

Company Secretary
Scotland Gas Networks Plc
Axis House
5 Lonehead Drive
Newbridge
Edinburgh
Scotland
EH28 8TG

Direct Dial: 0141 354 5416
Email: Steven.McMahon@ofgem.gov.uk

Date: 8 February 2021

Dear Company Secretary,

Network Innovation Competition: Decision on outcome of Condition 2 of the 2020 Project Direction for Scotland Gas Network Plc's H100 Fife Project

Background

Scotland Gas Networks Plc (ScGN) was awarded NIC Funding in November 2020 for H100 Fife ("the Project") subject to compliance with the terms contained in the Project Direction issued on 17 December 2020 ("the 2020 Project Direction").

These terms included a requirement for SGN to submit a report to the Authority by 18 January 2021, demonstrating cost reductions and value-adding opportunities to the Project for network customers without detriment to the network-specific learnings of the project (Condition 2).

This letter contains our decision on the outcome of Condition 2 and sets out the Authority's amendments to the 2020 Project Direction at Annex 1 ("the Amended Project Direction").

The 2020 decision

In the NIC Decision Document 2020 in November 2020 ("the 2020 Decision")¹¹, the Authority decided that the Project did not represent value for money for gas consumers

¹¹ [NIC Decision Document 2020 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/nic-decision-document-2020)

without further mitigation. This was due to evidence presented to us that suggested the cost of hydrogen to the project was high relative to larger scale hydrogen project proposals, such as H21 Leeds City Gate (“H21”).

However, we noted the strategic importance of the project for the hydrogen agenda and its success against other criteria in the Gas NIC Governance Document². The Authority therefore provided for a further opportunity for SGN to satisfy the outstanding value for money criterion by providing a report as described in Condition 2 of the 2020 Project Direction, including a revised justification of and reduction in the NIC funding request.

Condition 2 – SGN Report and our view

On 18 January 2021, SGN submitted a report to the Authority as required under Condition 2 of the 2020 Project Direction. A summary of SGN’s report and our assessment of the information provided is explained below.

- *A report providing a detailed narrative of proposed amendments, how they have been or will be achieved in the course of the Project, plus a revised justification of the value for money that the Project represents to network customers.*

A detailed breakdown of operating costs, excluding capital costs, was evidenced in the report using system modelling results of the electrolyser. This produced an expected net marginal cost of hydrogen delivery between £83/MWh to £156/MWh. Prior evidence submitted to the Authority, which included capital costs of hydrogen spread over four years, suggested the cost of hydrogen to the project to be £682/MWh³. Information recently provided by SGN demonstrated that if the same capitalisation approach that was used for H21 (a comparison cited the by Expert Panel report) is applied to the Project⁴, the costs of hydrogen are reduced to between £229.5/MWh to £416/MWh.

We note that the total costs of hydrogen including capital costs of the Project have been reduced, though remain higher than those presented in H21. However, H21 assumptions are based on full scale deployment across 495k customers and commercial maturity of trialled technology. This therefore may not offer a comparable view of the value for money represented by H100 Fife, that is aiming to validate network learnings through a minimum viable product approach at a reasonably small scale. The H100 Fife Project is a limited scale trial therefore the total costs of hydrogen per consumer are higher than H21, however appear appropriate on a marginal basis. Following the additional information provided, we

² https://www.ofgem.gov.uk/system/files/docs/2020/11/gas_nic_governance_v3.1.1_0.pdf

³ This includes costs not funded by the NIC.

⁴ This annualised capital costs over a 45 year period at a discount rate of 4.5%.

consider that the overall cost to the NIC for hydrogen is proportionate to the value of learnings that are expected to be obtained.

The report highlighted the value obtained from the overall demonstration of the Project, including validation of a 100% green hydrogen network, customer use of hydrogen in the home and the interactions between energy supply, demand, and storage. The Project intends to validate hydrogen production from offshore wind which could offer the maximum energy recovery from future renewable investment. We also note that the Project intends to establish a permanent Hydrogen Demonstration Facility for customer engagement, education and training that will serve as an enduring output of the Project. We therefore consider that the information submitted provides an acceptable justification that the scale/cost of the Project is appropriate in relation to the learning that is expected to be captured, as required under the value for money criterion in the Gas NIC Governance document.

