Decision on the Consultation on potential changes to the default approach to the Strategic Innovation Fund for round two or three Innovation Challenges, and Information gathering on Round 3 Challenges

The Strategic Innovation Fund (SIF) is a 5-year £450 million initiative to encourage innovation that will unblock the energy transition. SIF was launched in July 2021 by Ofgem as a RIIO[1]-2 funding mechanism. The SIF focuses on finding and funding ambitious, innovative projects with the potential to accelerate the transition to net zero and delivering net benefits to energy consumers.

Ofgem is the decision-maker in relation to the SIF. To support the SIF's operation, Ofgem partnered with Innovate UK, part of UK Research and Innovation (UKRI). As per the SIF Governance Document[2], Innovate UK's role is to deliver the SIF in line with the SIF Governance Document, including making recommendations to Ofgem on operational matters.

To date, the SIF has issued two rounds of Innovation Challenges (round one[3], round two[4]). Networks and innovator partners have responded to round one and two Innovation Challenges with Applications for funding. Round one Discovery and Alpha phases have completed. Round one Beta Applications are under review, with round two Discovery Projects in flight presently.

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[1] RIIO stands for Revenue = Incentives + Innovation + Outputs
RIIO-2 is the price control period which runs between 2021-2026 for Electricity System Operator, Electricity Transmission, Gas Transmission and Gas Distribution sectors and from 2023 for the Electricity Distribution sector. RIIO-2 is our approach to ensuring that monopoly companies who own and operate our gas and electricity networks have enough revenue to run an efficient network that delivers what customers need.
[2] Updated SIF Governance Document | Ofgem
[3] Strategic Innovation Fund - Innovation Challenges | Ofgem
[4] Strategic Innovation Fund - Round Two Innovation Challenges | Ofgem

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Following on from our consultation of 7 March[5], we[6] have decided to allow projects which have not completed a prior SIF Project Phase to apply directly to the Alpha Phase and Beta Phase for round two of the SIF. This aligns with the process set out in paragraph 1.14 of the SIF Governance Document. Projects seeking to apply to the round 2 Alpha Phase or Beta Phase via the direct access approach will be required to submit a notification of intent to the SIF mailbox (SIF_Ofgem@iuk.ukri.org) no later than 4 weeks before the close date for Applications of that Project Phase. For the round 2 Alpha Phase, prospective projects must submit their notification to the SIF via the direct approach by 2 June 2023.

Prior to an application being submitted, Ofgem will ascertain that all previous activities have concluded and have been signed off within 2 years of the start date of the Project Phase applied for. Ofgem's process for managing direct applications will include consideration on a case by case basis of the relevant context in which notifications are submitted, including previously completed activities and their past funding to ensure that (a) projects align with the SIF's aims and objectives and Round 2 Innovation Challenges (b) projects meet the SIF Eligibility Criteria and (c) direct access for projects is consistent with the de-risking inherent in Ofgem's default approach. Ofgem's management of direct applications is intended to ensure that the SIF and any of its Project Phases are not subverted and to provide prospective direct access projects with feedback on project alignment with the SIF and its structure and with the SIF Eligibility Criteria prior to an Application being submitted.

As part of the notification of intent, prospective direct access projects are encouraged to provide information in advance on the previous project's activities which could include, but is not limited to:

- Registration link on the Smarter Networks Portal, ENA Innovation Portal (energynetworks.org)
- A project plan of previous work including milestones and deliverables
- Overview of previous finances / costs (such as distribution and allocation between partners)
- Detailed closedown report
- Demonstration of value for money

These will be considered on a case-by-case basis by Ofgem. This approach is intended to provide prospective direct access projects with feedback on the alignment of the project against the Eligibility Criteria and the SIF's structure and intent prior to completing and submitting an Application on IFS.

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[5] For more information on the consultation please see: https://www.ofgem.gov.uk/publications/consultation-potential-changes-default-approach-strategic-innovation-fund-round-two-or-three-innovation-challenges-and-information-gathering-round-3-challenges
[6] The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

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Alongside this document, we have published:

- An updated copy of the round 2 Innovation Challenges, marking changes we have made since our consultation
- A clean copy of the round 2 Innovation Challenges
- An issue log of all the consultation responses received

Next steps on round one of the SIF

The table below provides details on the planned timeline for the operation of round 2 of the SIF over coming months.

Project Phase	Milestone	Date
Round 2 Discovery	Discovery Phase end	30 June 2023
Round 2 Alpha	Alpha Phase Application open	24 April 2023
Round 2 Alpha	Deadline for notification of intent for direct access submission	2 June 2023
Round 2 Alpha	Alpha Phase Application close	5 July 2023
Round 2 Alpha	Alpha Phase begin	1 October 2023
Round 2 Alpha	Alpha Phase end	31 March 2024

Marzia Zafar

Deputy Director for Strategy & Decarbonisation

For and on behalf of the Authority

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Annex 1 – consideration of responses to consultation questions

1. We received a total of 15 written responses to our consultation on potential changes to the default approach to the SIF for round two or three Innovation Challenges, and information gathering on the round 3 Innovation Challenges.

2. Ten of these responses came from gas or electricity network licensees and the Electricity System Operator (ESO). We received five responses response from industry organisations and interested third-parties.

