



Making a positive difference  
for energy consumers

National Gas Transmission Plc

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Date: 28 March 2025

Dear Company Secretary,

## **Addendum to the Round 1 Beta phase SIF Funding Direction**

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

The purpose of this SIF Funding Direction<sup>3</sup> is to amend payment schedules previously set out in the Round 1 Beta phase SIF Funding direction<sup>4</sup>. Specifically, to:

1. Instruct National Gas Transmission in its role as Payment Distributor to halt any further scheduled payments in relation to the HyNTS Compression Project, led by National Gas Transmission. This is in line with the Authority's recent decision to halt the project.
2. Instruct National Gas Transmission in its role as Payment Distributor to halt any further scheduled payments in relation to the Digital Platform for Leakage Analytics project, led by Cadent Gas Limited. This is at the request of the Project team, who have confirmed their intention of reducing the project scope.

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

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

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

<sup>4</sup> <https://www.ofgem.gov.uk/sites/default/files/2023-08/RD%201%20Beta%20SIF%20Funding%20Direction%20.pdf>

## **Background**

In line with Chapter 7 of SIF Governance Document and pursuant to the following licence conditions detailed in Table 1 below, Ofgem calculates and, by direction, specifies the net amount of SIF Funding (less any SIF Funding Return) that is to be paid to Funding Parties by NESO and NGT. Ofgem also specifies the manner in which and the times at which NESO and NGT is required to transfer that SIF Funding.

Paragraph 7.17 of the SIF Governance Document also specifies how Disallowed Expenditure and Halted Project Revenues should be returned through the SIF Funding Direction following the Authority's decision. In relation to both Projects representing the substance of this Funding Direction, this Addendum is to halt further funds being paid to these projects per the original Funding Direction published on 11 August 2023. Any SIF funding already received, but no longer eligible, will be returned via the publication of an annual SIF Funding Direction reconciliation, which deals with unused SIF funding for any phase of project that has closed in the preceding period.

This Funding Direction addendum is to make alterations to the scheduled quarterly payments for the HyNTS Compression and Digital Platform for Leakage Analytics Projects, both of which were awarded funding, as part of the Round 1 Beta SIF awards. When these awards were made, Ofgem directed National Gas to make payments to each of these projects on a quarterly basis, in line with the respective forecast project costs of delivering the projects. With HyNTS Compression being halted, and Digital Platform for Leakage Analytics reaching an early completion, it is now necessary for Ofgem to inform National Gas Transmission that the remaining scheduled quarterly payments, should be halted. A breakdown of the payment affected are outlined in Table 3 of Schedule 1.

**Table 1 – Network licence conditions**

<b>Network Licensee</b>	<b>Licence Condition</b>
National Grid Electricity Transmission Plc (NGET)	Special Condition 9.19
SP Transmission Limited (SPT)	Special Condition 9.19
Scottish Hydro Electric Transmission Plc (SHE)	Special Condition 9.19
National Energy System Operator Limited (NESO)	Special Condition 3.4
National Gas Transmission Plc (NGT)	Special Condition 5.7
Cadent Gas Limited (Cadent)	Special Condition 9.13
Northern Gas Networks Limited (NGN)	Special Condition 9.13
Scotland Gas Networks plc (SGN)	Special Condition 9.13
Southern Gas Networks plc (SGN)	Special Condition 9.13
Wales & West Utilities Limited (WWU)	Special Condition 9.13
Electricity North West Limited (ENWL)	Special Condition 9.9
Northern Powergrid (Northeast) Plc (NPgN)	Special Condition 9.9
Northern Powergrid (Yorkshire) Plc (NPgY)	Special Condition 9.9
National Grid Electricity Distribution: West Midlands Plc (WMID)	Special Condition 9.9
National Grid Electricity Distribution: East Midlands Plc (EMID)	Special Condition 9.9
National Grid Electricity Distribution: South Wales Plc (SWALES)	Special Condition 9.9
National Grid Electricity Distribution: South West Plc (SWEST)	Special Condition 9.9
UK Power Networks: London Power Networks Plc (LPN)	Special Condition 9.9
UK Power Networks: South Eastern Power Networks Plc (SPN)	Special Condition 9.9
UK Power Networks: Eastern Power Networks Plc (EPN)	Special Condition 9.9
SP Energy Networks: Distribution Ltd (SPD)	Special Condition 9.9
SP Energy Networks: Manweb Plc (SPMW)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc (SHEPD)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution Plc (SSEPD)	Special Condition 9.9

**Table 2 – Remaining SIF Funding scheduled for delivery to projects**

<b>SIF round</b>	<b>Project Phase</b>	<b>Sector</b>	<b>Project name</b>	<b>Funding Party</b>	<b>Total SIF remaining for distribution</b>
Round 1	Beta	Gas	HyNTS Compression	National Gas Transmission	£15,993,502
Round 1	Beta	Gas	Digital Platform for Leakage Analytics	Cadent Gas	£1,832,403

**Remaining SIF Funding scheduled for delivery to projects**

**£17,825,905**

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

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

SIF Funding Returns will now be dealt with on an annual basis, covering the regulatory year to 31 March.

### ***Implementation***

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

SIF Funding is distributed by NESO and NGT to individual Funding Parties. This means that NESO and NGT make a net payment to each Funding Party per instalment as directed in attached schedules, respectively, which is the sum of SIF Funding awarded to the Funding Party across multiple Projects. The Funding Parties

are responsible for administering the SIF Funding they receive for Projects as per requirements in chapter 8 of the SIF Governance Document.

NESO and NGT may also be required to halt scheduled payments already directed as part of an existing Funding Direction. An addendum to these Funding Directions is published should such a halt be required. That is the purpose of this document.

In accordance with Special Conditions 5.1 and 5.7 of NGT's Gas Transporter Licence, and the SIF Governance Document, the Authority hereby requires NGT to comply with the conditions in Schedule 1 to this SIF Funding Direction Addendum. Schedule 1 sets out the scheduled payments that are to be halted by NGT to Funding Parties.

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

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

Yours faithfully,

**Luke Ames Blackaby**  
**Head of Innovation Hub**

Signed for and on behalf of the Authority

## Schedule 1: Funds to be halted by NGT

Round 1 Beta Projects were awarded funding as outlined in the Round 1 Beta SIF Funding Direction published on 11 August 2023. This directed quarterly payments, based on forecast cost projections, for the lifetime of the Project. Ofgem now instruct National Gas Transmission, through this Funding Direction Addendum, to halt all further scheduled payments in line with Table 3.

Table 3 contains the net amounts that must be **halted** from being paid by NGT to Funding Parties.

**Table 3 – Net amounts to be halted by NGT to recipients**

Quarter	Digital Platform for Leakage Analytics (Cadent Gas Limited)	HyNTS Compression (National Gas Transmission plc)
Q3 – Apr 2025	£1,101,114	£2,436,578
Q4 – Jul 2025	£718,437	£1,668,605
Q1 – Oct 2025	£6,426	£2,689,881
Q2 – Jan 2026	£6,426	£1,656,382
Q3 – Apr 2026		£3,756,382
Q4 – Jul 2026		£1,656,382
Q1 – Oct 2026		£1,596,988
Q2 – Jan 2027		£532,304
<b>TOTAL</b>	<b>£1,832,403</b>	<b>£15,993,502</b>