

Company Secretary  
National Grid Electricity  
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Date: 9 December 2020

Dear Company Secretary,

**Project Direction ref: NGET/ RICA / 9 December 2020<sup>1</sup>**

National Grid Electricity Transmission Plc (NGET) submitted the project RICA (the Project) in July 2020 to be considered for funding through the Electricity Network Innovation Competition (NIC). In the 2020 NIC decision<sup>2</sup>, we selected the Project<sup>3</sup> for funding.

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

**Project Direction**

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

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

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<sup>1</sup> This Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989

<sup>2</sup> <https://www.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 Electricity NIC Governance Document.

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

- 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 NGET complies with the Electricity 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 49A (Reasons for decisions) of the Electricity Act 1989.



**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 Electricity Transmission licence.

## Schedule to Project Direction

### 1. TITLE

Project Direction ref: NGET / RICA / 9 December 2020

### 2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to National Grid Electricity Transmission Plc (the "Funding Licensee") pursuant to the Electricity NIC Governance Document issued pursuant to Part E of Special Condition 3I (The Network Innovation Competition) of the Electricity Transmission Licence (the "Licence"). It sets out the terms to be complied with in relation to RICA (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 Electricity 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 secures the membership of the companies in Table 1 for its Technical Advisory Board:

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<sup>7</sup> The Funding Return Mechanism is defined in Part C of Special Condition 3I.

**Table 1: Technical Advisory Board required members**

National Grid Electricity System Operator Ltd
Scottish Hydro Electric Transmission Plc
SP Transmission Plc

#### **4. COMPLIANCE**

The Funding Licensee must comply with Special Condition 3I, the Electricity NIC Governance Document (as may be modified from time to time in accordance with Part E of Special Condition 3I) 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 Electricity NIC Governance Document) is deemed to be Disallowed Expenditure.

Pursuant to Special Condition 3I, Disallowed Expenditure is any revenue received (whether by the Funding Licensee or by another Licensee) from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the Electricity NIC Governance Document or the terms of the relevant Project Direction.

Pursuant to Chapter 8 of the Electricity 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 line with the approved Project Budget contained within the Project Direction, any unspent funds on the completion of the Project 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 **£8,115,000**

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 Electricity NIC Governance Document. Ofgem will use the reported expenditure and the explanation to assess whether the funding has been spent in accordance with the Electricity 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 Electricity 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 £913,000;
- (iii) complete the Project on or before the Project completion date of 31 March 2026; and
- (iv) disseminate the learning from the Project at least 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 Electricity NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports.

As required by Chapter 8 of the Electricity 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 Electricity 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 Electricity 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**

