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**Open letter consultation on the proposed modification of Part C of “the Network Innovation Competition” licence condition – ‘The Funding Return Mechanism’ in all the licences with the Network Innovation Competition licence condition in force**

*Background*

Every year, the Network Innovation Competition (NIC) encourages network licensees to innovate in the design, development, and operation of their networks and to engage with third parties in doing so. The NIC funds a number of large-scale innovation projects. Projects involve new technologies, and the implementation of new operational processes and commercial arrangements. Network licensees compete against each other for a share of the funding. Trials financed through the NIC create knowledge for all licensees that will also be made available to all interested parties. This brings potential environmental benefits and cost savings for current and future energy customers.

We have recently launched a review to examine the NIC governance arrangements and whether the process of awarding funding could be improved.<sup>1</sup> Our consultation is separate from this review. We focus on clarifying existing policy in the drafting of both the NIC licence conditions and of the NIC governance documents. We note that separate changes to the governance documents may be needed and will look to progress these as soon as reasonably practical, once any change to the licence has been made. In the event of any difference between the NIC licence condition and the governance document, the licence condition will take precedence.

The NIC licence condition establishes the NIC Funding Mechanism which enables the relevant licensee to fund Eligible NIC Projects<sup>2</sup> by means of payments received from National Grid Electricity Transmission (NGET) for electricity and from National Grid Gas (NGG) for gas. The licence condition also establishes the Funding Return Mechanism<sup>3</sup> which enables the Authority<sup>4</sup> to direct the relevant licensee to return money to customers (via NGET or NGG).

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/reviewing-benefits-low-carbon-networks-fund-and-governance-network-innovation-competition-and-network-innovation-allowance>

<sup>2</sup> Defined terms used in this letter have the meaning given to them in the NIC licence condition and in the NIC governance document.

<sup>3</sup> Capitalised terms not otherwise defined in this letter have the meaning given to them in the NIC Licence condition and in the NIC Governance Document.

<sup>4</sup> The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority. The terms “the Authority”, “Ofgem”, “we” and “us” are used interchangeably in this document.

In this consultation, we propose to make changes to the Funding Return Mechanism. The proposed licence changes cover all energy sectors that have the NIC licence condition in force – see Table 1.

**Table 1: Licences requiring modification**

Relevant licensee	Licence condition number
National Grid Electricity Transmission	Special Condition 3I. The Network Innovation Competition and Special Condition 1A. Definitions and Interpretation
Electricity Transmission Owner	Special Condition 3I. The Network Innovation Competition and Special Condition 1A (Definitions and Interpretation)
Distribution Network Operator	Special Condition CRC 5A. The Network Innovation Competition
Offshore Transmission Owner	Amended Standard Condition E12-J11: The Network Innovation and Amended Standard Condition E12 – A1: Definitions and Interpretation
National Grid Gas Plc (NTS)	Special Condition 2F. The Network Innovation Competition and Special Condition 1A. Definitions
Gas Distribution Networks	Special Condition 1I. The Network Innovation Competition and Special Condition 1A. Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions
Independents Gas Transporters	Special Condition 2 of GTC's licence <sup>5</sup>

*Proposed changes to the Funding Return Mechanism*

The Funding Return Mechanism set out in Part C of the NIC licence condition is the method by which the Authority can direct money to be returned to customers. Currently the licence condition provides that money can be returned to customers by the relevant licensee, via NGET/ NGG, for three specific reasons:

- Halted Project: when Ofgem directs a Project to be halted, any unspent money must be returned to customers.
- Disallowed revenue: when Ofgem assesses that money spent has not been in accordance with the Project Direction, the network company must return that money to consumers from its own budgets.
- Royalty Return: when a Project has received money from intellectual property which it has because of a NIC funded Project, then some of the money must be returned to customers.

We propose to allow money to be returned to customers, and potentially to other project parties, by adding a new category of Returned Project Revenues in the Funding Return Mechanism. This will allow money to be returned to customers via NGET/NGG where the project was delivered more efficiently than expected, or where a project has produced revenue by methods other than through Intellectual Property Rights. It will also allow money to be kept by other project parties where this is appropriate e.g. money could be returned to the Funding Licensee where it has made a financial contribution to the relevant project.

*Reasons for proposed changes*

**Reason 1:** It is important that the Funding Return Mechanism is capable of returning money to customers during, or after the end of, the relevant project, if the Funding Licensee has acted in line with the Project Direction but has spent less than the sum provided for in the project budget. For example, at the project end, the Funding Licensee

<sup>5</sup> We will publish a separate consultation to insert the NIC licence condition in to the licences of all other iGTs and the electricity independent distribution network operators shortly.

might have delivered all of its Successful Delivery Reward Criteria (SDRCs), but might have underspent against the agreed project budget, by delivering the project more efficiently. The proposed licence change will allow customers to benefit from these financial savings. We do not consider that the Funding Return Mechanism as currently set out in the NIC licence condition for each relevant licensee type makes this clear.

