

## SIF Governance Document [version 3]

<b>Publication date:</b>	14 February 2025
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As part of the RIIO-2 network price control, Ofgem directs the distribution of funds to strategically important network innovation Projects out of the Strategic Innovation Fund (SIF).

The SIF Governance Document is issued further to the SIF Licence Condition, and sets out the governance and administration of the SIF. The SIF Licence Condition and the SIF Governance Document take precedence over any associated documents referred to in this SIF Governance Document.

Network companies and the ~~Electricity System Operator~~ [National Energy System Operator \(NESO\)](#) must comply with the SIF Governance Document. Projects must satisfy the Eligibility Criteria detailed in this SIF Governance Document to be eligible for SIF Funding.

The SIF Governance Document is also relevant to third-party innovators who wish, where appropriate, to collaborate with network companies and ~~the Electricity System Operator~~ [NESO](#) on Projects.

**RIIO-2 SIF Governance Document change control log**

<b>Version</b>	<b>Date Published</b>	<b>Summary of Document</b>
V1	25 August 2021	SIF Governance Document introduced at start of RIIO-2 period.
V2	9 September 2022	Amended SIF Governance Document.
V2.1	17 February 2023	Amended SIF Governance Document.
V3	14 February 2025	Proposed changes for SIF Governance Document currently in force

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## 1. Introduction

### Section summary

This chapter sets out the purpose and objectives of the SIF and provides a detailed overview of its operation.

1.1. RIIO-2 ~~will prepare~~has prepared the regulated network companies to deliver net zero greenhouse gas emissions at the lowest cost to consumers, while maintaining world-class levels of system reliability and customer service, and ensuring that no consumer is left behind.

1.2. Innovation is a key element of the RIIO model for price controls and our<sup>1</sup> approach is focused on creating an environment that allows innovation to thrive across the whole system. The RIIO framework provides strong incentives for network companies to innovate as part of business as usual activities.

1.3. In RIIO-2, we are also maintaining a strong additional stimulus for innovation, targeted at the challenges associated with delivering net zero greenhouse gas emissions, by focusing funds on the energy system transition and/or addressing consumer vulnerability. The additional stimulus recognises that certain innovation Projects are speculative in nature and yield uncertain commercial returns. In addition, where benefits are linked to the decarbonisation of the network, it may be difficult to commercialise the related social, carbon and/or environmental benefits and shareholders may be unwilling to speculate on such Projects. Additional funding is designed to underpin the ethos, internal structures and third-party contracts that facilitate innovation.

1.4. The network innovation stimulus for RIIO-2 consists of a Network Innovation Allowance (NIA) and the SIF. These two mechanisms are successors to innovation stimulus initiatives such as the Innovation Funding Incentive (IFI), Low Carbon Networks Fund (LCNF) and Network Innovation Competition (NIC) which funded innovation in previous price control periods.

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<sup>1</sup> The terms the "Authority", "Ofgem", "we", "our" and "us" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

## Differences between the NIA and the SIF

1.5. The NIA is a baseline allowance that each network licensee receives to fund innovative projects as part of its price control settlement. The NIA funds research, development and demonstration Projects, which, for example, cover commercial, technological and operational innovation, and is focused on the energy system transition and/or addressing consumer vulnerability.<sup>2</sup>

1.6. The SIF is additional innovation funding which network licensees can apply for and is focused on the achievement of Net Zero and the energy system transition, whilst delivering net benefits to energy consumers. It does this through a multi-phase approach designed to address the biggest challenges facing energy networks.

1.7. As set out in further detail in chapter 2, SIF Projects are assessed, amongst other things, on their ability to deliver a net benefit for gas or electricity consumers, to avoid undermining competitive markets, provide value for money and be costed competitively. We therefore expect, in line with the Eligibility Criteria outlined in chapter 2, that Projects which are applying for SIF Funding or are currently progressing through the SIF, are also not receiving NIA funding for that same Project.

## Overview of the SIF

1.8. The SIF is supporting network innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. It coordinates network innovation funding with other public sector funding initiatives, thereby ensuring greater flexibility and strategic alignment in innovation funding, and eliminating both unnecessary duplication and funding gaps.

1.9. Ofgem is the decision-maker in relation to the SIF. To support the SIF's operation, Ofgem partnered with Innovate UK, as part of UK Research & Innovation (UKRI)<sup>3</sup>, and entered into a services agreement for which Innovate UK provides to

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<sup>2</sup> The requirements for NIA are set out in the RIIO-2 NIA Governance Document.

<sup>3</sup> UKRI is the UK Government's research and innovation agency. It is a non-departmental public body sponsored by the Department for [Energy Security and Net Zero \(DESNZ\)](#), [Business, Energy and Industrial Strategy \(BEIS\)](#).

Ofgem the services for the delivery and coordination of the SIF. Innovate UK's role is to operate the SIF in line with this SIF Governance Document – administering the funding programme, monitoring the delivery of Projects, making recommendations to Ofgem on operational matters, supporting third-party innovators and, where possible, supporting successful Projects to become business as usual activities. As part of its role in administering the SIF, Innovate UK works closely and maintains relationships with licensees. Innovate UK may, as part of its role in administering the SIF, also issue correspondence to Funding Parties on the written instruction of the Authority. Ofgem will continue to issue and publish the finalised version of documents associated with the SIF.

### **Focusing on strategic Innovation Challenges**

1.10. In May 2021, Ofgem published its Innovation Vision, which informs markets about where Ofgem has identified the need for significant innovation.<sup>4</sup> It highlights priority areas needed to achieve the multi-vector transition to Net Zero across power, heat and transport. The Innovation Vision covers a vast space across Ofgem's strategic change programmes, and from relevant parts, Ofgem will seek to identify Innovation Challenges for the SIF.

1.11. Ofgem will direct ~~the Electricity System Operator~~ [NESO](#) and NTS Owner to distribute the SIF Funding that is to be applied in addressing strategic Innovation Challenges. With the support of Innovate UK, and in the light of stakeholder engagement, Ofgem will set strategic Innovation Challenges and invite Applications for Projects to address them. Since the setting of Innovation Challenges and associated funding ~~rounds~~ [Cycles](#) will be based on a strategic need, there may be multiple (or no) funding ~~rounds~~ [Cycles](#) in a given year. The SIF has the flexibility to meet the need for network innovation as and when it arises and will keep pace with requirements for the evolution of networks.

1.12. Strategic Innovation Challenges will seek to deliver net benefits to network consumers. The development process will take account of strategic innovation priorities, such as those identified in our Innovation Vision and be informed by stakeholder engagement, including engagement with the UK Government and the devolved

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<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/ofgem-innovation-vision-2021-2025>



administrations, licensees and third-party innovators within the energy industry, to help build a robust evidence base for innovation funding.

### **A multi-phase approach for Projects**

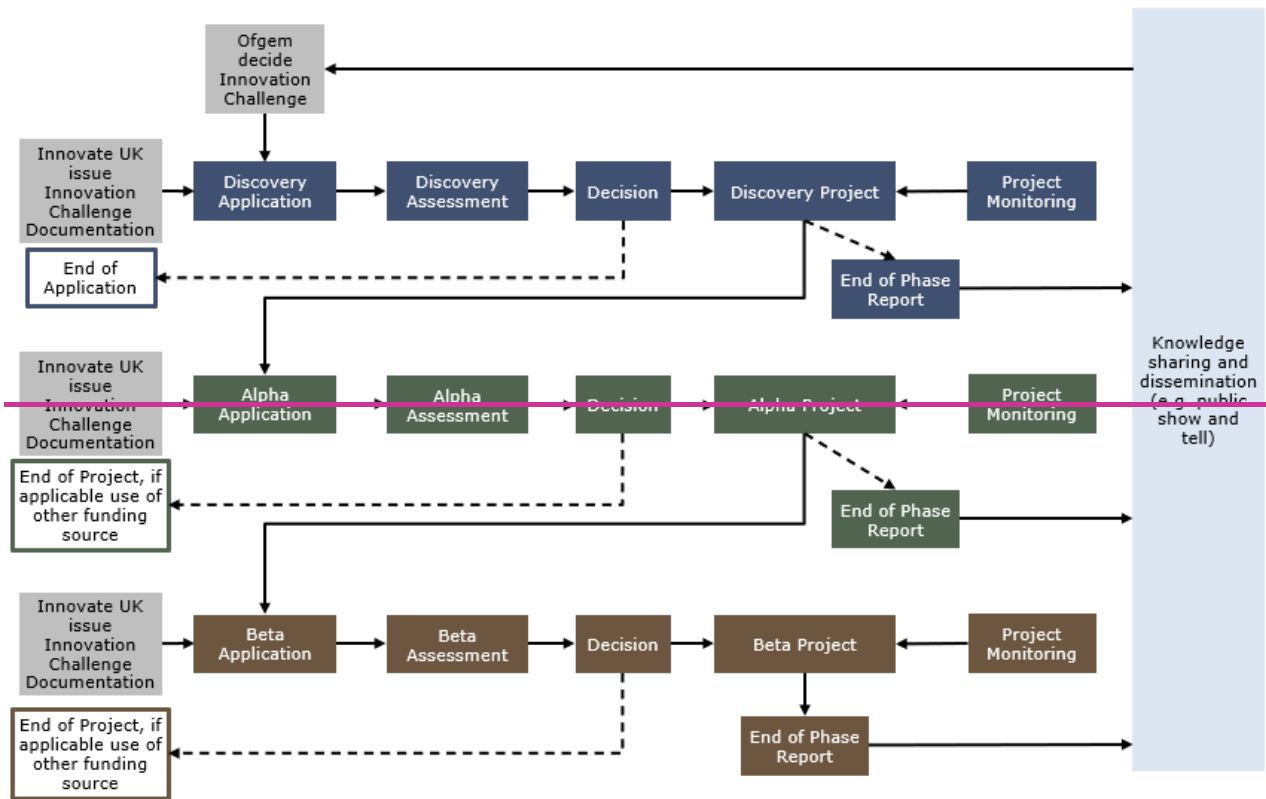
1.13. In order to mitigate the risk associated with innovations, the default approach to SIF is that innovation will be funded in three Project Phases (Discovery Phase, Alpha Phase and Beta Phase), with successful Application and assessment against Eligibility Criteria as a condition of receiving SIF Funding for the relevant Project Phase.

1.14. ~~All~~ Projects will, typically, start at the Discovery Phase, unless it is explicitly stated within the Innovation Challenge that Projects can start at the Alpha Phase or the Beta Phase, or that Project Phases can be combined.<sup>5</sup> ~~A fuller description of each Phase is below. The progression through Project Phases under the default approach is summarised in the process diagram within figure 1, together with a fuller description of each below.~~

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<sup>5</sup> Before confirming departure and issuing any Innovation Challenge which deviates from the default approach articulated in this SIF Governance Document, Ofgem will issue a formal 28-day consultation on the proposed Innovation Challenge format, including an updated Figure 1, the proposed Project Phase length, and the SIF Funding available. Where the Innovation Challenge cuts across governance arrangements in a manner not expressly provided for by the SIF Governance Document, Ofgem will consult on any necessary amendments to the SIF Governance Document.

Figure 1: SIF default multi-phase approach



1.15. **Discovery Phase (feasibility studies):** The Discovery Phase will define the Problem and the value in solving the Problem. It will also facilitate a common understanding of what energy consumers and network users need from the innovation and identify any constraints that may impact on solution of the Problem and options for the management of those constraints.

1.16. **Alpha Phase (experimental development):** The Alpha Phase will focus on preparing and testing the different solutions to the Problem that are identified during the Discovery Phase, ahead of any future large-scale demonstration of the Project. It will also test the riskiest assumptions.

1.17. **Beta Phase (build, operation and/or demonstration):** The Beta Phase will focus on the deployment of the solution to the Problem. The duration of the Beta Phase will depend on the scale and complexity of the solution deployed. Beta Phases will be of between six months' and five years' duration. Beta Phases are the largest of the Project Phases.

1.18. Procedural requirements, such as the maximum £ value which the Funding Party may apply to receive from the SIF in each Project Phase and the length of each Project Phase in months, will be specified in the Innovation Challenge Documentation, ~~which Innovate UK would ordinarily provide three months ahead of the deadline for Projects to be submitted.~~ There follows an illustrative example of Project phasing:

- Discovery Phase: up to ~~five~~two months and related SIF Funding would be capped at £150k.
- Alpha Phase: up to ~~eight~~six months and associated SIF Funding would be capped at £500k. More SIF Funding could be provided if there is evidence to support any assertion that Alpha Phase work described in paragraph 1.16 cannot be completed within the period specified in the Innovation Challenge Documentation.
- Beta Phase: budgets would start at £500k.

~~1.19.~~ Separate assessments will be undertaken and funding decisions made by Ofgem for each of the Project Phases. Funding awards for one Project Phase does not guarantee funding for subsequent Project Phases. The results of each Project Phase ~~will~~ ~~may~~ be considered as part of Ofgem's funding decisions in relation to subsequent Project Phases.

~~1.19-1.20.~~ ~~There will be three opportunities per year to apply for all three Project Phases. These opportunities are known as 'Cycles'. This phased approach will allow Projects more opportunities to bid for SIF Funding and much greater flexibility to decide on the best time to submit or progress their idea.~~

## SIF Governance Document

~~1.20-1.21.~~ This SIF Governance Document is issued by Ofgem further to the SIF Licence Condition.<sup>6</sup>

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<sup>6</sup> Following a formal consultation, we have decided to allow DNOs to be able to submit an Application to the round 2 Discovery Phase prior to the RII0-ED2 licences coming into force on 1 April 2023. No decision on the round 2 Discovery Phase Projects will be made prior to the RII0-ED2 Final Determinations and underlying SIF licence condition coming into force.

~~1.21~~1.22. This SIF Governance Document sets out the regulation, governance and administration of the SIF. It contains details of:

- Eligibility Criteria for Projects (chapter 2).
- Requirements to support learning and collaboration (chapter 3).
- Requirements for Applications – this includes standard Application question categories and additional information to support Applications, such as the parameters for varying levels of Compulsory Contribution (chapter 4).
- Details on Project assessment (chapter 5).
- Requirements for Project delivery (chapter 6).
- The information that will be published in the SIF Funding Direction and the process for issuing the SIF Funding Direction for each round (chapter 7).
- The requirements in relation to Project administration – this includes compliance, halting a Project, audits and details on bank accounts (chapter 8).
- The default treatment of Intellectual Property Rights (IPR) which Ofgem has created to facilitate knowledge transfer, and the treatment and calculation of royalties generated through a Project (chapter 9).
- Defined terms (Appendix 1).

