

Southern Gas Networks Plc
St Lawrence House
Horley, England,
RH6 9HJ

Direct Dial: 020 7901 7295

Email: Marzia.Zafar@ofgem.gov.uk

Date: 16 February 2024

Dear Southern Gas Networks Plc,

SIF Project Direction ref: SGN/Gas Volume for Embedded Electrical Generation
Modelling/SIFNADSPS/Rd3_Discovery

Southern Gas Networks Plc submitted Gas Volume for Embedded Electrical Generation Modelling (the Project) to be considered for funding through the Discovery Phase of round 3 of the Strategic Innovation Fund (SIF). In our¹ SIF Funding Decision finalised on 16 February 2024, we selected the Project² for conditional funding for the round 3 Discovery Phase and as a result we are now issuing this SIF Project Direction to implement that decision.

Southern Gas Networks Plc must comply with the conditions contained in this SIF Project Direction as a condition of the Project receiving funding through the SIF. These conditions can be found in the Schedule to this document.

Progression through SIF Phases

The SIF consists of a multi-phase approach for Projects in order to mitigate the risk associated with innovations. The Discovery Phase focuses on feasibility, the Alpha Phase on experimental development, and the Beta Phase on deployment and demonstration. This Project Direction is for the round 3 Discovery Phase of the SIF.

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

² Unless otherwise specified, defined terms in this SIF Project Direction have the meaning given to them in Appendix 1 of the SIF Governance Document.

Role of UK Research & Innovation (UKRI)

As per Chapter 1 of the SIF Governance Document³ the role of UKRI is to deliver the SIF in line with the SIF Governance Document - administering the funding programme, monitoring the delivery of Projects, collating data from Projects on benefits, making recommendations to Ofgem on operational matters, supporting third-party innovators and, where possible, supporting successful Projects to become 'business as usual' activities. To support the success of the Projects and the SIF programme, we expect that the Funding Party and Project Partners collaborate with Ofgem and UKRI.

SIF Project Direction

Paragraph 5.14 of the SIF Governance Document states that a SIF Project Direction will:

- Set out the Project-specific conditions, to which the Funding Party is committing in accepting SIF Funding.⁴
- Require the Funding Party to undertake the Project in accordance with the commitments made in the Application. Where appropriate, the SIF Project Direction may therefore include extracts from the Application or refer to specific sections of the SIF Application.⁵
- Where applicable, set out conditions (such as Project stage gates) linked to milestones and deliverables, which Projects must meet.⁶
- Set out the SIF 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 of the SIF Governance Document.⁷
- Set out the Project budget that the Funding Party must report against and how variations in the Project budget will be reported.⁸
- Where applicable, set out special information sharing requirements applicable to the Project.⁹
- Set out the mechanism for the Funding Party receiving the SIF Approved Amount as set out in the SIF Funding Direction.¹⁰

All SIF Project Direction requirements are detailed in the Schedule to this SIF Project Direction.

³ <https://www.ofgem.gov.uk/publications/updated-sif-governance-document>

⁴ 'Project specific conditions' detailed under Point 3 - 'Condition Precedent' of this SIF Project Direction.

⁵ 'Project specific conditions' detailed under Point 3 - 'Condition Precedent' of this SIF Project Direction.

⁶ 'Project specific conditions' detailed under Point 3 - 'Condition Precedent' of this SIF Project Direction.

⁷ 'SIF Funding Amount' detailed under Point 5 - 'Condition Precedent' of this SIF Project Direction.

⁸ Annex 1 - Project Budget.

⁹ 'Project specific conditions' detailed under Point 3 - 'Condition Precedent' of this SIF Project Direction.

¹⁰ 'SIF Funding Amount' detailed under Point 5 - 'Condition Precedent' of this SIF Project Direction.

Decision

Provided the Funding Party complies with the SIF Governance Document and with the Schedule to this SIF Project Direction, the Project is deemed to be an Eligible SIF Project¹¹.

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

Marzia Zafar

Deputy Director, Decentralisation & Digitalisation

For and on behalf of the Authority

¹¹ 'Eligible SIF Project' is a defined term in the SIF Governance Document. See also, paragraph 5.13 of the SIF Governance Document.

