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Dear Company Secretary,

Electricity Network Innovation Competition (NIC) Funding Direction

The NIC Funding Direction¹ sets out the amount that National Grid Electricity System Operator Ltd (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 2020 NIC Competition, £30.45 million was awarded under the electricity NIC². One electricity NIC project applied for the Successful Delivery Reward (SDR) in 2020 and was awarded £0.47 million. Through the Funding Return Mechanism (FRM), a concluded NIC project is returning project revenues of £0.4 million to customers. In addition, one application for Contingency Funding was approved. 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 is that NGESO will recover £30.9 million through its 2021/22 TNUoS³ charges and will then transfer amounts to the Network Licensees as set out below.

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 2020 NIC Competition decision document from November 2020 can be found here - <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-2020-funding-decision>

³ 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 Document⁴ and pursuant to the licence conditions set out below in Table 1.

Table 1 – Licence conditions

Network Licensee	Licence Condition
South Eastern Power Networks Plc	Charge Restriction Condition 5A
Electricity North West Ltd	Charge Restriction Condition 5A
National Grid Electricity Transmission Plc	Special Condition 3I
National Grid Electricity System Operator Ltd	Special Condition 3I

There are a number of changes potentially affecting the NIC Funding Direction each year; these are set out below.

Funding awarded for successful NIC projects in 2020

In August 2020, electricity Network Licensees submitted five projects to us to be considered for funding through the electricity NIC. In our November 2020 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

Project	Network Licensee	Funding awarded (£)
Constellation	South Eastern Power Networks Plc	14,384,070
QUEST	Electricity North West Ltd	7,946,019
RICA	National Grid Electricity Transmission Plc	8,115,000

Funding awarded through the 2020 Successful Delivery Reward

In 2020, we assessed the SDR for one concluded electricity NIC project. We assessed the outputs of the projects based on quality, cost and time. The maximum available reward for each Project is equal to the Network Licensee's 10% compulsory contribution to the project. The funding awarded to the project is detailed in Table 3.

⁴ <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 awarded (£)
Celsius	Electricity North West Ltd	467,057

Funding returned to customers through the Funding Return Mechanism

In March 2020, Electricity North West Ltd (ENWL) completed project Celsius. In the project closedown report⁵, ENWL 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 4.

Table 4 - Funding to be returned under the Funding Return Mechanism

Project	Network Licensee	Funding to be returned (£)
Celsius	Electricity North West Ltd	414,641.91

Contingency Funding granted for NIC project cost overruns

In November 2020, NGESO submitted a change request to Ofgem for its project TDI 2.0⁶, including an application for Contingency Funding. Ofgem approved this request. Details of the Contingency Funding granted are set out in Table 5.

Table 5 – Contingency Funding granted for project cost overruns

Project	Network Licensee	Funding awarded (£)
TDI 2.0	National Grid Electricity System Operator Ltd	393,000

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 Relevant Year 2021/22, 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 of the Electricity Transmission Licence.

⁵ <https://www.enwl.co.uk/go-net-zero/innovation/key-projects/celsius/learning-and-key-documents/celsius-closedown/>

⁶ TDI 2.0 is also known as Power Potential.

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:

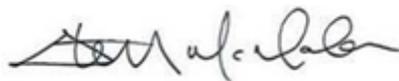
- (a) sets the value of the NIC Funding (NICF) term for NGESO (being the amount, if any, to be recovered by NGESO in order to provide for its own and other electricity Network Licensees' NIC Funding for that Relevant Year) – see Table 6 in the Schedule appended to this letter
- (b) sets out the net amounts 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 Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 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 2020 NIC Competition in the Schedule to this Funding Direction.

In accordance with paragraph 3I.16 of Special Condition 3I of the Electricity Transmission Licence, 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 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,



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 6 contains the amount that NGESO must recover in Relevant Year 2021/22 commencing 1 April 2021. The amount that NGESO must recover is based on the total Approved Amounts for the NIC Competition in Relevant Year 2020/21, 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 7 contains the net amounts that must be transferred by NGESO to electricity Network Licensees in Relevant Year 2021/22 commencing 1 April 2021.

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 2021/22 commencing 1 April 2021 such that the total amount transferred over the Relevant Year 2021/22 commencing 1 April 2021 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 2021. NGESO will make transfers to the specified bank accounts on the day of the month agreed by NGESO.

Table 6 – NICF term

Network Licensee	NICF Term (£)
National Grid Electricity System Operator Ltd	30,890,504.09

Table 7 – Amount to be transferred by NGESO

Network Licensee	Amount to be transferred by NGESO (£)
Electricity North West Ltd	7,998,434.09
South Eastern Power Networks Plc	14,384,070
National Grid Electricity Transmission Plc	8,115,000