## Compliance

~~1.22~~1.23. Licensees are required by the SIF Licence Condition to comply with this document. Licensees must ensure that their collaboration with others in the context of the SIF is in line with the SIF Governance Document.

~~1.23~~1.24. The following list provides clarity on the hierarchy and issuer of documents issued as part of the SIF:

- SIF Licence Condition (issued by Ofgem for each of the network licensees);
- SIF Governance Document (issued by Ofgem);
- Innovation Challenge (issued by Ofgem);
- Innovation Challenge Documentation (issued by Innovate UK);
- Recommendations and Funding Decision report (compiled by Innovate UK following the assessment of Projects and the feedback from the Expert Assessors, although considered and issued by Ofgem);
- ~~SIF Funding Decision (issued by Ofgem);~~
- SIF Project Direction (issued by Ofgem); and

- SIF Funding Direction (issued by Ofgem).

~~1.24.~~1.25. This SIF Governance Document applies prospectively to all current and future Projects, including active Projects already underway which we have issued SIF Project Directions prior to this SIF Governance Document coming into effect.<sup>7</sup>

~~1.25.~~1.26. In circumstances where a Project is unable to comply with an updated SIF Governance Document coming into force while the Project is in-flight, Ofgem is willing to consider requests for disapplication of certain requirements of this SIF Governance Document on a case by case basis and, if necessary, any amendments to the SIF Governance Document required to support the disapplication.

~~1.26.~~1.27. In these circumstances, Funding Parties must make a formal written request to Ofgem for the disapplication of certain requirements as set out in this SIF Governance Document. The Funding Party must engage with Ofgem and provide evidence as to why an in-flight Project is unable to comply with the requirements set out in the updated SIF Governance Document.

~~1.27.~~1.28. Ofgem will review the request and will only approve disapplication of certain requirements in SIF Governance Document where it considers that a satisfactory justification has been supplied. As part of this, Ofgem will consider if any amendments to this SIF Governance Document required to underpin such a disapplication of the SIF Governance Document, and consult on amendments to the SIF Governance Document if necessary. Ultimately, Ofgem will confirm any decision in writing.

~~1.28.~~1.29. The SIF Licence Condition and the SIF Governance Document in no way relieve affected parties, including licensees and Project Partners, from their responsibility to ensure ongoing compliance with their licence obligations and with legislation, including competition, data protection, environment and consumer protection laws.

## Review

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<sup>7</sup> As referenced in the decision letter to update SIF governance on 9 September 2022, we have assessed the fair operation of an updated SIF Governance Document coming into force while Projects are already underway as part of round 1 Alpha Phase and we have not identified any issues and do not anticipate any impacts or knock-on effects on these Projects already in-flight.

~~1.29.1.30.~~ Ofgem may from time to time, following consultation with interested parties, revise this SIF Governance Document in accordance with the SIF Licence Condition.

## 2. Eligibility Criteria

### Section summary

This chapter explains the Eligibility Criteria for Projects.

2.1. Projects submitted to the SIF must meet the Eligibility Criteria in order to receive SIF Funding. The process for assessing Projects against the Eligibility Criteria and the questions included in the Application process are detailed in chapter 5.

2.2. **Eligibility Criterion 1: Projects must address the Innovation Challenge set by Ofgem.**

2.3. **Eligibility Criterion 2: Projects must have clearly identified potential to deliver a net benefit to gas or electricity consumers (whomever is paying for the innovation).**<sup>8</sup> This does not constrain such Projects from delivering a benefit to consumers of other sectors (who are not paying for the innovation), allowing them to participate in and benefit from the energy transition.

2.4. Benefits could include incidental benefits to consumers in vulnerable situations, for example those resulting from the removal of barriers which prevent their participation in the market and from the promotion of their access to smart systems and their participation in the energy transition. Further detail regarding the evidencing of benefits is included at paragraphs 4.25-4.30.

2.5. **Eligibility Criterion 3: Projects must involve network innovation.**<sup>9</sup> This means, for example, Projects must include activities ordinarily associated with the operation of the network or system operation, have the potential to reduce the costs of

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<sup>8</sup> In considering consumers in the regulatory framework, we consider users of network services (for example generators, shippers) as well as domestic and business end consumers, and their representatives.

<sup>9</sup> Network investment that is not in itself innovative will be treated as such if it contributes to a Project which is innovative and the network component of the Project delivers net benefits to energy consumers.

networks (now or in the future) and/or improve the services and products provided by network companies for consumers.

2.6. Where Ofgem has the remit to fund such activities, Projects may involve non-network activities such as generation, storage, or behind the meter activities (for example in-home consumer products / services) if (i) they have the potential to deliver net benefits to network consumers, (ii) would not happen but for the provision of RIIO innovation stimulus funding and, (iii) in the case of third-party innovators, depend on network access. In these cases, we expect Projects to involve funding contributions from other sources (such as funding from other public bodies or the private sector) as benefits will accrue not only to network consumers, but more widely across the supply chain.

2.7. **Eligibility Criterion 4: Projects must not undermine the development of competitive markets.** Where appropriate and necessary, Ofgem may take a proportionate approach to the application of this Eligibility Criterion, so that the level of complexity of contractual arrangements between network companies and third parties is reasonable in the circumstances. For example, where there is no contractual precedent because an activity is very novel, or the cost of the [third-party](#) activity is low as compared to overall Project value or Projects trial new market arrangements, a proportionate approach may be taken.

2.8. **Eligibility Criterion 5: Projects must be innovative, novel and/or risky.** Projects must generate new learning and entail a degree of risk, so that they would not otherwise be taken forward as business as usual activities.

2.9. **Eligibility Criterion 6: Projects must include participation from a range of stakeholders.** Stakeholders should include third-party innovators, where appropriate, such as, but not limited to, start-ups, consumer groups, small and medium-sized enterprises, energy generators and suppliers, and academics.<sup>10</sup> The Project Partners involved in the Project must satisfy the requirements set out in the Innovation Challenge and Innovation Challenge Documentation and be appropriate to the focus of the Project; for example, Projects focusing on the future of transport should include

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<sup>10</sup> Consistent with subsidy control rules, the requirement for third party access to a network is a pre-condition of the funding of third party contributions to Projects out of the SIF.

stakeholders within the transport industry, or Projects involving consumer trials should include experts in consumer engagement.

2.10. **Eligibility Criterion 7: Projects must provide value for money and be costed competitively.** This means, for example, that the budget allocated to specific Project Deliverables should be reasonable, the costs of Project Partners should be competitive, and that existing assets and facilities should be utilised, where this supports cost efficiency.

2.11. **Eligibility Criterion 8: Projects must be well thought through and have a robust methodology so that they are capable of progressing in a timely manner.** As decision-maker in relation to SIF Funding, Ofgem must be reasonably confident that Projects are deliverable with, for example, robust Project plans, cost breakdowns and risk assessment.



### 3. Supporting learning and collaboration

#### Section summary

This chapter sets out requirements which seek to support the sharing of learning and collaboration with others.

3.1. We expect licensees to collaborate with each other and, where appropriate, with third-party innovators as Project Partners on the Projects funded by the SIF. Licensees should work closely with other parties in the energy supply chain to explore what technological, operational or commercial arrangements have the potential to facilitate the energy system transition and address the Innovation Challenges set by Ofgem.

3.2. If multiple licensees decide to collaborate on a Project, they must appoint one Funding Party who will act as a single point of contact with Ofgem.

3.3. When issuing Innovation Challenges, Ofgem may, where appropriate, decide to impose requirements in relation to the types of organisations that need to participate in the Project as Project Partners. This may include, but not limited to, requirements for research Projects to involve academics, and that Projects involving consumer research involve professional market researchers.

#### **ENA Smarter Networks Dissemination Portal**

3.4. Licensees have established an online ENA Smarter Networks Portal<sup>11</sup> and are required to use it to develop partnerships with external stakeholders and to enable external parties to bring forward ideas for Projects, share learning, and share Project data.

3.5. Prior to the direction of the SIF Governance Document, the costs of developing and operating the ENA Smarter Networks Portal were funded by the NIA. Following the direction of the SIF Governance Document, such proportion of the costs of using the ENA Smarter Networks Portal as are attributable to the SIF can be identified as such and included in the SIF Funding Request.

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<sup>11</sup> <https://www.smarternetworks.org/> References to the Smarter Networks Portal throughout this document refer to the existing portal or its equivalent replacement, in accordance with paragraph 3.6.

## Requirements

3.6. Licensees must work collaboratively with each other to maintain the ENA Smarter Networks Portal or to develop another portal (if more effective or cost-efficient than the ENA Smarter Networks Portal) so that the following content continues to be available:

- Links to the Ofgem website, to direct potential Project Partners to the SIF Governance Document;
- A function which enables potential Project Partners to record their name, contact details and a summary of their business, idea, proposal or service; and
- Contact details for each licensee, and details of how potential Project Partners can submit Project ideas to a licensee.

3.7. Licensees must work collaboratively to ensure that the ENA Smarter Networks Portal [or another portal in use](#) is up to date. In addition, licensees must annually review ~~the ENA Smarter Networks Portal~~ [its content](#), and make appropriate changes to improve its accessibility and content. We expect this review to be informed by stakeholder consultation on the quality of information provided by and the usability of the ENA Smarter Networks Portal [or another portal](#).

## Additional information

3.8. The ENA Smarter Networks Portal is not intended to prevent licensees from using other routes to identify and award contracts to Project Partners. Regardless of which route has been used, it is up to the licensees to ensure that applicable procurement rules have been followed.

## Sharing learning

[3.9.](#) Facilitating knowledge transfer is one of the key principles of the SIF. Ultimately, consumers are funding Projects and we want the learning generated to be disseminated and utilised as effectively as possible to ensure that all licensees, and therefore all consumers, can benefit from Projects.

[3.9-3.10.](#) Licensees are required to use the ENA Smarter Networks Portal or another portal. This should be high-quality, easily accessible information for an audience ranging from a consumer, researcher or innovator.

~~3.10-3.11. Projects should ensure learning is shared as widely as possible, ensuring contact with different stakeholder groups. The ENA Smarter Networks Portal is used to share learning from Projects.~~

## Requirements

~~3.11-3.12. We require licensees to work collaboratively to maintain the ENA Smarter Networks Portal or another portal, so that ~~All~~ reporting on Projects (as required by chapter 6 of the SIF Governance Document) should be easily available via a publicly accessible webpage, is available via the ~~ENA Smarter Networks Portal~~.~~

~~3.12-3.13. We require licensees to ensure that Project details published on all forums the ~~ENA Smarter Networks Portal~~ are kept up to date.~~

## Additional information

~~3.13-3.14. The provision of the ENA Smarter Networks Portal or another portal is not intended to constrain the knowledge dissemination activities of the licensees. These portals ~~ENA Smarter Networks Portal~~ should not be used as the sole means of disseminating learning as licensees should, for example, be engaging in wider industry forums to disseminate learning from Projects.~~

## Sharing Project information and data<sup>12</sup>

~~3.14-3.15. Licensees must follow Data Best Practice Guidance<sup>13</sup> with regards to all data gathered or created in the course of a Project. We expect the Funding Party to document any reasons, such as commercial sensitivities, for desensitising data. As defined by and in accordance with Data Best Practice Guidance, licensees must have a data triage process. Where multiple Project Partners are cooperating on a Project, the consortium must adopt a consistent Open Data Triage for the data related to the Project.~~

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<sup>12</sup> Detail on default IPR requirements within Projects is included in chapter 9, which includes provisions for Project Participants to retain all rights in and to its Background IPR.

<sup>13</sup> Data Best Practice Guidance <https://www.ofgem.gov.uk/decision/decision-definition-energy-system-data-data-best-practice-guidance> Version 1 of the Data Best Practice Guidance was issued on 15 November 2021; <https://www.ofgem.gov.uk/publications/decision-data-best-practice-guidance-and-digitalisation-strategy-and-action-plan-guidance>. An updated version will be consulted on in 2023.

~~3.15-3.16.~~ We require the Funding Party to treat all data gathered or created in the course of a Project as Presumed Open to all and accordingly share data with requesting parties as per the Data Best Practice Guidance principles.

~~3.16-3.17.~~ When information regarding a Project is put in the public domain, the Funding Party must make sure all data is signposted and easily found.

~~3.17-3.18.~~ The Funding Party must put in place a publicly available data policy, which covers its portfolio of Projects, setting out how the data used and generated by Projects will comply with Data Best Practice Guidance, including how data will be made available to stakeholders.

~~3.18-3.19.~~ Additionally, all data gathered or created in the course of a Project must be made available on a publicly accessible website. This could, for example, be done using the Open Energy Platform.<sup>14</sup>

~~3.19-3.20.~~ The Funding Party will be required to consent to non-sensitive aspects of their Application and supporting information being shared with public funders of innovation, including departments and agencies of the UK Government and the devolved administrations.

~~3.20-3.21.~~ In addition to the above data requirements, within SIF Project Directions, with the aim of sharing learning and promoting collaboration, Ofgem may require that Project information and data is also shared with other specified parties, such as parties working on complementary innovation funding programmes (subject to redaction of sensitive data).

## **Annual knowledge dissemination requirements**

~~3.21-3.22.~~ The Funding Party must collaborate with other licensees and with Innovate UK to organise and attend at least one main annual event and supporting events (such as the virtual workshops where ideas for Innovation Challenges are further developed), involving suppliers, consumers and other network users in a format

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<sup>14</sup> <https://energydata.org.uk/>

appropriate to enabling the building of consortia across different innovation funders and disseminating learning widely.

~~3.22-3.23.~~ The annual event(s) may form part of the same event as is organised to comply with NIA governance arrangements. Funding Parties may charge attendees a nominal sum for attending the event(s). The income from charges is not to exceed the efficient cost to the licensee of organising the event(s). Funding Parties may recover costs for such event(s) from individual SIF Projects insofar as the activities are relevant to SIF Projects.

~~3.23-3.24.~~ The annual event may be a single event for gas and electricity, or more than one event, as appropriate.

~~3.24-3.25.~~ We expect Funding Parties to work together with Ofgem, the Department ~~of~~ for Energy Security and Net Zero (DESNZ) ~~Business, Energy and Industrial Strategy (BEIS)~~ and Innovate UK to agree on the format of the annual event(s).

## 4. Application process

### Section summary

This chapter describes the Application process.

