

Company Secretary
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Dear Company Secretary,

Gas Network Innovation Competition (NIC) Funding Direction

The NIC Funding Direction¹ sets out the amount that National Grid Gas Plc (NGG) must recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGG and other gas Network Licensees in relation to their NIC projects. The amount that NGG can recover includes any funding for NIC projects funded in the 2019 competition and the amount awarded through the Successful Delivery Reward (SDR).²

In the 2019 NIC Competition, £6,852,188.94 was awarded to Northern Gas Networks Limited (NGN) under the gas NIC³. In addition, one completed NGN NIC project is returning project revenues of £93,302.26 to customers through the Funding Return Mechanism. This amount will be therefore be subtracted from NGN's total NIC award and then transferred to NGN. Additionally, two NGG gas NIC projects applied for the SDR and have been awarded funds through the process.⁴ 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 NGG will recover £7,932,766.68 from customers through its 2020/21 charges. NGG will

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

² The SDR only applies to Projects where the Project Direction was issued during or after 2016.

³ The 2019 NIC decision document can be found here - <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2019-funding-decisions>

⁴ This year's SDR decisions document can be found here - https://www.ofgem.gov.uk/system/files/docs/2019/07/decision_sdr_2019_final.pdf

then transfer £6,758,886.68 to NGN to fund their gas NIC Project and retain £1,173,880 for the SDR awards.

Background

We issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Gas NIC Governance Document⁵ and pursuant to the licence conditions set out below in Table 1.

Table 1 – licence condition

Network Licensee	Licence Condition
Northern Gas Networks Limited	Special Condition 1I

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 July 2019, gas Network Licensees submitted one project to us to be considered for funding through the gas NIC. In our November 2019 decision, we selected this project for funding. The funded project is listed in Table 2.

Table 2 – projects awarded funding under the Gas NIC

Project	Network Licensee	Funding awarded
H21 Phase 2	Northern Gas Networks Limited	£6,852,188.94

Funding awarded through the 2019 SDR

In 2019, we conducted an assessment of the SDR for two completed gas NIC projects. We assessed the expected outputs of the projects based on quality, cost and time, as required under paragraph 8.63 of the Gas NIC Governance. 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 successful project are listed in Table 3.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

Table 3 – projects awarded through the SDR

Project	Network Licensee	Funding rewarded
Customer Low Cost Connections (CLOCC)	National Grid Gas (NGG)	£543,380
GRAID (Gas Robotic Agile Inspection Device, formerly In Line Robotic Inspection)	National Grid Gas (NGG)	£630,500

Funding returned to customers through the Funding Return Mechanism

In December 2017, NGN completed project Low Carbon Gas Preheating⁶ to its revised schedule. In the project closedown report, dated August 2019, NGN 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 is detailed in Table 4.

Table 4 - funding to return under the Funding Return Mechanism

Project	Network Licensee	Funding to return (£)
Low Carbon Gas Preheating (LCGPH)	Northern Gas Networks Limited (NGN)	£93,302.26

Implementation

As the potential learning from the NIC projects provides benefits to all Network Licensees, they are funded by all customers through NTS Transportation Owner Charges. We implement this funding by amending the Maximum NTS Transportation Owner Revenue in accordance with the Special Condition 2A of the NGG Gas Transporter Licence for the Regulatory Year 2020/21, and setting the amount that NGG must transfer to the Network Licensees (taking in to account any funding return) in accordance with paragraph 2F.18 of Special Condition 2F.

In accordance with Special Conditions 2A and 2F of the NGG Gas Transporter Licence and in accordance with the Gas NIC Governance Document, the schedule to this Funding Direction:

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https://www.ofgem.gov.uk/sites/default/files/docs/2013/11/decision_on_the_first_year_of_the_gas_network_innovation_competition_0.pdf

(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 Regulatory Year) – see Table 5 in the Schedule appended to this letter;

(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 Regulatory 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.

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

In accordance with paragraph 2F.18 of Special Condition 2F of the NGG Transporter Licence, Special Condition 1I of the Gas Transporter Licence and the Gas NIC Governance Document, the Authority hereby requires NGG and NGN 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.

If you have further questions or want to discuss, please contact Graeme Barton on Graeme.barton@ofgem.gov.uk.

Yours faithfully,



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 must recover from customers to cover NIC and Discretionary Funding in each Year

Table 5 contains the amount that NGG must recover in the Regulatory Year 2020/21 commencing 1 April 2020.

The amount that NGG must recover is based on the total Approved Amounts for the NIC Competition Regulatory Year 2019/20. The amount that NGG 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 NGG to gas Network Licensees in the Regulatory Year 2020/2021 commencing 1 April 2020.

Table 7 contains the net amounts that will be retained by NGG by gas Network Licensees in the Relevant Year commencing 1 April 2020 in relation to the SDR.

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 equally on a monthly basis, for the entirety of the Regulatory Year 2020/2021 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 6.

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

Table 5 – NICF term

Network Licensee	NICF Term
NGG	£7,932,766.68

Table 6 – Amount to be transferred by NGG

Network Licensee	Amount to be transferred by NGG
Northern Gas Networks Limited (NGN)	£6,758,886.68

Table 7 – Amount to be retained by NGG for the SDR

Network Licensee	Amount to be retained by NGG
NGG	£1,173,880