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for energy consumers

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Date: 09 December 2015

Dear Company Secretary,

**Project Direction ref: National Grid Gas Plc (Distribution Networks) / Commercial BioSNG Demonstration Plant / 09 December 2015**

National Grid Gas Plc (Distribution Networks) (NGG DN) submitted the project Commercial BioSNG Demonstration Plant (the Project) on 31 July 2015 to be considered for funding through the Gas Network Innovation Competition (NIC). In this year's decision<sup>1</sup>, we<sup>2</sup> selected the Project<sup>3</sup> for funding.

We have issued this Project Direction to NGG DN. It contains the terms to be followed by NGG DN as a condition of the Project receiving funding through the Gas NIC. NGG DN must comply with these terms, which can be found in the Schedule to this Project Direction.

**Project Direction**

Paragraph 5.66 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 NGG DN) is committing to 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; and
- set out the mechanism for the Network Licensee receiving the Approved Amount as set out in section 4 of the Funding Direction.

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

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/gas-network-innovation-competition-2015-funding-decision>

<sup>2</sup> The terms 'the Authority', 'Ofgem', 'we', 'us' and 'our' are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

<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/sites/default/files/docs/2015/07/gas\\_nic\\_2-1\\_stat\\_con.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/gas_nic_2-1_stat_con.pdf)

## **Decision**

Provided NGG DN 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>5</sup>.

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



### **Judith Ross**

Head of Network Regulation Policy

**For and on behalf of the Authority**

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<sup>5</sup> Eligible NIC Project has the meaning given in the definitions in the Gas Distribution licence.

## Schedule to Project Direction

### 1. TITLE

Project Direction ref: NGG DN / Commercial BioSNG Demonstration Plant/ 09 December 2015

### 2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to National Grid Gas plc (Distribution Networks) (the "Funding Licensee") pursuant to the Gas NIC Governance Document issued pursuant to Special Condition 1I (Network Innovation Competition) of the Gas Distribution Licence (the "Licence"). It sets out the terms to be followed by the Funding Licensee in relation to Commercial BioSNG Demonstration Plant ("the Project") as a condition of the Project being funded under the Network Innovation Competition ("NIC") and the Funding Return Mechanisms<sup>6</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

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.

**Table 1. Project Partners**

	<b>Company Name</b>
1.	Wales & West Utilities
2.	Progressive Energy Ltd
3.	CNG Services Ltd
4.	Advanced Plasma Power
5.	Go Green Fuels Ltd

### 4. COMPLIANCE

The Funding Licensee must comply with Special Condition 1I of the Licence and with the NIC Governance Document (as may be modified from time to time in accordance with Special Condition 1I and as modified and/or augmented in respect of the Project by this Project Direction) 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 with the Gas NIC Governance Document) is deemed to be Disallowed Expenditure.

Pursuant to Special Condition 1I, Disallowed Expenditure is revenue received (whether by the Funding Licensee or by another Licensee) under the NIC and Funding Return Mechanisms that the Authority determines not to have been spent in accordance with the provisions of the Gas NIC Governance Document or those of the relevant Project Direction.

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<sup>6</sup> The Funding Return Mechanism is defined in Special Condition 1I (Network Innovation Competition).

Pursuant to paragraph 8.48 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 on the completion of the Project.

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

The Approved Amount is £5,361,686.64.

## **6. PROJECT BUDGET**

The Project Budget is set out in Annex 1 to this Project Direction. The Funding Licensee must not spend more than 110% of any category total (e.g. "Labour") in Annex 1 without the Authority's prior written consent (such consent is not to be unreasonably withheld).

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 at least every six months, in accordance with paragraph 8.17 of the Gas NIC Governance Document. Ofgem will use the reported expenditure and explanation to assess whether the funding has been spent in accordance with the Gas NIC Governance Document and in accordance with this Project Direction.

For the avoidance of doubt this reporting requirement does not change or remove any obligations on the Funding Licensee with respect to reporting that are set out in the Gas NIC Governance Document.

## **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);
- (ii) provide a Network Licensee Compulsory Contribution of £600,000;
- (iii) complete the Project on or before the Project completion date of 30 November 2018; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

## **8. REPORTING**

Ofgem will issue guidance (as amended from time to time) about the structure and content of the reports required by paragraph 8.17 of the Gas NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports required by paragraph 8.17 of the Gas NIC Governance Document.

As required by paragraph 8.22 of the Gas NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

## 9. COST OVERRUNS

The maximum amount of Contingency Funding that the Funding Licensee can request as additional funding for cost overruns on the Project is 5%<sup>7</sup> of the Approved Amount.

## 10. 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.

## 11. SUCCESSFUL DELIVERY REWARD CRITERIA

The Project will be judged by the Authority for the purposes of the NIC Successful Delivery Reward against the Successful Delivery Reward Criteria ("SDRCs") set out in Table 2 below (that comply with paragraphs 5.26 – 5.29 of the Gas NIC Governance Document).<sup>8</sup>

