



Making a positive difference  
for energy consumers

National Energy System Operator  
Limited, National Gas  
Transmission Plc

Direct Dial: 0141 354 5416  
Email: [Luke.Blackaby@Ofgem.gov.uk](mailto:Luke.Blackaby@Ofgem.gov.uk)

Date: 14 October 2024

Dear Company Secretaries,

## October 2024 SIF Funding Direction

The Strategic Innovation Fund (SIF) is a funding mechanism for the Electricity System Operator, Electricity Distribution and Transmission, Gas Transmission and Distribution sectors, within the RIIO-2<sup>1</sup> network price control.<sup>2</sup>

The purpose of this SIF Funding Direction<sup>3</sup> is to:

1. Implement our recent decisions to distribute SIF Funding to the round 3 Alpha Phase Projects that were awarded funding on 7 October 2024<sup>4</sup>.
2. Reconcile any unspent SIF Funding from the Round 3 Discovery Phase<sup>5</sup> Projects which completed on 7 June 2024.

Projects will now form part of an annual reconciliation process, capturing the regulatory year cycle to 31 March each year.

Please note that UKRI's costs of operating the SIF in 2024/25 were included in the 8 March 2024 Funding Direction<sup>6</sup> for the Round 2 Discovery Phase and therefore no UKRI costs are included in this SIF Funding Direction. Reconciliation of UKRI's actual

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<sup>1</sup> RIIO stands for (Revenue = Incentives + Innovation + Outputs). It is Ofgem's network price control framework. RIIO-2 means the network price control which runs between 1 April 2021 and 31 March 2026 for gas transporter and electricity transmission licensees, and between 1 April 2023 and 31 March 2028 for electricity distribution licensees.

<sup>2</sup> Fuller details regarding the SIF can be found here: <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/network-price-controls-2021-2028-riio-2/network-price-controls-2021-2028-riio-2-riio-2-network-innovation-funding/strategic-innovation-fund-sif>

<sup>3</sup> Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the SIF Governance Document.

<sup>4</sup> The SIF Alpha Phase Funding Decision was published on 7 October 2024 and can be found here: <https://www.ofgem.gov.uk/decision/strategic-innovation-fund-round-3-alpha-funding-decision>

<sup>5</sup> Further details on the Round 3 Discovery Phase Projects which were awarded SIF Funding can be found here: <https://www.ofgem.gov.uk/decision/strategic-innovation-fund-round-3-discovery-projects-approved-funding>

costs for 2023/24 and distribution of UKRI's forecast costs for 2025/26 will be included in a future SIF Funding Direction.

Accordingly, this Funding Direction sets out the amount that National Energy System Operator Limited (NESO) and National Gas Transmission (NGT) will recover from its customers in relation to the SIF. It also specifies the net amounts to be transferred between NESO and other electricity Funding Parties (i.e. electricity network licensees); and NGT and other gas Funding Parties (i.e. gas network licensees) in relation to their SIF Projects.

NESO must transfer funds as set out in Schedule 1 below, and NGT must transfer funds as set out in Schedule 2 below. NESO and NGT must transfer funds to the nominated bank account as notified by Funding Parties as per the requirements in the SIF Project Directions. The Funding Party must adhere to requirements regarding Project banking arrangements as specified in chapter 8 of the SIF Governance Document<sup>7</sup>. If Funding Parties anticipate any problems fulfilling these requirements, they should notify Ofgem as soon as possible.

### **Background**

In line with chapter 7 of SIF Governance Document and pursuant to the following licence conditions detailed in Table 1 below, Ofgem calculates and, by direction, specifies the net amount of SIF Funding (less any SIF Funding Return) that is to be paid to Funding Parties by NESO and NGT. Ofgem also specifies the manner in which and the times at which NESO and NGT is required to transfer that SIF Funding. Table 1 below also sets out the network licensees who were eligible to participate in the Round 3 Alpha Phase.

