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for energy consumers

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Date: 09 December 2015

Dear Company Secretary,

Project Direction ref: Northern Gas Networks Limited / The City CNG Project / 09 December 2015

Northern Gas Networks Limited (NGN) submitted the City CNG project on 31 July 2015 to be considered for funding through the Gas Network Innovation Competition (NIC). In this year's decision¹, we² selected the Project³ for funding.

We have issued this Project Direction to NGN. It contains the terms to be followed by NGN as a condition of the Project receiving funding through the Gas NIC. It 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 Document⁴ states that a Project Direction will:

- set out the Project-specific conditions that the Network Licensee (which for this Project is NGN) 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.

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

² 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.

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

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/gas_nic_2-1_stat_con.pdf

Decision

Provided NGN complies with the NIC Governance Document and with the Schedule to this Project Direction, the Project is deemed to be an Eligible NIC Project⁵.

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

⁵ Eligible NIC Project has the meaning given in the definitions in the Gas Distribution licence.

Schedule to Project Direction

1. TITLE

Project Direction ref: NGN / The City CNG Project / 09 December 2015

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Northern Gas 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 The City CNG Project ("the Project") as a condition of the Project being funded under the NIC and the Funding Return Mechanisms⁶.

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

Leeds City Council

The Funding Licensee will not access any funds from the Project Bank Account until the Authority has decided that NGN has complied with the following conditions:

1) NGN revises its Full Submission to improve its clarity on the commercial and regulatory barriers that the Project seeks to overcome, and on the learning objectives and deliverables specifically related to the novel charging arrangement; and

2) NGN revises the figures in its Full Submission (including the budget spreadsheet), to reflect how any NIC funding will be spent in light of the Authority's decision to partially fund the Project.

The Funding Licensee will submit proposed revisions to the Full Submission to the Authority by 1 February 2016. The Authority will make a decision in writing in relation to whether to accept, or whether to reject, any proposed revisions made by NGN to its Full Submission.

If the Authority rejects the revisions proposed by the Funding Licensee, or the Funding Licensee does not submit its proposed revisions to the Full Submission to the Authority by 1 February 2016, then the Project must be halted (complying with paragraphs 8.30-8.34 of the Gas Electricity Governance Document). In this event the Approved Amount will be returned to customers and the Funding Licensee will retain its compulsory contribution and will not be eligible for the Successful Delivery Reward.

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

If the Authority makes a decision to accept the revisions to the Full Submission proposed by the Funding Licensee, the Authority may make changes to this Project Direction, in line with paragraphs 8.22 and 8.23 of the Gas NIC Governance Document.

4. COMPLIANCE

The Funding Licensee must comply with Special Condition 1I of the Licence and 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 in accordance 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 with those of the relevant Project Direction.

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 £700,000.

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 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 £70,000;

- (iii) complete the Project two years after station commissioning - anticipated to be October 2019; 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%⁷ 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).⁸

Table 2. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
SDRC 9.1: Novel Commercial Arrangement	Agreement and formal sign on to the novel commercial arrangement required to recover the NIC funds associated with the High Pressure (HP) connection and metering unit. <u>June 2016.</u>
SDRC 9.2: Design of HP pipeline	As described in section two of the City CNG submission the design of the HP pipeline will commence after LCC have: <ul style="list-style-type: none"> Confirmed the land for the CNG site. Signed off contracts with their 3rd Party Contractor. Signed NGN's connection agreement (including the novel commercial arrangement). <u>Following achievement of these milestones the design of the HP connection pipeline will be</u>

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

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

	<u>completed within six months.</u>
SDRC 9.3: Build of HP connection pipeline	As described in section two of the City CNG submission the build of the HP pipeline will commence once the 3rd Party Contractor has mobilised to site or NGN have written confirmation the build is to proceed including start dates. <u>Once this has been achieved the HP pipeline build will be completed within seven months.</u>
SDRC 9.4: Functioning station	The station will be designed to correctly integrate with NGNs HP pipeline and meter skid, with storage and compression capacity to serve the outline customer base as modelled in the 'realistic' scenario. The station shall open 'on-time' at a date agreed during their appointment and be ready to serve customers on day one. All equipment shall be fully operational, and staff fully trained to operate and assist customers.
SDRC 9.5: Vehicle usage is in line with estimate	The projections made in the 'realistic' business model scenario are met or exceeded.
SDRC 9.6: Knowledge, Learning and Dissemination Strategy (a)	Deliver project website, accessible by all interested parties. Website set up and available by December 2016. Website to include progress reports, and any relevant case studies, designs etc. from the work undertaken to date.
SDRC 9.7: Knowledge, Learning and Dissemination Strategy (b)	Information from the CNG fuelling station to be available on the web portal within three months of station commissioning.
SDRC 9.8: Project Evaluation and final report.	The novel commercial arrangement for the project will continue for a ten year period from station commissioning. However a final report will be produced <u>two years after station commissioning which is currently anticipated to be October 2019.</u> This report will act as the end of the NIC project. However the web portal and commercial operation will continue as described in the submission.

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 £700,000.

12. USE OF LOGO

The Funding Licensee and Project Partners, External Funders and Project Supporters⁹ 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

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

- (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 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 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.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£k)
Labour	To be confirmed – see section 3 of this Schedule
Equipment	
Contractors	
IT	
IPR Costs	
Travel & Expenses	
Payments to users	
Contingency	
Decommissioning	
Other	
Total	