

National Grid Electricity Transmission Plc
SP Transmission plc
Scottish Hydro Electric Transmission Plc
National Grid Electricity System Operator Ltd
National Grid Gas Plc
Cadent Gas Ltd
Northern Gas Networks Limited
Scotland Gas Networks Plc
Southern Gas Networks Plc
Wales & West Utilities Ltd.

Email: graeme.barton@ofgem.gov.uk

Date: 9 September 2022

Dear Company Secretaries,

Direction to issue Version 2 of the SIF Governance Document

1. Each of the companies to whom this direction is addressed is the holder of a licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 or section 7 of the Gas Act 1989.
2. In accordance with paragraphs:
 - a. 5.7.14 of Special Condition 5.7 (The strategic innovation fund) of the Gas Transporter Licence held by National Grid Gas plc;
 - b. 9.13.13 of Special Condition 9.13 (The strategic innovation fund) of the Gas Transporter Licence held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, and Wales and West Utilities Limited;
 - c. 9.19.13 of Special Condition 9.19 (The strategic innovation fund) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, SP Transmission plc and Scottish Hydro Electric Transmission Plc; and
 - d. 3.4.12 of Special Condition 3.4 (The strategic innovation fund) of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited,

on 06/07/2022 the Gas and Electricity Markets Authority ("the Authority")¹ consulted on proposed amendments to the SIF Governance Document by publishing on its website the text of the proposed amendments and called for consultation responses to be made on or before 04/08/2022.²

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² The consultation on our proposed modifications to SIF Governance Document is accessible here: <https://www.ofgem.gov.uk/publications/consultation-modification-riio-2-strategic-innovation-fund-governance-document>

3. We received representations from 9 respondents, we have carefully considered all representations. We have placed all non-confidential representations on our website.³ Our responses to the representations are set out in our decision letter, a spreadsheet detailing line by line changes and letter to the Distribution Network Operators, which are published online alongside this direction.⁴
4. We have considered all representations made by respondents and consequently we have made changes to the text of the SIF Governance Document to ensure that the governance arrangements for the SIF achieve our desired policy objectives, as set out in the RIIO-2 Final Determination⁵ and our decision letter⁶ published alongside this direction. We have also made typographical changes, where necessary, to improve drafting of the existing SIF Governance Document. The full text of version 2 of the SIF Governance Document, as well as a track change version compared with version 1 (which was published on 25 August 2021), are published online alongside this direction.⁷
5. The reason for this direction is to give effect to SIF Governance Document which details the amended arrangements and governance of the strategic innovation fund, which we decided to introduce in the RIIO-2 Final Determination.
6. This direction is our notice of reasons for the purposes of section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.
7. Now the Authority pursuant to the provisions of:
 - a. Special Condition 5.7.11 (The strategic innovation fund) of the Gas Transporter Licence held by National Grid Gas plc;
 - b. Special Condition 9.13.10 (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;

³ Responses to our consultation are accessible via this page: <https://www.ofgem.gov.uk/publications/updated-sif-governance-document>

⁴ The decision letter, spreadsheet detailing line by line changes and letter to Distribution Network Operators are accessible here: <https://www.ofgem.gov.uk/publications/updated-sif-governance-document>

⁵ RIIO-2 Final Determinations – Core Document, paragraphs 8.52-8.60; <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

⁶ The decision letter is accessible here: <https://www.ofgem.gov.uk/publications/updated-sif-governance-document>

⁷ A clean and track change copy of the SIF Governance Document is accessible here: <https://www.ofgem.gov.uk/publications/updated-sif-governance-document>

- c. Special Condition 9.19.10 (The strategic innovation fund) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, SP Transmission plc and Scottish Hydro Electric Transmission Plc; and
- d. Special Condition 3.4.9 (The strategic innovation fund) of the National Grid Electricity System Operator Licence,

hereby directs that version 2 of the RII0-2 SIF Governance Document is issued and will have effect from 9 September 2022.

For more information regarding this direction you should contact Graeme Barton (graeme.barton@ofgem.gov.uk).

Yours faithfully,

Graeme Barton

Head of Price Control Operations – Small & Medium Sized Projects, Onshore Networks.

Signed on behalf of the Authority and authorised for that purpose by the Authority.