4.1. Unless otherwise specified in the Innovation Challenge, each Project Phase requires an Application from a Funding Party whereby the Application for the Alpha Phase may be submitted following the completion of the Discovery Phase activities, and the Application for the Beta Phase may be submitted following the completion of the Alpha Phase activities. [The Innovation Challenge may set out a process where Projects can apply straight to Alpha or Beta, without the need to complete the prior Phase\(s\), further details on the requirements to apply through this method will be available in the Innovation Challenge.](#) The application methods will be provided in the Innovation Challenge Documentation.

4.2. The Innovation Challenge Documentation will set out requirements related to the eligible scope of, the maximum amount of SIF Funding available for, and the length of each Project Phase or combined Phases. The Innovation Challenge Documentation will be issued [annually](#) and can be reissued, if there is a need to revisit any of the parameters originally set down [there](#).

4.3. Each Application is assessed against the Eligibility Criteria set out in chapter 2 by [the](#) Expert Assessors. The Authority will decide, taking into account the Expert Assessors' assessment and recommendations, which Projects should be awarded funding.

4.4. The Funding Party will be required to submit answers in relation to defined question categories alongside supporting information (see tables 1-3 below). Responses to the questions will be used to determine whether a Project meets the Eligibility Criteria identified in chapter 2, upon which the success of the Application depends.

4.5. The Funding Party may be required to answer additional administrative questions as part of its Application, as specified in the Innovation Challenge Documentation. This may include, but is not limited to, the proposed geographic location of the Project, or the participants in the Project in addition to Project Partners.

4.6. The Innovation Challenge-specific Application requirements and reporting requirements will be specified in the Innovation Challenge Documentation. This will provide the following information:

- a. The Innovation Challenge which proposed Projects will be expected to address;
- b. Scope and Project requirements which will include the following:
  - i. Funding available and length of each Project Phase;
  - ii. Where applicable, requirements for consortia applying, such as requirements related to the organisation type, role and number of Project Partners;
  - iii. Where applicable, additional Innovation Challenge-specific Application questions;
  - iv. Where applicable, bespoke requirements for external funding contributions to the Project, such as requirements for Project Partners to contribute funds to support the Project;
  - ~~v. —Where applicable, bespoke Application and reporting requirements for Projects, such as whether a Project is required to give a public launch webinar for the Discovery Phase;~~
  - v.
  - vi. The word limits for Applications for the upcoming Project Phase;
- c. Dates: Open/close competition dates, assessment milestone dates, interview dates and notification dates;
- d. How to apply; and
- e. Any supporting information required, including where relevant templates must be used.

### Discovery Phase

4.7. Within its Application for the Discovery Phase, the Funding Party will be asked to provide responses across the question categories below in table 1. Any word limit for each question and supporting information will be set out in the Innovation Challenge Documentation. The types of question that will be asked under each category are indicated in table 1.

Table 1: Discovery Phase Application question categories

Category of Question	Information Requirements	Supporting Information as specified in Innovation Challenge Documentation
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<p>Project summary</p>	<p>Information will focus principally on how the Project will address issues outlined in the Innovation Challenge Documentation, and the role and responsibilities of each Project team member, their experience and contribution to addressing the Innovation Challenge.</p>	<p><del>Appendices containing</del> information regarding (i) named team members; (ii) short summaries of Project proposal; (iii) an explanation of the choice of collaborators; (iv) what other public funding, apart from SIF Funding a proposed Project, or aspects or components of a proposed Project, have received which are relevant to the proposed Project. (Further information on what is required is included in paragraphs 4.17 – 4.18).</p>
<p>Innovation justification</p>	<p>Information will describe the core aspects of the proposed innovation, including demonstration of the technical understanding relevant to the Project. The Funding Party will also be asked to show that the Project and Method are novel, the problem that the Project is aiming to solve and the benefit to energy consumers that could be realised by solving the problem, and how the proposal builds on previous research and development.</p>	<p><del>An appendix containing tables of Information on</del> similar Projects, lessons learned, images and diagrams.</p>
<p>Impact</p>	<p>Information will focus principally on the impact of the Project with reference to the potential net benefits to energy network consumers. Benefits could be of different types, for instance, social, environmental or wider energy supply resilience benefits. (Further information on evidencing benefits is included in paragraphs 4.25-4.30 below)</p>	<p><del>Quantified benefits case as an appendix. Guidance on an approach appropriate to the scale of the Project Phase will be provided in the Innovation Challenge Documentation.</del></p>
<p>Project plan, milestones and risks</p>	<p>Information will focus principally on the successful and efficient delivery of the Project, including a detailed Project plan describing the key milestones and deliverables. The Funding Party must propose the percentage of Project funding which should be assigned to each Project Deliverable, and the associated funding source. The proposed percentage must be proportionate to the Project Deliverable. Additionally, the Funding Party will be required to provide a summary of the main risks to the successful delivery of the Project and any actions taken to mitigate these risks.</p>	<p>An appendix containing Project timeline and milestones <u>and risks</u>.</p>



<del>Route to market / business as usual</del>	<del>Information will focus principally on the plans for commercialisation of the Project and moving the innovation into business as usual.</del>	<del>Forms explaining the readiness for investment (to be completed by third party innovators who, where appropriate, will be involved as Project Partners)</del>
Costs	Information will focus principally on a cost breakdown of Project resource requirements and a funding breakdown including contributions from other funding sources. In addition to proposed timings, details on cost such as 'day rates' and 'cost for assets', the Funding Party will need to justify the scope and proposed size of the Project	Completion of the finances section and templates on UKRI's secure online portal.

### Alpha Phase

4.8. Within its Application for the Alpha Phase, the Funding Party will be asked to provide responses across the question categories below in table 2. Any word limit for each question and supporting information will be set out in the Innovation Challenge Documentation. The Funding Party must, if required by the Innovation Challenge Documentation, submit further information in relation to the questions and supporting information outlined below in table 2.

4.9. The responses to the questions will be used to determine whether a Project meets the Eligibility Criteria, upon which the success of the Application depends.

Table 2: Alpha Phase Application question categories

<b>Topic category</b>	<b>Information Requirements</b>	<b>Supporting Information as specified in Innovation Challenge Documentation</b>
Project summary	Information will focus principally on how the Project will address the Innovation Challenge, and the role and responsibilities of each Project team member, their experience and contribution to addressing the Innovation Challenge. At the Alpha Phase we would expect the Funding Party to provide any updates following the end of the Discovery Phase. For example, any change of focus of the Project, the latest understanding of energy consumer needs and benefits and any change to the Project team.	<del>Appendices containing information</del> Information regarding (i) named team members; (ii) short summaries of the Project proposal; (iii) an explanation of the choice of collaborators; and, if required, (iv) what other public funding, apart from SIF Funding a proposed Project, or aspects or components of a proposed Project, have received which are relevant to the proposed Project. (Further information on what is required is included in paragraphs 4.17 – 4.18).

<b>Topic category</b>	<b>Information Requirements</b>	<b>Supporting Information as specified in Innovation Challenge Documentation</b>
Innovation justification	Information will focus on what the Project aims to deliver and, in line with the Eligibility Criteria, why the Project should be funded via the SIF rather than other sources of funding	
Impact	Information will focus principally on the impact of the Project with reference to the potential net benefits to energy network consumers. Benefits could be of different types, for instance, social, environmental or wider energy supply resilience benefits. (Further information on evidencing benefits is included in paragraphs 4.25-4.30 below).	Quantified benefits case as an appendix. Guidance on an approach appropriate to the scale of the Project Phase will be provided in the Innovation Challenge Documentation.
Project plan, milestones, and risks	Information will focus principally on the successful and efficient delivery of the Project, including a detailed Project plan describing the key milestones and deliverables. The Funding Party must propose the percentage of Project funding which should be assigned to each Project Deliverable, and the associated funding source. The proposed percentage must be proportionate to the Project Deliverable. At the Alpha Phase, the Funding Party will also be asked to provide a detailed risk register. This will highlight the main risks for the successful delivery of the Project and any actions taken to mitigate these risks. The risk register will be maintained throughout the Alpha Phase.	Appendices containing (i) the Project timeline and milestone template; (ii) the risk register (regulatory, commercial and technical), setting out risk, mitigation, organisational responsibilities for managing risk within the Project (iii) details of requests for regulatory relief, code changes etc. that will support the Alpha Phase, (iv) skills & expertise <del>of project partners template and supporting document.</del>
Route to market / business as usual	Information will focus principally on the plans for the commercialisation of the Project and moving innovation into business as usual. At the Alpha Phase, the Funding Party will need to take account of learning from the Discovery Phase – providing an initial outline of post-Beta Phase plans.	<del>Forms explaining the readiness for investment (to be completed by third party innovators, where appropriate, who will be involved as Project Partners).</del>
Costs	Information will focus principally on the cost breakdown of Project resource requirements and related SIF Funding and other innovation funds. In addition to proposed timings, details on cost such as 'day rates' and 'cost for assets', Funding Party may be asked to justify the scope/ proposed size of the Project and demonstrate that they have made best use of pre-existing assets and facilities	Completion of the finances section and templates on UKRI's secure online portal.

**Beta Phase**

4.10. Within its Application for the Beta Phase, the Funding Party will be asked to provide responses across the question categories below in table 3. Any word limit for each question and supporting information will be set out in the Innovation Challenge

Documentation. The Funding Party must, if required by the Innovation Challenge Documentation, submit further information in relation to the questions and supporting information outlined below in table 3.

4.11. The responses to the questions will be used to determine whether a Project meets the Eligibility Criteria, upon which the success of the Application depends.

Table 3: Beta Phase Application question categories

Topic category	Information Requirements	Supporting Information as specified in Innovation Challenge Documentation
Project summary	Information will focus principally on how the Project will address the Innovation Challenge, and the role and responsibilities of each Project team member, their experience and contribution to addressing the Innovation Challenge. At the Beta Phase, Ofgem would expect the Funding Party to provide any updates following the end of the Alpha Phase, for example, any change of focus of the Project and any change to the Project team.	<del>Appendices containing information</del> <u>Information</u> regarding (i) named team members; (ii) short summaries of the Project proposal; (iii) an explanation of the choice of collaborators; (iv) what other public funding, apart from SIF Funding a proposed Project, or aspects or components of a proposed Project, have received which are relevant to the proposed Project. (Further information on what is required is included in paragraphs 4.17 – 4.18); <del>(v) engineering justification paper.</del>
Innovation justification	Information will focus on why the idea is worth pursuing to Beta Phase and, in line with the Eligibility Criteria, why the Project should be funded via the SIF rather than other sources of funding	
Impact	Information will focus principally on the impacts of the Project in terms of energy consumer benefit, including but not limited to environmental and financial benefits.  At the Beta Phase we require a detailed quantitative assessment of the impact of the Project, drawing on the learning from the Discovery Phase and the Alpha Phase. In addition to the impacts listed above, the	Quantified benefits case as an appendix. Guidance on an approach appropriate to the scale of the Project will be provided in the Innovation Challenge Documentation.

	<p>Funding Party should consider the impact of the Project on government policy, economic opportunities, regional impacts and wider (non-energy sector) impacts.</p> <p>(Further information on evidencing benefits is included in paragraphs 4.25-4.30 below)</p>	
Project plan, milestones and risks	<p>Information will focus principally on the successful and efficient delivery of the Project, including a detailed Project plan describing the key milestones and deliverables. The Funding Party must propose the percentage of Project funding which should be assigned to each Project Deliverable, and the associated funding source. The proposed percentage must be proportionate to the Project Deliverable. At the Beta Phase innovators will also be asked to provide a detailed risk register. This will highlight the main risks for the successful delivery of the Project and any actions taken to mitigate these risks. The risk register will be maintained throughout the Beta Phase.</p>	<p>Appendices containing: (i) a gantt chart and Project plan, (ii) a risk register (regulatory, commercial and technical), setting out risk, mitigation, organisational responsibilities for managing risk within the Project etc.</p>
Route to market / business as usual	<p>Information will focus principally on the plans for commercialisation of the Project and moving the innovation into business as usual. At the Beta Phase, the Funding Party will be asked to set out plans to enable the procurement and utilisation of the innovation across Great Britain and internationally, and how innovation could become business as usual within the Funding Party's network and across the other networks. The Funding Party must propose a metric through which, should the Project conclude successfully, the uptake of the solution on the networks can be measured. The Funding Party and Project Partners may also be asked for an indication of their need for investment either before, during or after the Project.</p>	<p>An appendix containing a road-map to show post-Beta Phase development. <del>An appendix detailing investment readiness.</del></p>
Costs	<p>Information will focus principally on the cost breakdown of the Project resource requirements and related funding out of the SIF and other innovation funds. In addition to proposed timings, details on cost such as 'day rates' and 'cost for assets', the Funding Party may be asked to justify the scope/ proposed size of the Project, and demonstrate that they have made best use of pre-existing assets and facilities.</p>	<p>Completion of the finances section and templates on UKRI's secure online portal.</p>

## Additional information to support Applications

### Funding requested

4.12. Within Applications for each of the Discovery Phase, Alpha Phase, and Beta Phase, in order to calculate the SIF Funding Request, the Funding Party must set out the following:

- **Total Project Phase Costs:** These are the forecast costs the Funding Party expects will be required to undertake the Project Phase;
- ~~**Initial Net Funding Required:** This is the Total Project Phase Costs minus any funding from Project Partners, External Funders and Funding Party which is in excess of the Compulsory Contribution;~~
- **Compulsory Contribution:** The Compulsory Contribution towards the Project; and
- ~~**Outstanding Funding Required:** Initial Net Funding Required minus the Compulsory Contribution; and~~
- **SIF Funding Request:** The Outstanding Funding Required. At the Beta Phase, this should include a deduction for the bank account interest that the Funding Party will earn on the balance of funding over the duration of the Beta Phase.<sup>15</sup>

4.13. The Funding Party should clearly identify the assumptions that underlie the way in which the costs, External Funding and hence the Outstanding Funding Required, have been calculated.

### Variations in the Compulsory Contribution

4.14. The default level of Compulsory Contribution required for Projects is 10%. The Compulsory Contribution should be private funds from the Funding Party and/or Project Partners to take account of the risk and benefits associated with the Project.

4.15. However, taking account of the risk and benefits associated with the Project, it may be appropriate to vary the default level of Compulsory Contribution required by the Funding Party or Project Partners in some cases (ie requiring either more than or less than a 10% Compulsory Contribution). For instance, Ofgem may require a:

- lower level of Compulsory Contribution where the Project may not financially benefit the Funding Party or Project Partners, or may be particularly risky.
- higher level of Compulsory Contribution where Projects have the potential to deliver significant financial benefits for the Funding Party or Project Partners; or

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<sup>15</sup> The bank interest shall be calculated at mid-year using the Bank of England base rate plus 0.5 percentage points on 30 June of the year in which the Application is made.