**Table 2. Successful Delivery Reward Criteria**

Successful Delivery Reward criterion	Evidence
SDRC 9.1: Planning and permitting completed and commercial contracts agreed and finalised by 1 May 2016.  Tasks 1 and 3 in the Project Plan.	This includes: <ul style="list-style-type: none"><li>the completion of the planning and environmental permitting processes, and</li><li>gaining agreement for the necessary trade effluent discharge consent.</li></ul> These will be evidenced by obtaining the relevant documentation.  This includes the: <ul style="list-style-type: none"><li>collaboration agreement between the partners,</li><li>construction Manager contract,</li><li>waste supply and the gas grid Network Entry Agreement, and</li><li>electric and water grid connection agreements.</li></ul> These will be evidenced by the signature of all of the relevant contracts.
Detailed design and safety review completed (9.2) by 1 September 2016.  Task 2 in the Project Plan.	This involves the completion of: <ul style="list-style-type: none"><li>process flow diagrams,</li><li>mass and energy balance documentation, and</li><li>plant layouts.</li></ul> These will be supported, inter alia, by output from the primary testing phase of the Pilot Plant.  This also covers: <ul style="list-style-type: none"><li>process and instrumentation diagrams,</li><li>control philosophy and electrical system specifications,</li><li>data sheets for major items of equipment,</li><li>project management manuals, and</li><li>completion of HAZOP and other safety reviews.</li></ul> These will be evidenced by sign off of all relevant documents.
Equipment procurement process completed (9.3) by 1 May 2017.	This involves the: <ul style="list-style-type: none"><li>finalisation of work package definitions,</li></ul>

<sup>7</sup> This is the amount requested by the Funding Licensee in its Full Submission, or the default of 5%.

<sup>8</sup> These are the Successful Delivery Reward Criteria set out in the Funding Licensees Full Submission.

Task 4 in the Project Plan.	<ul style="list-style-type: none"> <li>• development of functional specifications and an interface register,</li> <li>• preparation of tenders for packages,</li> <li>• negotiation of commercial conditions, and</li> <li>• appointment of suppliers.</li> </ul> <p>These will be followed by:</p> <ul style="list-style-type: none"> <li>• management of suppliers through equipment manufacture,</li> <li>• factory Acceptance Testing of equipment, and</li> <li>• a pre-construction Hazop.</li> </ul> <p>These will be evidenced by:</p> <ul style="list-style-type: none"> <li>• issuing of ITT information,</li> <li>• placement of orders,</li> <li>• delivery of materials to manufacturers, and</li> <li>• completion of FATs.</li> </ul>
<p>Construction completed and commissioning started (9.4) by 1 February 2018</p> <p>Task 5 in the Project Plan.</p>	<p>This will involve the:</p> <ul style="list-style-type: none"> <li>• mobilisation of resources,</li> <li>• civils and building modifications,</li> <li>• gas grid connection, and</li> <li>• on-site installation of equipment including interconnecting pipework, electrical and control installation.</li> </ul> <p>This will be evidenced by:</p> <ul style="list-style-type: none"> <li>• photographs of the installation of equipment on site, and</li> <li>• site visits.</li> </ul>
<p>Successful operation of plant demonstrated (9.5) by 1 July 2018</p> <p>Tasks 6, 7 and 8 in the Project Plan.</p>	<p>This will involve:</p> <ul style="list-style-type: none"> <li>• control system testing,</li> <li>• pre-commissioning checks,</li> <li>• cold and hot commissioning,</li> <li>• extended operational tests,</li> <li>• confirmation of performance of plant,</li> <li>• delivery of in-specification pipeline gas, and</li> <li>• monitoring of product quality and system performance.</li> </ul> <p>This will be evidenced by delivery of in-specification gas to WWU network and by KPI reports on plant operations.</p>
<p>Dissemination of project learnings and commercialisation strategy (9.6) by 30 November 2018.</p> <p>Tasks 9 and 10 in the Project Plan.</p>	<p>This will involve:</p> <ul style="list-style-type: none"> <li>• maintaining and updating the 'gogreengas' website,</li> <li>• showcasing the facility by organising site visits for government, industry and potential investors,</li> <li>• preparation of process and Project final reports, and</li> <li>• presentations, technical papers and journal articles.</li> </ul> <p>This will also include preparation of an outline design of, and commercial assessment for, a full-scale commercial plant.</p> <p>This will be evidenced by:</p> <ul style="list-style-type: none"> <li>• reports on the 'gogreengas' website,</li> <li>• customer feedback,</li> <li>• the Project final report, and</li> </ul>

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|  | <ul style="list-style-type: none"><li>• the documentation supporting a full-scale plant.</li></ul> |
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The maximum amount of the Gas NIC Successful Delivery Reward (which will not exceed the Network Licensee Compulsory Contribution) that the Project will be eligible for is £600,000.

## **12. USE OF LOGO**

The Funding Licensee and Project Partners, External Funders and Project Supporters<sup>9</sup> may use the NIC logo for purposes associated with the Project but not use the Ofgem or Ofgem E-Serve logos in any circumstances.

## **13. AMENDMENT OR REVOCATION**

As set out in 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 (paragraph 8.23 of the Gas NIC Governance Document); or
- (ii) if Ofgem agrees to provide Contingency Funding, which requires the re-issue of the Project Direction (paragraph 8.42 of the Gas NIC Governance Document); or
- (iii) if the Funding Licensee applies for Contingency Funding to cover a decrease in Direct Benefits and the Authority decides it would be in the best interest of customers to make changes to the Project Direction before the Contingency Funding would be awarded (paragraph 8.42 of the Gas NIC Governance Document).

## **14. HALTING OF PROJECTS**

This Project Direction is subject to the provisions contained in paragraphs 8.30 to 8.34 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 Special Condition 1I.

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 Special Condition 1I of the Licence the Authority hereby issues this Project Direction to the Funding Licensee in relation to the Project.

This Project Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A of the Gas Act 1986.

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<sup>9</sup> As listed in Box 1.6 in Section 1 of the Full Submission pro-forma.

## ANNEX 1: PROJECT BUDGET

<b>Cost Category</b>	<b>Cost (£k)</b>
Labour	769
Equipment	3,844
Contractors	725
IT	-
IPR Costs	-
Travel & Expenses	42
Payments to users	-
Contingency	585
Decommissioning	-
Other	35
<b>Total</b>	<b>6,000</b>