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Dear Company Secretary

Gas Network Innovation Competition (NIC) - Funding Direction

The Authority¹ issues a direction (Funding Direction²) every year under the provisions of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Gas NIC Governance Document³ and pursuant to the licence conditions set out in Table 1.

Table 1 – licence conditions

Licensee	Licence Condition
National Grid Gas Plc (NGG) National Transmission System (NTS)	Special Condition 2F
National Grid Gas Plc (NGG) Distribution Networks (DN)	Special Condition 1I
SGN	Special Condition 1I
Northern Gas Networks (NGN)	Special Condition 1I

This Funding Direction sets out the amount of authorised NIC Funding in any Formula Year that NGG NTS can recover from customers to cover the costs of the Gas NIC, and specifies the net amounts to be transferred between NGG NTS as the Transmission Owner and other Network Licensees.

The amount that NGG NTS can recover by means of revenues collected by NGG NTS includes any funding for NIC projects funded in the 2015 competition and the bid costs of non-RIIO Network Licensees.

On 31 July 2015, eligible Network Licensees submitted four projects to us to be considered for funding through the Gas NIC.⁴ In this year's decision we selected all four projects for funding – three projects for full funding, and one project for partial funding.⁵ These projects are listed in Table 2.

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Defined terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Gas NIC Governance Document

³ https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/gas_nic_2-1_stat_con.pdf

⁴ <https://www.ofgem.gov.uk/network-regulation-riio-model/network-innovation/gas-network-innovation-competition>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/gas-network-innovation-competition-2015-funding-decision>

Table 2 – projects awarded funding

Project	Network Licensee	Funding awarded (£)
Customer Low Cost Connections (CLoCC)	NGG NTS	4,820,071.84
Commercial BioSNG Demonstration Plant	NGG DN	5,361,686.64
Real-time Networks	SGN	7,104,672.47
City CNG	NGN	700,000.00

As the potential learning from these projects would provide benefits to all Network Licensees, they are funded by means of revenues collected by NGG NTS through its NTS Transportation Owner Charges pursuant to the NIC Funding Mechanism. Therefore we are amending the Maximum NTS Transportation Owner Revenue in accordance with Special Condition 2A of the NGG NTS Transporter Licence for the Formula Year 2016/17 and have set the amount NGG NTS needs to transfer to the Network Licensees listed in Table 2 of the Schedule to this Funding Direction.

This Funding Direction:

- (a) sets the value of the NICF term for NGG NTS (being the amount, if any, to be recovered by NGG NTS in order to provide for its own and other Network Licensees' NIC Funding for that Formula Year);
- (b) sets out the net amounts that are to be transferred between NGG NTS 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 Formula Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
- (c) identifies the manner in which and the timescale over which the net amounts will be transferred.

The schedule to this Funding Direction includes the above information for the Formula Year 2016/17.

In accordance with Special Condition 2F of the NGG NTS Transporter Licence and Special Condition 1I of the Gas Transporter Licence and in accordance with the Gas NIC Governance Document, the Authority hereby requires all Network Licensees 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.

Yours faithfully,



Judith Ross
Head of Network Regulation Policy
For and on behalf of the Authority

Schedule to Funding Direction

1. The value that the NGG NTS can recover from customers to cover NIC and Discretionary Funding in each Formula Year

Table 1 contains the amount that NGG NTS must recover in the Formula Year commencing 1 April 2016.

The amount NGG NTS must recover is based on the total Approved Amounts⁶ for Formula Year 2016/17. The amount that the NGG NTS must recover, less any Funding Return constitutes the value for the NICF term.

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

Table 2 contains the net amounts that must be transferred by NGG NTS to the other Network Licensees in the Formula Year commencing 1 April 2016. For the avoidance of doubt no adjustments for inflation should be made to these numbers.

3. The manner in which and the timescale over which the net amounts will be transferred

The transfers must be made on an equal monthly basis, for the entirety of the Formula Year commencing 1 April 2016 such that the total amount transferred over the Formula Year commencing 1 April 2016 equals the net amount set out in Table 2.

The Network Licensee that will be receiving funding from NGG NTS must provide its bank account details to NGG by 1 March 2016. NGG NTS will make transfers to the specified bank accounts on the day of the month agreed by the NGG NTS.

Table 1 – NICF Term

Network Licensee	NICF Term
NGG NTS	£17,986,430.95

Table 2 – Amount to be transferred by NGG NTS

Network Licensee	Amount to be transferred by NGG NTS
NGG NTS	£4,820,071.84
NGG DN	£5,361,686.64
SGN	£7,104,672.47
NGN	£700,000.00

⁶ The term Approved Amount has the meaning given in Appendix 1 to the Gas NIC Governance Document.