- higher level of Compulsory Contribution to account for the extent of non-network benefits that the Project has the potential to deliver. For example, if 60% of a Project's benefits are benefits for network consumers, then we may require a 40% Compulsory Contribution from the Funding Party or Project Partners because it is not appropriate for network consumers to pay for 90% of the Project costs.

4.16. We will consider whether to vary the Compulsory Contribution on a case-by-case basis and confirm the minimum Compulsory Contribution required in Innovation Challenge. Based on this, the Funding Party should then confirm the Compulsory Contribution it proposes to make towards its Project within its Application.<sup>16</sup> Ofgem will then confirm the value of the Compulsory Contribution in relation to the Project in the SIF Project Direction.

### **Explanation of other sources of public funding received by a proposed Project**

4.17. To facilitate the assessment of Projects in accordance with the Eligibility Criteria in chapter 2, a Funding Party is required in its Application to provide an outline of what other public funding (apart from SIF Funding) a proposed Project, or aspects or components of a proposed Project, has received that the Funding Party deems relevant to the Project or wishes to highlight as part of its Application. This could include, but is not limited to, previous funding received as part of an NIA or NIC project, and previous UK, Scottish and Welsh Government funding.

4.18. A Funding Party must provide this information to the best of its ability. In instances where previous UK government public funding is being included as part of its Application, it must include details on:

- the amount of funding received, what it was for, and how long it was for;
- the name of the project and a brief description of what it sought to achieve; and
- how the previous project or aspects or components of it are relevant or contribute to the Project being proposed.

### **Policy and regulatory challenges to deployment, derogations and requests for changes in regulation**

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<sup>16</sup> To support its Applications, the Funding Party can propose to contribute more than the minimum required Compulsory Contribution to account for the risk and benefits associated with its Project.

4.19. If the Funding Party considers that there is any possibility that any future Project Phase will require an available derogation or exemption, either as a known requirement or as a contingency, from any Project-related regulatory requirements, then it must state this within its Application ~~for the Discovery Phase (or in the Application for the Alpha Phase if it was unaware of the possible need at the Discovery Phase).~~

Proportionate to the detail required within the Application for the relevant Project Phase, the Funding Party must also provide information regarding the evidence that it would put forward as part of its subsequent formal request to seek an available derogation or exemption from those requirements (should the Project be awarded SIF Funding), as well as details of how and when it would apply for such a derogation. The Funding Party can provide this information as a supporting annex to its Application if necessary.

4.20. The evidence that should be submitted in line with paragraph 4.19 should follow the latest guidance on licence derogation requests, as published on the derogations page of the Ofgem website.<sup>17</sup> It must also indicate whether, if the Method(s) being developed and/or demonstrated is (are) proved successful, similar derogations or exemptions would be required in order to roll-out the Method(s). The Funding Party must indicate where there would need to be changes to industry code arrangements in order to enable the roll-out.

4.21. To support their consideration of identified regulatory challenges associated with their Project and their consideration of what can be done to enable the Project to progress, the Funding Party can engage with Ofgem's Innovation Link before submitting an Application.<sup>18</sup>

## **Consumer impacts**

4.22. A Funding Party must outline in its Application any interaction or engagement with energy consumers or any impact the Project may have on existing or future energy consumers and their premises (e.g. through charging or contractual arrangements or supply interruptions).

## **Interruptions to consumers' supply**

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<sup>17</sup> <https://www.ofgem.gov.uk/ofgem-publications/125007>

<sup>18</sup> Further information about Ofgem's Innovation Link is available here: <https://www.ofgem.gov.uk/about-us/how-we-engage/innovation-link>

4.23. A Funding Party must detail in its Application the expected number and duration of any interruptions to consumers' supply that will be required in order to implement the Project (ie planned interruptions), the reason for these interruptions, and measures it will take to ensure consumers have access to the energy services they require. The Funding Party should also indicate if there is any risk of the Project causing unplanned interruptions, the potential number and duration and the potential cause of these interruptions.

4.24. The Funding Party must set out in its Application the steps it has undertaken to investigate alternative ways to implement the Project, which could reduce or avoid the need for planned or the occurrence of unplanned interruptions. The Funding Party must set out the alternatives it has investigated and provide a summary of why these alternatives were rejected.

### **Evidencing benefits**

4.25. As per paragraph 2.3, Projects should have clearly identified potential to deliver a net benefit to gas or electricity consumers. The types of benefit included in net benefit are not restricted to financial benefits. Benefits may also include non-financial benefits (such as environmental benefits, social benefits, or carbon cost) that can have a financial value assigned to them that is calculated under approved methodologies, such as the RIIO-2 cost benefit analysis model,<sup>19</sup> green book guidance,<sup>20</sup> or the whole system cost benefit analysis model developed by the ENA.<sup>21</sup>

4.26. The Funding Party can evidence benefits to consumers across the range of areas outlined below. In addition to these, evidence of specific benefits might be required in the context of a specific Innovation Challenge, which would be described in the Innovation Challenge Documentation (for instance the measurement of Project related reductions in fuel poverty, or Project-related improvements in capacity for renewable generation). The Funding Party can also demonstrate how new network products or services contribute to the benefits outlined below.

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<sup>19</sup> The RIIO-2 cost benefit analysis can be found here: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-data-templates-and-associated-instructions-and-guidance>

<sup>20</sup> <https://www.gov.uk/government/collections/the-green-book-and-accompanying-guidance-and-documents>

<sup>21</sup> The whole system cost benefit analysis model developed by the ENA will evolve with use – the latest version can be found by searching the resource library on the ENA's website: <https://www.energynetworks.org/>



4.27. Financial cost reductions can be evidenced by future reductions in the cost of operating the network, or cost savings per annum on energy bills for consumers or cost savings per annum for users of network services.

4.28. Carbon reductions (tonnes of CO<sub>2</sub> savings per annum) against a business as usual counterfactual. This includes all direct and indirect emissions. The Funding Party should be able to measure actual savings demonstrated within the Beta Phase delivery. The Funding Party should also be able to provide estimated projections. A monitoring mechanism for ongoing assessment of the carbon reductions during operational delivery should be developed during the Project lifecycle.

4.29. Improved access to revenues for users of network services, or the creation of new revenue streams. This can be demonstrated through:

- cost savings per annum made available to third parties through network services;
- user satisfaction metrics; or
- number of third parties that are eligible to access network services per annum.

4.30. Number of products, processes, and services launched which are new to the market within Great Britain. Products and services can include, but are not limited to:

- energy markets;
- access or connection to physical infrastructure;
- data services; and
- insight and analysis.

## 5. Assessment of Projects

### Section summary

This chapter sets out the Project assessment process.

### Assessment approach

5.1. The assessment of Projects will be undertaken by [the Expert Assessors](#), with support from ~~Innovate UK~~. The Expert Assessors will assess each Application on its compatibility with the Eligibility Criteria in chapter 2 as evidenced by responses to the Application questions discussed in chapter 4, ~~with reference to the end of Project Phase reports and show and tell presentations discussed in chapter 6,~~ and taking into consideration any additional and relevant information available.

5.2. If deemed necessary to support assessment of the strategic alignment of a Project and understand policy issues associated with a Project, the Funding Party may be asked to discuss the Project with [the](#) Expert Assessors, Ofgem, [BEIS/DES/NZ](#), Innovate UK, and other government agencies and bodies, as appropriate, during an interview to aid the assessment of the Application against the Eligibility Criteria. However, Projects will still be assessed against the Eligibility Criteria set out in chapter 2 when Ofgem determines whether Projects are funded. ~~The~~ Expert Assessors may (at their discretion) provide the Funding Party with a list of questions [and/or topics that they require further clarification on in advance of the interview](#) ~~that they intend to ask~~ and ask further questions during the interview. If an interview takes place, the Funding Party will be provided with at least ten Working Days' notice of the date of the interview and provided [a copy of](#)~~with~~ the names of the Expert Assessors conducting the interview.

5.3. Ofgem, ~~its~~[the](#) Expert Assessors and Innovate UK may ~~at~~ at any point during the assessment process ~~raise~~ clarificatory questions about a Project to facilitate its assessment against the Eligibility Criteria outlined in chapter 2. Ofgem, ~~its~~[the](#) Expert Assessors and Innovate UK will ordinarily issue any clarificatory questions together in one batch following their initial assessment of the Project (though ~~it~~[they](#) may ask other clarificatory questions if necessary at any point in the assessment process). If applicable, the Funding Party must submit written responses to any clarificatory questions raised outside an interview to Ofgem and Innovate UK.

5.4. The Funding Party must highlight if any of its responses to either requests for clarification or questions from Ofgem, the Expert Assessors or Innovate UK, as appropriate, impact part(s) of its Application. The Funding Party must confirm in writing the extent to which sections of the Application are impacted.

5.5. Ofgem may appoint consultants to assist the Expert Assessors or the Authority as appropriate. Any materials-/documents produced by the consultants, together with the Application, will be made available to the Expert Assessors, Innovate UK and to the Authority. This will form part of the evidence base that the Expert Assessors will use to arrive at their recommendation and which the Authority will use to make its decision.

## Authority decision to fund Projects

5.6. The Expert Assessors will provide their recommendations in a written report to the Authority. Having taken into account the Expert Assessors' written report, the Authority will decide which Projects should receive SIF Funding.

5.7. The Authority will aim to issue its decision no later than 12 weeks after the Application window for the relevant Project Phase closes, subject to the terms of related SIF Project Directions.

5.8. If a decision is made not to award SIF Funding to a Project, the Authority will provide feedback as to why the Project was unsuccessful. Unless the Authority decides otherwise or the Project has in substance materially changed since it was last submitted as a result of the consideration of feedback, such Projects cannot be resubmitted to the SIF. ~~If the Authority decides that Projects can be resubmitted to the SIF, it will confirm to the Funding Party how and when the Application can be submitted~~If a Project decides to resubmit a previously unsuccessful Project, the Funding Party must contact Innovate UK and Ofgem for approval at least 14 days prior to resubmission.

5.9. In its decision, the Authority may decide to fund all or part of a Project proposed by the Funding Party. It may also make changes to the Project proposed by the Funding Party, including making amendments to the proposed Method and Project Deliverables. Ahead of making a decision to fund part of a Project, or making changes to the Project proposed, Ofgem will engage with the Funding Party to consider the feasibility and impact of such a decision. Ultimately, the Funding Party will be able to consider such

changes as per the engagement on the SIF Project Direction, specified in paragraphs 5.11-5.14.

5.10. In addition to publishing the Authority's decision, Ofgem will publish the Expert Assessors' recommendations alongside its decision.

## **SIF Project Direction**

5.11. Once a SIF Project Direction has been issued, the Funding Party must comply with all of the terms within it (subject to the amendment of the SIF Project Direction as set out in chapter 6, or revocation of the SIF Project Direction as set out in chapter 7). Failure to do so means that Ofgem may treat all or part of the SIF Approved Amount received by the Funding Party as SIF Disallowed Expenditure.

5.12. Shortly after notification of its funding decision to Funding Parties, Ofgem will send a draft SIF Project Direction for each Project that has been approved for SIF Funding to the Funding Party. If the Funding Party cannot accept this draft SIF Project Direction (including any clarification of and amendments to the draft SIF Project Direction agreed in writing by Ofgem) within ten Working Days of receipt of the draft, a SIF Project Direction in respect of the Project will not be issued and the Project will not receive SIF Funding.

5.13. Once a SIF Project Direction has been issued by the Authority, and provided the Funding Party complies with the SIF Governance Document, the Innovation Challenge-specific requirements and with the SIF Project Direction, the Project identified within it is an Eligible SIF Project.

5.14. The SIF Project Direction will:

- Set out the Project-specific conditions, to which the Funding Party is committing in accepting SIF Funding;
- Require the Funding Party to undertake the Project in accordance with the commitments made in the Application. Where appropriate, the SIF Project Direction may therefore include extracts from the Application or refer to specific sections of the Application;

- 5.15. Where applicable, set out conditions (such as Project stage gates) linked to milestones and deliverables, which Projects must meet;
- Set out the Approved Amount for the Project, that will form part of the calculation contained in the SIF Funding Direction issued by the Authority under chapter 7;
  - Set out the Project budget that the Funding Party must report against and how variations in the Project budget will be reported;
  - Where applicable, set out special information sharing requirements applicable to the Project; and
  - Set out the mechanism for the Funding Party receiving the Approved Amount as set out in the SIF Funding Direction.

## 6. Project delivery

### Section summary

This chapter sets out requirements in relation to Project delivery, including Project reporting and requirements to support Project monitoring.

### Project monitoring

6.1. All Projects receiving SIF Funding will be subject to monitoring and review and, for this purpose, will be allocated a monitoring officer who will be employed by Innovate UK.

6.2. During Project delivery, Ofgem, with the assistance of information gathered by the monitoring officer, will monitor Projects. The monitoring officer must review each Project's progress against the scope, timeline, deliverables, milestones, and budget agreed in the SIF Project Direction. Monitoring must support the identification of potential problems, and the assessment of whether Projects have met the conditions attached to progression to the next Project Phase. Monitoring must also support Ofgem's assessment of requests that Ofgem allow Material Changes (discussed later in this chapter).

~~6.3. The Funding Party must meet with the monitoring officer at the start of each Project Phase to discuss the Project plan.~~

~~6.4.6.3. During Project delivery, the Funding Party must provide an update to the monitoring officer on the Project's progress against the Project timeline, milestones, budget, and Project Deliverables. Meetings with the monitoring officer will take place at regular intervals, as advised by Ofgem or the monitoring officer during the delivery of the Project, and at the end of each Project Phase. In the Discovery Phase, as advised by Ofgem or the monitoring officer, the Funding Party will be required to attend an end of phase meeting may be required to attend at least one mid-Project Phase meeting. In the Alpha Phase and the Beta Phase, monitoring will occur on an ad hoc basis, as required by Ofgem. Attendees from Project Partners will also be required to attend monitoring meetings as advised by the monitoring officer.~~

6.4. During the Beta Phase, conditions agreed in the SIF Project Direction (such as stage gates) will determine the timing of the assessment of compliance with those conditions, based on Project Deliverables and milestones.

