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Dear Company Secretary,

## **Gas Network Innovation Competition (NIC) Funding Direction**

The NIC Funding Direction<sup>1</sup> sets out the amount that National Grid Gas Plc (NGGT) must recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGGT and other gas Network Licensees in relation to their NIC projects. The amount that NGGT can recover includes any funding for NIC projects funded in the 2020 competition and the amount awarded through the Successful Delivery Reward (SDR).<sup>2</sup>

In the 2020 NIC Competition, £27.1 million was awarded under the gas NIC<sup>3</sup>. Under the SDR process, one completed NIC project was awarded £0.51 million.<sup>4</sup> In addition, two completed NIC projects are returning project revenues of £0.95 million through the Funding Return Mechanism (FRM). As these returns are from 2020 NIC Competition winners, the amount will be subtracted from any NIC award to minimise transactions. There were no halted project revenues, disallowed expenditure or royalty incomes to be returned.

The net effect of funds to be awarded to and returned by Network Licensees is that NGGT will recover £26.7 million from customers through its 2020/21 charges, and will then transfer amounts to the Network Licensees as set out below.

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<sup>1</sup> Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

<sup>2</sup> The SDR only applies to Projects where the Project Direction was issued during or after 2016.

<sup>3</sup> The 2019 NIC decision document can be found here - <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2020-funding-decision>

<sup>4</sup> This year's SDR decisions document can be found here - [https://www.ofgem.gov.uk/system/files/docs/2020/07/sdr\\_2020\\_decision\\_.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/07/sdr_2020_decision_.pdf)

## Background

We issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Gas NIC Governance Document<sup>5</sup> and pursuant to the licence conditions set out below in Table 1.

**Table 1 – Licence conditions**

<b>Network Licensee</b>	<b>Licence Condition</b>
Scotland Gas Networks Plc	Special Condition 1I
National Grid Gas Transmission Plc	Special Condition 2F
Northern Gas Networks Ltd	Special Condition 1I

There are two broad categories of changes potentially affecting the Funding Direction each year: the amount of funding awarded for new NIC projects and funding returned to customers through the Funding Return Mechanism. These are set out below.

### *Funding awarded for successful NIC projects in 2020*

In August 2020, gas Network Licensees submitted two projects to us to be considered for funding through the gas NIC. In our November 2020 decision, we selected both projects for funding. The funded projects are listed in Table 2.

**Table 2 – Projects awarded funding under the Gas NIC**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding awarded (£)</b>
H100 Fife	Scotland Gas Networks Plc	17,999,968
HyNTS Futuregrid Phase 1	National Grid Gas Plc	9,073,785.97

### *Funding awarded through the 2020 SDR*

In July 2020, we conducted an assessment of the SDR for one completed gas NIC project. We assessed the expected outputs of the projects based on quality, cost and time, as required under paragraph 8.63 of the Gas NIC Governance. The maximum available reward for each Project is equal to the Network Licensee's 10% compulsory contribution to the NIC Project. The awards for each successful project are listed in Table 3.

<sup>5</sup> [Version 3.1 of the Gas Network Innovation Competition Governance Document | Ofgem](#)

**Table 3 – Projects awarded through the SDR**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding rewarded (£)</b>
Low Carbon Gas Pre-Heating	Northern Gas Networks Ltd	546,289

*Funding returned to customers through the Funding Return Mechanism*

Two completed projects are returning funds to customers through the Funding Return Mechanism in 2021, due to delivering the projects under budget. NGGT’s project CLoCC was completed in October 2018. SGN’s project, Real Time Networks, was completed in March 2020. Both projects will be returning funds to customers through the Funding Return Mechanism. The total funds to be returned are detailed in Table 4.

**Table 4 - Funding to be returned under the Funding Return Mechanism**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding to be returned (£)</b>
CloCC	National Grid Gas Plc	904,760
Real Time Networks	Scotland Gas Networks Plc	44,543.67

*Implementation*

As the potential learning from the NIC projects provides benefits to all Network Licensees, they are funded by all customers through NTS Transportation Owner Charges. We implement this funding by amending the Maximum NTS Transportation Owner Revenue in accordance with the Special Condition 2A of the NGGT Gas Transporter Licence for the Relevant Year 2020/21, and setting the amount that NGGT must transfer to the Network Licensees (taking in to account any funding return) in accordance with paragraph 2F.18 of Special Condition 2F.

In accordance with Special Conditions 2A and 2F of the NGGT Gas Transporter Licence and in accordance with the Gas NIC Governance Document, the schedule to this Funding Direction:

(a) sets the value of the NIC Funding (NICF) term for NGGT (being the amount, if any, to be recovered by NGGT in order to provide for its own and other gas Network Licensees’ NIC Funding for that Relevant Year) – see Table 5 in the Schedule appended to this letter;

(b) sets out the net amounts that are to be transferred between NGGT and other Network Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 6 in the Schedule appended to this letter;

(c) identifies the manner in which and timescale over which the net amounts will be transferred.

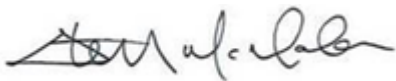
We have included the above information for the 2020 NIC Competition in the Schedule to this Funding Direction.

In accordance with paragraph 2F.18 of Special Condition 2F of the NGGT Gas Transporter Licence, Special Condition 1I of the Gas Transporter Licence and the Gas NIC Governance Document, the Authority hereby requires NGGT, NGN and SGN to comply with the conditions in the Schedule to this Funding Direction.

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

If you have further questions or want to discuss, please contact Mohammad Miah on [mohammad.miah@ofgem.gov.uk](mailto:mohammad.miah@ofgem.gov.uk).

Yours faithfully,



**Steven McMahon**

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

Signed for and on behalf of the Authority

## **Schedule to Funding Direction**

### **1. The value that NGGT must recover from customers to cover NIC and Discretionary Funding in each Year**

Table 5 contains the amount that NGGT must recover in the Relevant Year 2021/22 commencing 1 April 2021. The amount that NGGT must recover is based on the total Approved Amounts for the NIC Competition Relevant Year 2020/21. The amount that NGGT must recover, less any Funding Return constitutes the value for the NIC Funding (NICF) term.

### **2. The net amounts that must be transferred between Network Licensees**

Table 6 contains the net amounts that must be transferred by NGGT to gas Network Licensees in the Relevant Year 2021/2022 commencing 1 April 2021. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

### **3. The manner in which and timescale over which the net amounts will be transferred**

The transfers must be made equally on a monthly basis, for the entirety of the Relevant Year 2021/2022 commencing 1 April 2021 such that the total amount transferred over the Relevant Year 2020/21 commencing 1 April 2021 equals the net amount set out in Table 6.

The Network Licensee that will be receiving funding from NGGT must provide its bank account details to NGGT by 1 March 2021. NGGT will make transfers to the specified bank accounts on the day of the month agreed by NGGT.

**Table 5 – NICF term**

<b>Network Licensee</b>	<b>NICF Term (£)</b>
National Grid Gas Transmission Plc	26,670,739.30

**Table 6 – Amount to be transferred by NGGT**

<b>Network Licensee</b>	<b>Amount to be transferred by NGGT (£)</b>
Scotland Gas Networks Plc	17,955,424.33
National Grid Gas Transmission Plc	8,169,025.97
Northern Gas Networks Ltd	546,289