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Northern Gas Networks Limited
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Date: 12 January 2018

Dear Company Secretary,

Project Direction ref: NGN / H21 / 12 January 2018

Northern Gas Networks Limited (NGN) submitted the project H21 (the Project) in August 2017 to be considered for funding through the Gas Network Innovation Competition (NIC). In this year's decision¹, we selected the Project² for funding. However, to ensure value for money for consumers, we did not award funding for Phase 2 of the Project, which proposed field trials on an unused section of the network. NGN has updated the Project's Full Submission, including the Project Deliverables and project plan, to reflect this decision. The updated Full Submission has been published alongside this Project Direction.

This Project Direction contains the terms to be complied with 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

Chapter 5 of the Gas NIC Governance Document³ 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;

¹ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2017-funding-decisions>

² Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

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

- 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 of the Governance Document;
- 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.

Decision

Provided NGN complies with the Gas NIC Governance Document and with the Schedule to this Project Direction, the Project is deemed to be an Eligible NIC Project.⁴

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



Pete Wightman
Head of RIIO Gas Networks
For and on behalf of the Authority

⁴ Eligible NIC Project has the meaning given in definitions of the Gas Transporter licence.

Schedule to Project Direction

1. TITLE

Project Direction ref: NGN / H21 / 12 January 2018.

2. PREAMBLE

This Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Northern Gas Networks Limited (the "Funding Licensee") pursuant to the Gas NIC Governance Document issued pursuant to Special Condition 1I (Network Innovation Competition) of the Gas Transporter Licence (the "Licence"). It sets out the terms to be complied with in relation to the 'H21' project (the "Project") as a condition of it being funded under the NIC and the Funding Return Mechanisms.⁵

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

Cadent SGN Wales and West Utilities DNV GL Health and Safety Laboratories

4. COMPLIANCE

The Funding Licensee must comply with Special Condition 1I of the Licence and with the Gas 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 Chapter 8 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

⁵ The Funding Return Mechanism is defined in Special Condition 1I (Network Innovation Competition).

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 **£8,920,367.60**

6. PROJECT BUDGET

The Project Budget is set out in Annex 1 of this Project Direction.

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, in accordance with Chapter 8 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) of the Full Submission;
- (ii) provide a Network Licensee Compulsory Contribution of £1,024,556.13;
- (iii) complete the Project on or before the Project completion date of 1 June 2020; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

8. REPORTING

Ofgem may issue guidance (and amend it from time to time) about the structure and content of the Project Progress Report required by Chapter 8 of the Gas NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports.

As required by Chapter 8 of the Gas NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any material event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

9. 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.

10. PROJECT DELIVERABLES

At the end of a Project, the Funding Licensee must commission a report from an independent third party that verifies whether the Project Deliverables set out in Table 2

below (which comply with Chapter 5 of the Gas NIC Governance Document) have been achieved.

After it has received the report the Funding Licensee must send it to the Authority. Where a Project Deliverable has not been achieved we will consider whether funding should be returned to customers using the Funding Return Mechanism. If the Network Licensee is deemed by Ofgem to be at fault for the non-delivery of the Project Deliverable, it is the proportion of funding assigned to it within Table 2 below, which may be returned to customers.

Table 2. Project Deliverables

Ref:	Project Deliverable	Deadline	Evidence	NIC Funding Request (%)
1	Contractual agreements signed	28/02/18	Signed contractual agreements between all GB GDNs and Primary Partners.	5%
2	Phase 1A contract award of Phase 1A site build (Buxton)	02/04/18	Signed contracts (following tender) for build of background testing facilities at Buxton.	10%
3	Phase 1A/B Completion of Master Testing plan	01/06/18	Completion and agreement of final Master Testing Plan (MTP) schedule for background testing and consequence testing.	10%
4	Phase 1A Completion of build works	01/09/18	Completion of site build at Buxton and delivery of a minimum of 75% of network assets measured against MTP.	35%
5	Phase 1B Completion of testing	20/05/19	Completion of consequence testing at Spadeadam.	20%
6	QRA and modelling completion	20/12/19	Completion of updated QRA results.	10%
7	Report and results	01/06/20	Report and results issued at conference	10%

			event.	
8	Comply with knowledge transfer requirements of the governance document	End of Project	1. Annual Project progress reports which comply with the governance document. 2. Completed close down report which complies with the requirements of the governance document. 3. Evidence of attendance and participation in the annual conference as described in the governance document.	N/A

12. USE OF LOGO

The Funding Licensee and Project Partners, External Funders and Project Supporters⁶ may use the NIC logo for purposes associated with the Project but may not use the Ofgem logo in any circumstances.

13. AMENDMENT OR REVOCATION

As set out in Chapter 8 of 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; or
- (ii) to reflect amendments made to the Licence.

14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs Chapter 8 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.

⁶ As listed in Box 1.6 in Section 1 of the Full Submission pro-forma.

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 constitutes notice of reasons for the Authority’s decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£)
Labour	
	1,642,904.22
Equipment	
	2,843,200.00
Contractors	
	4,107,447.38
IT	
	76,223.69
IPR Costs	
	-
Travel & Expenses	
	-
Payments to users	
	-
Contingency	
	1,314,374.67
Decommissioning	
	-
Other	
	-
Total	9,984,149.96