
[DRAFT] SIF Governance Document

Publication date: 02 June 2021

Contact: Graeme Barton, Senior Policy Manager

Team: Network Price Control

Tel: 020 7901 7000

Email: networks.innovation@ofgem.gov.uk

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).

This SIF Governance Document is issued further to the SIF Licence Condition, and sets out the governance and administration of the SIF.

Network companies and the Electricity System Operator must comply with this SIF Governance Document. This SIF Governance Document is also relevant to third parties who wish to collaborate with network companies and the Electricity System Operator to take forward Projects.

© Crown copyright 2021

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at: 10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

1. Introduction	5
Overview of the SIF	6
Focusing on strategic Innovation Challenges	6
A three phase approach for Projects	7
This SIF Governance Document	8
Compliance	9
Review	9
2. Eligibility Criteria	10
3. Supporting learning and collaboration	12
ENA Smarter Networks Portal	12
Developing partnerships with external stakeholders	13
Requirements	13
Additional information	13
Sharing learning	13
Requirements	13
Additional information	14
Sharing Project data	14
Annual knowledge dissemination requirements	15
4. Application process	16
Discovery Phase	17
Alpha Phase	18
Beta Phase	20
Additional information to support Applications	22
Funding requested	22
Variations in the Compulsory Contribution	23
Policy and regulatory challenges to deployment, derogations and requests for changes in regulation	24
Consumer impacts	24
Interruptions to consumers' supply	25
Evidencing benefits	25
5. Assessment of Projects	27
Assessment approach	27
Authority decision to fund Projects	28
SIF Project Direction	28

6. Project delivery	30
Project monitoring	30
Project reporting	31
In-phase reporting	31
End of phase reporting	31
Discovery Phase.....	32
Alpha Phase	33
Beta Phase.....	35
Project changes.....	37
7. Funding arrangements	39
SIF Funding Mechanism	39
Recovering administration costs.....	39
SIF Funding Direction	39
Altering Project funding.....	41
SIF Disallowed Expenditure and SIF Halted Project Revenues	41
SIF Returned Project Revenues.....	42
Return of underspent SIF Funding	43
Recipients of any SIF Returned Project Revenues	43
Halting a Project	43
8. Project administration.....	45
Compliance.....	45
Project audits.....	45
Project Bank Account.....	45
Additional requirements to protect consumers.....	47
9. Intellectual Property Rights and royalties.....	48
Intellectual Property Rights.....	48
Scope.....	48
Ownership and transfer of ownership of IPR	49
Licensing of Background IPR.....	49
Licensing of Foreground IPR	49
Right to protect IPR.....	51
Royalties	51
Appendix 1 - Definitions.....	54

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 the regulated network companies to deliver net zero greenhouse gas emissions at lowest cost to consumers, while maintaining world-class levels of system reliability and customer service, and ensuring no consumer is left behind.

1.2. Innovation is a key element of the RIIO model for price controls and our approach is focused on creating an environment that allows innovation to thrive across the whole system. The RIIO framework provides strong incentives 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.¹

1.4. This is because certain innovation Projects are speculative in nature and yield uncertain commercial returns. In addition, where benefits are linked to the decarbonisation of the network or addressing consumer vulnerability, it may be difficult to commercialise the respective social, carbon and/or environmental benefits and shareholders may be unwilling to speculate on such Projects. This additional funding is designed to underpin the ethos, internal structures and third-party contracts that facilitate innovation.

1.5. We therefore have in place a network innovation stimulus, that for RIIO-2 consists of a Network Innovation Allowance (NIA) and the SIF. These two mechanisms are successors to past innovation stimulus initiatives such as the Innovation Funding Incentive (IFI), Low Carbon Networks Fund (LCNF) and Network Innovation Competition (NIC).

¹ As decided in our RIIO-2 Final Determinations, the SIF focuses on the energy system transition. Whereas the NIA focuses on the energy system transition and/or addressing consumer vulnerability.

Overview of the SIF

1.6. The SIF will support network innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. It will coordinate 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.

1.7. Ofgem is the decision-maker on the SIF. However, to support the SIF's operation, Ofgem is partnering with UK Research & Innovation (UKRI)². UKRI will have a role administering the funding programme, monitoring the delivery of Projects, making recommendations to Ofgem on operational matters, supporting innovators and helping ensure successful Projects become business as usual activities.

Focusing on strategic Innovation Challenges

1.8. In May 2021, Ofgem published its Innovation Vision which informs markets regarding where Ofgem has identified the need for significant innovation.³ 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.

1.9. Ofgem will direct the system operators concerning the application of network innovation funds under the SIF towards solving strategic Innovation Challenges. With the support of UKRI, and in the light of stakeholder engagement, Ofgem will set these strategic Innovation Challenges and invite Applications for Projects to address these. Since the setting of Innovation Challenges and associated competitions for funding will be based on a strategic need, there may be multiple (or no) competitions issued 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.

1.10. Strategic network Innovation Challenges will seek to meet the needs of network consumers. The development process will take account of strategic innovation priorities,

² UKRI is the UK Government's research and innovation agency. It is a non-departmental public body sponsored by the Department for Business, Energy and Industrial Strategy (BEIS).

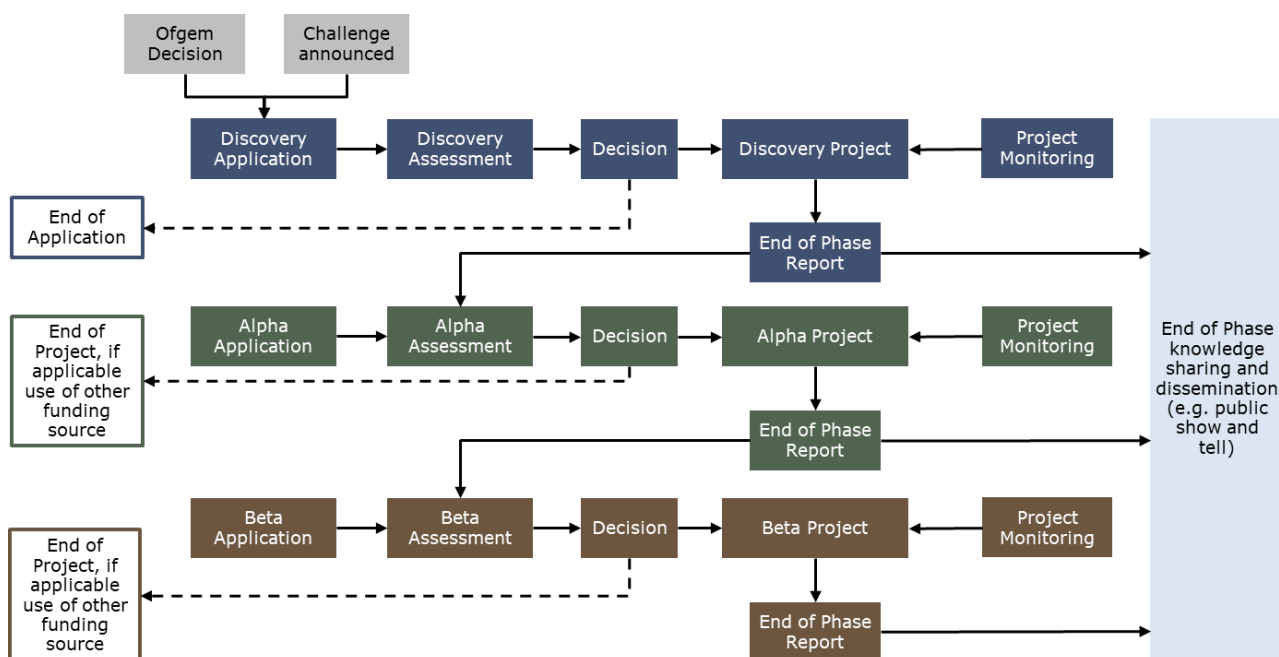
³ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-innovation-vision-2021-2025>