- *Confirmation of funding and/or budget changes, included a commitment to a minimum reduction of £100k to the NIC Funding Request set out in this condition.*

Following the external review of the commodity balancing proposals, SGN have reduced its costs associated with this mechanism by £100k. This is reflected in the revised NIC Funding Request for the Project (£17,999,968 reduced from £18,100,669). They have also committed to seeking a lower import tariff price for electricity with suppliers, to reduce the cost of this element to the Project.

- *An engagement strategy for the continued review of further external funding opportunities, which must include demonstration of engagement with partners, supporters and other potential funders, and a timeline for the investigation of funding opportunities.*

SGN have commissioned an external review of the Project proposals for the supply of electricity and charges associated with the electrolyser. An initial assessment from the review was included in the report. This confirmed SGN's approach to sourcing hydrogen and electricity for the Project is robust and should offer the lowest cost to consumers whilst maximising innovation. However, it was noted that further funding reduction opportunities may be achievable through cost optimisation options that SGN will look to incorporate. Evidence of engagement was also provided to demonstrate continued exploration of external funding and value adding opportunities, including commitments from:

- SGN – to continue identification of further cost reduction opportunities and optimisation, returning any unspent funding where reductions to the hydrogen production cost are achieved after one year of successful operation
- Appliance manufacturers – to apply cost discounts and to pass on cost savings, executing agreements prior Project Deliverable 5
- Fife Council – to consider further investment opportunities and benefit-in-kind contributions to the Project, prior to Project Deliverable 6 completion
- Scottish Government – to explore future funding opportunities
- UK Government – to explore future funding opportunities.

We are satisfied with the engagement strategy presented in the report and commitments to continue to explore further cost reduction opportunities as the project progresses.

- *If applicable: changes to Project budget allocations, set out in a revised Full Submission Spreadsheet; proposed changes to Project Deliverables, plus their expected impact; and proposed additional stage gates or points of funding return.*

A revised Full Submission Spreadsheet was submitted with an updated NIC Funding Request of £17,999,968 and proposed additional stage gates have been included to align with Project Deliverables where applicable. We accept the revised project budget provided by SGN and this has been included in the amended Project Direction.

- *The "value for money" criterion set out in the NIC Gas Governance.*

In assessing how the Projects performs against the value for money criterion, consideration has been 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 gas 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.

Upon receipt of the additional information provided, we are now satisfied that SGN have presented an acceptable justification that the H100 project meets the value for money criterion in the NIC Gas Governance Document. Given the learning that is expected to be captured, we consider that the scale and cost of the project is appropriate, and the potential benefits will accrue to a proportionate level of the gas network compared to wider supply chain. We are satisfied with the contributions of Project Partners and broader commitments to explore opportunities to reduce Project costs to the NIC beyond the immediate £100k reduction of the NIC Funding Request to ensure it is delivered at a competitive cost. We are of the view that the points of concern previously raised by the Authority in the 2020 Decision have been sufficiently addressed to demonstrate the Project now represents value for money for gas customers.

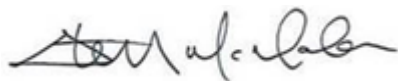
Our decision

In light of the evidence provided, we have decided that Condition 2 of the 2020 Direction has been fulfilled.

In accordance with Condition 2 of the 2020 Direction, we hereby amend the schedule to the 2020 Direction in the manner set out in Schedule 1 of this letter. This letter constitutes notice pursuant to Section 38A (Reasons for decisions) of the Gas Act 1986.

Our assessment in this letter does not fetter our discretion with respect to any future decisions on the fulfilment of further conditions.

If you would like to discuss any of the issues raised in this letter, please contact Cara Yates at Cara.Yates@ofgem.gov.uk .