3. Please note that even though 15 responses were received, not all consultation questions were responded to by all 15 respondents.

4. Annex 2 sets out our consideration for each the responses received for 'Issue (A)' of the consultation and our decisions on the approach to the round two and round three Innovation Challenges. Annex 3 sets out our consideration for each of the responses received for 'Issue (B)', which focused on the round three Innovation Challenges.

5. The issues log published alongside this decision provides each of the non-confidential responses received for each of the questions in the consultation.[7]

What benefits or disadvantages could be gained from allowing SIF Applications to apply directly for Alpha or Beta Phase

Summary of responses

6. The majority of the responses to this question (13 of the 15 responses) stated there were benefits to be gained from allowing SIF Applications to apply directly for Alpha and/or Beta phase and directly supported a change to the default approach.

7. Several responses also noted potential disbenefits of the direct access format. One respondent identified both advantages and disadvantages of the direct access format, with no clear indication if the benefits outweighed the disbenefits.

8. One respondent did not support a change to the default approach, stating that the change was not in line with the objectives of the SIF.

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[7] The issues log can be found published as a subsidiary document to the Consultation Decision

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9. Responses specified a range of benefits to be derived from a change to the default approach;

- Eight respondents indicated that direct access would enable flexibility across project timelines and flexibility across the different funding mechanisms

- Six respondents indicated that direct access would accommodate faster deployment of solutions to commercial roll out/ BAU, and realisation of benefits from those solutions

- Nine respondents indicated that direct access would decrease the risk of duplication of effort where existing work that corresponds to typical discovery phase activities has already been completed

10. Four respondents also indicated some potential disadvantages of a change to the default approach. The issues raised by the respondents were;

- One respondent highlighted that the Discovery Phase may become less attractive to applicants

- One respondent highlighted that SME's may have some gaps in understanding of the problem a project is trying to solve

- One respondent indicated potential confusion as to the purpose of the Discovery phase if other funding sources (such as the NIA) are available as an alternative

- One respondent noted that the SIF's default multi-phase approach is distinct from other funding avenues available and provides a process for high-risk innovation projects to be explored and scrutinised suitably, and that valuable discovery phases activities could be undermined under a direct access approach to the Alpha Phase and Beta Phase

11. Respondents indicated that these potential disadvantages could be mitigated against by a robust assessment of direct access applications, clear guidance for applicants as to the suitability of projects and the ongoing maintenance of the clear strategic priorities of the SIF operating model.

Decision

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12. Projects will be able to apply directly to the Alpha Phase and Beta Phase in the round 2 Innovation Challenge.

13. Prior to submitting a full Application on Innovation Funding Service, prospective direct access projects will be required to submit a notification of intent to the SIF mailbox (SIF_Ofgem@iuk.ukri.org) no later than 4 weeks before the close date for Applications of that Project Phase. For the round 2 Alpha Phase, the notification of intent must be submitted to the mailbox no later than 2 June 2023.

Rationale

14. A significant majority (12 of the 15 responses received) clearly stated they were in favour of allowing prospective projects apply directly to the Alpha Phase or Beta Phase. These responses highlighted that such a process would reduce the duplication across multiple funding avenues, speed up delivery of innovation projects, attract a wider range of ideas, and support a more efficient use of consumer money.

15. We agree and consider the benefits of enabling direct access to the Alpha Phase and the Beta Phase to outweigh the potential disadvantages mentioned in several of the responses highlighted above. As discussed further in the rationale to questions four and five of the consultation below, prospective direct access projects will be required to submit a direct access notification of intent form before submitting an Application. We have considered and assessed the disadvantages included in the responses and consider this approach to provide a clear route for prospective direct access projects to engage with Ofgem and Innovate UK and understand whether the direct access route is suitable for a prospective project, whilst maintaining the SIF's aim. Overall, we consider that direct access would contribute to positive outcomes for the programme, in line with its strategic objectives.

Specifically for round 2 where Applications for the Discovery Phase have already been submitted and assessed, what are your views on allowing direct access to Alpha or Beta Phase funding? Should direct access be limited to certain funding sources? For instance:

- **only for Projects that have completed previous development and testing through Network Innovation Allowance (NIA) and / or Network Innovation Competition (NIC) Projects and / or**

- **Projects that have received other funding which can demonstrate similar activities required of a Discovery Phase Project e.g. funding**

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governmental bodies such as DESNZ (Department for Energy Security and Net Zero).

Summary of responses

16. Of the 15 respondents to this question, 13 supported direct access being available to projects funded by other funding sources which can demonstrate similar activities required of a Discovery Phase project.

17. One respondent did not support SIF being open to other funding source and noted that the SIF's current three-phased process supports a de-risking of innovation projects which could be limited under a direct access model where projects which have received outside funding before applying to either the Alpha Phase or Beta Phase.

18. One response also suggested that direct access only be open to NIA and NIC projects for this initial round and be expanded to include projects funded other avenues in the future.

19. One response, which was in favour of the direct access approach being available to projects, stated that it should only be implemented in round 2 for the Beta Phase. This respondent noted that there should not be restrictions or limitations on the funding source.