such as those identified in our Innovation Vision, and be informed by stakeholder engagement, including engagement with the UK Government and devolved administrations, and with cross-industry innovators to help build a robust evidence base.

A three phase approach for Projects

1.11. In order to mitigate the risk associated with the innovation process, Projects will follow a three phase approach (Discovery Phase, Alpha Phase and Beta Phase) with successful Application and assessment against Eligibility Criteria a condition of receiving SIF funding for the relevant Project Phase. All Projects will start at the Discovery Phase, unless explicitly stated within the Innovation Challenge Documentation. Requirements, in terms of the maximum £ value which innovators may apply to receive from the SIF in each Project Phase, and the length of each phase in months will be defined in the Innovation Challenge Documentation. This is summarised in the process diagram within figure 1, together with a fuller description of each phase below.

Figure 1: SIF three phase approach



1.12. **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.

1.13. **Alpha Phase (experimental development)**: The Alpha Phase of a Project will focus on small scale demonstration of the different solutions to the problem identified during the Discovery Phase. It will also include testing of the riskiest assumptions.

1.14. **Beta Phase (build, operation and/or demonstration)**: The Beta Phase of a Project focuses on the deployment of the solution to the problem and the duration of the Beta Phase will depend on the scale and complexity of the solution deployed. SIF Beta Phases will range between six months and five years and represent the largest scale phase of the Project. Beta Phase budgets will start from £500k and Ofgem may specify caps per Project in the Innovation Challenge Documentation.

1.15. Separate funding decisions will be taken by Ofgem for each phase of the Project and funding awards for one phase do not guarantee funding for subsequent phases. The results of each phase will be considered as part of Ofgem’s funding decisions in relation to subsequent phases.

This SIF Governance Document

1.16. Building on the overview of the SIF set out above, this SIF Governance Document sets out the regulation, governance and administration of the SIF. It contains details on the:

- Eligibility Criteria for Projects (chapter 2).
- Requirements on supporting learning and collaboration (chapter 3).
- Requirements for submitting Projects (chapter 4).
- Details on the 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 (annex 1)

1.17. This SIF Governance Document is issued by Ofgem further to:

- Special Condition 5.7 (The Strategic Innovation Fund) of the Gas Transporter Licence held by National Grid Gas plc
- Special Condition 5.5 (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 5.8 (The Strategic Innovation Fund) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, SP Transmission Ltd and Scottish Hydro Electric Transmission Plc
- Special Condition 3.4 (The Strategic Innovation Fund) of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited.

Compliance

1.18. 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.

1.19. The SIF Licence Condition and this 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

1.20. 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. To be eligible for funding, Projects submitted to the SIF must satisfy the following Eligibility Criteria. The process of assessing Projects against these, and wider questions included in the Application process, is detailed in chapter 5.

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

2.3. **Eligibility Criterion 2:** Projects should have a well-justified potential to deliver a net benefit to gas or electricity consumers (whomever is paying for the innovation).⁴ Such Projects may also deliver 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 those to consumers in vulnerable situations, for example 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.

2.5. **Eligibility Criterion 3:** Projects must involve network innovation.⁵ Projects must be designed to reduce the costs of networks (now and in the future), improve support for vulnerable consumers and/or improve the services and products provided by network companies for consumers.

2.6. Projects may involve non-network activities such as generation, storage or in-home services, if (i) they have the potential to deliver net benefits to network consumers, (ii) would not happen but for the provision of SIF funding and, (iii) in the case of third parties, depend on network access. In these cases, we expect Projects to involve funding

⁴ 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.

⁵ Network investment that is not in itself innovative will be treated as such if the Project as a whole is innovative and the network component of the Project delivers net benefits to energy consumers.

contributions from other sources (such as Government 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. Ofgem may apply a proportionality principle, so that complex contractual arrangements between network companies and third parties can be avoided if necessary (e.g. if there is no contractual precedent because an activity is very novel, or the cost of the non-network activity is low as compared to overall Project value).

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 by companies.

2.9. Eligibility Criterion 6: Projects must include participation from an appropriate range of stakeholders, including third parties such as, but not limited to, start-ups, consumer groups, small and medium-sized enterprises, energy generators and suppliers, and academics.

2.10. Eligibility Criterion 7: Projects must provide value for money, and be costed competitively. For example, existing assets and facilities should be utilised where this supports cost efficiency.

2.11. Eligibility Criterion 8: Projects must be sufficiently well developed and have a robust methodology so that they are capable of progressing in a timely manner.

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 third parties as Project Partners on the Projects supported 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 Innovation Challenges set by Ofgem.

3.2. If an innovator decides to collaborate on a Project, it must appoint a Funding Party who will act as a single point of contact with Ofgem. The Funding Party will be the innovator that applies for funding in respect of a Project and submits the Application. Further, the Funding Party will be the recipient of any SIF Funding for that Project and will be responsible for ensuring that the Project, adheres to this Governance Document, the SIF Licence Condition, and any subsequent SIF Project Direction for the Project.

3.3. When issuing Innovation Challenges, Ofgem may 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 Portal

3.4. Licensees have established an online ENA Smarter Networks Portal⁶ 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.

⁶ <https://www.smarternetworks.org/>

Developing partnerships with external stakeholders

Requirements

3.5. 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
- A contact point for each licensee, to which potential Project Partners can submit Project ideas.

3.6. Licensees must work collaboratively to ensure that the ENA Smarter Networks Portal is up to date. In addition, licensees must annually review the ENA Smarter Networks Portal 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.

Additional information

3.7. The ENA Smarter Networks Portal is not intended to constrain the 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 applicable procurement rules have been followed.