Steven McMahon

Deputy Director, Electricity Distribution and Cross Sector Policy

For and on behalf of the Authority

Amended Schedule to Project Direction

1. TITLE

Project Direction ref: ScGN / H100 Fife / [8 February 2021](#) ~~17 December 2020~~

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Scotland Gas Networks Plc (the "Funding Licensee") pursuant to the Gas NIC Governance Document issued pursuant to Special Condition 1I (The Network Innovation Competition) of the ScGN Gas Transporter Licence (the "Licence"). It sets out the terms to be complied with in relation to H100 Fife (the "Project") as a condition of it being funded under the NIC and the Funding Return Mechanisms.⁵ [This Project Direction supersedes the Project Direction issued on 17 December 2020 \("the 2020 Direction"\).](#)

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. CONDITIONS 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 NIC funds from the Project Bank Account until it has signed contracts with the Project Partners named in Table 1, signed a Memorandum of Understanding with Project Partners named in Table 2, and letters of commitment from the proposed project partners in Table 3.

Table 1. Licenced Project Partners

Cadent Gas Ltd
Northern Gas Networks Ltd

⁵ The Funding Return Mechanism is defined in Part C of Special Condition 1I of the Licence.

Wales and West Utilities Ltd

Table 2. Established non-licensed Project Partners

Baxi Heating UK Ltd
Bosch Thermotechnology Ltd

Table 3. Project Partners currently in the Hy4Heat consortium

HyCookers (Consortium led by Enertek International Ltd) or derivative thereof
HyFires (Consortium led by Enertek International Ltd) or derivative thereof

The Licensee will not be able to access NIC funding pertaining to Project Deliverable 5 until it has signed contracts with all Project Partners named in Table 1, Table 2 and Table 3.

Condition 2—Value for money

~~The Funding Licensee must submit a report to the Authority by 18 January 2021, demonstrating cost reductions and value adding opportunities to the Project for network customers without detriment to the network specific learnings of the project. This condition may be met in a number of ways. The evidence provided to the Authority must include the following:~~

- ~~• A report providing a detailed narrative of proposed amendments, how they have been or will be achieved in the course of the Project, plus a revised justification of the value for money that the Project represents to network customers.~~
- ~~• Confirmation of funding and/or budget changes, including a commitment to a minimum reduction of £100k to the NIC Funding Request set out in this condition.~~
- ~~• An engagement strategy for the continued review of further external funding opportunities, which must include demonstration of engagement with partners, supporters and other potential funders, and a timeline for the investigation of funding opportunities.~~
- ~~• If applicable: changes to Project budget allocations, set out in a revised Full Submission Spreadsheet; proposed changes to Project Deliverables, plus their expected impact; and proposed additional stage gates or points of funding return.~~

~~Our review of these materials will be informed by our assessment of the Project against the value for money criterion, set out in the NIC Gas Governance Document. The Authority will provide its decision on the outcome of this condition no later than three weeks from receipt of the report. If approved, the Authority will update this Project Direction in line with the~~

~~Funding Licensee's proposals, as confirmation that this condition has been fulfilled. The Funding Licensee will not access NIC funding until this condition has been fulfilled.~~

Condition 3 – Evidence of satisfactory regulatory model

The Funding Licensee is required to develop an end-to-end regulatory framework plan, including regulatory issues identified, proposals to resolve these, clear indicators of what the Funding Licensee considers should constitute evidence of resolution, and an estimated date of resolution for each issue. This plan should be submitted to Ofgem for approval no later than three months from the date of issue of this Project Direction and should cover (but not be limited to) the following regulatory issues identified:

