

National Grid ESO  
Faraday House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Direct Dial: 0141 354 5416  
Email: Steven.McMahon@ofgem.gov.uk  
Date: 1 April 2019

Dear Company Secretary,

## **Electricity Network Innovation Competition (NIC) - Funding Direction**

The NIC Funding Direction<sup>1</sup> sets out the amount that National Grid Electricity System Operator Limited (NGESO) can recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between (1) NGESO and (2) other electricity Network Licensees and NGESO in relation to their NIC projects.

For the avoidance of doubt, legal separation of National Grid Electricity Transmission Plc's (NGET's) activities as between the activities of the electricity system operator and the activities of transmission owner has recently been completed. Now that legal separation has been completed we are reissuing the Funding Direction originally issued to NGET on 11 January 2019 to NGESO. The Funding Direction dated 11 January 2019 issued to NGET ceases to have effect from the date of this Funding Direction.

This year £33.52 million was awarded under the Electricity NIC<sup>2</sup>. In addition, two completed NIC projects are returning money to customers, and two projects have been awarded funds through this year's Successful Delivery Reward process.

The net effect means that NGESO will recover £31.59 million through its 2019/20 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 Document<sup>3</sup> 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.

---

<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.

<sup>2</sup> This year's decision document can be found here - <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2018-funding-decisions>

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

**Table 1 – licence condition**

<b>Network Licensee</b>	<b>Licence Condition</b>
London Power Networks Plc (LPN)	Charge Restriction Condition 5A
SP Manweb Plc (SPM)	Charge Restriction Condition 5A
SP Transmission Plc (SPT)	Special Condition 3I
SHE Transmission Plc (SHE-T)	Special Condition 3I
National Grid Electricity System Operator Limited Plc (NGESO)	Special Condition 3I
TC Ormonde OFTO Ltd	Amended Standard Condition E12-J11

*Funding awarded for successful NIC projects in 2018*

In August 2018, electricity Network Licensees submitted four projects to us to be considered for funding through the Electricity NIC. In this year’s decision we selected three of these projects for funding. The funded projects are listed in Table 2.

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

<b>Project</b>	<b>Network Licensee</b>	<b>Funding awarded</b>
Black Start from Distributed Energy Resources	National Grid Electricity System Operator Limited	10,271,610
Charge	SP Manweb Plc	6,850,370
Optimise Prime	London Power Networks Plc	16,398,500

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

In July 2018, Ofgem rewarded the successful delivery of two projects funded through the Electricity NIC. The successful projects are listed in Table 3.

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

<b>Project</b>	<b>Network Licensee</b>	<b>Funding rewarded</b>
Offshore Cable Repair Vessel and Universal Joint	TC Ormonde OFTO Ltd	41,000
Visualisation of Real Time System Dynamics Using Enhanced Monitoring (VISOR)	SP Transmission Plc (SPT)	736,982

*Funding returned to customers through the Funding Return Mechanism*

In December 2017, SPT completed project VISOR to its revised schedule. In the project closedown report, dated March 2017, SPT confirmed that the project had been delivered under budget and would be returning funds to customers through the Funding Return Mechanism.

In December 2016, Ofgem approved the reduction in scope and early conclusion of Scottish Hydro Electric Transmission’s (SHE-T’s) project Modular Approach to Substation Construction (MASC), on the grounds that 90% of project funds are to be returned to customers. The project was concluded in March 2017 to its revised schedule, and has been

permitted to retain 10% of project funds awarded in recognition of the learning gained from the project's early stages.

The total funds to be returned to customers are detailed in Table 4.

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

<b>Project</b>	<b>Network Licensee</b>	<b>Funding to return (£)</b>
Visualisation of Real Time System Dynamics Using Enhanced Monitoring (VISOR)	SP Transmission Plc (SPT)	261,510
Modular Approach to Substation Construction (MASC)	Scottish Hydro Electric Transmission Plc (SHE-T)	2,449,682

#### *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 NGENSO's Maximum Allowed Revenue in accordance with the provisions of Special Condition 3A of the NGENSO licence for the Relevant Year 2019/20, and setting the amount that NGENSO needs to transfer to the Network Licensees (taking in to account any funding return).

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

- (a) sets the value of the NIC Funding (NICF) term for NGENSO (being the amount, if any, to be recovered by NGENSO in order to provide for its own and other electricity Network Licensees' NIC Funding for that Relevant Year) – see Table 5 in the Schedule appended to this letter;
- (b) sets out the net amounts that are to be transferred between NGENSO 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 Tables 6 and 7 in the Schedule appended to this letter;
- (c) identifies the manner in which 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 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 NGENSO 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,

A handwritten signature in black ink, appearing to read 'Steven 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 NGESO can recover from customers to cover NIC and Discretionary Funding in each Year

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

The amount that NGESO must recover is based on the total Approved Amounts<sup>7</sup> for Relevant Year 2018/19. The amount that NGESO must recover, less any Funding Return constitutes the value for the NIC Funding (NICF) term.

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

Table 6 contains the net amounts that must be transferred by NGESO to electricity Network Licensees in the Relevant Year commencing 1 April 2019.

Table 7 contains the net amounts that will be transferred to NGESO by electricity Network Licensees in the Relevant Year commencing 1 April 2019.

For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

### 3. The manner in which 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 Relevant Year commencing 1 April 2019 such that the total amount transferred over the Relevant Year commencing 1 April 2019 equals the net amount set out in Table 6.

The Network Licensee that will be receiving funding from NGESO must provide its bank account details to NGESO by 1 March 2019. NGESO will make transfers to the specified bank accounts on the day of the month agreed by NGESO.

**Table 5 – NICF term**

Network Licensee	NICF Term
NGESO	31,586,270

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

Network Licensee	Amount to be transferred by NGESO
London Power Networks Plc	16,398,500
SP Manweb Plc	6,850,370
SP Transmission Plc	475,472
TC Ormonde	41,000

**Table 7 – Amount to be transferred to NGESO by other licensees**

Network Licensee	Amount to be transferred to NGESO
Scottish Hydro Electric Transmission Plc	2,449,682