Sharing learning

3.8. 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 as effectively as possible to ensure that all licensees, and therefore all consumers, can benefit from Projects.

3.9. The ENA Smarter Networks Portal is used to share learning from Projects.

Requirements

3.10. We require licensees to work collaboratively to maintain the ENA Smarter Networks Portal so that all reporting on Projects (as required by chapter 6 of this SIF Governance Document) is available via that Portal.

3.11. We require licensees to ensure that Project details published on the ENA Smarter Networks Portal are kept up to date.

Additional information

3.12. The provision of the ENA Smarter Networks Portal is not intended to constrain the knowledge dissemination activities of the licensees. The 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 data

3.13. Licensees must follow Data Best Practice Guidance⁷ with regard to all data gathered or created in the course of a Project. We expect licensees to document any reasons for desensitising data, such as commercial sensitivities. As defined by and in accordance with Data Best Practice Guidance, innovators must apply a data triage process. Where multiple parties are cooperating on a Project, the consortium must adopt a consistent data triage process for the data related to the Project.

3.14. We require licensees to treat all data within Projects as “presumed open” to all and accordingly share data with requesting parties as per the Data Best Practice Guidance principles.

3.15. When information regarding a Project is put in the public domain, licensees must make sure all data is signposted and easily found.

⁷ A copy of the Data Best Practice Guidance was published for consultation on 25 May 2021. A copy of the final copy will be available via this link in due course.
<https://www.ofgem.gov.uk/publications-and-updates/consultation-data-best-practice-guidance-and-digitalisation-strategy-and-action-plan-guidance>

3.16. Additionally, licensees must put in place a publicly available data policy 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.

3.17. Additionally data must be made available on the Open Energy Platform.⁸

3.18. Innovators will be required to consent to their Application and supporting information being shared with public funders of innovation, including departments and agencies of Her Majesty's Government and the devolved administrations.

3.19. In addition to the above data requirements, within SIF Project Directions, Ofgem may require that Project information is shared with other specified parties.

Annual knowledge dissemination requirements

3.20. Licensees must collaborate to organise an annual conference in a format appropriate to enabling the building of partnerships and disseminating learning widely.

3.21. This conference may form part of the same event as that which is organised to comply with NIA governance arrangements. Licensees may charge attendees a nominal sum for attending the conference. The licensee's income from charges is not to exceed the efficient cost to the licensee of organising the conference.

3.22. The conference may be a single event for gas and electricity, or more than one event, as appropriate.

3.23. We expect licensees to work together to agree the format of the annual conference.

⁸ <https://energydata.org.uk/>

4. Application process

Section summary

This chapter describes the Application process.

4.1. Innovators must apply to receive SIF funding for each Project Phase. The Innovation Challenge Documentation will set out requirements in terms of the eligible scope of, the maximum amount of funding available for, and the length of each phase. This will also include the address of the secure online portal by which Applications should be submitted.

4.2. Each Project Phase (Discovery Phase, Alpha Phase and Beta Phase) requires an Application. 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.

4.3. Each Application is evaluated against the Eligibility Criteria set out in Chapter 2 by Expert Assessors. The Authority will decide, taking into account the Expert Assessors' evaluation, which Projects should be awarded funding.

4.4. Applicants 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. Applicants may be required to answer additional administrative questions as part of their Application, as defined 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 will be provided within the Innovation Challenge Documentation. This will provide detail to applicants under the following headings:

- Summary of the Innovation Challenge which applicants' proposed Projects will be expected to address;
- Eligibility Criteria as outlined in this SIF Governance Document;

- Scope and Project requirements which will include the following:
 - Funding available and length of each Project Phase,
 - Where applicable, requirements for consortia applying, such as requirements related to the organisation type, role and number of Project Partners,
 - Where applicable, additional Innovation Challenge-specific Application questions,
 - Where applicable, bespoke requirements for external funding contributions to the Project, such as requirements for Project Partners to contribute funds to support the Project;
- Dates: Open/close competition dates, assessment milestone dates, interview dates and notification dates;
- How to apply; and
- Any supporting information required, including where relevant templates must be used.

Discovery Phase

4.7. For the Discovery Phase Application, the innovator will be asked to provide responses across all eight question categories. Responses will be limited to 400 words per question, with supporting annexes, where requested. The types of question that will be asked under each category are indicated table 1.

Table 1: Discovery Phase Application question categories

Category of Question	Information Requirements	Supporting Information as specified in Innovation Challenge Documentation
Problem definition and value of solution to the problem	Information will focus principally on the definition of the problem that the Project is aiming to solve and the benefit to energy consumers that could be realised by solving the problem.	
Project summary	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.	Appendices containing information regarding (i) named team members; (ii) short summaries of Project proposal; (iii) an explanation of the choice of collaborators.
The 'big idea'	Information will focus principally on the nature of the idea or the Method, and how it relates to the Innovation Challenge. For example, innovators may be asked to provide	A single appendix as a PDF containing images and diagrams to support the answer to questions in this category.

	a description of the idea or Method and its current state of development or readiness.	
Innovation justification	Information will describe the core aspects of the proposed innovation, including demonstration of the technical understanding relevant to the Project. Innovators will also be asked to show that the Project and Method are novel and how the proposal builds on previous research and development.	A single appendix as a PDF containing tables of similar Projects, lessons learned, images and diagrams.
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 4.23-4.29 below)	Quantified benefits case as an appendix. Guidance on an an approach appropriate to the scale of the Project Phase will be provided in the Innovation Challenge Documentation.
Project plan and milestones	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 innovator 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. Innovators will also be asked to provide a summary of the main risks to the successful delivery of the Project and any actions taken to mitigate these risks.	A single appendix as a PDF containing Project timeline milestone template.
Route to market / business as usual	Information will focus principally on the plans for commercialisation of the Project and moving the innovation into business as usual.	Forms explaining the readiness for investment
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', innovators will be asked to justify the scope and proposed size of the Project	Supporting excel file with breakdown of costs and allocation of funding

Alpha Phase

4.8. For the Alpha Phase Application, the innovator will be required to provide additional information in regard to five of the eight question categories (see table 2). Responses will be limited to 800 words per question, with supporting annexes, where requested. The innovator may, if relevant, submit further information in relation to the categories 'the big idea', and 'innovation justification'.

4.9. The responses to the questions will be used together with the end of phase report (see paragraph 6.14 and table 4) on outcomes of the Discovery Phase to determine whether a Project meets the Eligibility Criteria, upon which the success of the Application depends. Eligibility Criteria are identified in chapter 2.

