

Company Secretary  
National Grid Gas plc  
1-3 Strand  
London  
WC2N 5EH

Direct Dial: 0141 354 5416  
Email: Steven.McMahon@ofgem.gov.uk  
Date: 11 January 2019

Dear Company Secretary,

### Gas Network Innovation Competition (NIC) - Funding Direction

The NIC Funding Direction<sup>1</sup> sets out the amount of approved NIC Funding that National Grid Gas Plc (NGG) can recover from its customers, and specifies the net amounts to be transferred between other gas Network Licensees. This year £13.28m was awarded under the Gas NIC and NGG will recover this through its 2018/19 charges and transfer it to Cadent to fund its NIC project. In addition, one completed NIC project is returning money to customers, and one project has been awarded funds through this year's Successful Delivery Reward process.

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

**Table 1 - licence conditions**

Network Licensee	Licence Condition
NGG	Special Condition 2F
Cadent	Special Condition 1I
SGN	Special Condition 1I

#### *Funding awarded for successful NIC projects in 2018*

In August 2017 one project was submitted to us to be considered for funding through the Gas NIC. We approved this project for funding. The project is specified in Table 2.

The Gas NIC Project Direction details the conditions upon which Cadent may access this funding.

**Table 2 – projects awarded funding under the Gas NIC**

Project	Network Licensee	Funding awarded
Hydeploy2	Cadent	£13,282,000

#### *Funding awarded through the 2018 Successful Delivery Reward (SDR)*

<sup>1</sup> Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

In July 2018, Ofgem rewarded the successful delivery of one project funded through the Gas NIC. The successful project and the funding reward is set out in Table 3.

**Table 3 – projects rewarded through the SDR**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding rewarded</b>
Robotics	SGN	£701,000

*Funding returned to customers through the Funding Return Mechanism*

Following the completion of the Robotics project Southern Gas Networks (SGN) produced a closedown report, dated May 2018. SGN indicated that the project had been completed within the proposed budget. SGN confirmed the remaining contingency funds would be returned to customers through the Funding Return Mechanism.

The total funding to be returned to customers is detailed in Table 4.

**Table 4 – funding to return under the Funding Return Mechanism**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding to be returned</b>
Robotics	SGN	£184,718

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

This Funding Direction:

- (a) sets the value of the NIC Funding (NICF) term for NGG (being the amount, if any, to be recovered by NGG in order to provide for its own and other Gas Network Licensees’ NIC Funding for that Relevant Year);
- (b) sets out the net amounts that are to be transferred between NGG 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 6 in the Schedule appended to this letter; and
- (c) identifies the manner and 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 NGG Transporter Licence and Special Condition 1I of the Gas Transporter Licence and in accordance with the Gas NIC

Governance Document, the Authority hereby requires all relevant 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,

A handwritten signature in black ink, appearing to read 'S. McMahon', written in a cursive style.

**Steven McMahon**  
**Deputy Director, Electricity Distribution and Cross Sector Policy**  
Signed for and on behalf of the Authority

## Schedule to Funding Direction

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

Table 5 contains the amount that NGG must recover in the Relevant Year commencing 1 April 2019.

The amount that NGG must recover is based on the total Approved Amounts for Relevant Year 2018/19. The amount that NGG 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 NGG to the relevant Network Licensees in the Formula Year commencing 1 April 2019. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

### 3. The manner and 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 2019 such that the total amount transferred over the Formula Year commencing 1 April 2019 equals the net amount set out in Table 5. The Network Licensee that will be receiving funding from NGG must provide its bank account details to NGG by 1 March 2019. NGG will make transfers to the specified bank accounts on the day of the month agreed by NGG.

**Table 5 – NICF term**

<b>Network Licensee</b>	<b>NICF Term</b>
NGG	£13,798,282

**Table 6 – Amount to be transferred by NGG**

<b>Network Licensee</b>	<b>Amount to be transferred by NGG</b>
Cadent	£13,282,000
SGN	£516,282