20. Those that supported direct access from a broader range of projects indicated that such an approach would be advantageous, on the basis that it would expose the networks to broader range of projects, technologies and approaches. This could potentially be from different sectors, and could deliver overall benefits to the networks, consumers and the wider innovation landscape.

21. All respondents indicated that projects funded through other mechanisms applying for direct access would need to demonstrate that they have met the eligibility criteria set by the SIF Governance Document and that the previous project has produced a standard of work comparable to the preceding SIF phase.

Decision

22. Direct access to the SIF Alpha and Beta Phases will be allowed for previous NIA projects, NIC projects, and projects which have been delivered outside of the NIA and NIC.

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Rationale

23. We consider that allowing projects funded by NIA, NIC and other routes outside of the SIF or network innovation funding mechanisms could encourage cross industry collaboration, and positively impact on the SIFs ability to achieve its strategic outcomes.

24. We acknowledge the feedback that direct access projects which have not completed the SIF's default multi-phase approach (Discovery Phase, Alpha Phase and Beta Phase) may not be provided with the same opportunity to de-risk the innovation of the proposed project. However, direct-access projects will be required to demonstrate that a similar level of activities to those set out in paragraphs 1.15-1.17 of the SIF Governance Document[8] have occurred prior to submission of an Application to either the Alpha Phase or Beta Phase.

25. The SIF's default multi-phase approach will continue alongside the direct access option and the Discovery Phase will be the primary default route for innovation ideas to progress into the Alpha and Beta Phases.

What would be appropriate mechanisms for previously non-network led Projects to find and secure a lead network partner if this process was opened up to other types of funding?

Our consultation position

26. Each SIF Project is required to have a network licensee as the Funding Party[9]. Prospective direct access projects which occurred outside of the NIC and NIA may not have a network licensee as part of its project consortium and therefore may be required to partner with a network licensee to submit a direct access submission to the SIF. Should a network licensee be required for a direct access submission, we wanted to ensure that projects without a network licensee as a Funding Party would have sufficient access and avenues to have a network licensee join the project consortia.

Summary of responses

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[8] The SIF Governance Document is available here: https://www.ofgem.gov.uk/publications/updated-sif-governance-document
[9] As defined in the SIF Governance Document, the Funding Party is the licensee who applies for SIF Funding and who is named in the Application as the Funding Party. The Funding Party receives the Approved Amount and is responsible for ensuring that the Project, including any work undertaken by Project Partners, complies with the SIF Licence Condition, the SIF Governance Document and the terms of the SIF Project Direction(s). It is also the main point of contact for the Project.

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27. We received 15 respondents to this question. Responses generally included feedback on which existing mechanisms have supported third-parties securing a lead network partner under the SIF's default multi-phase approach and feedback on how these could be adapted for the direct access process or additional mechanisms which could be developed. Of the 15 respondents, all but two indicated that there are several existing mechanisms in place for non-network led projects to find and secure a lead network partner (Funding Party) for a direct access submission.

28. Several of the respondents noted that the SIF's dissemination events are useful avenues for engagement, such as the SIF's 'Basecamp Event', the Energy Innovation Summit, and the SIF Pitching Events. Respondents also highlighted other avenues for pitching prospective projects, such as the submission of ideas through the Smarter Networks Portal and through the ENA and its two governing groups, the Electricity Innovation Managers and Gas Innovation and Governance Group (EIM GIGG). Several of the respondents specifically noted the importance of direct engagement between prospective projects and network licensees, noting that the existing mechanisms provide several avenues for this engagement to occur.

29. Three of the respondents also noted that there could be scope for additional engagement routes, and four respondents noted existing mechanisms could be adapted for prospective direct access projects to secure a Funding Party. These were mentioned to include additional pitching and matchmaking focused workshops and utilising other industry organisations and government or non-governmental organisations to support the matchmaking process for prospective direct access projects. However, several responses also noted that the existing mechanisms should provide sufficient opportunity for prospective direct access projects which align with the SIF and its focus to receive network engagement and buy-in.

30. We also acknowledge that two responses noted that not requiring a network licensee to lead a SIF Project could lead to a greater variety of projects in the SIF and would reduce the barrier to non-network lead projects participating in the SIF and the need for networks to engage and lead prospective direct access projects.

Decision

31. The existing mechanisms in place should be sufficient to support non-network led projects to find and secure a lead network partner. Ofgem and Innovate UK will continue to support the SIF's annual dissemination events, engagement and matchmaking opportunities between non-network lead projects and network licensees.

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Rationale

32. All but two respondents noted that there are several mechanisms currently available for non-networks to pitch and propose prospective projects to networks, we therefore consider the existing mechanisms in place to be sufficient to support the decision. We will continue to look for new opportunities to encourage and support non-network participation in the programme.

33. Ofgem and Innovate UK will continue to review and assess whether additional or adapted mechanisms would better support direct access for non-network lead projects. Furthermore we will work with Energy Networks Association and other industry organisations to communicate a concise and clear mechanism to effectively and efficiently navigate the various engagement mechanisms. We will also seek to incorporate feedback from participants in the SIF into the direct access approach.