Table 2: Alpha Phase Application question categories

Topic category	Information Requirements	Supporting Information as specified in Innovation Challenge Documentation
Problem definition and value of solution to the problem	No additional information is required in the written Application but may be provided if the innovator considers it relevant to the Application.	
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 innovators 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.	Appendices containing information regarding (i) named team members; (ii) short summaries of the Project proposal; (iii) an explanation of the choice of collaborators; and (iv) engineering justification paper.
The 'big idea'	No additional information is required in the written Application but may be provided if the innovator considers it relevant to the Application.	
Innovation justification	No additional information is required in the written Application but may be provided if the innovator considers it relevant to the Application.	
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 4.23-4.29 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 and milestones	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 innovator 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 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	Appendices as PDF 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

	these risks. The risk register will be maintained throughout the Alpha Phase.	
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 innovators will need to take account of learning from the Discovery Phase – providing an initial outline of post-Beta Phase plans.	
Costs	Information will focus principally on the cost breakdown of 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', innovators 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	Supporting excel file with breakdown of costs

Beta Phase

4.10. For the Beta Phase Application, the innovator will be required to provide additional information in regard to five of the eight topic categories (see table 3). The responses to questions will be limited to 800 words per question, with supporting annexes, where requested.

4.11. The responses to the questions will be used together with the end of phase report related to the Alpha Phase (see paragraph 6.15 and table 5) to determine whether a Project meets the Eligibility Criteria, upon which the success of the Application depends. Eligibility Criteria are identified in chapter 2.

Table 3: Beta Phase Application question categories

Topic category	Information Requirements	Supporting Information as specified in Innovation Challenge Documentation
Problem definition and value of solution to the problem	No additional information is required in the written Application but may be provided if the innovator considers it relevant to the Application.	
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 innovators 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.	Appendices containing information regarding (i) named team members; (ii) short summaries ; (iii) an explanation of the choice of collaborators; (iv) engineering justification paper.

The 'big idea'	No additional information is required in the written Application but may be provided if the innovator considers it relevant to the Application.	
Innovation justification	No additional information is required in the written Application but may be provided if the innovator considers it relevant to the Application.	
Impact	<p>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.</p> <p>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, innovators 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 4.23-4.29 below)</p>	Quantified benefits case as an appendix. Guidance on an an approach appropriate to the scale of the Project will be provided in the Innovation Challenge Documentation.
Project plan and milestones	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 innovator 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>A single appendix as a PDF containing Gantt chart / Project Plan.</p> <p>A single appendix as a PDF containing the 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	Information will focus principally on the plans for commercialisation of the Project and moving the innovation into business as usual. At the Beta Phase, innovators 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. Innovators must propose a metric through which, should the Project conclude successfully, the uptake of the solution on the networks can be measured. Innovators may also be asked for an indication of their need for investment either before, during or after the Project.	A single appendix as a PDF containing a road-map to show post-Beta Phase development. A single appendix as a PDF detailing investment readiness

Costs	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', innovators 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.	Supporting excel file with breakdown of costs
-------	--	---

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 level of funding to requested from the SIF (ie the SIF Funding Request), the innovator must determine the following:

- **Total Project Phase Costs:** These are the forecast costs the innovator 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 percentage of Compulsory Contribution required within Innovation Challenge Documentation. The default position is that the compulsory contribution is 10% of the Initial Net Funding Required, however, as detailed below, the Innovation Challenge may specify a different Compulsory Contribution;
- **Outstanding Funding Required:** Initial Net Funding Required minus the Compulsory Contribution; and

- **SIF Funding Request:** The Outstanding Funding Required, including a deduction for the bank account interest that the licensee will earn on the balance of funding over the duration of the Project.⁹

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 assumed to be phased throughout the duration of the Project.

Variations in the Compulsory Contribution

4.14. The default level of Compulsory Contribution required for Projects is 10%.

4.15. However, it may be appropriate to vary the level of Compulsory Contribution required in some cases. We believe this may be appropriate where:

- Projects have the potential to deliver significant financial benefits for licensees, thereby justifying the need for a higher level of Compulsory Contribution before the Project starts;
- Other sources of funding (such as funds from third parties) should also be contributing a higher amount of funding to the Projects because of the extent of non-network benefits that the Project delivers. For example, if 60% of a Project's benefits are benefits for network consumers, then we may require a 40% Compulsory Contribution from Project Partners, External Funders and Funding Party because it is not appropriate for network consumers to pay for the full project; or
- We seek to fund Projects on a matched basis with other sources of public innovation funding, which do not fund 90% of Projects. In these circumstances we may match the level of Compulsory Contribution required from that other source of funding. For example, if we seek to fund a Project via the SIF alongside a project funded by another public body (which only funds 50% of project costs), we may consider requiring a 50% Compulsory Contribution for the SIF Project.

⁹ 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.

4.16. We will consider whether to vary the level of Compulsory Contribution on a case-by-case basis and confirm the level of Compulsory Contribution in Innovation Challenge Documentation.

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

4.17. If a licensee considers that there is any possibility that it 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. It must also provide 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 funding), as well as details of how and when it would apply for such a derogation.

4.18. The evidence that should be submitted in line with paragraph 4.17 should follow the latest guidance on licence derogation requests, as published on the derogations page of the Ofgem website.¹⁰ 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 licensee must indicate where there would need to be changes to industry code arrangements in order to enable the roll-out.

4.19. Licensees can engage with Ofgem's Innovation Link before submitting an Application to support their consideration of identified regulatory challenges associated with their Project, and consider what can be done to enable the Project to progress.¹¹

Consumer impacts

4.20. An innovator 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).

¹⁰ <https://www.ofgem.gov.uk/ofgem-publications/125007>

¹¹ Further information about Ofgem's Innovation Link is available here: <https://www.ofgem.gov.uk/about-us/how-we-engage/innovation-link>

Interruptions to consumers' supply

4.21. An innovator 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 innovator 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.

4.22. The innovator 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 innovator must set out the alternatives it has investigated and provide a summary of why these alternatives were rejected.

Evidencing benefits

4.23. 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,¹² green book guidance,¹³ or the whole system cost benefit analysis model developed by the ENA.¹⁴

4.24. Applicants 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). Applicants can also demonstrate how new network products or services contribute to the benefits outlined below.

¹² The RIIO-2 cost benefit analysis model can be found here: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-data-templates-and-associated-instructions-and-guidance>

¹³ <https://www.gov.uk/government/collections/the-green-book-and-accompanying-guidance-and-documents>

¹⁴ 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/>

4.25. Financial cost reductions:

- for end consumers, in GBP savings per annum on energy bills; or
- for users of network services.

4.26. Applicants should justify (at a level proportionate to the Application phase) how reduced network services costs will ultimately be realised in end consumer bill savings, where benefits from Projects are primarily delivered through a reduction in network services costs.