Schedule to SIF Project Direction

1. PROJECT DETAILS

SIF Project Direction reference: SGN/Gas Volume for Embedded Electrical Generation Modelling/SIFNADSPS/Rd3_Discovery

Application number: 10107145

Project title: Gas Volume for Embedded Electrical Generation Modelling

Innovation Challenge/Project Phase: Novel technical, process and market approaches to deliver an equitable and secure net zero power system / Discovery Phase round 3

Project start date: 01 March 2024

Project end date: 31 May 2024

SIF Approved Amount for SIF Funding: £123,830

2. PREAMBLE

This SIF Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to Southern Gas Networks Plc (the "Funding Party") pursuant to the SIF Governance Document issued pursuant to Special Condition 5.7 of the Gas Transporter licence (the "Licence"). It sets out the conditions to be complied with in relation to Gas Volume for Embedded Electrical Generation Modelling (the "Project") as a condition of it being funded under the SIF Funding Mechanism.¹²

Unless otherwise specified, defined terms in this SIF Project Direction have the meaning given to them in the Licence or Appendix 1 of the SIF Governance Document.

References to specific sections of the Funding Party's Application in this SIF Project Direction are, for ease of reference, made by referring to the section number in the Funding Party's Application.

3. PROJECT SPECIFIC CONDITIONS

In accepting funding for the Project, the Funding Party is subject to the following Project-specific conditions:

Condition 1

The Funding Party must not spend any SIF Funding until contracts are signed with the Project Partners named in Table 1 for the purpose of completing the Project.

¹² The SIF Funding Return Mechanism is defined in the SIF Governance Document.

Table 1. Project Partners

<p>CADENT GAS LIMITED</p> <p>NORTHERN GAS NETWORKS LIMITED</p> <p>LANE CLARK & PEACOCK LLP</p>
--

Condition 2

The Funding Party must report to the Monitoring Officer on the financial contributions made to the Project as set out in its Application. Any financial contributions made over and above that stated in its Application should also be reported and included within the Project costs template.

Condition 3

The Funding Party must make reasonable endeavours to participate in all meetings related to the Project that they are invited to by Ofgem, UKRI and DESNZ during the Discovery Phase.

Condition 4

Prior to the start of the Discovery Phase the Funding Party must provide an updated Project plan to the Monitoring Officer providing more details the role of and responsibilities of Cadent, NGN and Lane Clark & Peacock in the Project.

Condition 5

Prior to completion of the Discovery Phase the Funding Party present at the end of Phase meeting the role of AI design and implementation, including how the machine learning modelling in GDNs will be utilised, in the optimisation of pipeline integrity management, demand forecasting, and enhanced safety protocols.

4. COMPLIANCE

The Funding Party must comply with Special Condition 5.7 of the Gas Transporter licence (the "Licence"), the SIF Governance Document and with this SIF Project Direction.

5. SIF APPROVED AMOUNT

The SIF Approved amount of £123,830 (as detailed under Section 1: Project details of this Project Direction) will be recovered by National Gas Transmission from GB customers and transferred to the Funding Party. The Funding Party is responsible for notifying National Gas Transmission of the bank account details to which transfers must

be made, in addition to completing Annex 2 of this SIF Project Direction. If a Funding Party is required to return funding to National Gas Transmission, the reverse applies. The Funding Party must provide bank account details to National Gas Transmission within two weeks of accepting this SIF Project Direction.

6. PROJECT BUDGET

The Project budget is set out in Annex 1 of this SIF Project Direction.

The Funding Party must report on expenditure against each line under the category total in the Project Budget and explain any projected variance against each line as part of its detailed report which will be provided, in accordance with Chapter 7 of the SIF Governance Document. The Funding Party must report variations in the Project budget as outlined in Chapter 6 of the SIF Governance Document.