**Table 1 – Network licence conditions**

<b>Network Licensee</b>	<b>Licence Condition</b>
National Grid Electricity Transmission Plc (NGET)	Special Condition 9.19
SP Transmission Limited (SPT)	Special Condition 9.19
Scottish Hydro Electric Transmission Plc (SHE)	Special Condition 9.19
National Energy System Operator Limited (NESO)	Special Condition 3.4
National Gas Transmission Plc (NGT)	Special Condition 5.7

<sup>7</sup> <https://www.ofgem.gov.uk/decision/updated-sif-governance-document>

Cadent Gas Limited (Cadent)	Special Condition 9.13
Northern Gas Networks Limited (NGN)	Special Condition 9.13
Scotland Gas Networks plc (SGN)	Special Condition 9.13
Southern Gas Networks plc (SGN) <sup>8</sup>	Special Condition 9.13
Wales & West Utilities Limited (WWU)	Special Condition 9.13
Electricity North West Limited (ENWL)	Special Condition 9.9
Northern Powergrid (Northeast) Plc (NPgN)	Special Condition 9.9
Northern Powergrid (Yorkshire) Plc (NPgY)	Special Condition 9.9
National Grid Electricity Distribution: West Midlands Plc (WMID)	Special Condition 9.9
National Grid Electricity Distribution: East Midlands Plc (EMID)	Special Condition 9.9
National Grid Electricity Distribution: South Wales Plc (SWALES)	Special Condition 9.9
National Grid Electricity Distribution: South West Plc (SWEST)	Special Condition 9.9
UK Power Networks: London Power Networks Plc (LPN)	Special Condition 9.9
UK Power Networks: South Eastern Power Networks Plc (SPN)	Special Condition 9.9
UK Power Networks: Eastern Power Networks Plc (EPN)	Special Condition 9.9
SP Energy Networks: Distribution Ltd (SPD)	Special Condition 9.9
SP Energy Networks: Manweb Plc (SPMW)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc (SHEPD)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution Plc (SSEPD)	Special Condition 9.9

Below we specify the amount of SIF Funding to be distributed to network licensees who are leading Projects that we have decided to fund.

The values in this document align with the SIF Funding Decision published on 7 October 2024<sup>9</sup>. These figures awarded are based upon the forecasts submitted by individual Projects. However, we recognise the actual expenditure on Projects may

<sup>8</sup> Please note that all SGN Projects were submitted under the licensee Southern Gas Networks

<sup>9</sup>The 07 October 2024 Round 3 Alpha Phase Funding Decision can be found here:

<https://www.ofgem.gov.uk/decision/strategic-innovation-fund-round-3-alpha-funding-decision>

differ from these figures. Accordingly, there will be a 'true-up' of the figures quoted in this SIF Funding Direction against actual expenditure via an annual reconciliation process.

To minimise cashflow risk, NESO and NGT have both forecast the value of the SIF Funding requirement in advance of this direction.<sup>10</sup> As the Project Phases and the SIF rounds progress, the NESO and NGT must reconcile their forecast values of the SIF Funding requirement against the actual values specified in this direction to ensure the amount of funding recovered from consumers is accurate.

**SIF Funding awarded**

As per our SIF Funding Decision published on 07 October 2024, we awarded SIF Funding to 21 Project for the Round 3 Alpha Phase of the SIF. The Projects we decided to fund are listed in Table 2 below.

**Table 2 – SIF Funding requested by the successful Round 3 Alpha Phase Projects**

<b>SIF round</b>	<b>Project Phase</b>	<b>Sector</b>	<b>Project name</b>	<b>Funding Party</b>	<b>Total SIF Funding to be distributed</b>
Round 3	Alpha	Electricity	Sea Change	Scottish and Southern Energy Power Distribution, Southern Electric Power Distribution Plc	£ 445,189
Round 3	Alpha	Electricity	Rural Energy and Community Heat (REACH)	National Grid Electricity Distribution: South West Plc	£ 490,017
Round 3	Alpha	Electricity	Road to Power	National Grid Electricity Distribution: South West Plc	£ 437,404
Round 3	Alpha	Electricity	Nature4Networks	Scottish and Southern Energy	£ 499,148

<sup>10</sup> The NESO and NGT are able to input forecast values for the SIFF term when setting network charges for the year ahead. In future years, the NESO and NGT then reconcile these forecast values against actual values we specify within these SIF Funding Directions.