4.27. Carbon reductions (t/CO₂ equivalent savings per annum) against a business as usual counterfactual. This includes all direct and indirect emissions. Applicants should be able to measure actual savings demonstrated within the Beta Phase Project delivery. Applicants 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.

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

- GBP 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.

4.29. Number of products, processes, and services launched which are new to the Great British energy market. 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 Expert Assessors, with support from UKRI. The Expert Assessors will evaluate 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 phase reports and show and tell presentations discussed in chapter 6, and taking into consideration any additional and relevant information available.

5.2. Innovators are required to discuss Projects with Expert Assessors, Ofgem, and UKRI, as appropriate, during an interview, intended to aid evaluation of Applications against the Eligibility Criteria. For Discovery Phase and Alpha Phase Applications, the interview will be conducted via video conference. Expert Assessors may (at their discretion) provide innovators with a list of questions that they intend to ask and ask further questions during the interview. The Funding Party will be provided with at least ten Working Days' notice of the date of the interview.

5.3. Ofgem, its Expert Assessors and UKRI may at any point during the assessment process raise clarificatory questions about a Project to facilitate its evaluation against the Eligibility Criteria outlined in chapter 2. The innovator must submit written responses to these questions, or choose to answer them orally if the Authority, the Expert Assessors or UKRI, as appropriate, offer to meet with the innovator.

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

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, UKRI and to the Authority. This

will form part of the evidence base that the Expert Assessors will use to make their recommendation and which the Authority will use to make its decision.

Authority decision to fund Projects

5.6. Having taken into account the Expert Assessors' recommendation, the Authority will decide which Projects should receive 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. The Authority is not obliged to award SIF Funding even to those Projects that perform best against the Eligibility Criteria, if it deems them, on balance and with reference to those Eligibility Criteria, to be: of insufficient quality, offer insufficient benefits to consumers or offer insufficient value for money for consumers. Unless the Authority decides otherwise, such Projects cannot be resubmitted. If the Authority decided that Projects can be resubmitted, it will confirm how and when this can be done.

5.9. In its decision, the Authority may decide to fund all or part of a Project proposed by the innovator. It may also make changes to the Project proposed by the innovator, including making amendments to the proposed Method and Project Deliverables.

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

SIF Project Direction

5.11. Ofgem will send a draft SIF Project Direction for each Project that has been awarded SIF Funding, to the Funding Party.

5.12. The SIF Project Direction is a direction issued by the Authority, setting out the terms to be followed during Project implementation as a condition of funding. Once a SIF Project Direction has been issued, the licensee 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 Approved Amount received by the licensee as SIF Disallowed Expenditure.

5.13. In advance of sending out a draft SIF Project Direction, Ofgem may circulate the text of the SIF Project Direction to innovators. If innovators cannot accept the draft SIF Project Direction (subject to any clarification and amendments agreed in writing by Ofgem) within four 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. Once a SIF Project Direction has been issued by the Authority, and provided the innovators comply with this Governance Document, the Innovation Challenge-specific requirements and with the SIF Project Direction, the Project identified within it is deemed to be 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 funding;
- Require innovators 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 Project Application;
- 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 innovator 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 innovator 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 review and, for this purpose, be allocated a monitoring officer who will be employed by UKRI.
- 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 conditions to progress 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. Innovators must meet with the monitoring officer at the start of each Project Phase to discuss the Project plan.
- 6.4. During Project delivery, innovators must present to the monitoring officer on the topic of 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 directed by Ofgem during the delivery of the Project, and at the end of each Project Phase. In the Discovery Phase, innovators must attend at least one mid-phase meeting. In the Alpha Phase and the Beta Phase, monitoring will occur on an ad hoc basis, as required by Ofgem. We anticipate that detailed monitoring will take place on a quarterly basis, and shorter meetings to discuss progress will take place on a monthly basis during the Beta Phase.
- 6.5. At the Beta Phase, conditions agreed in the SIF Project Direction (such as stage gates) will define the timing of assessment of those conditions based on Project Deliverables and milestones.

Project reporting

6.6. The following section sets out standard reporting requirements. Innovation Challenge-specific reporting requirements may be set out within the Innovation Challenge Documentation and in the SIF Project Direction.

In-phase reporting

6.7. At the beginning of Discovery Phase delivery, innovators must give a public Project launch webinar on the scope and aims of their Project. It will be open to all interested stakeholders, recorded and published online.

6.8. During Alpha Phase delivery, innovators must present annually at a public show and tell webinar. This must include a thirty-minute presentation on Project progress, including learning, defining the problem, understanding user needs, and an overview of future plans for the Project. Show and tell webinars will be recorded and published online. At the show and tell webinars, attendees, including Expert Assessors, must be given an appropriate opportunity to ask questions.

6.9. During Beta Phase delivery, innovators must publish an annual progress report. 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 agreed within the SIF Project Direction. Ofgem and UKRI may issue further guidance and templates in relation to in phase reporting.

End of phase reporting

6.10. End of phase reporting is designed to facilitate learning and knowledge dissemination. It will also inform Ofgem's determination of whether a Project can move onto the Alpha Phase or the Beta Phase, supporting Ofgem's consideration of whether the Project satisfies the Eligibility Criteria set out in chapter 2.

6.11. At the end of each Project Phase, innovators must present findings (including whether research, development and demonstration activities were successful or not) at a public show and tell webinar. This webinar will provide innovators with an opportunity take questions from interested stakeholders. Webinars will be recorded and saved on a sharing platform. At the show and tell webinars, interested stakeholders and Expert Assessors must be given an appropriate opportunity to ask questions.

6.12. The timing of the show and tell webinars following the Discovery Phase and the Alpha Phase will 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 phase.

6.13. Innovators must submit an end of phase report to Ofgem and UKRI for each Project Phase. Innovators must submit information related to questions on Project delivery as detailed below.

Discovery Phase

6.14. Following the Discovery Phase, innovators must provide information in five out of six categories (see table 4). Responses will be limited to 400 words per category, with supporting annexes where requested, and up to 5 pages of appendices, with supporting information.

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. Innovators 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. Innovators must describe what has been learned over the course of the Project, including any changes in the Project and why the changes were necessary.	

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. Innovators must consider how constraints can be addressed, including what is required to remove regulatory or policy barriers.	
Spending	Information will focus principally on how actual spending compared against the planned spending outlined in the Discovery Phase Application. Innovators must provide reasons for differences between the planned and actual spend.	A single appendix as an excel file with breakdown of spending against the Project plan

Alpha Phase

6.15. Following the Alpha Phase, innovators must provide information in five out of six categories (see table 5). Responses will be limited to 800 words per category, with supporting annexes, where requested.

