



Making a positive difference
for energy consumers

National Energy System Operator
Limited, National Gas
Transmission Plc

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Date: 14 January 2025

Dear Company Secretaries,

January 2025 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-2¹ network price control.²

The purpose of this SIF Funding Direction³ is to:

1. Implement our recent decisions to distribute SIF Funding to the Cycle 1 projects that were awarded funding. Cycle 1 Discovery were awarded funding on 12 December 2024⁴, and Cycle 1 Alpha and Beta were awarded funding on 14 January 2025⁵.

This funding direction will not be reconciling SIF Funding Returns from any previously completed projects. SIF Funding Returns will now form part of an annual reconciliation process, capturing the regulatory year cycle to 31 March each year. In this annual SIF Funding Return, all projects completed within the relevant regulatory year and requiring to return unspent SIF funds will be included.

¹ 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.

² 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>

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

⁴ https://www.ofgem.gov.uk/sites/default/files/2024-12/REDACTED_Discovery_funding_decision_and_summary_of_recommendations.pdf

⁵ tbc

Please note that UKRI's costs of operating the SIF in 2024/25 were included in the 8 March 2024 Funding Direction⁶ for the Round 3 Discovery Phase and therefore no UKRI costs are included in this SIF Funding Direction. Reconciliation of UKRI's actual 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 Document⁷. 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 Cycle 1 of the SIF.

⁶ <https://www.ofgem.gov.uk/sites/default/files/2024-03/Discovery%20Rd%203%20SIF%20Funding%20Direction.pdf>

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

Table 1 – Network licence conditions

Network Licensee	Licence Condition
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
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) ⁸	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

⁸ Please note that all SGN Projects were submitted under the licensee Southern Gas Networks

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 12 December 2024 for Cycle 1 Discovery Projects, and 14 January 2025 for Cycle 1 Alpha and Beta Projects. These figures awarded are based upon the forecasts submitted by individual Projects. However, we recognise the actual expenditure on Projects may 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.⁹ 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.

Cycle 1 - SIF Funding awarded

Discovery

As per our SIF Funding Decision published on 12 December 2024, we awarded SIF Funding to 9 Projects for the Cycle 1 Discovery phase, all of which were addressing Round 4 challenges. The Projects we decided to fund are listed in Table 2 below.

Alpha

As per our SIF Funding Decision published on 14 January 2025, we awarded SIF Funding to 2 Projects for the Cycle 1 Alpha phase, both of which were addressing Round 4 challenges. The Projects we decided to fund are listed in Table 3 below.

Beta

As per our SIF Funding Decision published 14 January 2025, we awarded SIF Funding to 1 Project for the Cycle 1 Beta phase, which was addressing a Round 2 challenge. The Project we decided to fund is listed in Table 4 below.

⁹ 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.

Table 2 – SIF Funding requested by the successful Cycle 1 Discovery Phase Projects

SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
Round 4	Discovery	Electricity	R4D: FastTrack - AI for Connections	Scottish and Southern Energy Power Distribution, Southern Electric Power Distribution Plc	£ 143,033
Round 4	Discovery	Electricity	I-LAD - Innovating Losses Analysis and Detection	Scottish and Southern Energy Power Distribution, Southern Electric Power Distribution Plc	£ 149,167
Round 4	Discovery	Electricity	RIDES	Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc	£ 110,655
Round 4	Discovery	Electricity	Dynamic, Data Driven Asset Rating (3DAR)	Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc	£ 108,352
Round 4	Discovery	Gas	Digital Decommissioning of Large-Scale Equipment	National Gas Transmission Plc	£ 104,849
Round 4	Discovery	Gas	Alt Pipe	National Gas Transmission Plc	£ 149,773
Round 4	Discovery	Electricity	FLEX-STORE: FLEXible STORE of electrified thermal energy	Northern Powergrid (Northeast) Plc	£ 148,816
Round 4	Discovery	Electricity	DEsign for Live Line Technology Acceleration (DELLTA)	National Grid Electricity Transmission Plc	£ 107,787
Round 4	Discovery	Gas	Gas Network Evolution Simulator (GNES)	Northern Gas Networks Limited	£ 132,744
Total of SIF Funding requested by successful Cycle 1 Discovery Phase Projects					£1,155,176

Table 3 – SIF Funding requested by the successful Cycle 1 Alpha Phase Projects

SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
Round 4	Alpha	Electricity	Equal LCT	Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc	£ 449,687
Round 4	Alpha	Electricity	GeoGrid	Northern Powergrid (Northeast) Plc	£ 432,935
Total of SIF Funding requested by successful Cycle 1 Alpha Phase Projects					£882,622

Table 4 – SIF Funding requested by the successful Cycle 1 Beta Phase Projects

SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
Round 2	Beta	Electricity	Artificial Forecasting	Northern Powergrid (Northeast) Plc	£ 3,298,086
Total of SIF Funding requested by successful Cycle 1 Beta Phase Projects					£3,298,086

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 Cycle 1.