				Power Distribution, Southern Electric Power Distribution Plc	
Round 3	Alpha	Electricity	REVISE	Scottish Hydro Electric Transmission Plc	£ 389,725
Round 3	Alpha	Electricity	Cross Vector Hub	Northern Powergrid (Northeast) Plc	£ 380,106
Round 3	Alpha	Electricity	Look North2	National Grid Electricity Transmission Plc	£ 425,115
Round 3	Alpha	Electricity	Electric Thames	UK Power Networks: London Power Networks Plc	£ 499,643
Round 3	Alpha	Electricity	HeatNet	UK Power Networks: South Eastern Power Networks Plc	£ 467,057
Round 3	Alpha	Electricity	Wayl-Ease	UK Power Networks: Eastern Power Networks Plc	£ 485,499
Round 3	Alpha	Gas	Exploring Geological Hydrogen Storage Opportunities for the East Midlands (EMStor)	Cadent Gas Limited	£ 499,981
Round 3	Alpha	Gas	HyScale LOHC Phase 2b (Alpha)	Southern Gas Networks Plc	£ 451,849
Round 3	Alpha	Electricity	LV Optimiser (LVOE) - Alpha	SP Energy Networks: Manweb Plc	£ 490,119
Round 3	Alpha	Electricity	Equiflex - Alpha	SP Energy Networks: Distribution Ltd	£ 424,011
Round 3	Alpha	Electricity	Fractal Flow (R3A)	Northern Powergrid (Northeast) Plc	£ 497,885
Round 3	Alpha	Electricity	Assessment of Superconducting Technologies for Standards Development	National Grid Electricity Transmission Plc	£ 443,086
Round 3	Alpha	Electricity	SYSMET - SYstem Strength Measurement and EvaluaTion	Scottish Hydro Electric Transmission Plc	£ 478,612
Round 3	Alpha	Electricity	Network Security in a Quantum Future	National Grid Electricity System Operator Limited	£ 498,264
Round 3	Alpha	Electricity	Fuel Cell Renewable Energy Equity (FREE) (R3A)	Northern Powergrid (Northeast) Plc	£ 472,235
Round 3	Alpha	Electricity	Flex Direct	UK Power Networks: London Power Networks Plc	£ 480,307

Round 3	Alpha	Electricity	CoolDown	Electricity North West Limited	£ 499,888
<b>Total of SIF Funding requested by successful Round 3 Alpha Phase Projects</b>					<b>£ 9,755,140</b>

### ***The SIF Funding Return***

The SIF Funding Return Mechanism is used to return any SIF Funding Return from Funding Parties to NESO and NGT, and back to consumers. As detailed in chapter 7 of the SIF Governance Document, this will include unspent SIF Funding, SIF Disallowed Expenditure, SIF Halted Project Revenues, SIF Returned Project Revenues and SIF Returned Royalty Income.

SIF Funding Returns will now be dealt with on an annual basis, covering the regulatory year to 31 March. This means that this Funding Direction will include only payments to be made to Licensees that relate specifically to the award of SIF Funds for Round 3 Alpha.

## ***Implementation***

As the learning from the SIF Projects provides benefits to all Funding Parties and GB consumers as a whole, SIF Funding is raised across all GB consumers through NTS Transportation Owner Charges (in gas) and Transmission Network Use of System Charges (in electricity).

SIF Funding is distributed by NESO and NGT to individual Funding Parties. This means that NESO and NGT make a net payment to each Funding Party per instalment as directed in Schedule 1 and 2, respectively, which is the sum of SIF Funding awarded to the Funding Party across multiple Projects. The Funding Parties are responsible for administering the SIF Funding they receive for Projects as per requirements in chapter 8 of the SIF Governance Document.

In accordance with Special Conditions 3.1 and 3.4 of NESO's Electricity Transmission Licence, Special Conditions 5.1 and 5.7 of NGT's Gas Transporter Licence, and the SIF Governance Document, the Authority hereby requires NESO to comply with the conditions in Schedule 1, and NGT to comply with the conditions in Schedule 2 to this SIF Funding Direction. Schedules 1 and 2 set out the amounts that are to be transferred by NESO and NGT to Funding Parties, together with the manner and timescale over which these amounts will be transferred – see Tables 3 and 5 in the Schedules appended to this letter.

This SIF Funding Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986 and section 49A (Reasons for decisions) of the Electricity Act 1989.