6.5. The following meetings are mandatory for each Phase

• **Discovery –**

- End of Phase meeting, which must be completed within 1 month of the Project ending

• **Alpha –**

- Kick-off meeting, which must be completed within 1 month of the Project starting.
- Mid-point review, which must be completed by the mid-point of the Project
- End of Phase meeting, which must be completed within 1 month of the Project ending

• **Beta –**

- Kick-off meeting, which must be completed within 1 month of the Project starting.
- Quarterly review, which must occur every 3 months
- End of Phase meeting, which must be completed within 1 month of the Project ending
- Ofgem Stage Gate, which are specific to each Project and will be agreed between the Project, Ofgem and Innovate UK

**Ofgem Stage Gates**

6.6. During the Beta Phase, Projects will be subject to one or more Ofgem Stage Gates at key decision points to suitably de-risk the Project. Ofgem Stage Gates are an opportunity for Ofgem and Innovate UK alongside monitoring to assess the performance of the project and ensure that the strategic basis for undertaking the Project remains.

6.7. Opportunities for Ofgem Stage Gates may be identified and included in Project Plan by the applicant. In assessment, the Expert Assessors and/or Ofgem may note

additional/ alternative points on the Project Plan as opportunities for an Ofgem Stage Gate and include the insertion of such as a special condition. If included as a special condition, this will be set out in the Project Direction.

6.8. Additional guidance will be provided by Innovate UK on the Ofgem Stage Gate process including criteria setting, evidence and assessment.

## Project reporting

~~6.5-6.9.~~ The following section sets out standard reporting requirements. Innovation Challenge-specific reporting requirements may be set out in the Innovation Challenge Documentation and in the SIF Project Direction. As per chapter 3 of the SIF Governance Document, all reporting must be published on the ENA Smarter Networks Portal or another portal.

~~6.6-6.10.~~ Additionally, Funding Parties must collaborate with Innovate UK, as appropriate and as part of the monitoring meetings, to draw out relevant insights from Projects in order to support knowledge consolidation and dissemination from the SIF to the wider energy system.

### In-Project Phase reporting

~~6.7.—At the beginning of Discovery Phase delivery, the Funding Party may be required to give a public launch webinar on the scope and aims of its Project. It will be open to all interested stakeholders, recorded and published online. The Innovation Challenge Documentation will confirm whether a public launch webinar is required.~~

~~6.8-6.11.~~ Around halfway through Alpha Phase delivery, the Funding Party must publish a progress report on its Project. This must outline the progress made by the Project to date, the main findings and learning, and the future direction/scope of the Project. Reporting in the Discovery and Alpha Phases must ~~also~~ support monitoring to ensure that the Project is being delivered efficiently and in line with milestones specified in the SIF Project Direction. Ofgem and Innovate UK may issue further guidance and templates in relation to in-Project Phase reporting.



~~6.9.6.12.~~ During Beta Phase delivery, the Funding Party must publish an annual progress report on its Project. This must outline the progress made by the Project to date, the main findings and learning, and the future direction/scope of the Project. Reporting in the Beta Phase must also support monitoring to ensure that the Project is being delivered efficiently and in line with milestones specified in the SIF Project Direction. Ofgem and Innovate UK may issue further guidance and templates in relation to in-Project Phase reporting.

~~6.10.6.13.~~ Additionally, as set out in chapter 8, where a Funding Party does not keep SIF Funding in a bank account or accounts dedicated to SIF Funding, the Funding Party must provide alongside its annual progress report an audited schedule of all the memorandum account transactions.

### End of phase reporting

~~6.14.~~ End of Project Phase reporting is designed to facilitate learning and knowledge dissemination. ~~It will also inform Ofgem's decisions about whether a Project satisfies the Eligibility Criteria and whether a Project can move onto the Alpha Phase or the Beta Phase.~~

~~6.11.6.15.~~ At the end of each Project Phase, the Funding Party must present findings (including whether research, development and demonstrations activities were successful or not) at a public show and tell webinar. The Funding Party must arrange this in line with the availability of Ofgem and Innovate UK. This webinar will provide the Funding Party with an opportunity to take questions from interested stakeholders. Webinars may be recorded and saved on a sharing platform. At the show and tell webinars, interested stakeholders and the Expert Assessors must be given appropriate opportunity to ask questions.

~~6.12.~~ ~~The timing of the show and tell webinars following the Discovery Phase and the Alpha Phase should, if possible, coincide with the early stage of assessment of a Project against the Eligibility Criteria, in instances where Projects have submitted an Application to progress to the next Project Phase.~~

~~6.13.6.16.~~ If the Funding Party is not planning on submitting an Application to the next Project Phase, the Funding Party must submit an end of Project Phase report to Ofgem and Innovate UK ~~for each Project Phase. If the Funding Party plans on submitting an Application for the Project to the next Project Phase, an end of Project~~

~~Phase report is not required.~~ All Projects upon completion of the Beta Phase must submit an end of Project Phase report. Where an end of Project Phase report is required, the Funding Party must submit information related to questions on Project delivery as detailed below. The Funding Party must submit an end of Project Phase report within 12 months of the completion of the Phase, unless a successful application to the next phase is made within the 12 months.

~~6.14-6.17.~~ Additionally, as detailed in chapter 8, Funding Parties which are not keeping SIF Funding in a dedicated SIF Funding bank account or accounts, must also provide to Ofgem alongside its end of Project Phase report an audited schedule of all the memorandum account transactions.

### Discovery Phase

~~6.15-6.18.~~ Following the Discovery Phase, and if the Funding Party is not planning on submitting an Application to the Alpha Phase, the Funding Party must provide information in six categories as part of its end of Project Phase report (see table 4). The types of question that will be asked under each category are indicated in table 4. Word limits for each question and attachment file size limits for supporting annexes, where requested, will be set out in guidance provided, out separately by each Project's monitoring officer.

Table 4: Discovery Phase end of phase reporting requirements

Topic	Information requirements	Supporting information
Phase summary	Information will focus principally on the extent to which the Discovery Phase activity delivered against the Innovation Challenge and the benefits delivered during the Discovery Phase. The Funding Party must provide information on how the perception of the Problem evolved, and a description of the innovative aspects of the work including new findings or techniques.	
User needs	Information will focus principally on how the Project has addressed the User Needs / issues outlined in the Innovation Challenge	

	and how understanding of User Needs has been improved as a result of the Project. The Funding Party must describe what has been learned over the course of the Project, including any changes in the Project and why the changes were necessary.	
Impacts and benefits	Information will focus on impacts and benefits of Projects and any changes since the Application was submitted.	
Risks, issues & constraints	Information will focus principally on the constraints (including, but not limited to, technical, commercial and regulatory constraints) encountered that may hinder the progression of the Project to the Alpha Phase or Beta Phase. The Funding Party must consider how constraints can be addressed, including what is required to remove regulatory or policy barriers.	
Working in the open	Information will focus on how the Funding Party and Project Partners have worked with stakeholders to promote, challenge and refine the Project.	
Cost and value for money	Information will focus principally on how actual spending compared against the planned spending outlined in the Discovery Phase Application. The Funding Party must provide reasons for differences between the planned and actual spend.	An appendix with a completed Project finance spreadsheet and any templates on UKRI's secure online portal.

## Alpha Phase

[6.16-6.19.](#) Following the Alpha Phase, and if the Funding Party is not planning on submitting an Application to the Beta Phase, the Funding Party must provide information in seven categories as part of its end of Project Phase report ([see table 5](#)). The types of question that will be asked under each category are indicated in table 5. Any word limit for each question and attachment file size limits for supporting annexes, where requested, will be set out [in guidance provided](#).

Table 5: Alpha Phase end of phase reporting requirements

<b>Topic</b>	<b>Information requirements</b>	<b>Supporting information</b>
Phase summary	<p>Information will focus principally on the extent to which the Alpha Phase activities have delivered against the Innovation Challenge and the benefits delivered during the Discovery Phase.</p> <p>The Funding Party must provide information about how the perception of the Problem evolved, and a description of the innovative aspects of the Project, including new findings or techniques.</p>	
User needs	<p>Information will focus principally on how the Project has addressed the User Needs / issues outlined in the Innovation Challenge and how understanding of User Needs has been improved as a result of the Project. The Funding Party must describe how learning has developed over the course of the Project, including any changes in the Project and why the changes were necessary. Assessment of how the Project has addressed User Needs will also take account of the results from the Discovery Phase.</p>	
Impacts and benefits	<p>Information will focus on net benefits to consumers and any changes in proposed impacts since the Application was submitted.</p>	
Risks, issues & constraints	<p>Information will focus principally on the constraints (including, but not limited to, technical, commercial, regulatory) encountered during the Alpha Phase that may hinder progress into the Beta Phase. The Funding Party must consider how constraints can be addressed, including what</p>	

	is required to remove regulatory or policy barriers.	
Working in the open	Information will focus on how the Funding Party and Project Partners have worked with stakeholders to promote, challenge and refine the Project.	
Cost and value for money	Information will focus principally on how actual spending compares against planned spending. The Funding Party must provide reasons for differences between planned and actual spend	An appendix with a completed finance spreadsheet and any templates on UKRI's secure online portal.
Knowledge creation and dissemination	Information will focus principally on knowledge creation and dissemination undertaken during the Alpha Phase. The Funding Party must show how it has worked transparently and collaboratively during the Alpha Phase. This section will include information on what has been learned from applying the Method during the Project, and the approaches taken to sharing knowledge with other stakeholders.	Public show and tell webinar and PowerPoint summary report of lessons learned

## Beta Phase

[6.17-6.20.](#) Following the Beta Phase, the Funding Party must provide information in eight categories ([see table 6](#)). The types of question that will be asked under each category are indicated in table 6. Any word limit for each question and attachment file size limits for supporting annexes, where requested, will be set out [in guidance provided](#).

Table 6: Beta Phase end of phase reporting requirements

Topic	Information requirements	Supporting information
Phase summary	Information will focus principally on the extent to which the Beta Phase activities have delivered against the Innovation	An appendix containing short summary of the

	Challenge and the benefits delivered during previous Project Phases. The Funding Party must provide information on how the perception of the problem evolved, and a description of the innovative aspects of the work including new findings or techniques.	most significant outcomes
Impacts and benefits	Information will focus on net benefits to consumers and any changes in proposed impacts since the Application was submitted.	
User needs	Information will focus principally on how the Project has addressed the User Needs / issues outlined in the Innovation Challenge and how understanding of User Needs has been improved as a result of the Project. The Funding Party must describe how learning developed over the course of the Project, including any changes in the Project and why the changes were necessary. Assessment of how the Project addressed User Needs <u>will</u> also take account of the results of the Discovery Phase and the Alpha Phase, <u>unless the Project has not completed a Discovery and/or Alpha Phase.</u>	
Risks, issues & constraints	Information will focus principally on the constraints (including, but not limited to, technical, commercial, regulatory) encountered during the Beta Phase that may hinder progress to rollout. The Funding Party must consider how the constraints can be addressed, with a specific focus on any identified and real regulatory barriers that may need to be addressed. Where a barrier exists the Funding Party must identify what they have done to facilitate its removal.	An appendix outlining licence, code etc. changes that will support business as usual / commercialisation
Working in the open	Information will focus on how the Funding Party and Project Partners have worked with	

	stakeholders to promote, challenge and refine the Project.	
Costs and value for money	Information will focus principally on how actual spending compared against the planned spending. The Funding Party must provide reasons for differences between planned and actual spend.	An appendix with a completed Project finance spreadsheet and any templates on UKRI's secure online portal. Breakdown of spending against the Project plan
Knowledge creation and dissemination	Information will focus principally on the knowledge creation and dissemination undertaken during the Beta Phase. The Funding Party must show how it has worked transparently, collaboratively and constructively with stakeholders during the Beta Phase. This section will include information on what has been learned from the Method applied during the Project, and the approaches taken to sharing knowledge with other stakeholders.	Public show and tell webinar and PowerPoint summary report of lessons learned.
Route to market / business as usual	This will focus on the plans for commercialisation and moving the innovation into business as usual. The Funding Party will be asked to show how (if at all) the work undertaken during the Beta Phase differed from the approach set out in the Application for the Beta Phase. This will include any changes / updates to the plans to enable procurement and utilisation of the innovation across Great Britain and internationally and how the innovation can move into business as usual within the Funding Party's networks and across other networks.	An appendix containing a road-map to show post-Beta Phase development.

## Project changes

~~6.18-6.21.~~ The Funding Party must keep its monitoring officer updated on risks and whether any Project changes are necessary.

### **Ofgem approval of Material Changes**

~~6.19-6.22.~~ Changes to the SIF Project Direction only need to be made by Ofgem where there has been a Material Change in circumstances. A Material Change includes (but is not limited to) the following:

- A change which, alone or together with other changes, delays the due date of Project Deliverables or Project end date outside of the end date stipulated on the Project Direction by more than one year;
- Any change to the scope of a Project Deliverable;
- A change to any Project learning which the Funding Party is expected to deliver in compliance with the SIF Project Direction; or
- A change to the Project Partner(s) set out in the SIF Project Direction (because an additional or replacement Project Partner is sought by the Funding Party).

~~6.20-6.23.~~ A Material Change does not include the following non-exhaustive list of examples:

- A change in the allocation of SIF Funding to the cost categories set out in the SIF Project Direction, provided that the change does not increase the overall Project budget (unless any increase is met by additional contributions from the Funding Party or its Project Partners); and
- An overspend in the Project budget set out in the SIF Project Direction, provided that the overspend is met by additional contributions from the Funding Party or its Project Partners.

~~6.21-6.24.~~ If a Funding Party considers that there has been a Material Change in circumstances, it must submit (via its assigned monitoring officer) a written request to Ofgem to change the SIF Project Direction. This request should provide sufficient detail to allow Ofgem to decide whether the change would be appropriate in the circumstances, including whether it would be in the best interests of consumers.

~~6.22-6.25.~~ Ofgem will consider requests to change SIF Project Directions on a case by case basis and engage with monitoring officers to support its decision in relation to



such requests; however Ofgem must be satisfied that the changes continue to ensure that the Project satisfies the Eligibility Criteria specified in chapter 2.

~~6.23-6.26.~~ Once Ofgem has enough information to make its decision on changes to SIF Project Directions, it will provide its response in writing to the Funding Party, including any revisions that it has decided to make to the SIF Project Direction. Ofgem will also publish its decision on its website.

### **Managing non-Material Changes**

~~6.24-6.27.~~ Any change to the Project which is not a Material Change may be made by the Funding Party without a change to the SIF Project Direction. However, the monitoring officer should be notified of such non-Material Changes.