Would the imposition of a qualifying time period be reasonable (for example, restricting direct access to Projects which have concluded in the last 2 years)? What do you think would be an acceptable qualifying time limit to impose, and why?

Summary of responses

34. Of the 15 respondents to this question, all but one were supportive of no qualifying time period being imposed.

35. While there was a broad understanding from several respondents of why a time period may be imposed, many respondents stated that imposing a time limit may unnecessarily limit the types of projects which would be submitted under the direct access approach. These respondents cited the progression of technology, networks and markets, and changes to policies and regulations, as reasons for why a previous project may now be relevant to the challenges networks currently face. Where there was broad understanding for why a time period would be imposed, it was also noted that it should be considered on a case-by-case basis for each direct access project.

36. All of the respondents who were supportive of no time period being imposed stated that direct access projects should instead be assessed on a combination of aspects, such as their applicability and relevancy to the SIF and that round's Innovation Challenges, their potential consumer benefits, and sufficient justification for why the previous project has not yet been implemented.

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37. One respondent, while not supportive of the direct access proposal, was supportive of imposing a time period, should the direct access approach be implemented. This respondent also noted that consideration should be given for the previous funding received by prospective direct access projects to ensure a level playing field between Projects following the SIF's default multi-phase approach and direct access projects.

Decision

38. A time limit will be imposed on direct access projects of needing to have completed all activity within two years of the start date of the start date for the SIF Project Phase which the project is applying to.

Rationale

39. We recognise that imposing a time limit may result in prospective direct access projects being excluded from the SIF. We also recognise that changes to technology, networks, and policy and regulation could result in a previous project now being relevant to the SIF and the challenges network currently face. If no activity has been carried out against a project in the last two years then it is appropriate that applicants retest their assumptions, review the applicability of their problem statements, as well as key user needs. These are all key Discovery Phase activities which applicants would struggle to complete alongside the expected activities within an Alpha or Beta Phase.

40. We also note that all but one of the respondents to this question were not supportive of a time period being imposed on prospective direct access projects. Furthermore, many of the respondents who were broadly supportive of a time period being imposed also noted that this should be reviewed on a case-by-case basis.

41. However, our intention with the direct access approach is to ensure that an accelerated pathway is available for previous projects which can clearly demonstrate their relevance and applicability to the SIF and its structure and intent, and the Eligibility Criteria. More specifically, the direct access approach is intended for non-SIF projects which; can clearly demonstrate and justify how its previous work aligns with the structure of the SIF (as set out in paragraphs 1.15-1.17 in the SIF Governance Document); demonstrate that following the SIF's default multi-phase approach would likely result in duplicative funding with the already completed activities; and demonstrate that the flexibility of the direct access would lead to innovation benefits being realized for consumers, networks, and the wider innovation landscape sooner than under the SIF's default multi-phase approach. As such, we want to ensure that the direct access projects are relevant to the challenges the networks face

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and have access to the appropriate resource and teams which completed the previous direct project(s).

42. Ofgem and Innovate UK will continue to evaluate whether imposing a time period on direct access is the best approach to realize the SIF's focus of the achievement of Net Zero and the energy system transition, whilst delivering net benefits to energy consumers, and to monitor how the direct access approach functions alongside the SIF's default multi-phase approach. We will also seek to incorporate feedback from participants in the SIF into the direct access approach.

43. It is also important to note that projects submitted via the direct access approach, that have concluded all activities within two years of the start date for the SIF Project Phase which the project is applying to, will be assessed for their applicability and relevancy to the SIF, and against each of the SIF's Eligibility Criteria.

Under a direct access model, should there be a limit on the number of Projects that have not completed a previous SIF Discovery and, or Alpha Phase that are awarded funding? Should there be a limit on the total number of Applications of this type that each network licensee may submit? Or should there be no limits at all? Please provide justification for your reasoning.

Summary of responses

44. Of the 15 responses to this question, ten were supportive of there being no limit on the number of direct access projects that are awarded SIF Funding.

45. While all were supportive, two responses noted that the direct access approach could undermine the SIF's multi-phase approach and the Discovery Phase specifically. Many of the responses which were favourable to no limit being imposed stated that by assessing the direct projects on their applicability and relevancy to the SIF and the Innovation Challenges, and against the Eligibility Criteria and the evidence that the previously completed work aligns with paragraphs 1.15-1.17 in the SIF Governance Document, would be sufficient to limit undermining of the SIF's default approach and the Discovery Phase.

46. Three responses also noted that limits on the number of direct access projects awarded SIF Funding could be introduced to ensure that the SIF's default approach is not undermined. However, these three responses in addition to some of those not in favour of a limit being imposed noted the challenge of setting a limit as it could limit the number of Applications and Projects which receive SIF Funding.

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47. Five responses also stated that imposing a limit could result in certain relevant and eligible direct access projects being excluded and that imposing a limit on the number of direct access Projects being awarded and not on the number of the submissions could result in an unfair or uneven distribution of projects being awarded SIF Funding across the networks. Both situations could limit benefits to consumers, networks, and the wider innovation sector.

48. The majority of responses also noted that the current SIF resource requirements and resource availability within networks and non-networks would likely limit the number of direct access projects being submitted to the SIF.