If you have further questions or want to discuss, please contact Luke Blackaby on [Luke.Blackaby@Ofgem.gov.uk](mailto:Luke.Blackaby@Ofgem.gov.uk).

Yours faithfully,

**Luke Ames Blackaby**

**Head of Innovation Hub**

Signed for and on behalf of the Authority

## Schedule 1: Funds to be transferred by NESO

### The net amounts of SIF Funding that must be transferred by NESO to recipients

Table 3 contains the net amounts that must be transferred by NESO to Funding Parties, as appropriate, in the Regulatory Year 2024/2025 commencing 1 April 2024 for the Round 3 Alpha Phase of the SIF. For the avoidance of doubt, no adjustments for inflation should be made to these numbers. It also sets out the manner and timescale for making payments.

**Table 3 – Net amounts of SIF Funding to be transferred by NESO to recipients**

<b>Recipient</b>	<b>Instalment 1 (to be paid on or before November 2024)</b>
Electricity North West Limited (ENWL)	£ 499,888
National Grid Electricity Distribution (WMID): West Midlands Plc	£ -
National Grid Electricity Distribution (EMID): East Midlands Plc	£ -
National Grid Electricity Distribution (SWALES): South Wales Plc	£ -
National Grid Electricity Distribution (SWEST): South West Plc	£ 927,421
National Grid Electricity Transmission Plc (NGET)	£ 868,201
Northern Powergrid (Northeast) Plc (NPgN)	£ 1,350,226
Northern Powergrid (Yorkshire) Plc (NPgY)	£ -
Scottish and Southern Energy Power Distribution (SHEPD): Scottish Hydro Electric Power Distribution Plc	£ -
Scottish and Southern Energy Power Distribution (SSEPD), Southern Electric Power Distribution Plc	£ 944,337
Scottish Hydro Electric (SHE) Transmission Plc	£ 868,337
SP Energy Networks: Distribution Ltd (SPD)	£ 424,011
SP Energy Networks: Manweb Plc (SPMW)	£ 490,119
SP Transmission (SPT)	£ -
UK Power Networks: London Power Networks Plc (LPN)	£ 979,950
UK Power Networks: South Eastern Power Networks Plc (SPN)	£ 467,057
UK Power Networks: Eastern Power Networks Plc (EPN)	£ 485,499
<b>Total net amount of SIF Funding to be transferred by NESO to recipients</b>	<b>£ 8,305,046</b>



### **The net amount that NESO must retain for its own SIF Projects**

Table 4 contains the net amount that NESO must retain for its own SIF Projects in the Regulatory Year 2024/2025 commencing 1 April 2024. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

**Table 4 – Net amount to be retained by NESO for its own SIF projects**

<b>Recipient</b>	<b>Instalment 1 (to be paid on or before November 2024)</b>
National Energy System Operator Limited	£ 498,264

## Schedule 2: Funds to be transferred by NGT

### The net amounts that must be distributed by NGT to recipients

Table 5 contains the net amounts that must be transferred by NGT to Funding Parties, as appropriate, in the Regulatory Year 2024/2025 commencing 1 April 2024 for the Round 3 Alpha Phase of the SIF. For the avoidance of doubt, no adjustments for inflation should be made to these numbers. It also sets out the manner and timescale for making payments.

**Table 5 – Net amounts to be distributed by NGT to recipients**

<b>Recipient</b>	<b>Instalment 1 (to be paid on or before November 2024)</b>
Cadent Gas Limited	£ 499,981
Northern Gas Networks Limited	£ -
Scotland Gas Networks plc	£ -
Southern Gas Networks plc	£ 451,849
Wales & West Utilities Limited	£ -
<b>Total net amount of SIF Funding to be transferred by NGT to recipients</b>	<b>£ 951,830</b>

### The net amount that NGT must retain for its own SIF projects

Table 6 contains the net amount that NGT must retain for its own SIF projects NGT in the Regulatory Year 2024/2025 commencing 1 April 2024. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

**Table 6 – Net amount to be retained by NGT for its own SIF projects**

<b>Recipient</b>	<b>Instalment 1 (to be paid on or before November 2024)</b>
National Gas Transmission Plc	£ 0