



Making a positive difference  
for energy consumers

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Date: 5 August 2020

Dear Company Secretary,

**Project Direction ref: Northern Gas Networks Limited / The City CNG Project / 5 August 2020**

This letter sets out our decision to approve NGN's change request and the duly amended Project Direction<sup>1</sup> for the City CNG Network Innovation Competition Project, which supersedes all previous versions of the City CNG Project Direction.

NGN first submitted the City CNG project on 31 July 2015 to the Gas Network Innovation Competition (NIC). In November 2015 we<sup>2</sup> selected the Project for funding.<sup>3</sup>

In its progress report dated 9 December 2016, NGN first raised the issue that its Project Partner, Leeds City Council (LCC), were unable to secure the land necessary to proceed with its demonstration of the HP pipeline. While all unaffected Successful Delivery Reward Criteria were delivered to schedule, NGN continued to report LCC's difficulties in securing a trial site. On 25 June 2020 NGN wrote to formally notify us of its intention to proceed with alternative Project Partner, the City of Bradford Metropolitan District Council (CoBMDC), and to carry out its trials within the CoBMDC area. This constitutes a Material Change to the Project, as defined in Appendix 1 of the Gas NIC Governance Document<sup>4</sup>.

The proposed changes to delivery timelines and Project Partners allow the City CNG project to proceed without change to the Project Budget. We deem that the completion of the Project, in an alternative location with a different Project Partner, continues to be in

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<sup>1</sup> All capitalised terms not otherwise defined in this letter have the meaning given to them in the Gas NIC Governance Document.

<sup>2</sup> The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority. The terms 'you' and 'your' are used to refer to Northern Gas Networks Limited

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/gas-network-innovation-competition-2015-funding-decision>

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/06/gas\\_network\\_innovation\\_competition\\_governance\\_document\\_version\\_3.0.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/06/gas_network_innovation_competition_governance_document_version_3.0.pdf)

the best interests of existing and future network consumers due to the transferrable learning that should be generated through the project, and therefore accept the proposed changes in this amended Project Direction.

### **Project Direction**

Paragraph 5.67 of the Gas NIC Governance Document 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;
- 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;
- 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, Special Condition 1I of the Gas Distribution licence and with this amended Project Direction, the Project is deemed to be an Eligible NIC Project.

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

If you would like to discuss any of the issues raised in this letter, please contact Ian Bagworth at [ian.bagworth@ofgem.gov.uk](mailto:ian.bagworth@ofgem.gov.uk) or 020 7901 3893.

Yours sincerely,



### **Steven McMahon**

Deputy Director, Electricity Distribution & Cross Sector Policy, Network Price Controls

**For and behalf of the Authority**

## Schedule to Project Direction

### 1. TITLE

Project Direction ref: NGN / The City CNG Project / ~~12 February 2016~~ August 2020

### 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 Distribution Licence (the "Licence"). It sets out the terms to be followed by the Funding Licensee in relation to City CNG Project ("the Project") as a condition of the Project being funded under the Network Innovation Competition ("NIC") and the Funding Return Mechanism<sup>5</sup>.

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 further funds from the Project Bank Account until it has signed contracts with the newly approved Project Partners named in Table 1.

#### Table 1. Project Partners

<del>City of Bradford Metropolitan District Council</del> <del>Leeds City Council</del>
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### 4. COMPLIANCE

The Funding Licensee must comply with Special Condition 1I of the Licence and with the 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.

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

Any part of the Approved Amounts that the Authority determines not to have been spent in accordance with this Project Direction (or 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 those of the relevant Project Direction.

Pursuant to paragraph 8.6648 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 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 £ 700,000

## **6. PROJECT BUDGET**

The Project Budget is set out in Annex 1 to this Project Direction. The Funding Licensee must not spend more than 110% of any category total (e.g. "Labour") in Annex 1 without the Authority's prior written consent (such consent is not to be unreasonably withheld).

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 at least every ~~twelvesix~~ months, in accordance with paragraph 8.127 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 in accordance 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);
- (ii) provide a Network Licensee Compulsory Contribution of £70,000;
- (iii) complete the Project two years after station commissioning - anticipated to be ~~October 2021~~February 2020; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

## **8. REPORTING**

Ofgem will issue guidance (as amended from time to time) about the structure and content of the reports required by paragraph 8.1~~17~~ of the Gas NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports required by paragraph 8.1~~17~~ of the Gas NIC Governance Document.

As required by paragraph 8.~~1822~~ of the Gas NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

## **9. COST OVERRUNS**

The maximum amount of Contingency Funding that the Funding Licensee can request as additional funding for cost overruns on the Project is 5%<sup>6</sup> of the Approved Amount.

NGN has stated that if it requires a more expensive connection than the partial NIC funding allows for, it will fund the difference itself and will not require the Contingency Funding. The Funding Licensee cannot request or receive any Contingency Funding should the more expensive connection be required.

## **10. 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.

## **11. Returned Project Revenue**

In line with the Funding Licensee's Full Submission, any additional funding which NGN provides to cover the connection costs can be recovered from the commercial agreement first, ahead of returning any additional revenue back to consumers. This arrangement applies until either the connection costs are paid off, or a ten year period from station

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<sup>6</sup> This is the amount requested by the Funding Licensee in its Full Submission, or the default of 5%.

commissioning is reached. This is subject to appropriate licence modifications being made to provide an explicit mechanism for this.