Decision

49. No limit will be imposed on the number of direct access Projects which can be awarded SIF Funding.

50. Ofgem and Innovate UK will continue to monitor the direct access approach to ensure that it does not subvert the SIF's approach to innovation and any of the SIF's Project Phases. We will also seek to incorporate feedback from participants in the SIF into the direct access approach.

Rationale

51. We recognise that all responses to this question were in favour of there being no limit to the number of direct access Applications which can be awarded SIF Funding. As the majority of responses were clear that the available resources in both network licensees and non-network partners would self-regulate the number of direct access Projects being submitted, we are confident that the number of Applications being submitted will be manageable from the resource perspective of networks, non-network partners, Ofgem and Innovate UK.

52. Ofgem and Innovate UK will continue to monitor and evaluate the direct access approach to ensure that the SIF's approach and each of the SIF's Project Phases are not being undermined. Should it be recognised that the SIF and/or any of its Project Phases are being undermined by the direct access route, limits may be imposed for future Project Phases and Innovation Challenge rounds.

53. As mentioned in our rationale to question 4, it is important to also consider our intent with the direct access approach, where prospective projects in can clearly demonstrate and justify; how previous work aligns with the structure of the SIF (as set out in

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paragraphs 1.15-1.17 in the SIF Governance Document); that following the SIF's default multi-phase approach would likely result in duplicative funding; and that the flexibility of the direct access would lead to innovation benefits being realized for consumers, networks, and the wider innovation landscape sooner than under the SIF's default multi-phase approach.

For network companies only: if direct access was enabled for Round 3, approximately how many Alpha Phase and Beta Phase Applications would you anticipate submitting?

Summary of responses

54. We received 12 responses to this question. Five responses highlighted that due to the timing of round 3 Alpha Phase and Beta Phase being more than a year away and the uncertainty of the round 3 Innovation Challenge topics, it is difficult to give an accurate estimate for round 3 of the SIF. Five responses also highlighted that the resource requirements for submitting an Application and implementing SIF Projects would limit the number or direct access projects they plan on submitting in round 3 to the Alpha and Beta Phases.

55. The six responses which provided an estimate to the number of direct access Alpha Phase Applications for round 3 were broken down as:

Table 1: Anticipated round 3 Alpha Phase submissions

Number of submissions each respondent stated they might submit	1	1 or 2	2 or 3	3	3 to 5
Number of networks which stated they anticipate submitting approximately this amount of direct access Applications	1	2	1	1	1

56. Of the five responses which provided an estimate to the number of direct access Beta Phase Applications for round 3 were broken down as:

Table 2: Anticipated round 3 Beta Phase submissions

Number of submissions each respondent stated they might submit	1 or 2	2 or 3	5
Number of networks which stated they anticipate submitting approximately this amount of direct access Applications	3	1	1

Decision

57. No specific decision has been made regarding this question. The indicative breakdown provided for the round 3 Alpha Phase and Beta Phase provides us with the ability to

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assess that the resourcing requirements for direct access projects will remain manageable for networks, Ofgem and Innovate UK.

58. As stated in our rational for questions 4 and 5 above, we will continue to monitor the direct access approach to ensure that the SIF's objectives and approach to innovation (as set out in paragraphs 1.15-1.17 in the SIF Governance Document) are not being undermined, and that there are opportunities for relevant projects which align with our intent for the direct access approach to be submitted.

For network companies only: if direct access was enabled for Round 2, approximately how many additional Alpha Phase and / or Beta Phase Applications would you anticipate submitting in each phase respectively (over and above Projects you are planning will complete round 2 Discovery Phase)?

Summary of responses

59. We received 12 responses to this question. Four responses specifically mentioned the time scales required to submit an Application to the round 2 Alpha Phase and Beta Phase would impact the number of direct access Applications submitted. Four responses also mentioned that they were uncertain on the number of submissions to either Project Phase, specifically noting that the criteria for direct access Applications and resource requirements from applicants to submit a direct access Application would inform whether an Application is submitted to either round 2 Project Phase.

60. Of the 12 responses received, eight responses provided an indicative approximate number of direct access Applications that would be submitted to the round 2 Alpha Phase. Three of 11 responses stated that they did not anticipate submitting a direct access Application. Two of the 11 responses indicated an expectation of one to two Applications being submitted. One of 12 responses indicated an expectation of two Applications being submitted, and one of the 12 indicated two to three direct access Applications would be submitted. One of 12 responses indicated that two to three Applications would be submitted and one indicated that a number in the low single digits would be submitted.

61. Of the 12 responses received, seven responses provided an indicative approximate number of direct access Applications that would be submitted to the round 2 Beta Phase. One of these 12 responses did not anticipate submitting a direct access Beta Phase Application. One of the 12 responses indicated that approximately one Application would be submitted. Three of the 12 responses indicated that approximately one to two Applications would be submitted. One of the 12 responses

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indicated an expectation for 2 Applications being submitted, and one response indicated that the number in the low single digits would be submitted.

Decision

62. No specific decision has been made regarding this question. The indicative breakdown provided for the round 2 Alpha Phase and Beta Phase provides us with confidence that the resourcing requirements for direct access projects may remain manageable for networks, Ofgem and Innovate UK.