~~6.25-6.28.~~ If there are non-Material Changes during the Discovery Phase or Alpha Phase that delay the Project and which could mean that the Project cannot be successfully completed within the timeframe specified in the SIF Project Direction and, as a result, the Funding Party may miss the Application window for the subsequent Project Phase, the Funding Party must engage with its monitoring officer and discuss how to manage the delay to the Project. The Funding Party may decide that the Project could, for example:

- continue as is, but that the ~~Application for the Alpha Phase or Beta Phase be submitted as part of a later SIF funding round~~ Funding Party may pause their Application for Alpha or Beta Phase until a future Cycle with an appropriate Innovation Challenge, under which the Project can apply in to.
- continue, subject to the submission of a Material Change request to Ofgem (for example a request to change the scope of a Project Deliverable to enable the Project to proceed).
- be closed down in line with the original intended timeframe, with the end-of-Project Phase reporting taking account of the difficulties encountered.
- where the management of delays after engagement with the monitoring officer mean that the Application window is not missed, the Application for the subsequent Project Phase could still be submitted, take account of difficulties encountered during the previous Project Phase and include necessary mitigations for the future management of such difficulties.

## 7. Funding arrangements

### Section summary

This chapter sets out the funding arrangements for SIF, including the information that will be published in the SIF Funding Direction and the process for issuing the SIF Funding Direction each year.

### SIF Funding Mechanism

7.1. The SIF Funding Mechanism is established by the SIF Licence Condition. In each Regulatory Year, the Authority will calculate and, by direction, specify the net amount of SIF Funding (less any SIF Funding Return) that is to be paid to Funding Parties and Innovate UK by ~~the Electricity System Operator~~ [NESO](#) or NTS Owner, and the manner in which and the times at which ~~the Electricity System Operator~~ [NESO](#) or NTS Owner is required to transfer those funds..

### Recovering administration costs

7.2. SIF Funding will cover both the costs of funding Projects, which successfully apply for SIF Funding, and Innovate UK's costs of administering the SIF.

7.3. Innovate UK will provide Ofgem with details and justification of its costs of administering the SIF.

7.4. Provided that Ofgem is satisfied with Innovate UK's costs of administering the SIF, Ofgem will direct their recovery via the SIF Funding Direction. Innovate UK's costs will be apportioned between gas and electricity network charges, according to the relative split of gas and electricity Projects. For example, if £60m of SIF Funding is awarded to gas Projects and £40m to electricity Projects, then gas network charges will pay for 60% of Innovate UK's costs and electricity network charges will pay 40% of Innovate UK's costs.

### SIF Funding Direction

7.5. Ahead of each Regulatory Year, the NTS Owner and ~~Electricity System Operator~~ [NESO](#) will forecast costs for the purposes of SIF Funding after engagement with Ofgem and Innovate UK.

7.6. Ofgem will issue at least one SIF Funding Direction in each Regulatory Year. Each SIF Funding Direction will:

- Set out the total amount that can be recovered from or returned to GB consumers to cover both the costs of funding Projects, which successfully apply for SIF Funding and Innovate UK's costs of administering the SIF in each round;
- Identify the net amounts that must be transferred between the NTS Owner, ~~the Electricity System Operator~~ NESO, Innovate UK and Funding Parties. This may include interest that Ofgem decides should be paid to Funding Parties that is attributable to delay in receiving funding for Projects that have already started; and
- Set out the manner in which, and the timescale over which, the net amounts will be transferred, including whether SIF Funding is to be distributed by the NTS Owner and ~~Electricity System Operator~~ NESO in one lump sum payment on a specified date or distributed as multiple payments over the course of the ~~Regulatory Year~~ Project.

~~7.7. Each SIF Funding Direction will include any SIF Funding, less any SIF Funding Return. All Projects which have underspent SIF Funding, during the Financial Year, will be directed on how to return the underspent SIF Funding in the SIF Funding Direction. SIF Funding includes any SIF Approved Amounts.~~

7.8. The SIF Funding Directions will set out:

- i. The SIF Approved Amounts for each licensee and Innovate UK that have not already been funded through previous SIF Funding Directions;
- ii. SIF Halted Project Revenues, SIF Disallowed Expenditure and SIF Returned Project Revenues for each licensee that have not already been recovered through previous SIF Funding Directions;
- iii. SIF Returned Royalty Income to be returned to consumers from each licensee, as calculated in accordance with chapter 9;
- iv. The calculation determining the SIF Approved Amounts; the SIF Halted Project Revenues; SIF Disallowed Expenditure; SIF Returned Project Revenues; and SIF Returned Royalty Income for each licensee and UKRI as appropriate; and
- v. The amounts to be recovered by the NTS Owner and ~~Electricity System Operator~~ NESO from NTS Charges and Transmission Network Use of System Charges; and the amounts to be transferred to the NTS Owner and ~~Electricity System~~

~~Operator~~NESO from all licensees and URKI, including as appropriate the SIF Halted Project Revenues, SIF Disallowed Expenditure, and SIF Returned Project Revenues and SIF Returned Royalty Income.

7.9. The transfer of SIF Funding will be made on the day of the month agreed by the NTS Owner and ~~Electricity System Operator~~NESO, Funding Parties and Innovate UK, as appropriate.

7.10. The recipient of SIF Funding under the terms of the SIF Funding Direction is responsible for notifying the NTS Owner or ~~the Electricity System Operator~~NESO of the bank account details to which the transfer of SIF Funding must be made. If the Funding Party or Innovate UK is required to return SIF Funding to the NTS Owner or ~~the Electricity System Operator~~NESO, the reverse applies.

7.11. At the end of each Regulatory Year, costs forecast by the NTS Owner and ~~the Electricity System Operator~~NESO in accordance with paragraph 7.5 will be reconciled with the actual costs of Projects and such costs of administration of the SIF by Innovate UK as are approved by Ofgem in accordance with paragraph 7.4.

### **Funding whole system innovation**

7.12. Constraints on the distribution of funding by the NTS Owner or ~~the Electricity System Operator~~NESO mean that Projects led by a gas network company can only be paid for by gas consumers, and Projects led by an electricity network company or ~~the Electricity System Operator~~NESO can only be paid for by electricity consumers.

7.13. This does not prevent whole system Projects from receiving SIF Funding because a Project can deliver whole system benefits beyond the paying sector, provided that the Project delivers a net benefit to consumers in the paying sector in accordance with paragraph 2.3. Alternatively, whole system Projects can be broken up into two Projects to be delivered separately by gas network and electricity network companies, and each of those separate Projects could be paid for by consumers in gas or electricity sector, respectively

## **Altering Project funding**

### **SIF Disallowed Expenditure and SIF Halted Project Revenues**

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7.14. SIF Disallowed Expenditure includes the expenditure of monies that must be returned if the Project is halted without Ofgem's permission, that have not been spent in line with the approved Project budget contained within the SIF Project Direction, that are unspent in relation to completed Projects, or that represent SIF Directly Attributable Costs that the Authority decides have been misreported following a Project audit.

7.15. SIF Disallowed Expenditure also includes expenditure of the proportion of SIF Funding associated with a Project Deliverable (as proposed by the Funding Party), in relation to which Ofgem decides that the Funding Party is at fault for the non-delivery of that Project Deliverable. Where a Project Deliverable is not delivered at the end of the relevant Project Phase, Ofgem will consider whether SIF Funding should be returned to consumers using the SIF Funding Return Mechanism. After considering the issue, if the Authority determines that the Funding Party is at fault for the non-delivery of the Project Deliverable, Ofgem may decide that the Funding Party must return the SIF Funding associated with the Project Deliverable in question or a proportion of it. It is the proportion of funding assigned to a Project Deliverable (or part thereof) in the SIF Project Direction that Ofgem may decide should be returned. It is not necessarily the specific amount allocated to each Project Deliverable in the Project budget set out in the SIF Project Direction, because that may be amended.

7.16. If Ofgem considers that any funds are SIF Disallowed Expenditure or SIF Halted Project Revenues it will notify the Funding Party which will have 20 Working Days to make related representations.

7.17. Ofgem will consider any representations from the Funding Party before making its decision on SIF Disallowed Expenditure and SIF Halted Project Revenues. Any SIF Disallowed Expenditure and/or SIF Halted Project Revenues must be returned through the SIF Funding Direction following upon the Authority's decision.

### **SIF Returned Project Revenues**

7.18. SIF Returned Project Revenues may be returned to consumers (or retained by the Funding Party) through the SIF Funding Direction in accordance with the following provisions.

### **Return of revenues generated by the Project**

7.19. Paragraphs 7.20 to 7.21 apply to revenues generated by the Project that are specifically identified in the SIF Project Direction (other than SIF Returned Royalty Income).

#### *Notification of revenues*

7.20. Any revenues earned, such as revenues generated by hosting external events or training regarding the Project, subject to return under the SIF Funding Return Mechanism must be identified in the SIF Project Direction.

7.21. It is for the Funding Party in its Application to identify any revenues that could be earned from its Project that may be subject to the SIF Funding Return Mechanism. After considering the issue, if the Authority disagrees with the Funding Party's calculation of such revenues, it may recalculate what, if any, revenues should be returned and specify the value it determines in the SIF Project Direction.

#### *Time limit for revenues to be returned*

7.22. The default position is that there is no limitation on the period of time over which consumers could receive funds generated by a Project. This is consistent with the approach taken for SIF Returned Royalty Income.

7.23. Should the Funding Party consider that it is necessary to have alternative arrangements (eg a timescale that aligns with the Project end date), it may identify and justify a deviation from the default, which may be reflected in the SIF Project Direction

### **Return of underspent SIF Funding**

7.24. This paragraph applies to SIF Funding unspent after a Project has complied with the SIF Funding Direction. Any unspent SIF Funding should be clearly identified as part of the end of Project Phase report and returned to consumers through the next available SIF Funding Direction. [Any SIF Funding return will be calculated annually at the end of each regulatory period.](#)

### **Recipients of any SIF Returned Project Revenues**

7.25. Paragraphs 7.26 and 7.27 apply to all of the revenues described in paragraphs 7.20 and 7.21.

7.26. Ofgem can direct SIF Returned Project Revenues to be returned to consumers, or retained by the Funding Party. Unless specified in the SIF Project Direction, the default position is for SIF Returned Project Revenues to be returned to consumers.

7.27. The Authority may consider it appropriate for a proportion of any revenues subject to the SIF Funding Return Mechanism to be retained by the Funding Party (which may subsequently redistribute them amongst persons involved in the Eligible SIF Project as appropriate). Should the Funding Party consider that it is necessary to have alternative arrangements, it may justify a deviation from the default position stated in paragraph 7.26 (clearly stating why the proposed alternative is in the consumer interest). That alternative may be reflected in the SIF Project Direction. For example, it could be possible to return some money to the Funding Party, where it has made additional financial contributions to the Project (over and above the Compulsory Contribution), which has meant that the Project can take place with a lower amount of SIF Funding.

## Halting a Project

7.28. A Funding Party, through its assigned monitoring officer, may seek Ofgem's permission to halt a Project, for example because it has become clear that the Method is not viable or that there are other reasons why the Project is not efficient, or that it is otherwise impossible to continue with the Project. The Funding Party may suspend the Project from the time that it submits its request to halt a Project, pending a decision from Ofgem on that request. Ofgem may also call for a Funding Party to halt or pause a Project. From the time that either a Funding Party seeks permission to halt a Project, or Ofgem has called for a Project to be halted or paused, the Funding Party must not make any further withdrawals from the Project Bank Account unless:

- The funds have already been committed to the Project by the Funding Party; or
- The Funding Party can demonstrate to Ofgem that the funds are required to be spent as part of the suspension of the Project.

7.29. As part of the process to evaluate whether a Project should be halted or paused, either at the request of Ofgem or at the request of the Funding Party, the Funding Party will need to provide Ofgem with sufficient information to evaluate whether halting the Project would be appropriate in the circumstances, including whether it would be in the best interests of consumers, and to identify any costs it will incur and the actions

required in halting the Project. Where a Project is halted because conditions agreed in the SIF Project Direction have not been met, the Funding Party is required to submit to Ofgem a report on lessons learned.

7.30. If Ofgem is satisfied that it is appropriate in the circumstances, including that it would be in the best interests of consumers to halt the Project, then Ofgem will confirm in writing that it requires the Project to be halted. SIF Halted Project Revenues will be returned by means of a SIF Funding Direction subsequent to Ofgem's decision.

7.31. A Project that is halted must comply with the other requirements of this SIF Governance Document, including the requirement to provide an end of Project Phase report.

7.32. If a Project is halted without permission from Ofgem, all SIF Approved Amounts that the Funding Party has received for that Project are SIF Disallowed Expenditure.



## 8. Project administration

### Section summary

The chapter sets out the requirements for administration of Projects that are awarded SIF Funding.

### Compliance

8.1. The Funding Party must ensure that the Project is undertaken in accordance with the SIF Licence Condition, the SIF Governance Document and the relevant SIF Project Direction, and that Project reporting complies with the Regulatory Instructions and Guidance. This includes ensuring compliance with the SIF Governance Document and the relevant SIF Project Direction by its Project Partners.

### Project audits

8.2. All Projects may be subject to an audit at any time. This will include requiring the Funding Party to demonstrate that the Project is compliant with the SIF Licence Condition, the Regulatory Instructions and Guidance, this SIF Governance Document and the relevant SIF Project Direction. This audit may be undertaken by Ofgem, or by a third party appointed by Ofgem, in which case the costs incurred must be borne by the Project consortium.

### Project Bank Account

8.3. A Funding Party that is awarded SIF Funding must keep SIF Funding in either:

- i. a dedicated bank account in which SIF Funding for multiple SIF Projects are pooled (subject to the requirements in paragraph 8.4);
- ii. individual dedicated bank accounts for each Project; or
- iii. in a bank account that meets the criteria set out in paragraphs 8.5 to 8.9 below.

8.4. If a Funding Party receives SIF Funding for multiple Projects, the SIF Funding for the multiple Projects can be pooled into one consolidated Project Bank Account dedicated to SIF Funding, provided that the Funding Party can demonstrate tracking of

funds at a Project-specific level. Should SIF Funding for multiple Projects be held in one consolidated bank account, this bank account must be used exclusively for SIF Funding.