We also think there could be occasions where the Authority thinks it is appropriate for underspent NIC money to be returned to other parties, not just customers. For example, where financial contributions from other parties have made a project viable, it might be appropriate for the underspend to be shared amongst parties involved in the Eligible NIC Project. In recognition of the potential benefits to customers of the relevant project going ahead, we propose that the default would be for all NIC underspend to be returned to customers unless the Funding Licensee demonstrates to us that the redistribution of money to other parties reflects the contributions of those parties.

We would like to note that previous projects have already returned unspent NIC funding to customers, and this modification is not intending to change any action previously taken. However, we feel it would be better to clarify the default position to avoid any confusion in the future.

**Reason 2:** In this year's NIC competitions we have seen licensees looking at innovative ways of returning money generated by the relevant projects (that is not Intellectual Property) to customers eg City CNG<sup>6</sup> and OSEAIT<sup>7</sup>. For example, the City CNG project aims to pay back the connection costs of a filling station (funded by the NIC) to customers, based on usage of the CNG filling station. This enhances the value of the project for customers, by potentially demonstrating the concept at a lower net cost to customers. We welcome this type of innovative thinking.

Therefore, we propose that the new 'Returned Project Revenues' category scope also covers the return of money generated by the Project, other than by Intellectual Property (this is already covered in the licences). There could be circumstances where customers benefit from the wider scope of parties to whom money generated by the relevant project can be returned. For example, where the promise of a financial return allows the Funding Licensee to increase its, or Project Partners', financial support in its NIC bid, allowing the relevant project to go ahead with less NIC support. Therefore, it may be appropriate to return some of the money generated by the relevant project to parties other than customers, such as the Funding Licensee. Such arrangements would be set out in the relevant Project Direction.

#### *Effects of the proposed changes*

The effect of the proposed modification is to:

- enable the return of NIC funding during or at the end of a project, where the project has underspent its budget but where the Funding Licensee has acted in line with the Project Direction,
- allow the return of revenue generated by the project, other than through Intellectual Property,
- allow the Authority to direct to which parties money is being returned.

The suggested amendments to the relevant sections of each licence can be found in Appendix 1.

#### *Responding to this consultation and further information*

We are seeking stakeholders' views on our reasons and effects for the proposed changes

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<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2015-northern-gas-networks-decision-resubmission>

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/electricity-nic-submission-national-grid-electricity-transmission-oseait>

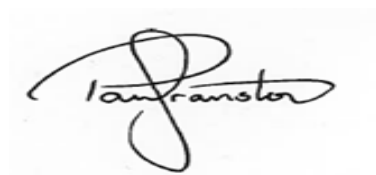
outlined in this letter as well as the proposed licence modifications. Responses should be sent to the above address for the attention of Tom Mackenzie, RIIO Networks or emailed to [thomas.mackenzie@ofgem.gov.uk](mailto:thomas.mackenzie@ofgem.gov.uk) by 29 March 2016. Unless otherwise specified, all responses will be taken as non-confidential and will be published with our conclusions.

We consider that a four week consultation period is sufficient because of the limited scope of this consultation.

*Next steps*

Subject to responses to this consultation, we plan to issue a statutory consultation on the proposed licence changes, with the aim that licence changes are implemented by Summer 2016. If we make the proposed modifications to the NIC licence conditions, changes to gas and electricity NIC Governance Documents will also be required and we would make these changes as soon as reasonably practical, once any change to the licence has been made.

Yours faithfully

A handwritten signature in black ink, appearing to read "Paul Branston". The signature is stylized with a large, looping initial "P" and a long, sweeping underline.

Paul Branston  
Associate Partner, RIIO Networks

## **Appendix 1: Proposed Amendments to each licence**

### **National Grid Electricity Transmission**

#### **Special Condition 3I. The Network Innovation Competition**

##### **Part C: The Funding Return Mechanism**

- 3I.9 The Funding Return Mechanism provides for the recovery from the licensee and from other electricity Transmission Licensees or Electricity Distribution Licensees, in each case to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; ~~and~~
  - (c) Returned Royalty Income; ~~and~~
  - (d) Returned Project Revenues.
- 3I.10 The Funding Return is the total amount (in respect of the licensee other electricity Transmission Licensees and Electricity Distribution Licensees) of any amounts arising under paragraph 3I.9 of this condition.
- 3I.11 Halted Project Revenues are revenues received (whether by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 3I.12 Disallowed Expenditure is revenue received (whether by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 3I.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 3I.14 For the purposes of paragraph 3I.13 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other Transmission Licensee or Electricity Distribution Licensee) that have not been otherwise remunerated through Transmission Network Charges, Excluded Services, or the NIC Funding Mechanism.
- 3I.15 Returned Project Revenues are:
- (a) revenues received (whether by the licensee or any other Electricity Transmission Licensee or Electricity Distribution Licensees) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction; or