63. Additionally, as stated in our decision for question 6 and our rationale for question 4 and 5, we and Innovate UK will continue to monitor the direct access approach to ensure that the SIF's objectives and approach to innovation (as set out in paragraphs 1.15-1.17 in the SIF Governance Document) are not being undermined, and that there are opportunities for relevant projects which align with our intent for the direct access approach to be submitted.

For network companies only: would direct access to the Alpha Phase and / or Beta Phase in future Innovation Challenges impact the number of Discovery Phase Applications submitted by your network?

Summary of responses

64. We received 12 responses to this question. Four responses stated that they do not expect a direct access approach to the Alpha Phase and/or the Beta Phase in future Innovation Challenges to impact the number of Discovery Phase Applications submitted. The reasoning provided by these responses included the importance of the Discovery Phase in investigating the feasibility of Projects, network licensees not seeking to submit projects from funding sources outside of the SIF, and network licensees developing projects outside of the SIF for direct access alongside their existing SIF Projects.

65. Of the 12 responses received, eight stated that they anticipated the direct access to impact the number of Discovery Phase Applications submitted in future rounds. The extent and reasoning of the impact varied based on the responses.

66. Five of the eight responses which anticipated an impact to the number of Discovery Phase Applications cited the resource requirements for submitting an Application and implementing a SIF Project as a reason why network licensees could seek to progress a project outside of the SIF and submitting it through the direct access approach. These five responses all mentioned the potential for using outside mechanisms, such

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as the NIA, to develop and progress a project outside of the SIF but aligned with the Discovery Phase's feasibility-focused activities.

67. Two of the eight responses also mentioned that the SIF's timing for each round of Innovation Challenges could also impact whether other funding avenues, such as through the NIA, would be examined to undertake similar feasibility-focused activities to a Discovery Phase Project.

68. Three of the eight responses also noted that the impact to Discovery Phase submissions in future rounds of the SIF would depend on the NIA funding themes, resource availability within the networks and non-network partners, and the delivery timelines.

Decision

69. The direct access approach will be available where projects (as explained above in our rationale to questions 4 and 5) can clearly demonstrate and justify; how previous work funded through non SIF mechanisms aligns with the structure of the SIF (as set out in paragraphs 1.15-1.17 in the SIF Governance Document); that projects align with the SIF's aims and objectives and Round 2 Innovation Challenges; that projects meet the SIF Eligibility Criteria and; direct access for projects is consistent with the de-risking inherent in Ofgem's default approach.

Rationale

70. We recognise that several responses indicated that having the opportunity to develop Projects outside of the SIF and then submit to Alpha/Beta Phase through the direct access approach would result in fewer Discovery Phase Applications submitted. However, we consider the requirement for direct access projects to align with the SIF, its structure and intent, and the Eligibility Criteria set out in chapter 2 of the SIF Governance Document, and to demonstrate alignment with the SIF's multi-phase approach, to limit the number of eligible direct access projects.

71. We also note that it is not our intention for the direct access approach to be used to subvert any of the SIF's Project Phases or its approach to mitigating the risks of innovation. Projects submitted via the direct access approach are doing so at risk, as a direct access Application could be unsuccessful and could necessitate a Project completing additional work or the previous Project Phase to ensure alignment with the SIF and its structure. Ofgem is the decision maker in the SIF and will monitor the quality of the direct access Applications submitted and will assess each Application

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case by case to ensure alignment with the programme and that each Application is in the interest of consumers.

72. We also recognise that the intent for the direct access approach is for projects under from outside of the SIF to be submitted to the SIF to mitigate the duplication of funding and expedite the implementation of new innovations so that benefits are realized sooner for consumers and networks than under the SIF's default multi-phase approach. Network companies are not expected to use alternative funding mechanisms to intentionally subvert the Discovery or Alpha Phases from the inception of their innovation idea. As stated above, direct access applications will operate 'at risk' as they would be required to sufficiently demonstrate and justify their alignment with the SIF, its structure and intent, and the Eligibility Criteria. The direct access approach is instead intended to enable agility and ease of movement between different funding mechanisms under previously unforeseen circumstances.

73. As stated above, Ofgem and Innovate UK will continue to monitor the direct access approach throughout each round of the SIF to ensure that direct access Projects align with the SIF and its focus and do not undermine the SIF's multi-phase approach to mitigate the risk associated with innovations. We will also seek to incorporate feedback from participants in the SIF into the direct access approach.

Are there any specific considerations relating to the proposed direct access to Alpha Phase/ or Beta Phase which need to be taken into account?

74. We received 10 responses to this question which focused on several common themes. These have been summarized into the common themes below along with our consideration for the feedback received.

Resource requirements for submitting a direct access Application

75. Several respondents mentioned that it would be key for the existing project documentation to be used as part of a direct access Application to the SIF. These responses noted that requiring additional information or a new format for the submission of existing documentation may increase the burden of submitting a direct access Application which could limit or impede the total number of direct access Applications submitted and the variety of direct access projects submitted.

76. Two responses specifically mentioned the current resource requirements of submitting an Application to the SIF. These responses noted the potential for the NIA to be used

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to subvert the SIF's default multi-phase structure and its focus on mitigating the risks associated with innovations.