**Arrangements where the Funding Party does not keep the SIF Funding in a separate bank account**

8.5. Where the Funding Party does not keep SIF Funding in a dedicated bank account or bank accounts, it must provide a financial tracking and reporting system which is functionally equivalent to a dedicated bank account for SIF Funding . This means the Funding Party must hold in a memorandum account any SIF Approved Amounts, the Compulsory Contribution and all other funding contributed by itself, Project Partners and External Funders that the Funding Party has identified within its Application as funding for the Project. The memorandum account must be capable of providing all the information that would be available from a separate bank account

8.6. The memorandum account must:

- i. Show all transactions relating to (and only to) the Project;
- ii. Be capable of supplying a real time statement (of transactions and current balance) at any time;
- iii. Accrue expenditures when a payment is authorised (and subsequently reconciled with the actual bank account);
- iv. Accrue payments from the moment the receipt is advised to the bank (and then subsequently reconciled with the actual bank account);
- v. Calculate a daily total; and
- vi. Calculate interest on the daily total according to the rules applicable to the account within which the SIF Funding is actually held.

8.7. Where a Funding Party does not keep SIF Funding in bank account or accounts dedicated to SIF Funding, as set out in paragraphs 8.3 to 8.5, the Funding Party's auditors must review the systems and processes that the Funding Party is proposing to use to comply with the requirements set out in this section, before the Project is initiated and any SIF Funding is spent.

8.8. Where a Funding Party does not keep SIF Funding in bank account or accounts dedicated to SIF Funding, the Funding Party's auditors must provide an annual report to confirm that the Funding Party is complying with the requirements set out in this section.

8.9. Where a Funding Party does not keep SIF Funding in a bank account or accounts dedicate to SIF Funding, the Funding Party must provide to Ofgem an audited schedule of all the memorandum account transactions, including interest (calculated according to paragraph 8.6 (vi) above), together with its end-of-phase reporting and Beta Phase in-Project Phase reporting (as detailed in chapter 6).

### **Arrangements for keeping SIF Funding within a Project Bank Account**

8.10. The Project Bank Account must be used for the sole purpose of holding any SIF Approved Amounts, the Compulsory Contribution and all other funding contributed by the Funding Party, Project Partners and External Funders that the Funding Party has identified within its Application as being used to fund the Project. This does not include funding for initiatives which are being implemented independently of the Project and which would have proceeded regardless of whether or not the Project is awarded SIF Funding.

8.11. A Funding Party can only access SIF Funding from the Project Bank Account if it meets the requirements for use of SIF Funding set out in the SIF Licence Condition, the SIF Governance Document and the SIF Project Direction.

### **Project Log details**

8.12. Each Funding Party must maintain a Project Log which includes (but is not limited to):

- i. a record of what potential projects it has considered submitting to the SIF,
- ii. a summary of the problem the proposed Project would attempt to solve, and
- iii. the reasoning for why the potential Project was or was not the subject of an Application.

8.13. Ofgem and Innovate UK may request a copy of the Project Log from time to time to inform the SIF challenge setting process and review of the SIF.

### **Communications**

8.14. Projects funded by the SIF are part of a major collaborative drive to transform Great Britain's energy networks through innovation, helping to deliver Net Zero whilst

delivering net benefits to energy consumers. It is important that this purpose, and the role of Ofgem and Innovate UK, are understood by all relevant audiences and stakeholders. Therefore Projects must follow any guidance on SIF communications, consistent with this SIF Governance Document, approved by Ofgem and issued by Innovate UK. Projects must share this guidance with Project Partners, so that awareness and understanding of the programme is effectively and consistently built and maintained.

## **Additional requirements to protect consumers**

8.15. The Funding Party (and/or its contractors) and its Project Partners must:

- Not visit a premises of any domestic or micro-business consumer for sales or marketing activities in connection with, in the context of, or otherwise under the guise of the Project; and
- Have regard to the implementation of the smart meter roll-out in the geographical area relevant to the Project to ensure that the Project does not impede the implementation of the roll-out in any way.

## 9. Intellectual Property Rights and royalties

### Section summary

This chapter sets out default arrangements for Intellectual Property Rights (IPRs) within Projects. Although a default position is set out here, we are willing to consider an alternative arrangement for IPR (see paragraph 9.2). It also sets out how we treat royalties and how they are calculated. Please note the royalties section of this chapter applies only to network licensees.

### Intellectual Property Rights

9.1. We recognise that the Projects financed by the SIF may create IPR either for the Funding Party or for any Project Partners (whether for one, both or jointly), and that these rights could restrict the dissemination of knowledge and also provide a valuable income stream from royalties earned.

9.2. We have created a default treatment for IPR where the Funding Party or any Project Partners deem any work product or output of the Project to be IPR. We expect that in the majority of cases they will comply with the default IPR conditions. However, we recognise that in some circumstances potential Project Partners may not be prepared to enter into agreements on this basis. We are therefore willing to consider alternative arrangements on a case by case basis. The information required to justify these alternative arrangements should be set out in the Application.

9.3. Knowledge transfer is one of the key aims of the SIF (see chapter 3). The benefits of a Project are maximised by the ability of other licensees to be able to learn from the Project so as to create improved outcomes or reduce costs for consumers. Not all IPR generated by a Project will necessarily be pertinent to this knowledge transfer, or required to support the wider rollout of the Project into 'business as usual'.

### Scope

9.4. The default IPR conditions apply to IPR which is material to the dissemination of knowledge gained from the learning in respect of a Project. This knowledge may be the information, understanding or skills necessary to reproduce or simulate the outcome of a Project. It may also be the knowledge necessary to avoid a negative outcome. Where the deployment of IPR materially reduces the cost, difficulty or time associated with

reproducing the outcome of a Project, this would also constitute IPR which is material to the dissemination of knowledge.

9.5. It will be the Funding Party's responsibility to describe all work products generated during the course of a Project that are material to the dissemination of knowledge and relevant to a Project, and to identify where such work products constitute IPR and how this will be shared so as to create improved outcomes for consumers.

### **Ownership and transfer of ownership of IPR**

9.6. Each Project Participant in the Project shall retain all rights in and to its Background IPR.

9.7. Each Project Participant shall own all Foreground IPR that it independently creates as part of the Project, or where IPR is created jointly then it shall be owned in shares that are in proportion to the work done in its creation.

9.8. Where any Project Participant transfers any of its rights, title or interest in or to any Foreground IPR to any other person, for example if the Project Participant is taken over by another legal entity, it shall only do so where the assignee/transferee agrees to comply with these default IPR conditions or any alternative arrangements set out in an Application and approved by Ofgem.

9.9. A Funding Party can only transfer any of its rights, title or interest in or to any Foreground IPR to any other person, subject to:

- Having regard to the true commercial value of the IPR; and
- The assignee/transferee agreeing to comply with these default IPR conditions or any alternative arrangements for IPR set out in an Application and approved by Ofgem.

### **Licensing of Background IPR**

9.10. Where access to a Project Participant's Background IPR is required to undertake the Project, the Project Participant shall grant a non-exclusive license to this Background IPR (Relevant Background IPR), to the other Project Participants, solely for the purposes of the Project during the term of the Project.

9.11. Once the Project is completed, Relevant Background IPR will be licensed for use by the Project Participants in connection with another Project Participant's Foreground IPR solely to the extent necessary to use that Foreground IPR, upon terms to be agreed.

### **Licensing of Foreground IPR**

9.12. Foreground IPR which is produced by a Project could comprise IPR which describes the application of a Method to a network and the benefits that can accrue. It could also include the IPR that describes how a product (for example a piece of equipment and or software), that is used to implement a Method achieves its functionality. Foreground IPR can be informal (eg know how) or formal (eg registered).

9.13. Relevant Foreground IPR is Foreground IPR that other licensees will need to utilise in order to implement the Method(s) being developed or demonstrated in a Project. This must be identified in the Project reporting in sufficient detail to enable others to identify whether they wish to use that IPR. It is not expected that the confidential details of IPR would be disclosed in the Project reporting - only sufficient information to enable others to identify whether the IPR is of use to them. Where Background IPR is required to use the Relevant Foreground IPR, this must also be clearly stated.

9.14. Foreground IPR within Commercial Products is not deemed Relevant Foreground IPR. However, these Commercial Products must be made available to other licensees to purchase in line with the approach the Funding Party outlines in its Application.

9.15. Licensing of the Foreground IPR shall be agreed between the Funding Party and Project Partners consistent with the principles of this chapter.

9.16. All Project Partners which are academic institutions will have the freedom in accordance with normal academic practice (notwithstanding the requirements of this document) to:

- Discuss work undertaken as part of the Project in seminars;
- Give instructions on questions related to such work; and
- Publish results obtained during the course of the work undertaken as part of the Project.

9.17. All other licensees will have the right to use Relevant Foreground IPR within their network royalty-free.

9.18. Where the Relevant Foreground IPR can only be used with a Project Participant's Background IPR, other licensees will have the right to request a limited licence of such Background IPR for that sole purpose in line with the approach the Funding Party outlines in its Application.

9.19. The licensees of IPR may be required by the licensor to enter into a confidentiality agreement to protect the IPR licensed to it.

9.20. Other parties (who are not Project Participants and are not a licensee) may request a licence to use Relevant Foreground IPR, such licence to be on arms-length terms, which may include payment of a commercial royalty.

### **Right to protect IPR**

9.21. Each Project Participant will warrant that it has the right, power, title and authority to license its Relevant Background IPR on the terms of the licence agreement.

9.22. Each Project Participant will warrant that use of their Relevant Background IPR in accordance with the terms of the relevant licence agreement will not infringe any third party rights.

9.23. Each Project Participant will warrant that it will pay all fees necessary to maintain registered rights that form part of the licensed Relevant Background IPR.

9.24. Each Project Participant will undertake to protect Relevant Foreground IPR (subject to the transfer options above) in the following terms:

- A Project Participant seek registered protection where that is available and maintain such registered protection for as long as the subject matter of that Relevant Foreground IPR is licensed and used by the other Project Participants;
- Where a Project Participant believes that registered protection should not be filed, it must agree terms with the other Project Participants setting out how this unregistered IPR will be protected and demonstrate how this is consistent with the knowledge transfer and dissemination of information requirements of the Project;



- A Project Participant must comply with agreed publication requirements, including as necessary to comply with academic requirements and co-authoring of publications; and
- A Project Participant must set up a regime whereby unrelated third parties can access the Relevant Foreground IPR so that it can be further disseminated throughout the relevant industry whilst protecting the Project Participants' rights as owners and licensors.

## **Guidance for third parties on the treatment of IPR**

9.25. Third-party innovators are a key stakeholder and valuable contributor(s) in the innovation process. To help enable increased third party involvement, Funding Parties must work together, and with Innovate UK, to develop and maintain illustrative guidance which helps third party innovators understand the default IPR arrangements which underpin the operation of the SIF.<sup>22</sup>

## **Royalties**

9.26. We have created a default treatment for royalties as detailed below. We expect that in the majority of cases these rules will be suitable. However, we recognise that in some circumstances, potential Project Partners may not be prepared to enter into agreements on this basis, or such an approach to royalties will be unmanageable. We are therefore willing to consider alternative arrangements on a case by case basis. The information required to justify these alternative arrangements should be set out in the Application.

9.27. Any royalties earned by a licensee through Foreground IPR (whether Relevant Foreground IPR or not), are shared with consumers in proportion to the funds that consumers have contributed to the Project. Where a licensee has transferred its rights, title or interest in or to any Foreground IPR in return for an income, this income is treated in the same way.

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<sup>22</sup> This IPR guidance document is intended to be illustrative only and will have no legal standing. This SIF Governance Document will continue to articulate the SIF IPR arrangements.

9.28. A licensee is able to recover SIF Directly Attributable Costs. For each Project, the licensee will return the gross revenue generated through royalties or income generated through IPR less the SIF Directly Attributable Costs.

9.29. We treat royalties (or income generated from the transfer of Foreground IPR) as regulated revenue and apply the following treatment:

- The proportion of royalties (or income generated from the transfer of Foreground IPR), equivalent to the proportion of the total amount contributed by the licensee (ie the licensee's contribution which is in excess of the Compulsory Contribution, plus the Compulsory Contribution), versus the unspent Project funding and the licensee contribution will be retained by the licensee as additional profit; and
- The proportion of royalties (or income generated from the transfer of Foreground IPR), equivalent to the proportion of the Outstanding Funding Required, versus the unspent Project funding and the Compulsory Contribution will be returned to consumers.

9.30. Every Regulatory Year, the Authority will calculate the royalties earned through Projects that are to be returned to consumers. These are SIF Returned Royalty Income. SIF Returned Royalty Income will be included in the SIF Funding Direction as outlined in chapter 7.

9.31. The Authority will follow these steps to calculate the amounts to be defined in the SIF Funding Direction.

9.32. In a given year, Retained SIF Royalties (RSIFR) is the total royalties earned through all Projects to be retained by each licensee  $y$  as additional profit in each year  $t$  and is calculated through the following formula:

$$AP_{k,y} = (RR_{k,y} - DAC_{ky}) \times \frac{CC_k + EC_k}{RA_k + CC_k + EC_k}$$

9.33. Where:

- $AP_{k,y}$  is the additional profit earned through royalties to be retained by each licensee  $y$  for a Project  $k$ ;

- $RR_{k,y}$  is the pre-tax sum of the SIF Royalties reported by licensee  $y$  on the Project  $k$ ;
- $DAC_{ky}$  is the SIF Directly Attributable Costs reported by licensee  $y$  of maintaining and managing IPR generated through the Project  $k$ ;
- $CCK$  is the Compulsory Contribution to the Project  $k$ ;
- $ECK$  is the extra licensee's contribution to the Project  $k$ ; and
- $RA_k$  is the SIF Approved Amount set out in the Project  $k$  Direction.

9.34. The licensee must record RSIFR as such, in its internal accounting records and show it as a reconciling revenue item in the reconciliation inputs section of the detailed return required under the Regulatory Instructions and Guidance.

9.35. The remaining royalties are to be returned to consumers. This is the royalty revenue earned by the Funding Party minus the RSIFR. This amount is defined as SIF Returned Royalty Income.

9.36. Each Funding Party will be required to return any SIF Returned Royalty Income to consumers. The SIF Returned Royalty Income that each Funding Party is required to return to consumers will be set out in the SIF Funding Direction.

## Appendix 1 - Definitions

### Section summary

This appendix contains definitions of terms used in this SIF Governance Document.

In the event of conflict with terms defined within licences, definitions contained in the licence take precedence.

### Alpha Phase

Means the second Project Phase, focussing on preparing and testing the different solutions to the Problem identified during the Discovery Phase, ahead of any future large-scale demonstration of the Project.

### Application

Means the application for SIF Funding. The Application consists of the responses to the Application questions and any supporting appendices.

### Authority

Means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000. Used interchangeably with the term "Ofgem".