- (b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensees) other than Returned Royalty Income, that the Authority determines are payable to customers.
- (c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

### **Special Condition 1A. Definitions and Interpretation**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues** has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

## Transmission Owner

### Special Condition 3I. The Network Innovation Competition

#### Part C: The Funding Return Mechanism

- 3I.5 The Funding Return Mechanism relates to payments to be made by the licensee to the Transmission System Operator, as maybe relevant in each of the following cases to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; ~~and~~
  - (c) Returned Royalty Income; ~~and~~
  - (d) Returned Project Revenues.
- 3I.6 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 3I.5 of this condition.
- 3I.7 Halted Project Revenues are any revenues received by the licensee from the Transmission System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 3I.8 Disallowed Expenditure is any revenue received by the licensee from the Transmission System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 3I.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the Licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 3I.10 For the purposes of paragraph 3I.9 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Base Transmission Revenue as defined in Special Condition 3A, Excluded Services, or the NIC Funding Mechanism.
- 3I.11 Returned Project Revenues are:
- (a) revenues received by the licensee from the Transmission System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction; or
  - (b) revenues earned from Eligible NIC Projects by the licensee other than Returned Royalty Income, that the Authority determines are payable to customers.
  - (c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

- 3I.12 In each Relevant Year t, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
- (a) the amount of any Funding Return that the licensee must pay to the Transmission System Operator; and
  - (b) the manner in which and the timescale over which that amount is to be so paid.
- 3I.13 The licensee must comply with any direction that is issued by the Authority under paragraph 3I.~~11~~12 of this condition.

### **Special Condition 1A (Definitions and Interpretation)**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues**      has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).



## Distribution Network Operators

### Special Condition CRC 5A. The Network Innovation Competition

#### Part C: The Funding Return Mechanism

- 5A.5 The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, to such extent as may be relevant, in each of the following cases (if any):
- (a) Halted Project Revenues;
  - (b) Disallowed Expenditure;~~and~~
  - (c) Returned Royalty Income;and
  - (d) Returned Project Revenues.
- 5A.6 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 5A.5.
- 5A.7 Halted Project Revenues are any revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 5A.8 Disallowed Expenditure is any revenue received by the 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 NIC Governance Document or the terms of the relevant Project Direction.
- 5A.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to Customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 5A.10 For the purposes of paragraph 5A.9, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Base Demand Revenue, revenue from Directly Remunerated Services, or the NIC Funding Mechanism.
- 5A.11 Returned Project Revenues are:
- (a) revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction;  
or
  - (b) revenues earned from Eligible NIC Projects by the licensee other than Returned Royalty Income, that the Authority determines are payable to customers.

(c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

~~5A.11~~ 51.12 In each Regulatory Year t, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:

- (a) the amount of any Funding Return that the licensee must pay to the System Operator; and
- (b) the manner in which and the timescale over which that amount is to be so paid.

~~5A.12~~ 51.13 The licensee must comply with any direction that is issued by the Authority under paragraph ~~5A.11~~ 12.

## **Part G: Interpretation**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues**

has the meaning given to that term in Part C of this condition.

## OFTO

### Amended Standard Condition E12-J11: The Network Innovation Competition

#### Part C: The Funding Return Mechanism

5. The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, in each of the following cases to such extent (if any) as may be relevant, of:
  - (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; ~~and~~
  - (c) Returned Royalty Income; ~~and~~
  - (d) Returned Project Revenues.
6. The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 5.
7. Halted Project Revenues are any revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
8. Disallowed Expenditure is any revenue received by the 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 NIC Governance Document or the terms of the relevant Project Direction.
9. Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
10. For the purposes of paragraph 9, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated under any of the arrangements by which the licensee recovers its Allowed Transmission Owner Revenue (OFTO<sub>t</sub>) from the System Operator, Excluded Services, or the NIC Funding Mechanism.
11. Returned Project Revenues are:
  - (a) revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction;  
or
  - (b) revenues earned from Eligible NIC Projects by the licensee other than Returned Royalty Income, that the Authority determines are payable to customers.
  - (c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

~~11~~ 12. In each Relevant Year t, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:

- (a) the amount of any Funding Return that the licensee must pay to the System Operator; and
- (b) the manner in which and the timescale over which that amount is to be so paid.

~~12~~ 13. The licensee must comply with any direction that is issued by the Authority under paragraph ~~11~~12.

### **Amended Standard Condition E12 – A1: Definitions and Interpretation**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues**      has the meaning given to that term in Part C of Amended Standard Condition E12 – J11 (The Network Innovation Competition).