## 12. SUCCESSFUL DELIVERY REWARD CRITERIA

The Project will be judged by the Authority for the purposes of the NIC Successful Delivery Reward against the Successful Delivery Reward Criteria (“SDRCs”) set out in Table 2 below (that comply with paragraphs 5.26 – 5.29 of the Gas NIC Governance Document)<sup>7</sup>.

**Table 2. Successful Delivery Reward Criteria**

Successful Delivery Reward criterion	Evidence
9.1 Novel Commercial Arrangement  <u>November 2020</u> <del>June 2016</del> .	Agreement and formal sign on to the novel commercial arrangement required to recover the costs associated with the High Pressure (HP) connection and metering unit. This would demonstrate overcoming of any initial barriers to the use of such an agreement.
9.2 Design of HP pipeline	As described in section two of the City CNG submission the design of the HP pipeline will commence after <u>CoBMDC LCC</u> have: <ul style="list-style-type: none"> <li>• Confirmed the land for the CNG site.</li> <li>• Signed NGN’s connection agreement (including the novel commercial arrangement).</li> </ul> Following achievement of these milestones the design of the HP connection pipeline will be completed within six months.
9.3 Build of HP connection pipeline and commissioning of a functioning station	As described in section two of the City CNG submission the build of the HP pipeline will commence once the 3rd Party Contractor has mobilised to site or NGN have written confirmation the build is to proceed including start dates.  The station will be designed to correctly integrate with NGNs HP pipeline and meter skid, with storage and compression capacity to serve the outline customer base as modelled in the ‘realistic’ scenario. The HP connection will be constructed within 10 months of the CNG Station construction commencing. The station shall open ‘on-time’ at a date agreed during their appointment and be ready to serve customers on day one. All equipment

<sup>7</sup> These are the Successful Delivery Reward Criteria set out in the Funding Licensees Full Submission.

	shall be fully operational, and staff fully trained to operate and assist customers. This will demonstrate overcoming of any commercial or regulatory barriers to getting the station built and operating.
9.4 Vehicle usage is in line with estimate	The projections made in the 'realistic' business model scenario are met or exceeded. At project end, the usage profile will be re-evaluated against the realistic business model to make a case to determine whether the realistic business case is on target to be achieved. This will be reported to also determine if the realistic business case needs to be revised based upon usage.
9.5 Deliver project website, accessible by all interested parties, by December 2016.	<p>Website to contain:</p> <ul style="list-style-type: none"> <li>• Progress reports</li> <li>• Relevant case studies</li> <li>• Information on station usage + vehicle conversion rates (within 3 months of commissioning)</li> <li>• Communications on regulatory and commercial barriers</li> <li>• Lessons learnt</li> <li>• Data on website to include progress reports, and any relevant case studies, designs etc. from the work undertaken to date.</li> <li>• Vehicle refilling patterns</li> <li>• Vehicle conversion rates</li> <li>• Case Studies from <a href="#">CoBMDCLCC</a> and NGN</li> <li>• Communication of regular and commercial barriers</li> <li>• Lessons learnt from project</li> </ul>
9.6 Project Evaluation and final report.	<p>The novel commercial arrangement for the project will continue for a ten year period from station commissioning. However a final report will be produced <del>two years after station commissioning which is currently anticipated to be in February 2020</del> <u>October 2021</u>. This report will act as the end of the NIC project. However the website and commercial operation will continue as described in the submission.</p> <p>The report will also include a specific section targeted at network companies, which will be published, to look at</p>

	the regulatory and commercial barriers to the novel commercial arrangement.
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The maximum amount of the Gas NIC Successful Delivery Reward (which will not exceed the Network Licensee Compulsory Contribution) that the Project will be eligible for is £78,691.

## 12. USE OF LOGO

The Funding Licensee and Project Partners, External Funders and Project Supporters<sup>8</sup> may use the NIC logo for purposes associated with the Project but not use the Ofgem or Ofgem E-Serve logos in any circumstances.

## 13. AMENDMENT OR REVOCATION

As set out in 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 (paragraph 8.23 of the Gas NIC Governance Document); or
- (ii) if Ofgem agrees to provide Contingency Funding, which requires the re-issue of the Project Direction (paragraph 8.42 of the Gas NIC Governance Document); or
- (iii) if the Funding Licensee applies for Contingency Funding to cover a decrease in Direct Benefits and the Authority decides it would be in the best interest of customers to make changes to the Project Direction before the Contingency Funding would be awarded (paragraph 8.42 of the Gas NIC Governance Document); or
- (iv) to reflect amendments made to the Licence

## 14. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 8.30 to 8.34 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.

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<sup>8</sup> 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 Project Direction constitutes notice of reasons for the Authority's decision pursuant to section 38A of the Gas Act 1986.

## ANNEX 1: PROJECT BUDGET

<b>Cost Category</b>	<b>Cost(£)</b>
Labour	-
Equipment	130,431.00
Contractors	498,193.00
IT	-
IPR Costs	-
Travel & Expenses	-
Payments to users	-
Contingency	108,292.89
Decommissioning	-
Other	50,000.01
<b>Total</b>	<b>786,916.90</b>