Table 5: Alpha Phase end of phase reporting requirements

Topic	Information requirements	Supporting information
Phase summary	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. Innovators 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.	
User needs	Information will focus principally on how the Project has addressed the user needs /	

	<p>issues outlined in the Innovation Challenge and how understanding of user needs has been improved as a result of the Project. Innovators 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>	
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. innovators must consider how constraints can be addressed, including what is required to remove regulatory or policy barriers.</p>	
Spending	<p>Information will focus principally on how actual spending compares against planned spending. Innovators must provide reasons for differences between planned and actual spend.</p>	<p>A single appendix as a excel file with breakdown of spending against the Project plan</p>
Knowledge creation and dissemination	<p>Information will focus principally on knowledge creation and dissemination undertaken during the Alpha Phase. Innovators must show how they have worked transparently and collaboratively during the Alpha Phase, and engaged with stakeholders in a transparent and constructive manner. 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.</p>	<p>Public show and tell webinar and Powerpoint summary report of lessons learned</p>
Route to market /	<p>Not applicable for this phase</p>	

business as usual		
-------------------	--	--

Beta Phase

6.16. Following the Beta Phase, innovators must provide information in all six categories (see table 6). Responses will be limited to 800 words per category, with supporting annexes, where requested.

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 Challenge and the benefits delivered during previous phases. innovators 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.	A single appendix as a PDF containing short summary of the most significant outcomes
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. Innovators must describe how learning developed over the course of the Project, including any changes in the Project and why the changes where necessary. Assessment of how the Project addressed user needs will also take account of the results of the Discovery Phase and the Alpha Phase.	
Constraints	Information will focus principally on the constraints (i.e. technical, commercial, regulatory etc.) encountered during the Beta Phase that may hinder progress to rollout. innovators must consider how the constraints	A single appendix as a PDF outlining licence, code etc. changes that will support business as

	<p>can be addressed, with a specific focus on any identified and real regulatory barriers that may need to be addressed. Where a barrier exists innovators must identify what they have done to facilitate its removal.</p>	<p>usual / commercialisation</p>
<p>Spending</p>	<p>Information will focus principally on how actual spending compared against the planned spending. innovators must provide reasons for differences between planned and actual spend</p>	<p>A single appendix as a excel file with breakdown of spending against the Project plan</p>
<p>Knowledge creation and dissemination</p>	<p>Information will focus principally on the knowledge creation and dissemination undertaken during the Beta Phase. innovators must show how they have worked transparently and collaboratively during the Beta Phase, and engaged with stakeholders in a transparent and constructive manner. 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.</p>	<p>Public show and tell webinar and Powerpoint summary report of lessons learned.</p>
<p>Route to market / business as usual</p>	<p>This will focus on the plans for commercialisation and moving the innovation into business as usual. innovators will be asked to show how the work undertaken during the Beta Phase differed from the approach set out in the Beta Phase Application. 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.</p>	<p>A single appendix as a PDF containing a road-map to show post-Beta Phase development.</p>

Project changes

6.17. Changes to the SIF Project Direction may only 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 Project end date by more than one year;
- Any change to a Project Deliverable;
- A change to any Project learning which the licensee 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 licensee).

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

- A change in the allocation of funds 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 licensee or its Project Partners); and
- An overspend in the Project budget set out in the SIF Project Direction, provided the overspend is met by additional contributions from the licensee or its Project Partners.

6.19. Any change to the Project which is not a Material Change may be made by the Funding Party without notification to Ofgem or a change to the SIF Project Direction.

6.20. 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.

6.21. Ofgem will consider requests to change SIF Project Directions on a case by case basis; however Ofgem must be satisfied that the changes continue to ensure the Project satisfies the Eligibility Criteria specified in chapter 2.

6.22. 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 it has decided to make to the SIF Project Direction.

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 the licensee by the System Operator and the manner in which and the timescale over which the System Operator is required to transfer that amount to the licensee.

Recovering administration costs

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

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

7.4. Provided that Ofgem is satisfied with UKRI's costs, Ofgem will direct their recovery via the SIF Funding Direction. UKRI'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 are awarded to gas Projects and £40m awarded to electricity Projects, then gas network charges will pay for 60% of UKRI's costs and electricity network charges will pay 40% of UKRI's costs.

SIF Funding Direction

7.5. Ofgem will issue the SIF Funding Direction that 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 also UKRI's costs of administering the SIF in each round, the 'SIF term' in the SIF Licence Condition;

- Identify the net amounts that must be transferred between the National Grid Gas plc, National Grid Electricity System Operator plc, UKRI and other innovators; and
- Set out the manner in which, and the timescale over which, the net amounts will be transferred.

7.6. Each SIF Funding Direction will include any SIF Funding plus UKRI's costs for administering the SIF, less any SIF Funding Return. SIF Funding includes any SIF Approved Amounts.

7.7. Ofgem will issue the SIF Funding Direction to each licensee once a year, to allow sufficient time for the impact of SIF Funding to be reflected in NTS Charges or Transmission Network Use of System Charges, from 1 April of the following year.

7.8. The SIF Funding Direction will set out:

- i. The SIF Approved Amounts for each licensee and UKRI that have not already been funded through previous SIF Funding Directions for SIF Funding;
- 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 and SIF Returned Project Revenues; and Returned SIF Royalties for each licensee and UKRI; and
- v. The amounts to be recovered by the NTS Owner and Electricity System Operator through NTS Charges and Transmission Network Use of System Charges; the amounts to be transferred to the NTS Owner and Electricity System Operator from all licensees; and refund the SIF Halted Project Revenues, SIF Disallowed Expenditure and SIF Returned Project Revenues and SIF Returned Royalty Income.

7.9. Transfer of revenue between the NTS Owner and Electricity System Operator, and one or more licensees must be made monthly on an equal basis, for the entirety of the Regulatory Year. The transfer of revenue will be made on the day of the month agreed by the NTS Owner and Electricity System Operator, and the licensee.

7.10. A licensee that is due to receive funds under the terms of the SIF Funding Direction is responsible for notifying the NTS Owner or the Electricity System Operator of the bank account details to which the transfers must be made. If a licensee is required to return funding to the NTS Owner or the Electricity System Operator, the reverse applies.

Altering Project funding

SIF Disallowed Expenditure and SIF Halted Project Revenues

7.11. SIF Disallowed Expenditure is funding, that the Funding Party receives for Projects or recovers as SIF Directly Attributable Costs, that Ofgem determines not to have been spent or recovered in accordance with this SIF Governance Document or with the relevant SIF Project Direction. It includes any funds that must be returned if the Project is halted without Ofgem's permission, any funds that have not been spent in line with the approved Project budget contained within the SIF Project Direction, any unspent funds for completed Projects, and any SIF Directly Attributable Costs that the Authority decides have been misreported following a Project audit.