# National Grid Gas Transmission

## Special Condition 2F: The Network Innovation Competition

### Part C: The Funding Return Mechanism

- 2F.9 The Funding Return Mechanism provides for the recovery from the Licensee and from other gas transporter licensees, in each case to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; ~~and~~
  - (c) Returned Royalty Income; and
  - (d) Returned Project Revenues.
- 2F.10 The Funding Return is the total amount (in respect of the Licensee and other gas transporter licensees) of any amounts arising under paragraph 2F.9.
- 2F.11 Halted Project Revenues are revenues received (whether by the Licensee or any other gas transporter licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 2F.12 Disallowed Expenditure is revenue received (whether by the Licensee or any other gas transporter licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 2F.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the Licensee or any other gas transporter licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 2F.14 For the purposes of paragraph 2F.13, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the Licensee or other gas transporter licensee) that have not been otherwise remunerated by the charges listed in Part B of Special Condition 11C (Services treated as Excluded Services), Excluded Services, or the NIC Funding Mechanism.
- 2F.15 Returned Project Revenues are:
- (a) revenues received (whether by the Licensee or any other gas transporter licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction; or
  - (b) revenues earned from Eligible NIC Projects (whether undertaken by the Licensee or any other gas transporter licensee) other than Returned Royalty Income that the Authority determines are payable to customers.
  - (c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding

Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

## **Special Condition 1A. Definitions**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues**      has the meaning given to that term in Part C of Special Condition 2F (The Network Innovation Competition).

## Gas Distribution Network Operators

### Special Condition 1I: The Network Innovation Competition

#### Part C: The Funding Return Mechanism

1I.5 The Funding Return Mechanism relates to payments to be made by the Licensee to the NTS Operator, in each case to such extent (if any) as may be relevant, of:

- (a) Halted Project Revenues;
- (b) Disallowed Expenditure; ~~and~~
- (c) Returned Royalty Income; and
- (d) Returned Project Revenues.

1I.6 The Funding Return is the total amount, in respect of the Licensee, of any amounts arising under paragraph 1I.5 of this condition.

1I.7 Halted Project Revenues are any revenues received by the Licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

1I.8 Disallowed Expenditure is any revenue received by the Licensee from the NTS Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

1I.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the Licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

1I.10 For the purposes of paragraph 1I.9 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the Licensee that have not been otherwise remunerated by Distribution Network Transportation Charges, Excluded Services, or the NIC Funding Mechanism.

1I.11 Returned Project Revenues are:

- (a) revenues received by the Licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction;  
or
- (b) revenues earned from Eligible NIC Projects by the Licensee other than Returned Royalty Income, that the Authority determines are payable to customers.
- (c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

~~111~~ 1I.12. In each Formula Year t, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the Licensee, will specify:

- (a) the amount of any Funding Return that the Licensee must pay to the NTS Operator; and
- (b) the manner in which and the timescale over which that amount is to be paid.

~~112~~ 1I.13. The Licensee must comply with any direction that is issued by the Authority under paragraph 1I.~~112~~ of this condition.

### **Special Condition 1A. Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues** has the meaning given to that term in Part C of Special Condition 1I (The Network Innovation Competition);



## GTC – independent gas transporter

### Special condition 2: The Network Innovation Competition

#### Part C: The Funding Return Mechanism

5. The Funding Return Mechanism relates to payments to be made by the licensee to the NTS Operator, in each case to such extent (if any) as may be relevant, of:

- (a) Halted Project Revenues;
- (b) Disallowed Expenditure; ~~and~~
- (c) Returned Royalty Income; ~~and~~
- (d) Returned Project Revenues.

6. The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 5 of this condition.

7. Halted Project Revenues are any revenues received by the licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

8. Disallowed Expenditure is any revenue received by the licensee from the NTS Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

9. Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

10. For the purposes of paragraph 9 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee.

#### 11. Returned Project Revenues are:

- (a) revenues received by the Licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction, or
- (b) revenues earned from Eligible NIC Projects by the Licensee other than Returned Royalty Income, that the Authority determines are payable to customers.

(c) The Authority may direct how the relevant revenues under paragraphs (a) and (b) above should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee, or distributed by the licensee to other parties involved in the Eligible NIC Project.

~~11~~12. In each Formula Year t, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:

(a) the amount of any Funding Return that the licensee must pay to the NTS Operator; and

(b) the manner in which and the timescale over which that amount is to be so paid.

12. The licensee must comply with any direction that is issued by the Authority under paragraph ~~11~~12 of this condition.

## **Part F: Interpretation**

[For clarity, we only show the new or modified definitions to be inserted in alphabetical order within this condition]

**Returned Project Revenues**

has the meaning given to that term in Part C of Special Condition 2F (The Network Innovation Competition).