7. PROJECT IMPLEMENTATION

The Funding Party must undertake the Project in accordance with the commitments it has made in the Application and with the conditions of this SIF Project Direction. These include (but are not limited to) the following:

- (i) To undertake the Project in accordance with its Application,
- (ii) To complete the Project on or before the Project completion date as detailed under Section 1 of the Schedule to this SIF Project Direction, and
- (iii) To disseminate the learning from the Project at least to the level described in chapter 3 of the SIF Governance Document. Dissemination of learning must be carried out whether the Project was concluded successfully or otherwise.

8. REPORTING

Ofgem and UKRI may issue guidance (and amend it from time to time) about the structure and content of the Project reporting required by Chapter 6 of the SIF Governance Document. The Funding Party must follow this guidance in preparing the reports.

As set out in chapter 6 of the SIF Governance Document, the Funding Party may be required to submit an end of Phase report to the UKRI monitoring officer for the round 3 Discovery Phase. An end of Phase report is required for the round 3 Discovery Phase if the Project is not planning on submitting an Application to the round 3 Alpha Phase and, if the Funding Party submits an Application for the Project for the round 3 Alpha Phase

but is not successful. Within this report, the Funding Party must submit information related to questions on Project delivery as detailed in chapter 6, table 6 of the SIF Governance Document.

9. MONITORING

The Funding Party must comply with any reasonable request for information by its monitoring officer at UKRI and related deadlines. Ofgem, with the support of UKRI, will together monitor Project delivery, impacts and benefits. Throughout the term of the Project, progress is monitored by UKRI through a monitoring officer. The monitoring officer is the first point of contact for official notifications, queries and correspondence with UKRI and the Authority, unless otherwise required by this SIF Project Direction.

As detailed in Chapter 6 of the SIF Governance Document, meetings with the monitoring officer will take place at regular intervals, as advised by Ofgem or the monitoring officer during the delivery of the Project, and at the end of each Project Phase.

10. EVALUATION

The Funding Party has acknowledged when it submitted its Application for this Project, that reporting information and data gathered during the Project's timescales (as detailed in Section 1 of the Schedule to this SIF Project Direction) will be used to evaluate Project performance. In addition, the Funding Party may be required to provide requested information outside of the Project timescales and, in particular, for the period from the Project end date to the end of the SIF Programme. Further data and reporting information may be requested (frequency and method based on requirement) outside of standard monitoring and reporting requirements as deemed necessary. Further data and information requirements must be complied with by the Funding Party and Project Partners.

11. DATA SHARING

As set out in Chapter 3 of the SIF Governance Document, the Funding Party must follow Data Best Practice Guidance with regards to all data gathered or created in the course of a Project. We expect the Funding Party to document any reasons, such as commercial sensitivities, for desensitising data. As defined by, and in accordance with, Data Best Practice Guidance, Funding Parties must have a data triage process. Where multiple Project Partners are collaborating on a Project, the consortium must adopt a consistent Open Data Triage for the data related to the Project. Ofgem may require that Project information and data is also shared with other specified parties, such as parties working

on complementary innovation funding programmes (subject to redaction of sensitive data).

12. CYBER SECURITY

It is the responsibility of the Funding Party and all Project Partners to implement and maintain appropriate security measures to protect personal data in accordance with The General Data Protection Regulation¹³ and Data Protection Act 2018¹⁴.

Protection of computer systems from unauthorised access or being otherwise damaged or made inaccessible must be in place alongside effective working practices. These must be maintained in line with the Funding Party's IT Management Strategies and policies.

13. PROJECT MILESTONES

The Funding Party must provide an outline in its end of Project Phase meeting with its UKRI monitoring officer that verifies the Project milestones have been achieved or explains why they have not.

Project milestones are outlined below in Table 3, based upon details contained within Question 7 and Appendix Question 9 in the Funding Party's Application.

¹³ https://ec.europa.eu/info/law/law-topic/data-protection/data-protection-eu_en

¹⁴ <https://www.legislation.gov.uk/ukpga/2018/12/contents/enacted>

Table 3. Project milestone¹⁵

Reference	Project milestone	Deadline	Overall objectives and key tasks	SIF Funding Request
Milestone 1	Work package 1: Review of existing process and capability	31 May 2024	<p>Overall objective: This work package will review the existing approaches for sharing information relating to gas nominations, the models gas networks are currently using to determine demand for embedded generation and the capability of GDNs to meet gas nomination demands. It will also explore existing capabilities in terms of platforms, technologies, and forecasting methodologies which can help inform the specification of the Gas trader tool.</p> <p>Key tasks:</p> <ol style="list-style-type: none"> 1. Capability and process mapping. Defining the overall process, stakeholders, decisions, and actions. 2. Review of GDN processes around nominations, and existing forecasting and planning. 3. Review of as Gas Trader operations and processes. 	£12,000

¹⁵ As outlined in in the Application or Project Plan appendix.