7.12. SIF Disallowed Expenditure also includes the proportion of funds associated with a Project Deliverable (as proposed by the innovator), where Ofgem decides that the innovator 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 funding should be returned to consumers using the SIF Funding Return Mechanism. After considering the issue, if the Authority determines that the licensee is at fault for the non-delivery of the Project Deliverable, Ofgem may decide to return the funding associated with the Project Deliverable in question. It is the proportion of funding assigned to a Project Deliverable in the SIF Project Direction that Ofgem may decide to return. 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.

7.13. SIF Halted Project Revenues are funds received by the innovator that have not yet been spent or otherwise committed at the time that a Project is halted.

7.14. 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 representations as to why the funds should be allowed.

7.15. 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 following year's SIF Funding Direction.

SIF Returned Project Revenues

7.16. SIF Returned Project Revenues are revenues that fall into one of the following categories and may be returned to consumers, or retained by the Funding Party, through the SIF Funding Return Mechanism.

7.17. The categories of revenues are:

- Category 1: revenues generated by the Project that are specifically identified in the SIF Project Direction, other than SIF Returned Royalty Income; and
- Category 2: underspent SIF Funding (ie funds which remain even though the Project has satisfied the SIF Project Direction).

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 7.23 apply to Category 1 revenues as defined in paragraph 7.17 above:

Notification of revenues

7.20. Any revenues earned that are subject to return under the SIF Funding Return Mechanism must be identified in the SIF Project Direction. The revenue stream will be reflected in the SIF Project Direction.

7.21. In determining what, if any, revenues should be subject to the SIF Funding Return Mechanism, 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 this mechanism. After considering the issue, if the Authority disagrees with the Funding Party's calculation of 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 (e.g. 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 Category 2 revenues as defined in paragraph 7.17 above. Any underspent SIF Funding should be clearly identified as part of the Project Close Down Report and returned to consumers through the next available SIF Funding Direction.

Recipients of any SIF Returned Project Revenues

7.25. Paragraphs 7.26 and 7.27 apply to both Category 1 and Category 2 revenues as defined in paragraph 7.17 above.

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 the relevant funds to be returned to consumers.

7.27. The Authority may consider it appropriate for a proportion of any revenues subject to this mechanism to be retained by the Funding Party (which may subsequently redistribute them amongst parties 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 (clearly stating why it's in the consumers' interests), which 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 Funding Party's Compulsory Contribution), which has meant that the Project can take place with a lower amount of SIF Funding.

Halting a Project

7.28. An innovator may seek Ofgem’s permission to halt a Project, for example because it has become clear that the Method is not viable or there are other reasons why it is not efficient, or it is otherwise not possible to continue with the Project. The innovator may suspend the Project from the time it submits this request, pending a decision from Ofgem on the request. Ofgem may also call for an innovator to stop or pause a Project. From the time that either an innovator seeks permission to halt a Project, or in cases where Ofgem has called for a Project to be stopped or paused following failure to pass a stage gate. In which case, the innovator must not make any further withdrawals from the Project Bank Account unless:

- The funds have already been committed to the Project; or
- The innovator 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 innovator, the innovator will need to provide Ofgem with sufficient information to evaluate whether halting the Project will 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 halting because conditions agreed in the SIF Project Direction have not been met, the innovator 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. Ofgem will also identify any funds that have been received by the innovator, which have not yet been spent; less funds already committed and less any costs that Ofgem has agreed can be incurred to halt the Project. These funds will be SIF Halted Project Revenues and 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 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 funding.

Compliance

8.1. The Funding Party must ensure that the Project, in its entirety, is undertaken in accordance with the SIF Licence Condition, this SIF Governance Document and the relevant SIF Project Direction. This includes ensuring compliance with the SIF Licence Condition, the Reporting Instructions and Guidance, this 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 Reporting 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 these funds in a separate bank account or, where the Funding Party is unable to keep the funds in a separate bank account, it may keep the funds in a manner which meets the criteria set out in paragraphs 8.4 to 8.8 below.

Arrangements where the Funding Party is unable to keep the SIF funds in a separate bank account

8.4. Where the Funding Party is unable to keep the SIF funds in a separate bank account, it must provide a financial tracking and reporting system which is functionally equivalent to a separate bank account for a Project. This means the Funding Party must hold any SIF Approved Amounts, the Compulsory Contribution and all other funding from itself, Project

Partners and External Funders that the licensee has identified within its Application as funding for the Project in a memorandum account. The memorandum account must be capable of providing all the information that would be available from a separate bank account.

8.5. 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 funds are actually held.

8.6. The Funding Party's auditors must review the systems and processes that the Funding Party is proposing to use to conform to the requirements set out in this section, before the Project is initiated and any funds are spent.

8.7. The Funding Party's auditors must provide an annual report to confirm that the Funding Party is conforming to the requirements set out in this section.

8.8. The Funding Party must provide an audited schedule of all the memorandum account transactions, including interest (calculated according to paragraph 8.5(vi) above), as part of its report to Ofgem.

Use of the Project Bank Account

8.9. The Project Bank Account must be used for the sole purpose of holding any SIF Approved Amounts, the Compulsory Contribution and all other funding from the Funding Party, Project Partners and External Funders that the licensee 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 the Project being awarded funding. Deposits to the Project Bank Account from the different funding sources will be made no later than the start of the Formula Year in which the Funding Party identified they would be used in the Application.

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

Additional requirements to protect consumers

8.11. 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 and sets out how we treat these royalties and how they are calculated.

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 innovator 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. The benefits of a Project are maximised by the ability of other innovators 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 roll-out 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 innovator’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 it 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, it shall only do so where the assignee/transferee agrees to comply with these default IPR conditions.

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.

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 licence 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 of IPR which describes the application of a Method to a network and the benefits that can accrue. It could also

include the IPR that describe 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, (e.g. know how) or formal, (e.g. registered).

9.13. Relevant Foreground IPR is Foreground IPR that other innovators 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 Progress Report (PPR) 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 PPR - 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 innovators to purchase in line with the approach the innovator outlines in its Application.

9.15. Licensing of the Foreground IPR shall be agreed between the innovator 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 innovators 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 innovators 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 the Relevant Background IPR in accordance with the terms of its 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 must 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.

Royalties

9.25. 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.

9.26. A licensee is able to recover SIF Directly Attributable Costs. These are the costs of maintaining and managing Foreground IPR. Therefore, for each Project, the licensee will return the gross revenue generated through royalties or income generated through IPR less the SIF Directly Attributable Costs.

9.27. 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 (i.e. the licensee's contribution which is in excess of the Compulsory Contribution, plus the Compulsory Contribution), versus the outstanding SIF 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 Outstanding SIF Funding and the Compulsory Contribution will be returned to consumers.

9.28. Every Formula 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.

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

9.30. 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:

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

9.31. 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 ;
- $NLCC_k$ is the Compulsory Contribution to the Project k ;
- $NLECK$ is the extra licensee's contribution to the Project k ; and
- RA_k is the Approved Amount set out in the Project k Direction.