- i) Retail and commodity balancing proposals, including:
 - Evidence of engagement with licensed suppliers/shippers, including plans for how the terms of commodity balancing will be established and agreed to ensure participating customers pay the same per unit of energy for hydrogen as they would for natural gas.
 - Details on potential methodologies for the manner in which a specific Calorific Value will be determined to calculate energy consumed at hydrogen premises and communication of this to suppliers.
 - Evidence of an understanding of the legal basis for supplier/shipper participation in the project and whether industry licence derogations or code modifications are required.
 - Details on changes required to Xoserve's systems as part of any proposed billing arrangements and anticipated industry code modifications.
- ii) Other outstanding issues across the gas network and the supply chain, including those related to retail, charging and access matters. The regulatory approvals plan should ensure they have considered impacts and interactions with the regulatory framework applicable to the gas network and to the supply of gas, including where relevant with reference to the Gas Act 1986, other relevant legislation and the licence conditions of all licensees engaged in this Project. The plan must demonstrate:
 - Evidence of wider industry engagement, including with the Oil and Gas Authority, code administrators, suppliers and (third party) shippers.
 - Confirmation of any interactions with current balancing arrangements on the network at a whole system level.

- Detailed analysis of industry licences following engagement with relevant licensees including confirmation that licensees are able to meet their existing licence obligations and if any derogations or additional licence obligations would be required to facilitate the project; including the Funding Licensee, participating suppliers and shippers.
 - Demonstration of the interactions between suppliers and shippers within the project, including what regulatory proposals will need to be agreed with these parties as separate entities.
 - Details of third party shippers appointed to assume licensable activities under the Gas Act and their associated appointments of Metter Asset Managers (MAM).
 - Confirmation of whether appointed MAM's will require additional qualification to work on hydrogen meters.
 - Detailed analysis of industry codes across all sectors engaged with through this project, that will require amendment, including but not limited to consideration of the Uniform Network Code, the Retail Energy Code, the Smart Energy Code, the Supply Point Administration Agreement, the Master Registration Agreement, relevant metering codes of practice and consumer protection regulations. This should also consider if changes are required to accommodate third-party shipping.
 - This list is not exhaustive and the Funding Licensee must identify and consider all relevant regulatory considerations relating to the gas network and to the supply of gas. The Authority may contact the Funding Licensee during the three month plan development period to request further evidence and information in relation to the regulatory issues arising in respect of this Project, including the issues set out in the Funding Licensee's Full Submission and the Regulatory Analysis paper received by the Authority on 19th October 2020.
- iii) For each regulatory concern identified, a detailed timetable of deadlines for securing the relevant agreements with the relevant parties on the required regulatory arrangements with the above parties.

The Licensee must engage with the Authority on a monthly basis to provide updates in the course of developing its regulatory plan and will be expected to provide evidence of its engagement with wider stakeholders.

The Authority will provide its decision no later than one month from receipt of the plan and, if approved, amend this direction to set further conditions on the basis of the regulatory approval plan submitted. This will define which evidence the Licensee will need to provide

to prove adequate resolution of regulatory issues if necessary, including the deadlines within which this evidence needs to be submitted to the Authority.

The Licensee will not be able to access funding pertaining to Project Deliverable 4 onwards until the regulatory model has been approved and the Authority is satisfied that all regulatory issues are resolved.

Condition 4 - Security of hydrogen supply

The Funding Licensee is required, no later than its deadline for Project Deliverable 1, to provide notice to the Authority of its contingency plans in the event of electrolyser failure and insufficient storage capacity. The notice should include what redundancy measures have been considered in the procurement of electrolysers as well as protections for customers that experience an interruption (eg Guaranteed Standards of Performance should still apply).

Condition 5 - Safety

The Funding Licensee is required to provide Ofgem with evidence of engagement with the HSE in relation to its Safety Management Framework, no later than one week from the closure of its stated objection window in Project Deliverable 3. In the event that the HSE has an objection to the Project, the Funding Licensee must pause all project activities until objections have been resolved to the satisfaction of the Health and Safety Executive.

Condition 6 – Minimum household engagement

The Funding Licensee is required to ensure that sufficient households have signed up to the trials in order to achieve statistical representation, and will be required to ensure that the number of households opted-in is representative throughout the trial. The Funding Licensee is required to report to the Authority if the number of participating households falls below statistically representative levels or, alternatively, 270 households, during the course of the four-year trial. The Funding Licensee must report within one week of each occasion in which this threshold is triggered, and include in its correspondence to the potential effect that this fall in numbers could have on project outputs if sustained. Ofgem may deem Project Deliverable 4 to be incomplete if household representation cannot be maintained to a sufficient level throughout the course of the trial.

