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Dear Company Secretary

Gas Network Innovation Competition (NIC) - Funding Direction^{1,2}

The NIC Funding Direction sets out the amount of approved NIC Funding that National Grid Gas Plc (NGGT) can recover from its customers, and specifies the net amounts to be transferred between NGGT and other gas Network Licensees.³ The amount that NGGT can recover includes any funding for NIC Projects funded in the 2017 competition, the amount awarded through the Successful Delivery Reward (SDR)⁴ and the Bid Preparation Costs of non-RIIO Network Licensees.

This year £15.2 million was awarded under the Gas NIC⁵ and gas Network Licensees were awarded £0.4 million under the NIC's SDR.⁶ Gas Network Licensees are also returning £0.5 million to customers due to underspent NIC budgets. Additionally, £0.1 million must be recovered to fund Bid Preparation Costs for an Independent Gas Transporter. NGGT will recover this through its 2018/19 charges and transfer the relevant amounts to Northern Gas Networks Limited (NGN) and Southern Gas Networks plc (SGN) to fund their two NIC Projects, to SGN and Cadent Gas Limited (Cadent) for the SDR and to Fulcrum Pipelines Limited (Fulcrum) for its Bid Preparation Costs.

We issue a Funding Direction every year under the provisions of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Gas NIC Governance Document⁷ and pursuant to the licence conditions set out in Table 1.

Table 1 – licence conditions

Network Licensee	Licence Condition
NGGT	Special Condition 2F
NGN	Special Condition 1I
SGN	Special Condition 1I
Cadent	Special Condition 1I
Fulcrum	Special Condition 2

¹ All figures referred to in this letter are nominal.

² We have reissued this Funding Direction to correct an error in Table 5 of the Schedule to Funding Direction. This supersedes the Funding Direction published on 22 January 2018.

³ Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Gas NIC Governance Document

⁴ The SDR only applies to Projects where the Project Direction was issued during or before 2016.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2017-funding-decisions>

⁶ https://www.ofgem.gov.uk/system/files/docs/2017/08/2017_decision_rep.pdf

⁷ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

Network Innovation Competition

In August 2017, eligible Network Licensees submitted three Projects to us to be considered for funding through the Gas NIC.⁸ In this year's decision we selected one Project for full funding and one Project for partial funding. These Projects are listed in Table 2.

Table 2 – Projects awarded NIC funding

Project	Network Licensee	Funding awarded (£)
Robotic Roadworks and Excavation System (RRES)	SGN	6,325,673.57
H21	NGN	8,920,367.60

As the potential learning from these Projects would provide benefits to all Network Licensees, they are funded by means of revenues collected by NGGT through its National Transmission System (NTS) Transportation Owner Charges pursuant to the NIC Funding Mechanism. Therefore we are amending the Maximum NTS Transportation Owner Revenue in accordance with Special Condition 2A of the NGGT Transporter Licence for the Formula Year 2018/19 and have set the amount NGGT needs to transfer to the Network Licensees listed in Tables 5 and 6 of the Schedule to this Funding Direction.

Successful Delivery Reward

In 2017, we conducted an assessment of the SDR for two completed gas NIC Projects.⁹ For the SDR we assessed whether the Projects had been sufficiently well managed and whether they met their expected outputs based on quality, cost and time. The maximum available reward for each Project is equal to the Network Licensee's 10% compulsory contribution to the NIC Project. The awards for each Network Licensee are listed in Table 3.

Table 3 – Projects awarded a SDR

Project	Network Licensee	Funding awarded (£)
Opening up the Gas Market (OGM)/Oban	SGN	221,000.00
BioSNG Demonstration Plant	Cadent	212,550.00

Underspent budgets

One of the completed NIC Projects, OGM, underspent on its budget. The unspent funds are to be returned to customers and the amount to be returned is listed in Table 4.

Table 4 – Underspent budgets to return

Project	Network Licensee	Funding returned (£)
Opening up the Gas Market (OGM)/Oban	SGN	465,916.16

Bid Preparation Costs

Under paragraph 3.10 of the Gas NIC Governance Document, non-RIIO licensees receive Bid Preparation Costs from the funds available for NIC Projects each year. The total requested Bid Preparation Costs for Fulcrum's submission was £107,822.37. These funds will be recovered by NGGT and will be transferred to Fulcrum. This Funding Direction is in line with the NIC decision document. This is the final year that licensees will be able to recover the cost of preparing submissions from customers.

Effect

⁸ <https://www.ofgem.gov.uk/network-regulation-riio-model/network-innovation/gas-network-innovation-competition>

⁹ Our SDR decision contains the reasons for our assessment:
https://www.ofgem.gov.uk/system/files/docs/2017/08/2017_decision_rep.pdf

This Funding Direction:

- (a) sets the value of the NICF term for NGGT (being the amount, if any, to be recovered by NGGT in order to provide for its own and other Network Licensees' NIC Funding for that Formula Year);
- (b) sets out the net amounts that are to be transferred between NGGT and other gas 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 Formula Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return);
- (c) sets out the total amounts that are to be transferred between NGGT and other gas Network Licensees for the SDR;
- (d) sets out the total amounts of underspent budgets on completed NIC Projects that are to be returned to consumers;
- (e) identifies the amount to be transferred to Fulcrum to fund its Bid Preparation Costs; and
- (f) 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 Special Condition 2F of the NGGT Gas Transporter Licence and Special Condition 1I of the Gas Transporter Licence and Special Condition 2 of the Independent Gas Transporter Licence and in accordance with the Gas NIC Governance Document, the Authority hereby requires all Network Licensees to comply with the conditions in the Schedule to this Funding Direction.

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

Yours faithfully,

Pete Wightman

Head of RIIO Gas Networks

Signed on behalf of the Authority and authorised for that purpose

Schedule to Funding Direction

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

Table 5 contains the amount that NGGT must recover in the Formula Year commencing 1 April 2018.

The amount NGGT must recover is based on the total Approved Amounts¹⁰ for Formula Year 2018/19. The amount that the NGGT 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 6 contains the net amounts that must be transferred by NGGT to the relevant Network Licensees in the Formula 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 Formula Year commencing 1 April 2018 such that the total amount transferred over the Formula Year commencing 1 April 2018 equals the net amount set out in Table 6.

The Network Licensee that will be receiving funding from NGGT must provide its bank account details to NGGT by 1 March 2018. NGGT will make transfers to the specified bank accounts on the day of the month agreed by the NGGT.

Table 5 – NICF Term

Network Licensee	NICF Term
NGGT	£15,321,497.38

Table 6 – Amount to be transferred by NGGT

Network Licensee	Amount to be transferred by NGGT to the Network Licensee
SGN	£6,080,757.41 ¹¹
NGN	£8,920,367.60
Cadent	£212,550.00
Fulcrum	£107,822.37

¹⁰ The term Approved Amount has the meaning given in Appendix 1 to the Gas NIC Governance Document.

¹¹ The total amount to be transferred to SGN is the sum of the NIC funding awarded for the RRES Project (Table 2) and the SDR awarded for OGM (Table 3) minus the underspent funds on OGM (Table 4).