77. We recognise and acknowledge that network licensees have provided feedback through this consultation and previous SIF consultations on the resource requirements throughout the Project Phases. Our intention with the direct access approach is to ensure that prospective projects from a variety of innovation areas are able to apply to the SIF via the direct access approach with existing documentation so long as that existing documentation can clearly demonstrate that the direct access project has previously completed activities which align with the SIF's default multi-phase structure (as set out in paragraphs 1.15-1.17 in the SIF Governance Document), aligns with the SIF's focus and the Innovation Challenges, and meets the Eligibility Criteria set out in chapter 2 of the SIF Governance Document.

78. Along with Innovate UK, Ofgem will continue to engage in discussions with SIF participants and monitor the feedback received to incorporate resource efficiencies throughout each of the SIF's Project Phases. We will continue to consider changes to day-to-day operation of the SIF, where possible, which address the concerns and feedback brought forward by SIF participants. We will also continue to discuss potential changes on the operation of the SIF with networks at regular workshops.

Prescriptiveness of direct access requirements

79. Several responses indicated that level of detail and prescriptiveness for the direct access to the Alpha Phase and Beta Phase will be essential in assuring that direct access projects are appropriately scoped and can provide the required level of detail. Several responses also noted an expectation that direct access projects awarded SIF Funding at either Project Phase would be strong Projects which align with the SIF structure for each Project Phase, can demonstrate clear potential benefits, and can clearly articulate how the previous Project Phase's requirements have been met in their previous work. One response also specifically noted that the direct access approach should be an iterative process where participants can provide feedback on the process and requirements for direct access Applications.

80. We recognise that having a direct access approach which both provides a sufficient level of detail for applicants and is flexible enough to apply to a wide variety of projects from across the innovation sector will help to ensure the direct access approach realises its intended benefits. As we previously stated, our intention with the implementation of the direct access approach is for it be used in cases where projects can clearly demonstrate their alignment with the SIF's structure, its focus towards

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Innovation Challenges, and the Eligibility Criteria. It will be crucial for each direct access Application to be able to clearly demonstrate how they have met each of these criteria for it to be considered for a direct access Application.

Alignment with NIA for direct access in future rounds

81. Several responses noted that greater coordination and alignment between the SIF and the NIA would better support the submission of NIA projects through the direct access approach. It was specifically noted that earlier visibility of future Innovation Challenges would enable network licensees to appropriately plan for any direct access submissions. Similarly, it was mentioned that earlier visibility of NIA funding themes would support better coordination and planning for direct access submissions.

82. We recognise that network licensees may consider greater alignment between the SIF and NIA to be beneficial or useful for supporting the submission of direct access Applications to the SIF. However, our intent with the direct access approach is not to subvert the SIF's structure and approach to mitigating the risk of innovation or any of its Project Phases. Furthermore, and as previously stated, we do not foresee projects which seek to complete some activities similar to those in the Discovery Phase or Alpha Phase outside of the SIF, in lieu of completing these activities in the SIF, to sufficiently demonstrate that they meet the requirements for a direct access Application to the SIF.

83. We will continue to monitor and evaluate opportunities for efficiency between the SIF and other innovation funding routes available to ensure the approach operates efficiently and can deliver net benefits to energy consumers.

Issue (B) Information gathering exercise to understand industry perspectives on what types of solutions SIF Round 3 should fund

What are other similarly granular and transformational net zero challenges demanding innovative solutions on energy networks?

Our consultation position

84. The intent of this question was to ensure that for the round 3 Innovation Challenges, we identify granular problems with nationally significant implication for energy strategy, which innovators can develop cost effective and scalable solutions. The Innovation Challenges in round 1 and 2 of the SIF have so far focused on broader challenge areas with multiple detailed issues and problems behind each. For round 3,

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we are looking for more specific, high-impact problems that we should seek solutions for.

Summary of responses

85. We received 15 responses to this question. 14 of the responses included several different topics which the round 3 and future Innovation Challenges should prioritise or focus on. These have been summarized into key themes below.

86. Five of the 15 responses also provided feedback on the level of granularity the Innovation Challenges should include going forward. Three of these responses noted that the level of granularity in the Innovation Challenges to date have enabled a wide variety of focus areas for Projects within each of the challenges and was considered a positive aspect of less granular Innovation Challenges.

87. Two of the five responses noted that a mix of both broader Innovation Challenges (such as those to date which have allowed for multiple detailed issues to be examined) and more granular challenges (such as the example included in the consultation letter) would help to ensure that specific focus areas can be examined whilst supporting a wide variety of focus areas and applications in each round.

88. Two of the 14 responses also mentioned that a continuation of the round 1 Innovation Challenges into future Innovation Challenges would be helpful in enabling network licensees more effectively and efficiently plan and scope Projects.

Key areas of focus for round 3 and future innovation challenges

- **Whole system and cross-sector**: Focusing on whole system challenges which both gas and electricity networks currently face was specifically mentioned in three of the 14 responses received. It was noted in these responses that greater collaboration between gas and electricity networks, as well as with utilities, would help to deliver greater efficiencies and benefits to consumers, and support the development of cross-sector technologies.