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 5 and 7 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.

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 5 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 (and subsequent years as appropriate) for the Cycle 1 Discovery, Alpha and Beta phases 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 of SIF Funding to be transferred by NESO to recipients

Recipient	Instalment 1 (to be paid on or before 31 Jan 2025)	Instalment 2 (to be paid on or before 31 Jan 2026)	Instalment 3 (to be paid on or before 31 Jan 2027)	Instalment 4 (to be paid on or before 31 Jan 2028)	Instalment 5 (to be paid on or before 31 Jan 2029)
Electricity North West Limited (ENWL)	£ -	£ -	£ -	£ -	£ -
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 (SWEEST): South West Plc					
National Grid Electricity Transmission Plc (NGET)	£ 107,787	£ -	£ -	£ -	£ -
Northern Powergrid (Northeast) Plc (NPgN)	£ 1,601,751	£ 2,250,000	£ 28,086	£ -	£ -
Northern Powergrid (Yorkshire) Plc (NPgY)	£ -	£ -	£ -	£ -	£ -
Scottish and Southern Energy Power Distribution (SHEPD): Scottish Hydro Electric Power Distribution Plc	£ 668,694	£ -	£ -	£ -	£ -
Scottish and Southern Energy Power Distribution (SSEPD), Southern Electric Power Distribution Plc	£ 292,200	£ -	£ -	£ -	£ -
Scottish Hydro Electric (SHE) Transmission Plc	£ -	£ -	£ -	£ -	£ -
SP Energy Networks: Distribution Ltd (SPD)	£ -	£ -	£ -	£ -	£ -
SP Energy Networks: Manweb Plc (SPMW)	£ -	£ -	£ -	£ -	£ -

SP Transmission (SPT)	£ -	£ -	£ -	£ -	£ -
UK Power Networks: London Power Networks Plc (LPN)	£ -	£ -	£ -	£ -	£ -
UK Power Networks: South Eastern Power Networks Plc (SPN)	£ -	£ -	£ -	£ -	£ -
UK Power Networks: Eastern Power Networks Plc (EPN)	£ -	£ -	£ -	£ -	£ -
Total net amount of SIF Funding to be transferred by NESO to recipients	£ 2,670,432	£ 2,250,000	£ 28,086	£ -	£ -

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

Table 6 contains the net amount that NESO must retain for its own SIF Projects in the Regulatory Year 2024/2025 commencing 1 April 2024 (and subsequent years as appropriate). For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

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

Recipient	Instalment 1 (to be paid on or before 31 Jan 2025)	Instalment 2 (to be paid on or before 31 Jan 2026)	Instalment 3 (to be paid on or before 31 Jan 2027)	Instalment 4 (to be paid on or before 31 Jan 2028)	Instalment 5 (to be paid on or before 31 Jan 2029)
National Energy System Operator Limited	£ -	£ -	£ -	£ -	£ -

Schedule 2: Funds to be transferred by NGT

The net amounts that must be distributed by NGT to recipients

Table 7 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 (and subsequent years as appropriate) for the Cycle 1 Discovery, Alpha and Beta phases 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 7 – Net amounts to be distributed by NGT to recipients

Recipient	Instalment 1 (to be paid on or before 31 Jan 2025)	Instalment 2 (to be paid on or before 31 Jan 2026)	Instalment 3 (to be paid on or before 31 Jan 2027)	Instalment 4 (to be paid on or before 31 Jan 2028)	Instalment 5 (to be paid on or before 31 Jan 2029)
Cadent Gas Limited	£ -	£ -	£ -	£ -	£ -
Northern Gas Networks Limited	£ 132,744	£ -	£ -	£ -	£ -
Scotland Gas Networks plc	£ -	£ -	£ -	£ -	£ -
Southern Gas Networks plc	£ -	£ -	£ -	£ -	£ -
Wales & West Utilities Limited	£ -	£ -	£ -	£ -	£ -
Total net amount of SIF Funding to be transferred by NGT to recipients	£ 132,744	£ -	£ -	£ -	£ -

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 in the Regulatory Year 2024/2025 commencing 1 April 2024 (and subsequent years as appropriate). For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

Table 8 – Net amount to be retained by NGT for its own SIF projects

Recipient	Instalment 1 (to be paid on or before 31 Jan 2025)	Instalment 2 (to be paid on or before 31 Jan 2026)	Instalment 3 (to be paid on or before 31 Jan 2027)	Instalment 4 (to be paid on or before 31 Jan 2028)	Instalment 5 (to be paid on or before 31 Jan 2029)
National Gas Transmission PLC	£ 254,622.00	£ -	£ -	£ -	£ -