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Dear Company Secretary

Electricity Network Innovation Competition (NIC) - Funding Direction

The NIC Funding Direction¹ sets out the amount that National Grid Electricity Transmission plc (NGET) can recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGET and other electricity Network Licensees in relation to their specific NIC projects.

This year £33 million was awarded under the Electricity NIC², and NGET is also returning £0.9 million to customers in relation to a work package that is no longer needed for one of its ongoing NIC projects. The net effect means that NGET will recover £32.1 million through its 2017/18 charges and transfer it to the relevant Network Licensees set out below.

Background

We issue a Funding Direction every year under the provisions of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Electricity NIC Governance Document³ and pursuant to the licence conditions set out in Table 1. There are two broad categories of changes potentially affecting the Funding Direction each year: the amount of funding awarded for new NIC projects; and funding returned to customers through the Funding Return Mechanism. These are set out below.

Table 1 – licence conditions

Network Licensee	Licence Condition
NGET	Special Condition 3I
SP Transmission plc (SPT)	Special Condition 3I
Western Power Distribution (West Midlands) plc (WPD WMID)	Charge Restriction Condition 5A
London Power Networks plc (LPN)	Charge Restriction Condition 5A

¹ Defined terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document

² This year's decision document can be found here - <https://www.ofgem.gov.uk/publications-and-updates/electricity-network-innovation-competition-2016-funding-decision>

³ <https://www.ofgem.gov.uk/publications-and-updates/version-2-1-network-innovation-competition-governance-documents>

Funding awarded for successful NIC projects in 2016

In August 2016, electricity Network Licensees submitted seven projects to us to be considered for funding through the Electricity NIC.⁴ In this year's decision we selected four of these projects for funding. These projects are listed in Table 2.

Table 2 – projects awarded funding

Project	Network Licensee	Funding awarded (£)
Transmission & Distribution Interface (TDI) 2.0	NGET	£7,970,435.26
Phoenix	SPT	£15,559,482.79
OpenLV	WPD WMID	£4,854,578.52
PowerFuL-CB	LPN	£4,594,431.65

Funding returned to customers through the Funding Return Mechanism

In January 2016, we decided that NGET's Enhanced Frequency Control Capability (EFCC) NIC project, looking at innovative ways of controlling frequency in low inertia transmission systems, should return NIC funding to customers. In January 2016, we decided that the project's stage gate (designed to release funding for one its work packages) was not justified and we concluded that £1.1 million of NIC funding should be returned to customers.⁵ Following new information, we have revised this figure down to £0.9 million to be returned to customers (see Table 3).⁶

Table 3 – funding to return under the Funding Return Mechanism

Project	Network Licensee	Funding to return (£)
EFCC	NGET	£907,827.74

Implementation

As the potential learning from these projects would provide benefits to all Network Licensees, they are funded by all customers through Transmission Network Charges. We implement this by amending NGET's Maximum Revenue in accordance with the provisions of Special Condition 3A of the NGET licence for the Relevant Year 2017/18, and setting the amount that NGET needs to transfer to the Network Licensees.

In accordance with Special Conditions 3I and 3A of the NGET Electricity Transmission Licence and in accordance with the Electricity NIC Governance Document, the schedule to this Funding Direction:

- (a) sets the value of the NICF term for NGET (being the amount, if any, to be recovered by NGET in order to provide for its own and other electricity Network Licensees' NIC Funding for that Relevant Year) – see Table 4;
- (b) sets out the net amounts that are to be transferred between NGET and other Network Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant

⁴Information on the projects can be found here - <https://www.ofgem.gov.uk/network-regulation-riio-model/network-innovation/electricity-network-innovation-competition>

⁵<https://www.ofgem.gov.uk/publications-and-updates/decision-funding-work-package-2-4-enhanced-frequency-control-capability-efcc-project>

⁶In our January 2016 assessment of EFCC's stage gate we concluded that £1.1million should be returned to customers due to a work package of the project no longer going ahead. We have however, subsequently concluded that a slightly lower amount, £0.9 million, should be returned to customers. This is because £0.2 million of the funding for the cancelled work package was provided by an external party and thus was not provided through NIC funds. This amount to be returned to customers has been calculated as follows: Original Amount of NIC Funding Allocated for the work package (£894.14k) + Amount of Assumed Interest (£13.68k).

Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 5; and

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

The schedule to this Funding Direction includes the above information for the Formula Year 2017/18.

In accordance with paragraph 3I.16 of Special Conditions 3I and Amended Standard Condition E12-J11 of the Electricity Transmission Licence, 5A.11-5A.12 of the Electricity Distribution Licence and the Electricity NIC Governance Document, the Authority hereby requires NGET and all Network Licensees to comply with the conditions in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1986.

Yours faithfully,



Geoffrey Randall

Head of RIIO Electricity Transmission

Signed on behalf of the Authority and authorised for that purpose

Schedule to Funding Direction

1. The value that NGET can recover from customers to cover NIC and Discretionary Funding in each Year

Table 4 contains the amount that NGET must recover in the Relevant Year commencing 1 April 2017.

The amount NGET must recover is based on the total Approved Amounts⁷ for Relevant Year 2017/18. The amount that the NGET must recover, less any Funding Return constitutes the value for the NICF term.

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

Table 5 contains the net amounts that must be transferred by NGET to electricity Network Licensees in the Relevant Year commencing 1 April 2017. For the avoidance of doubt no adjustments for inflation should be made to these numbers.

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

The transfers must be made on an equal monthly basis, for the entirety of the Relevant Year commencing 1 April 2017 such that the total amount transferred over the Relevant Year commencing 1 April 2017 equals the net amount set out in Table 5.

The Network Licensee that will be receiving funding from NGET must provide its bank account details to NGET by 1 March 2017. NGET will make transfers to the specified bank accounts on the day of the month agreed by NGET.

Table 4 – NICF Term

Network Licensee	NICF Term
NGET	£32,071,100.48

Table 5 – Amount to be transferred by NGET

Network Licensee	Amount to be transferred by NGET
NGET	£7,062,607.52 ⁸
SPT	£15,559,482.79
WPD WMID	£4,854,578.52
LPN	£4,594,431.65

⁷ The term Approved Amount has the meaning given in Appendix 1 to the Electricity NIC Governance Document.

⁸ The figure represents the net of NGET's NIC funding received for TDI 2.0 minus money to be returned for its EFCC NIC project.