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (%)
D.S1.1	Detailed requirement definition	July 2021	<ol style="list-style-type: none"> <li>1. Report consisting of all the information required for potential suppliers to accurately gauge the level of work that will be involved in Stage 2; and</li> <li>2. Report will be shared with licensees through the Technical Advisory Board (TAB).</li> </ol>	5%
D.S1.2	Preliminary investment case	July 2021	<ol style="list-style-type: none"> <li>1. Report on the preliminary investment case;</li> <li>2. Report will be shared with licensees through TAB; and</li> <li>3. Arrange workshop with TAB members to review benefits from technology on their networks.</li> </ol>	10%
D.S2a.1	Draft functional specification	September 2022	<ol style="list-style-type: none"> <li>1. Draft functional specification produced;</li> <li>2. Workshop with stakeholders to incorporate feedback into specification; and</li> <li>3. Dissemination of draft specification through the TAB.</li> </ol>	15%
D.S2a.2	First generation product design portfolio	December 2022	<ol style="list-style-type: none"> <li>1. RICA designs for first generation;</li> <li>2. Workshop with stakeholders to review impact of different design choices on investments and applications; and</li> <li>3. Designs disseminated through TAB.</li> </ol>	15%
D.S2a.3	Report detailing trial outcomes and lessons learned	July 2024	<ol style="list-style-type: none"> <li>1. Report on hardware trials of RICAs;</li> <li>2. Evidence of workshops and lessons learnt from trials;</li> <li>3. Non-confidential information disseminated through industrial conference or journal; and</li> <li>4. Report disseminated to licensees through TAB.</li> </ol>	10%
D.S2b.1	NGET processes and procedures for RICA	August 2024	<ol style="list-style-type: none"> <li>1. Updated technical specifications;</li> <li>2. Guidance note on rational behind specification;</li> <li>3. Guidance on investment case development;</li> <li>4. Installation practices recorded in report; and</li> <li>5. Disseminated to licensees through TAB and non-confidential information through industrial conference or journal.</li> </ol>	10%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (%)
D.S2b.3	Full suite of documentation issued	February 2025	<ol style="list-style-type: none"> <li>1. Final technical specifications published</li> <li>2. Final guidance note on rationale behind specification</li> <li>3. Final Installation practices recorded in report</li> <li>4. Materials disseminated through TAB</li> </ol>	10%
D.S2b.2	Detailed uprate methodology (final investment case)	February 2025	<ol style="list-style-type: none"> <li>1. Report on scheme delivery plan and methodology;</li> <li>2. Disseminated through TAB to licensees;</li> <li>3. Final guidance on investment case development; and</li> <li>4. Non-confidential learnings disseminated through industrial conference or journal paper.</li> </ol>	15%
D.S3.1	Enhanced stakeholder engagement	March 2025	<ol style="list-style-type: none"> <li>1. Record of RICA engagement with stakeholders; and</li> <li>2. Materials for stakeholder engagement posted on the project's website and referenced on the NGET innovation web page.</li> </ol>	10%
Common	Comply with knowledge transfer requirements of the Governance Document.	End of Project	<ol style="list-style-type: none"> <li>1. Annual Project Progress Reports which comply with the requirements of the Governance Document;</li> <li>2. Completed Close Down Report which complies with the requirements of the Governance Document; and</li> <li>3. Evidence of attendance and participation in the Annual Conference as described in the Governance Document.</li> </ol>	N/A

## 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.

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



## **12. AMENDMENT OR REVOCATION**

As set out in Chapter 8 of the Electricity 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.

## **13. HALTING OF PROJECTS**

This Project Direction is subject to the provisions contained in Chapter 8 of the Electricity NIC Governance Document relating to the halting of projects. By extension, this Project Direction is subject to any decision by the Authority to halt the Project to which this Project Direction relates and to any subsequent relevant Funding Direction issued by the Authority pursuant to Special Condition 3I..

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 Electricity NIC Governance Document issued pursuant to Part E of Special Condition 3I 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 49A (Reasons for decisions) of the Electricity Act 1989.

## ANNEX 1: PROJECT BUDGET

<b>Cost Category</b>	<b>Cost</b>
<b>Labour</b>	
Costs to cover NGET internal time during the project.	1,411,099.04
<b>Equipment</b>	
Supplementary equipment to support the development and design of the hardware. Including the trials at Deeside/Eakring or similar.	906,870.85
<b>Contractors</b>	
External contractor costs to cover the technological development of RICAs. Costs also cover surveys to collect additional information from site locations relevant to the investment case for RICAs.	4,458,214.02
<b>IT</b>	
	-
<b>IPR Costs</b>	
Costs to cover legal fees during NIC project. Including patents.	201,949.46
<b>Travel &amp; Expenses</b>	
Travel costs for NGET staff.	46,899.05
<b>Payments to users</b>	
n/a	-
<b>Contingency</b>	
Contingency to cover key risks highlighted in the project bid.	1,819,883.70
<b>Decommissioning</b>	
Costs to dispose of equipment produced during the project	288,494.21
<b>Other</b>	
	-
<b>Total</b>	<b>9,133,410.33</b>