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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 NIC projects.

This year £42.4 million was awarded under the Electricity NIC². In addition, two ongoing NIC projects are returning money to customers. NGET is returning £1.2 million in relation to a work package that is no longer needed for one of its ongoing projects and TC Ormonde OFTO Limited is returning £8.6 million due to the halting of the project. The net effect means that NGET will recover £32.7 million through its 2018/19 charges and will then transfer this amount 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
Western Power Distribution (East Midlands) plc (WPD EMID)	Charge Restriction Condition 5A
London Power Networks plc (LPN)	Charge Restriction Condition 5A
SP Manweb plc (SPM)	Charge Restriction Condition 5A
SP Distribution plc (SPD)	Charge Restriction Condition 5A
Southern Electric Power Distribution plc (SEPD)	Charge Restriction Condition 5A
National Grid Electricity Transmission Plc	Special Condition 3I

¹ Capitalised 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/network-innovation-competition-2017-funding-decisions>

³ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

(NGET)	
TC Ormonde OFTO Limited	Amended Standard Condition E12-J11

Funding awarded for successful NIC projects in 2017

In August 2017, 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 five of these projects for funding. These projects are listed in Table 2.

Table 2 – projects awarded funding

Project	Network Licensee	Funding awarded (£)
Active Response to Distribution Network Constraints	London Power Networks plc	13,835,663.79
LV Engine	SP Manweb plc	7,290,061.43
Electricity Flexibility and Forecasting System	Western Power Distribution (East Midlands) plc	2,942,704.38
Fusion	SP Distribution plc	5,294,315.41
Transition	Southern Electric Power Distribution plc	13,081,704.53

Funding returned to customers through the Funding Return Mechanism

In January 2018, we decided that NGET's Offgrid Substation Environment for the Acceleration of Innovative Technologies (OSEAIT) NIC project should return NIC funding to customers. In response to the project's stage gate, we concluded that £1.2 million of NIC funding should be returned to customers as the conversion costs were lower than expected.⁵ We also decided⁶ in January 2018 that TC Ormonde OFTO Limited's 'Offshore Cable Repair Vessel and Universal Joint' project, looking to convert a telecommunications cable repair vessel to conduct subsea power cable repairs, should not progress past its first phase. This was due to the feasibility study they presented at the end of the first stage showing the potential costs of the conversion had significantly increased.

Table 3 – funding to return under the Funding Return Mechanism

Project	Network Licensee	Funding to return (£)
Offgrid Substation Environment for the Acceleration of Innovative Technologies (OSEAIT)	NGET	1,152,107.50
Offshore Cable Repair Vessel and Universal Joint	TC Ormonde OFTO Limited	8,627,938.00

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/network-innovation-competition-oseait-decision-approve-substation-conversion-costs>

⁶ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-offshore-cable-repair-vessel-decision-halt-project>

Implementation

As the potential learning from the relevant projects provides benefits to all Network Licensees, they are funded by all customers through Transmission Network Charges. We implement this funding by amending NGET's Maximum Allowed Revenue in accordance with the provisions of Special Condition 3A of the NGET licence for the Relevant Year 2018/19, 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 Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 5;
- (c) sets out the net amounts that are to be transferred to NGET from other licensees (where companies are not receiving funding under the Funding Return Mechanism) – see Table 6; and
- (d) 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 2018/19.

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

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Yours faithfully,

Geoffrey Randall

Associate Partner, RIIO Networks

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 2018.

The amount that NGET must recover is based on the total Approved Amounts⁷ for Relevant Year 2017/18. The amount that 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 2018. 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 2018 such that the total amount transferred over the Relevant Year commencing 1 April 2018 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 2018. 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	32,664,404.04

Table 5 – Amount to be transferred by NGET

Network Licensee	Amount to be transferred by NGET
London Power Networks plc	13,835,663.79
SP Manweb plc	7,290,061.43
Western Power Distribution (East Midlands) plc	2,942,704.38
SP Distribution plc	5,294,315.41
Southern Electric Power Distribution plc	13,081,704.53

Table 6 – Amount to be transferred to NGET by other licensees

Network Licensee	Amount to be transferred to NGET
TC Ormonde OFTO Limited	8,627,938.00

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