### Background IPR

Means Intellectual Property Rights owned by or licensed to a Project Participant at the start of the Project Phase in which they became a Project Participant.

### Beta Phase

Means the third Project Phase, focussing on deploying the solution.

### Commercial Products

Means products in relation to which Background IPR is identified prior to the commencement

of the Project Phase in which Project Participant became a Project Participant. For the avoidance of doubt, Commercial Products can include Foreground IPR.

#### Compulsory Contribution

Means the minimum financial contribution by the Funding Party or another Project Partner to the Total Project Phase Costs which is 10 per cent of the value of the Initial Net Funding Required, unless otherwise specified in the Innovation Challenge.

#### Cycle

Means a structured period, during which Projects can apply for a particular Round and Phase, as specified by Ofgem and Innovate UK.

#### Data Best Practice Guidance

C3 of the Electricity System Operator Licence, and Gas System Planner Licence for the National Energy System Operator (NESO) or Part D of Special Condition 9.5 (Digitalisation) for other gas transporter, electricity transmission and electricity distribution licensees.

#### Discovery Phase

Means the initial Project Phase, focussing on enhancing the understanding of the Problem to be solved.

#### Eligibility Criterion

Means the criterion used to assess and compare Projects on Application, in order to assess which Projects (if any) should receive funding and "Eligibility Criteria" is to be construed accordingly.

#### Eligible SIF Project

Means a Project undertaken by the Funding Party that the Authority decides satisfies the requirements of paragraph 5.13 of the SIF Governance Document.

### ENA Smarter Networks Portal

Means <https://www.smarternetworks.org/>

### Energy Networks Association or ENA

Means the industry body funded by UK and Irish gas and electricity transmission and distribution and gas transporter licence holders.

### Expert Assessors

Means experts who together provide relevant knowledge and expertise on the respective Innovation Challenges and/or the energy sector, including in areas such as policy and regulatory, commercial, financial, and technical, and are appointed to inform the Authority's decision-making on the selection of Projects for SIF Funding.

### External Funder

Means an entity (that is not the Funding Party) that provides funding for the Project without requiring a return on its investment.

### External Funding

Means Project funding provided by an External Funder or Project Partner.

### Foreground IPR

Means all Intellectual Property Rights created by or on behalf of any of the Project Participants, Funding Parties to whom they licence intellectual property, agents and sub-contractors as part of, or pursuant to, the Project, including all that subsisting in the outputs of the Project.

### Funding Party

Means the licensee who applies for SIF Funding and who is named in the Application as the Funding Party. The Funding Party receives the Approved Amount and is responsible for

ensuring that the Project, including any work undertaken by Project Partners, complies with the SIF Licence Condition, the SIF Governance Document and the terms of the SIF Project Direction(s). It is also the main point of contact for the Project.

#### Initial Net Funding Required

Means the Total Project Phase Costs minus any funding from Project Partners, External Funders and the Funding Party which is in excess of the Funding Party's Compulsory Contribution.

#### Innovation Funding Incentive or IFI

Means an innovation allowance of that name provided to network companies in network price controls prior to RIIO-1.

#### Innovation Challenge

Means the strategic challenge which is determined by Ofgem to address the Problem to be targeted by Projects.

#### Innovation Challenge Documentation

Means the set of documents for each Innovation Challenge, which will provide information to the Funding Party on the Application process.

#### Intellectual Property Rights or IPR

Means all industrial and intellectual property rights including patents, utility models, rights in inventions, registered designs, rights in design, trademarks, copyrights and neighbouring rights, database rights, moral rights, trade secrets and rights in confidential information and know-how (all whether registered or unregistered and including any renewals and extensions thereof) and all rights or forms of protection having equivalent or similar effect to any of these which may subsist anywhere in the world and the right to apply for registrations of any of the foregoing.

#### Innovate UK

Means a research council of UKRI contracted to operate the SIF in partnership with Ofgem and in line with this SIF Governance Document.

#### Innovation Vision

Means: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-innovation-vision-2021-2025>

#### Low Carbon Networks Fund or LCNF

Means an innovation funding mechanism of that name applied to electricity distribution licensees in previous price controls.

#### Material Change

Means a change which could reasonably be believed to have caused: (i) the Expert Assessors to change their recommendation to the Authority that the Project should be funded; and/or (ii) the Authority to change its original decision that the Project should be funded.

#### Method

Means the proposed way of investigating or solving the Problem.

#### National Energy System Operator (NESO)

Means the body established under the Energy Act 2023 as an independent system planner and operator.

#### Network Innovation Allowance or NIA

Means an allowance of that name provided to network companies and the NESO to take forward innovation.

#### Network Innovation Competition or NIC

Means innovation funding mechanism of that name applied to high value innovation Projects in the RIIO-1 price control.



### Net-Zero

Means the achievement of net-zero carbon dioxide emissions.

### NTS Owner

Means the holder of a Gas Transporter's Licence with Part B of the standard special conditions switched on.

### NTS Charges

Means the National Transmission System transportation charges that users of the gas National Transmission System have to pay.

### Ofgem

Means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000. Used interchangeably with the term "the Authority".

### Ofgem's Innovation Link

Means Ofgem's service which offers support on energy regulation to innovators looking to trial or launch new products, services, methodologies or business models.

### Ofgem Stage Gate

Means a mechanism for ensuring the continued performance and enduring strategic basis for undertaking a project. These checkpoints may align with internal business stage gates (i.e. internal business go or no decision points) to derisk a Project, being strategically positioned at key decision points in a Beta Phase project.

### Open Data Triage

Has the same meaning as in the Data Best Practice Guidance.

### Open Energy Platform

Means: <https://energydata.org.uk/>

#### Outstanding Funding Required

Means Initial Net Funding Required minus the Compulsory Contribution.

#### Presumed Open

Has the same meaning as in the Data Best Practice Guidance.

#### Problem

Means the obstacle or issue that needs to be targeted by Projects in response to an Innovation Challenge in order to facilitate Net Zero.

#### Project

Means the innovation being proposed or undertaken within the specific Project Phase to target the obstacle or issue which the Innovation Challenge is designed to address. Although there may be a continuation of work from previous Project Phases, the Discovery Phase, Alpha Phase, Beta Phase, and any combination of Phases are distinct Projects.

#### Project Bank Account

Means the bank account used for the purpose of all financial transactions associated with a Project. It is either a separate bank account or a bank account which otherwise meets the requirements of the SIF Governance Document.

#### Project Deliverable

Means a Project specific output which is:

- Linked to meeting identified targets for the outputs that will be expected to be delivered through the Project;
- Linked to meeting identified Project milestones, or Project benefits and/or key performance indicators on at least an annual basis;
- Linked to achieving the proposals it puts forward for the generation of new knowledge to be

shared amongst all licensees; and

- SMART – specific, measurable, achievable, relevant and time bound.

### Project Log

Means the log that each Funding Party must maintain which includes record of what potential Projects a Funding Party has considered submitting to the SIF, a summary of the Problem the proposed Project would attempt to solve, and the reasoning for why the Project was or was not the subject of a SIF Application.

### Project Participant

Means a person who is involved in a Project. A participant will be one of the following: Funding Party, Project Partner, External Funder, Project Supplier or Project Supporter.

### Project Partner

Means any partner that makes a contractual commitment to contribute equity to the Project (eg in the form of funding, personnel, equipment) the return on which is related to the success of the Project.

### Project Phase

Means a Project at a specified phase. There are three Project Phases: Discovery Phase, Alpha Phase, and Beta Phase which each require a funding Application. Although there may be a continuation of work from previous Project Phases, the Discovery Phase, Alpha Phase and Beta Phase are distinct Projects.

### Project Supplier

Means a person that makes a contractual commitment to supply a product or service to the Project according to standard commercial terms that are not related to the success of the Project.

### Project Supporter

Means a person that makes no contractual or binding commitment to the Funding Party or

any other Project Participant in relation to the Project but who intends to endorse and provide support to the Project and agrees to be publicly named as a supporter of the Project.

#### Regulatory Year

Means a period of twelve months commencing on 1 April.

#### Relevant Background IPR

Means any Background IPR that is required in order to undertake the Project.

#### Relevant Foreground IPR

Means any Foreground IPR that is required in order to undertake the Project.

#### Regulatory Instructions and Guidance, or RIGs

Means the document of that name published by the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance) of the Gas Transporter Licence, or Standard Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence and Standard Condition 46 (Regulatory Instructions and Guidance) of the Electricity Distribution Licence.

#### Retained SIF Royalties, or RSIFR

Means total royalties earned through all Projects to be retained by each licensee.

#### RIIO

Stands for (Revenue = Incentives + Innovation + Outputs). It is Ofgem's framework, stemming from the conclusions of the RPI-X@20 project, implemented in network price controls.

#### RIIO-1

Means the network price control which ran between 1 April 2013 and 31 March 2021 for gas transporter and electricity transmission licensees, and between 1 April 2015 and 31 March

2023 for electricity distribution licensees.

#### 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.

#### SIF Approved Amounts

Means amounts approved by the Authority in relation to a claim submitted by Innovate UK to fund the costs administering the SIF, or a claim submitted by the Funding Party to receive SIF Funding for an Eligible SIF Project, where such claim complies in all respects with such requirements as are imposed by the SIF Governance Document in respect of such claims.

#### SIF Directly Attributable Costs

Means costs relating to the maintenance and management of IPR generated through Eligible SIF Projects undertaken by the licensee that have not been otherwise remunerated by network charges, Use of System Charges in respect of electricity distribution licensees, Directly Remunerated Services or the SIF Funding Mechanism.

#### SIF Disallowed Expenditure

Means any revenue received under the SIF Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.

#### SIF Funding

Means the proportion (if any) of the total amount of funding raised by the NTS Operator or ~~Electricity System Operator~~ National Energy System Operator (NESO) in accordance with the SIF Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible SIF Projects, as adjusted by the amount of any SIF Funding Return.

#### SIF Funding Direction

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Means a direction issued by the Authority pursuant to the SIF Governance Document in relation to SIF Funding for Projects, in accordance with chapter 7.

#### SIF Funding Mechanism

Means the mechanism by which the licensee receives the amount of authorised SIF Funding in any Regulatory Year from the NTS Operator and ~~Electricity System Operator~~ NESO, less any SIF Funding Return.

#### SIF Funding Request

Means the Outstanding Funding Required, including (for the Beta Phase) a deduction for the bank account interest that the Funding Party will earn on the balance of SIF Funding over the duration of the Project.

#### SIF Funding Return

Means the total amount, in respect of the licensee, of any amounts arising under the SIF Funding Return Mechanism.

#### SIF Funding Return Mechanism

Means a mechanism which provides for payments to be made by the licensee to the NTS Operator or ~~Electricity System Operator~~ NESO, in each case to such extent (if any) as may be relevant, of:

- a) SIF Halted Project Revenues;
- b) SIF Disallowed Expenditure;
- c) SIF Returned Royalty Income; and
- d) SIF Returned Project Revenues.

#### SIF Governance Document

Means the document issued by the Authority under the SIF Licence Condition.

#### SIF Halted Project Revenues

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Means any revenues received by the licensee from the NTS Operator or ~~Electricity System Operator~~ NESO -under the SIF Funding Mechanism in respect of an Eligible SIF Project, which have not yet been spent or otherwise committed, at the time that the Authority requires that Eligible SIF Project to be halted in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.

### SIF Licence Condition

Means either:

- Special Condition 5.7 (The strategic innovation fund) of the Gas Transporter Licence held by National Grid Gas plc
- Special Condition 9.13 (The strategic innovation fund) of the Gas Transporter Licence held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, and Wales and West Utilities Limited
- Special Condition 9.19 (The strategic innovation fund) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, SP Transmission plc and Scottish Hydro Electric Transmission Plc
- Special Condition 3.4 (The strategic innovation fund) of the Electricity Transmission Licence held by National ~~Grid Electricity~~ Energy System Operator ~~Limited~~.
- Special Condition 9.9 (The strategic innovation fund) of the Electricity Distribution Licence held by:
  - Electricity North West Limited;
  - Northern Powergrid (Northeast) plc;
  - Northern Powergrid (Yorkshire) plc;
  - National Grid Electricity Distribution: West Midlands plc;
  - National Grid Electricity Distribution: East Midlands plc;
  - National Grid Electricity Distribution: South Wales plc;
  - National Grid Electricity Distribution: South West plc;
  - UK Power Networks: London Power Networks plc;
  - UK Power Networks: South Eastern Power Networks plc;
  - UK Power Networks: Eastern Power Networks plc;
  - SP Energy Networks: Distribution Ltd;
  - SP Energy Networks: Manweb plc;
  - Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution plc; and

- Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution plc.

### SIF Project Direction

Means a direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to an Eligible SIF Project as a condition of its funding under the SIF Funding Mechanism.

### SIF Returned Project Revenues

Means:

- a) revenues received by the licensee from the NTS Operator or [NESO Electricity System Operator](#) under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, where that Eligible SIF Project has been carried out in accordance with the applicable provisions of the SIF Governance Document and/or the terms of the relevant SIF Project Direction; or
- b) revenues earned from an Eligible SIF Project by the licensee other than SIF Returned Royalty Income, that the Authority determines are payable to consumers.

### SIF Returned Royalty Income

Means revenue earned from IPR generated through Eligible SIF Projects undertaken by the licensee, less SIF Directly Attributable Costs, that is payable to consumers under the SIF Funding Mechanism, as calculated in accordance with the provisions of the SIF Governance Document.

### SIF Royalties

Means the pre-tax sum of the SIF royalties reported by a licensee on a Project.

### Strategic Innovation Fund or SIF

Means the RIIIO-2 innovation funding mechanism of that name applied to strategically important innovation projects.

### Total Project Phase Costs



Means the forecast costs that the Funding Party expects to require to undertake the Project.

#### Transmission Network Use of System Charges

Means the charges used to recover the cost of installing and maintaining the transmission system in England, Wales, Scotland and offshore.

#### User Need

Means the needs that a user has of a service, and which that service must satisfy to secure the right outcome for that user, Further detail on understanding User Needs can be found here: <https://www.gov.uk/service-manual/user-research/start-by-learning-user-needs>

#### UK Research & Innovation, or UKRI

Means the UK Government's research and innovation agency. It is a non-departmental public body sponsored by the Department [for Energy Security and Net Zero \(DESNZ\)](#)~~for Business, Energy and Industrial Strategy (BEIS)~~.

#### Working Day

Means any day other than a Saturday, a Sunday, Christmas Day, Good Friday, or any other day that is a bank holiday within the meaning of the Banking and Financial Dealing Act 1971.