			<p>4. Mapping of existing external technical capability and methods.</p> <p>5. Report section on review WP1.</p>	
Milestone 2	<p>Work package 2: Stakeholder engagement</p>	31 May 2024	<p>Overall objective: Engagement with GDNs, gas generators, DESNZ and Ofgem via interviews and workshops to provide a balanced view on:</p> <p>Industry and regulatory perception of the proposed solution</p> <p>Challenges and barriers to BaU deployment of the developed solution.</p> <p>Data sources, options, and availability.</p> <p>Key tasks:</p> <ol style="list-style-type: none"> 1. Stakeholder engagement plan 2. GDN Workshop 3. Gas Trader and industry interviews 4. Govt and Ofgem workshop. 5. Report section writing 	£22,000
Milestone 3	<p>Work package 3: Tool specification - Initial scoping of a proposed solution</p>	31 May 2024	<p>Overall objective: Develop an initial outline/high level architecture for a potential database/solution. This will be used to inform scoping and costing actions for the actual tool build (to feed into Alpha and Beta phase planning).</p>	£32,000

			<p>Key tasks:</p> <ol style="list-style-type: none"> 1. Definition of objectives and boundary conditions. 2. Outline specification 3. Options appraisal 4. Proposed solution definition and specification. 	
Milestone 4	<p>Work package 4: Cost impact analysis</p>	31 May 2024	<p>Overall objective: This work package will gather and review the existing data and information to estimate the real-world costs and impacts on the gas networks and on customers of decreasing levels of accuracy in forecasting gas demand from embedded generation.</p> <p>Key tasks:</p> <ol style="list-style-type: none"> 1. Definition of counterfactual accounting for Future Energy Scenarios 2. Forecasting technical and operational impacts of counterfactual on GDNs. 3. High level cost analysis of counterfactual. 4. Cost benefit of gas trader tool approach. 	£20,800
Milestone 5	<p>Work package 5: Regulatory impacts</p>	31 May 2024	<p>Overall objective: Overview of the regulatory requirements around Gas Traders and forecasting for gas demand, and identification of future regulatory challenges where relevant.</p>	£12,000

			<p>Key tasks:</p> <ol style="list-style-type: none"> 1. Regulatory review 	
Milestone 6	<p>Work package 5: Delivery plan</p>	31 May 2024	<p>Overall objective: Production of a plan for the delivery of the toolkit, outlining future development stages and activities, budgets, and technical requirements. Production of a risk register to sit alongside delivery plan.</p> <p>Key tasks:</p> <ol style="list-style-type: none"> 1. Draft delivery plan 2. Risk register 	£12,000
Milestone 7	<p>Work package 5: Project management and knowledge dissemination</p>	31 May 2024	<p>Overall objective: Production of a plan for the delivery of the toolkit, outlining future development stages and activities, budgets, and technical requirements. Production of a risk register to sit alongside delivery plan.</p> <p>Key tasks:</p> <ol style="list-style-type: none"> 1. Draft delivery plan 2. Risk register 	£13,030

14. USE OF LOGO

The Funding Party, Project Partners, External Funders and Project Supporters including any of their subcontractors¹⁶ must not use the Innovate UK/UKRI and/or Ofgem logo for purposes associated with the Project in any circumstances.

As an alternative for use of both Ofgem and UKRI logos, all external Project communications must include the following standard form of wording:

- (i) "this project is funded by network users and consumers under the Strategic Innovation Fund, an Ofgem programme managed in partnership with UKRI."

For additional guidance, refer to the communications and media guidelines for competition winners, detailed as part of your delivery pack. These guidelines are designed to help with some suggestions and encourage you to take a proactive approach to communicating about your Project.