9.32. 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 Reporting Instructions and Guidance.

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

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

Appendix 1 - Definitions

Section summary

This chapter 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

The second Project Phase, focussing on small scale demonstration of the different solutions

Application

The Application for funding under the SIF. The Application consists of the responses to the Application questions and any supporting appendices.

Authority

The Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000.

Background IPR

Intellectual Property Rights owned by or licensed to a Project Participant at the start of a Project.

Beta Phase

The third Project Phase, focussing on deploying the solution.

Commercial Products

Products which have Background IPR identified prior to the commencement of the Project.

Compulsory Contribution

The financial contribution required by the Funding Party to the Total Project Cost which is 10 per cent of the value of the Initial Net Funding Required, unless otherwise specified in the Innovation Challenge Documentation.

Discovery Phase

The initial Project Phase, focussing on enhancing the understanding of the problem to be solved.

Eligibility Criteria

The criteria used to evaluate and compare Projects at Application, in order to assess which Projects (if any) should receive funding.

Eligible SIF Projects

means a project undertaken by the licensee that the Authority assess as satisfying such requirements of the SIF Governance Document as are necessary to enable the project to be funded under the SIF Funding Mechanism.

ENA Smarter Networks Portal

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

Energy Networks Association or ENA

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

Expert Assessors

Experts who together provide knowledge and expertise under the following headings: energy network industries, environmental policy, technical and engineering, economics and financial and consumer interests. Theyis appointed by Ofgem to advise the Authority’s decision making process on the selection of Projects for funding.

External Funder

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

External Funding

Project funding provided by an External Funder or Project Partner.

Foreground IPR

All Intellectual Property Rights created by or on behalf of any of the Project Participants, innovators 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

The licensee which applies for funding from the SIF and which is named in the Application as the Funding Party. The Funding Party receives the Approved Amount and is responsible for ensuring the Project, including any work undertaken by Project Partners, complies with the SIF Licence Condition, this 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

This is the Total Project Costs minus any funding from Project Partners, External Funders and the innovator which is in excess of the licensee's Compulsory Contribution.

Innovation Funding Incentive or IFI

An innovation allowance provided to network companies in previous network price controls.

Innovation Challenge

The strategic challenge will be determined by Ofgem to define the areas targeted for innovation.

Innovation Challenge Documentation

The set of documents released alongside each Innovation Challenge, which will provide information to the innovators on the Application process.

Intellectual Property Rights or IPR

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.

Innovation Vision

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

Low Carbon Networks Fund or LCNF

An innovation funding mechanism for Electricity Distribution Licensees in previous price controls.

Material Change

A change which could reasonably be believed to have caused: (i) the Expert Assessors to change its 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

The proposed way of investigating or solving the Problem.

Network Innovation Competition or NIC

Innovation funding mechanism for high value innovation Projects in the RIIO-1 price control.

Net-Zero

Refers to achieving net-zero carbon dioxide emissions

NIA

Means the network innovation allowance provided by the RII0-2 NIA Licence Condition.

NTS Owner

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

Open Energy Platform

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

Outstanding Funding Required

Initial Net Funding Required minus the Compulsory Contribution.

Problem

The obstacle or issue that needs to be resolved in order to facilitate the net zero future.

Project

The innovation being proposed or undertaken. Projects have several Project Phases.

Project Bank Account

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 meets the requirements this Governance Document.

Project Deliverable

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 (KPIs) 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 Participant

A party who is involved in a Project. A participant will be one of the following: licensee, Project Partner, External Funder, Project Supplier or Project Supporter.

Project Partner

Any partner that makes a contractual commitment to contribute equity to the Project (e.g. in the form of funding, personnel, equipment etc.) the return on which is related to the success of the Project.

Project Phase

Stages within a Project. There are three Project Phases within a Project: Discovery Phase, Alpha Phase, and Beta Phase which each require a funding Application.

Project Supplier

A party 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

A party that makes no contractual or binding commitment to the innovator 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.

Relevant Background IPR

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

Relevant Foreground IPR

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

Retained SIF Royalties or RSIFR

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

RIIO

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

The network price control which ran between 1 April 2013 and 31 March 2021 for Gas Transporter and Electricity Transmission Licensees.

RIIO-2

The network price control which runs between 1 April 2021 and 31 March 2026 for Gas Transporter and Electricity Transmission Licensees.

RIIO-2 NIA Licence Condition

Either:

- Special Condition 5.2 (The RIIO-2 network innovation allowance) of the Gas Transporter Licence held by National Grid Gas plc.
- Special Condition 5.2 (The RIIO-2 network innovation allowance) 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 5.2 (The RIIO-2 network innovation allowance) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, SP Transmission Ltd and Scottish Hydro Electric Transmission Plc.

- Special Condition 4.6 (The RIIO-2 network innovation allowance) of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited.

SIF Approved Amounts

Amounts approved by the Authority in relation to a claim submitted by UKRI to fund costs administering the SIF, or a claim submitted by the Funding Party to receive 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 intellectual property generated through Eligible SIF Projects undertaken by the licensee that have not been otherwise remunerated by Network Charges, 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 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

A direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to funding for Projects.

SIF Funding Mechanism

means a mechanism which provides for payments to be made by the licensee to the NTS Operator and Electricity System Operator, 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 Funding Request

The Outstanding Funding Required, including a deduction for the bank account interest that the innovator will earn on the balance of 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 the mechanism by which the licensee receives the amount of authorised SIF Funding in any Regulatory Year from the NTS Operator, less any SIF Funding Return.

SIF Governance Document

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

SIF Halted Project Revenues

means any revenues received by the licensee from the NTS Operator or Electricity System Operator 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 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

Either:

- Special Condition 5.7 (The Strategic Innovation Fund) of the Gas Transporter Licence held by National Grid Gas plc
- Special Condition 5.5 (The Strategic Innovation Fund) of the Gas Transporter Licence held by the Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, and Wales and West Utilities Limited
- Special Condition 5.8 (The Strategic Innovation Fund) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, SP Transmission Ltd and Scottish Hydro Electric Transmission Plc
- Special Condition 3.4 (The Strategic Innovation Fund) of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited.

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 Electricity System Operator under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, and where that 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 customers.

SIF Returned Royalty Income

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

SIF Royalties

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

Strategic innovation Fund or SIF

Innovation funding mechanism in the RIIIO-2 price control for strategically important innovation Projects.

Total Project Costs

This is the forecast costs the innovator expects to require to undertake the Project.

UK Research & Innovation, or UKRI

The UK Government's research and innovation agency. It is a non-departmental public body sponsored by the Department for Business, Energy and Industrial Strategy (BEIS).

Working Day

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.