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Date: 30 January 2020

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 (NGESO) can recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGESO and other electricity Network Licensees in relation to their NIC projects.

In the 2019 NIC Competition, £14.41 million was awarded under the electricity NIC<sup>2</sup>. In addition, one completed NIC project is returning project revenues of £0.56 million to customers through the Funding Return Mechanism. No electricity NIC projects applied for the Successful Delivery Reward in 2019. There were no halted project revenues, disallowed expenditure or royalty incomes to be returned.

The net effect of funds to be awarded to and returned by Network Licensees means that NGESO will recover £13.85 million through its 2020/21 TNUoS<sup>3</sup> charges and will then transfer this amount to the Network Licensees set out below.

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<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> The 2019 NIC Competition decision document from November 2019 can be found here - <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2019-funding-decisions>

<sup>3</sup> Transmission Network Use of System charges. More information available here: <https://www.ofgem.gov.uk/electricity/transmission-networks/charging>

### *Background*

We issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Electricity NIC Governance Document<sup>4</sup> and pursuant to the licence conditions set out below in Table 1.

**Table 1 – licence condition**

<b>Network Licensee</b>	<b>Licence Condition</b>
Scottish Hydro Electric Power Distribution Plc (SHEPD)	Charge Restriction Condition 5A
Western Power Distribution (East Midlands) Plc (WPD East Midlands)	Charge Restriction Condition 5A
National Grid Electricity System Operator Limited	Special Condition 3I

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.

### *Funding awarded for successful NIC projects in 2019*

In August 2019, electricity Network Licensees submitted four projects to us to be considered for funding through the electricity NIC. In our November 2019 decision, we selected two 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>
DC Share	Western Power Distribution (East Midlands) Plc	4,715,790
Resilience as a Service	Scottish Hydro Electric Power Distribution Plc	9,696,262

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

### *Funding returned to customers through the Funding Return Mechanism*

In January 2019, NGESO completed project Enhanced Frequency Control Capability<sup>5</sup>. In the project closedown report<sup>6</sup>, dated April 2019, NGESO confirmed that the project had been delivered under budget and would be returning funds to customers through the Funding Return Mechanism.

The total funds to be returned to customers are detailed in Table 3.

**Table 3 - funding to return under the Funding Return Mechanism**

<b>Project</b>	<b>Network Licensee</b>	<b>Funding to return (£)</b>
Enhanced Frequency Control Capability (EFCC)	National Grid Electricity System Operator Ltd	557,551

### *Implementation*

As the potential learning from the NIC projects provides benefits to all Network Licensees, they are funded by all customers through TNUoS charges. We implement this funding by amending the Maximum Allowed Revenue in accordance with the provisions of Special Condition 3A of the Electricity Transmission Licence for the Regulatory Year 2020/21, and setting the amount that NGESO must transfer to the Network Licensees (taking in to account any funding return) in accordance with paragraph 3I.19 of Special Condition 3I.

In accordance with Special Conditions 3I and 3A of the 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 NGESO (being the amount, if any, to be recovered by NGESO in order to provide for its own and other electricity Network Licensees' NIC Funding for that Regulatory Year) – see Table 4 in the Schedule appended to this letter
- (b) sets out the net amounts that are to be transferred between NGESO 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 the Regulatory

<sup>5</sup> The EFCC Project Direction: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-project-direction-efcc>

<sup>6</sup> <https://www.nationalgrideso.com/innovation/projects/enhanced-frequency-control-capability-efcc>

Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 5 in the Schedule appended to this letter

(c) identifies the manner in which and timescale over which the net amounts will be transferred.

We have included the above information for the 2019 NIC Competition in the Schedule to this Funding Direction.

In accordance with paragraph 3I.16 of Special Conditions 3I, paragraphs 5A.11-5A.12 of Charge Restriction Condition 5A of the Electricity Distribution Licence and in accordance with the Electricity NIC Governance Document, the Authority hereby requires NGESO, SHEPD and WPD East Midlands 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 must recover from customers to cover NIC and Discretionary Funding in each Year

Table 4 contains the amount that NGESO must recover in Regulatory Year 2020/21 commencing 1 April 2020. The amount that NGESO must recover is based on the total Approved Amounts for the NIC Competition in Regulatory Year 2019/20, 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 5 contains the net amounts that must be transferred by NGESO to electricity Network Licensees in Regulatory Year 2020/21 commencing 1 April 2020.

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 Regulatory Year 2020/21 commencing 1 April 2020 such that the total amount transferred over the Regulatory Year 2020/21 commencing 1 April 2020 equals the net amount set out in Table 5.

The Network Licensee that will be receiving funding from NGESO must provide its bank account details to NGESO by 1 March 2020. NGESO will make transfers to the specified bank accounts on the day of the month agreed by NGESO.

**Table 4 – NICF term**

<b>Network Licensee</b>	<b>NICF Term</b>
National Grid Electricity System Operator Ltd	13,854,501

**Table 5 – Amount to be transferred by NGENO**

<b>Network Licensee</b>	<b>Amount to be transferred by NGENO (£)</b>
National Grid Electricity System Operator Ltd	557,551
Western Power Distribution (East Midlands) Plc	4,715,790
Scottish Hydro Electric Power Distribution Plc	9,696,262