15. SHARING OF LESSONS LEARNED

The Funding Party is required to ensure that the sharing of lessons learned and the facilitation of knowledge transfer is conducted as effectively as possible, to ensure that all parties, and therefore all consumers including future consumers, can benefit from Projects.

As contained within Chapter 3 of the SIF Governance Document, we require the Funding Party to work collaboratively to maintain the ENA Smarter Networks Portal so that all reporting and dissemination of learnings on Projects (as required by chapter 6 of the SIF Governance Document) is available via the ENA Smarter Networks Portal.

16. COLLABORATION

The Funding Party must collaborate with third-party innovators as Project Partners, as well as work closely with other parties in the energy supply chain, as set out in Chapter 3 of the SIF Governance Document.

The Funding Party must collaborate with other parties and with UKRI to organise an annual conference in a format appropriate to enabling the building of consortiums and the dissemination of learning widely. The conference may be a single event for gas and electricity, or more than one event, as appropriate.

¹⁶ As detailed in the Application.

17. AMENDMENT OR REVOCATION

As set out in Chapter 7 of the SIF Governance Document, this SIF Project Direction may be amended or revoked under the following circumstances:

- (i) if the Funding Party considers that there has been a Material Change in circumstance that requires a change to the SIF Project Direction, and the Authority agrees; or
- (ii) to reflect amendments made to the Licence.

18. HALTING OF PROJECTS

This SIF Project Direction is subject to the provisions contained in Chapter 7 of the SIF Governance Document relating to the halting of Projects. By extension, this SIF Project Direction is subject to any decision by the Authority to halt the Project to which this SIF Project Direction relates and to any subsequent relevant SIF Funding Direction issued by the Authority pursuant to Special Condition 5.7 of the Gas Transporter licence.

Further to the requirements in Chapter 7 of the SIF Governance Document, in the event the Authority decides to halt the Project, to which this SIF Project Direction relates, the Authority may issue a statement to the Funding Party clarifying the effect of that halting decision as regards to the status and legal force of the conditions contained in this SIF Project Direction.

NOW THEREFORE:

In accordance with the SIF Governance Document issued pursuant to Special Condition 5.7 of the Gas Transporter licence of the Licence the Authority hereby issues this SIF Project Direction to the Funding Party in relation to the Project.

This constitutes notice of reasons for the Authority's decision pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

Failure to comply with the conditions of this SIF Project Direction means that Ofgem may treat all or part of the SIF Approved Amount received by the Funding Party as SIF Disallowed Expenditure.

ANNEX 1: PROJECT BUDGET

SIF Project Direction costs	
Cost Category	Total Project costs (£)
Labour	136,630
Materials	0
Subcontracting	0
Travel and subsistence	1,200
Other costs	0
Total	137,830

Project Partner	Total Project costs (£)	Project contribution (£)	Total SIF Funding requested (£)	Project contribution (%)
Southern Gas Network PLC	4,164	0	4,164	0
Cadent Gas Ltd	766	0	766	0
Northern Gas Networks Ltd	1,200	0	1,200	0
Lane Clark & Peacock LLP	131,700	14,000	117,700	10.63
Total	137,830	14,000	123,830	10.16

ANNEX 2 TO SCHEDULE: TEMPLATE OF BANK ACCOUNT DETAILS TO BE PROVIDED TO EITHER NGT (BOX.GSOSETTLEMENTS@NATIONALGRID.COM) OR NG ESO (revenue.invoice@nationalgrideso.com)

Company name:

Primary Contact Details (only one contact permitted)

First Name:

Last Name:

Email address:

Mobile phone number:

Work phone number:

Address details

Address name:

Street address:

City:

State / region:

Post code:

PO box: (if applicable)

PO box post code: (if applicable)

Banking details

These should be evidenced in non-editable format. The evidence provided must show company name and bank details and it should be dated within the last 6 months.

Any of the below documents will suffice:

- Bank statement (scanned document)
- Void cheque
- Paying in slip
- Screenshot of online banking (showing a logged in account with bank account and sort code, with browser visible)