- **Digitalisation and data**: Five of the 14 responses included focus areas related to greater use of data and digitalisation in the energy sector. These focus areas included specific topics such as: enabling the use of smart meter data to focus on energy efficiency opportunities, digital transformation, greater incorporation of machine learning and digital twins, and developing innovative digital solutions to reduce both security risks to operations and consumers.

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- **Cyber Security**: Of the 14 responses, three mentioned the importance of focusing on cyber security in future Innovation Challenges. While it was acknowledged that cyber security could relate to multiple challenge topics, it was noted that focusing on cyber security as a specific challenge topic could drive organisational change and support networks in identifying and prepare for future risks.

- **Flexibility**: Flexibility and aspects of flexibility were incorporated in four of the 14 responses received. Specific focus areas for flexibility were mentioned in regards to the coordination flexibility markets, incentivising low carbon electricity consumption, consumer engagement and participation in flexibility, and in ensuring networks are prepared for the future energy system.

- **Constraint and network management**: Specific focus areas relating to managing network constraints and network planning, across both electricity and gas, were mentioned in four of the 14 responses. Specific focus areas include: constraint management, energy storage, efficient and timely investment in electricity networks, hydrogen use in the National Transmission System, and supply chain constraints.

- **Ensuring a just and equitable energy transition**: Ensuring a just and equitable energy transition was included in four of the 14 responses. These responses highlighted the importance of ensuring the energy transition to Net Zero is equitable and open to all stakeholders, but also highlighted that this was an important cross-cutting theme which should be focal to all innovation initiatives.

Decision

89. The Decision on Round 3 Innovation Challenges will be published as part of the Innovation Challenge Document in Q2 2023. The evidence provided by respondents has been examined, analysed, and incorporated into the development of the Round 3 Innovation Challenges.

Rationale

90. The Innovation Challenge setting process has drawn evidence from a range of sources including:

- A review of national and sub-national Net Zero policy targets and commitments

- Review of industry and academic literature relating to energy innovation and operation of energy networks.

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- Interviews with technical, policy, and consumer representative experts from both the energy sector and other relevant sectors and industries.

- Focussed workshops with key stakeholder groups.

- Invite to flag areas of priority via this consultation.

91. The Round 3 Innovation Challenges will be developed and finalised drawing on the information gathered through all of these routes, with balanced consideration given to the full range of evidence gathered and diversity of stakeholder groups contributing.

92. Feedback received in response to this question has highlighted that there remain many different topic areas network licensees wish to see included in future Innovation Challenges. Our intention with the Innovation Challenges to date has been to focus on key challenges electricity and gas networks currently face and to specify sub-themes within the challenge topics where multiple areas of innovation would be best delivered.

93. Along with Innovate UK, Ofgem will continue to engage with SIF stakeholders and participants to incorporate the feedback received into the Innovation Challenge focus areas, and welcome ongoing engagement to share evidence of emerging problems or innovation opportunities.

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Annex 2 – Consolidated list of consultation questions

Issue (A) Assessing options for direct access into Alpha Phase and / or Beta Phase

1. In general, what benefits could be gained from allowing SIF Applications to apply directly for Alpha or Beta Phase funding (rather than allowing only Projects to apply that have completed SIF Discovery Phase). Conversely, what could be disadvantages of allowing this?

2. Specifically for Round 2 where Applications for the Discovery Phase have already been submitted and assessed, what are your views on allowing direct access to Alpha or Beta Phase funding? Should direct access be limited to certain funding sources? For instance:

    i.   only for Projects that have completed previous development and testing through NIA and / or NIC Projects and / or

    ii. ii. Projects that have received other funding which can demonstrate similar activities required of a Discovery Phase Project e.g. funding governmental bodies such as DESNZ (Department for Energy Security and Net Zero).

3. What would be appropriate mechanisms for previously non-network led Projects to find and secure a lead network partner if this process was opened up to other types of funding?

4. Would the imposition of a qualifying time period be reasonable (for example, restricting direct access to Projects which have concluded in the last 2 years)? What do you think would be an acceptable qualifying time limit to impose, and why?

5. Under a direct access model, should there be a limit on the number of Projects that have not completed a previous SIF Discovery and, or Alpha Phase that are awarded funding? Should there be a limit on the total number of Applications of this type that each network licensee may submit? Or should there be no limits at all? Please provide justification for your reasoning.

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6. For network companies only: if direct access was enabled for Round 3, approximately how many Alpha Phase and Beta Phase Applications would you anticipate submitting?

7. For network companies only: if direct access was enabled for Round 2, approximately how many additional Alpha Phase and / or Beta Phase Applications would you anticipate submitting in each phase respectively (over and above Projects you are planning will complete round 2 Discovery Phase)? 8. For network companies only: would direct access to the Alpha Phase and / or Beta Phase in future Innovation Challenges impact the number of Discovery Phase Applications submitted by your network?

8. Are there any specific considerations relating to the proposed direct access to Alpha Phase/ or Beta Phase which need to be taken into account?

Issue (B) Information gathering exercise to understand industry perspectives on what types of solutions SIF Round 3 should fund

1. What are other similarly granular and transformational net zero challenges demanding innovative solutions on energy networks?

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