (trading as DNV GL)
The Health and Safety Executive
Northern Gas Networks Limited
FLUXYS Belgium NV
University of Durham
The University Court of the University of Edinburgh

#### **4. COMPLIANCE**

The Funding Licensee must comply with Special Condition 2F of the Licence, the Gas NIC Governance Document (as may be modified from time to time in accordance with Part E of Special Condition 2F) and with this Project Direction.

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

Pursuant to Special Condition 2F of the Licence, Disallowed Expenditure is any revenue received (whether by the Funding Licensee or by another Licensee) from the NTS Operator under the NIC Funding Mechanism that the Authority determines not to have been spent in accordance with the applicable provisions of the Gas NIC Governance Document or the terms of the relevant Project Direction.

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

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

The Approved Amount is **£9,073,785.97**

The Approved Amount will be recovered by the System Operator from GB customers and transferred to the Network Licensee in the Relevant Year following the issue of the Project Direction. The Relevant Year is a period of twelve months beginning on 1 April in any calendar year and ending on 31 March of the next calendar year. 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. The Network Licensee is responsible for notifying the System Operator of the bank account details to which transfers must be made. If a Network Licensee is required to return funding to the System Operator, the reverse applies.

## **6. PROJECT BUDGET**

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

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

## **7. PROJECT IMPLEMENTATION**

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

- (i) undertake the Project in accordance with the description set out in Section 2 (Project Description) of the Full Submission;
- (ii) provide a Network Licensee Compulsory Contribution of £1,024,109.40;

- (iii) complete the Project on or before the Project completion date of 31<sup>st</sup> December 2023; and
- (iv) disseminate the learning from the Project as a minimum to the level described in Section 5 (Knowledge Dissemination) of the Full Submission.

## **8. REPORTING**

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

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

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

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

## **10. PROJECT DELIVERABLES**

At the end of a Project, the Funding Licensee must commission a report from an independent third party that verifies whether the Project Deliverables set out in Table 2 below (which comply with Chapter 5 of the Gas NIC Governance Document) have been achieved.

After it has received the report, the Funding Licensee must send it to the Authority. Where a Project Deliverable has not been achieved we will consider whether funding should be returned to customers using the Funding Return Mechanism. If the Network Licensee is deemed by Ofgem to be at fault for the non-delivery of the Project Deliverable, it is the proportion of funding assigned to it within Table 2 below, which may be returned to customers.

**Table 2. Project Deliverables**

<b>Reference</b>	<b>Project Deliverable</b>	<b>Deadline</b>	<b>Evidence</b>	<b>NIC funding request (100%)</b>
1	Phase 1a – Groundworks & Construction	November 2021	Construction of the FutureGrid Test Facility at Spadeadam site with the production of the following as evidence: 1. As built drawings 2. Written scheme of examination 3. DNV GL report of build activity & lessons learnt	50.5%
2	Phase 1a - Testing & Commissioning	January 2022	1. Successful completion of testing and commissioning processes with supporting documentation 2. Dissemination of facility design and layout to allow detailed development of Phase 2 & 3 interactions	17%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
3	Phase 1b – Testing 2%-20% hydrogen	October 2022	<ol style="list-style-type: none"> <li>1. Completion of 2% H2 tests identified by the master testing plan including launch and close out events</li> <li>2. Completion of 20% H2 tests identified by the master testing plan including launch and close out events</li> <li>3. Identification of future test requirements as a result of the findings – test plan evidence</li> <li>4. Results collated, documented and validated for impact on next phases of hydrogen development activities</li> </ol>	7%
4	Phase 1b – Testing 100% hydrogen	February 2023	<ol style="list-style-type: none"> <li>1. Completion of 100% H2 tests identified by the master testing plan including launch and close out events</li> <li>2. Identification of future test requirements as a result of the findings – test plan evidence</li> <li>3. Results collated, documented and validated for impact on next phases of hydrogen development activities</li> </ol>	15%



Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
5	Phase 1c –QRA & Safety Case	March 2023	<ol style="list-style-type: none"> <li>1. Overpressure testing on secondary off-line NTS test facility – test report</li> <li>2. Validation of results into existing QRA model and any mitigations reviewed – updated QRA and mitigation log</li> <li>3. High level review of NGGT’s procedures and standards documented</li> <li>4. Prepare a commented version of the safety case</li> <li>5. Updated asset assessment and hydrogen risk review</li> </ol>	9%
6	Knowledge dissemination	End of Project	As per section 5 ‘Dissemination’ of this submission the team will provide a variety of dissemination activities throughout the period of the project which will be completed as per Appendix H stakeholder engagement plan at regular intervals during the project lifecycle and on closure.	1%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
7	Comply with knowledge transfer requirements of the Governance document	End of Project	1. Annual Project Progress Reports which comply with the requirements of the Governance Document 2. Complete Close Down Report which complies with the requirements of the Governance Document 3. Evidence of attendance and participation in the Annual conference as described in the Governance Document	0.5%

## 11. USE OF LOGO

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

## 12. AMENDMENT OR REVOCATION

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

- (i) if the Funding Licensee considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees; or
- (ii) to reflect amendments made to the Licence.

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

### **13. HALTING OF PROJECTS**

This Project Direction is subject to the provisions contained in Chapter 8 of the Gas NIC Governance Document relating to the halting of projects. By extension, this Project Direction is subject to any decision by the Authority to halt the Project to which this Project Direction relates and to any subsequent relevant Funding Direction issued by the Authority pursuant to Part E of Special Condition 2F of the Licence.

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

#### **NOW THEREFORE:**

In accordance with the powers contained in the Gas NIC Governance Document issued pursuant to Part E of Special Condition 2F of the Licence the Authority hereby issues this Project Direction to the Funding Licensee in relation to the Project.

This constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

## ANNEX 1: PROJECT BUDGET

<b>Cost Category</b>	<b>Cost</b>
<b>Labour</b>	
	5,458,672.00
<b>Equipment</b>	
	4,229,006.00
<b>Contractors</b>	
	65,020.00
<b>IT</b>	
	10,000.00
<b>IPR Costs</b>	
	-
<b>Travel &amp; Expenses</b>	
	50,400.00
<b>Payments to users</b>	
	-
<b>Contingency</b>	
	422,899.00
<b>Decommissioning</b>	
	-
<b>Other</b>	
	160,000.00
<b>Cost Category</b>	<b>10,395,997.00</b>