4. COMPLIANCE

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

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

Pursuant to Special Condition 1I 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 ~~£18,100,669~~ **£17,999,968**. ~~The Authority will update the Approved Amount as appropriate upon receipt of the Funding Licensee's report as required under Condition 2 of this Project Direction.~~

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 Authority will update the Project Budget upon the receipt of the Funding Licensee's report as required under Condition 2 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 £2,043,103;
- (iii) complete the Project on or before the Project completion date of 31 March 2027; 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

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
1	Detailed designs and specifications produced.	22 September 2021	<ol style="list-style-type: none"> 1. Approved and appraised design packs (tender versions) 2. Signed off versions of tender documentation including detailed specifications and award criteria. 	6.6%
2	Demonstration facility constructed	10 March 2022	<ol style="list-style-type: none"> 1. Build completion certificate. 2. Certified hydrogen appliances installed and commissioned 	3.7%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
3	Pre-construction activities completed	07 April 2022	<ol style="list-style-type: none"> 1. H100 Fife QRA produced 2. Local Operating Procedures produced and approved 3. Safety Management Framework completed 4. Training delivered and training and competency records produced 5. HSE window for objection closes 6. Regulatory model agreed 7. Project insurance in place and documentation available 	7.3%
4	Procurement phase completed	20 October 2022	<ol style="list-style-type: none"> 1. Signed contracts completed (including from the Project Partners listed in condition 1 of this Project Direction) 2. Evidence of customer commitment 3. Evidence of cost discounts and savings from appliance manufacturers 	0.8%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
5	Construction phase completed	15 December 2022	<ol style="list-style-type: none"> 1. Distribution network installed and commissioned 2. Hydrogen production system installed and commissioned 3. AGI including storage, PRS, control and ancillary systems and buildings constructed and commissioned 4. As built documentation produced 5. Monthly progress reports available 6. Evidence of Fife Council engagement on considered investment opportunities and benefit-in-kind contributions to the project 	24.3%
6	Customer works completed	29 December 2023	<ol style="list-style-type: none"> 1. Services to participating properties installed and commissioned 2. Appliances installed in participating properties 3. Any required upgrades or mitigation measures carried out in participating properties 4. Installation certificates available 5. Monthly progress reports available 	15.7%

Reference	Project Deliverable	Deadline	Evidence	NIC funding request (100%)
7	Operational phase completed	31 March 2027	<ol style="list-style-type: none"> 1. Maintenance, emergency, and repair records available for phase. 2. Monthly progress reports available 3. Evidence submitted to Ofgem of hydrogen production costs achieved, and identification of funding returns if applicable. 	37.2%
8	Project Exit Strategy Finalised	30 April 2026	<ol style="list-style-type: none"> 1. Approved project exit strategy executed and complete 	2.1%
9	Stakeholder Engagement and Comms completed	31 March 2027	<ol style="list-style-type: none"> 1. Stakeholder engagement final report produced 2. Comms final report produced 	2.3%
N/A	Comply with knowledge transfer requirements of the Governance Document.	End of project	<ol style="list-style-type: none"> 1. Annual Project Progress Reports which comply with the requirements of the Governance Document. 2. Completed 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. 	N/A

11. USE OF LOGO

The Funding Licensee and the Project Partners, External Funders and Project Supporters⁶ 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.

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 1I of the Licence.

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

NOW THEREFORE:

In accordance with the powers contained in the Gas NIC Governance Document issued pursuant to Part E of Special Condition 1I 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.

⁶ As listed in Box 1.6 in Section 1 of the Full Submission pro-forma.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost
Labour	
	£2,665,362.00 £2,665,362
Equipment	
	£5,037,479.35 £4,624,240
Contractors	
	£8,370,667.71 £8,836,677
IT	
	-
IPR Costs	
	-
Travel & Expenses	
	-
Payments to users	
	£4,192,000.00
Contingency	
	£665,519.30 £612,750
Decommissioning	
	-
Other	
	-
Cost Category	£20,931,028.36