



Making a positive difference
for energy consumers

National Energy System Operator
Limited, National Gas
Transmission Plc

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Dear Company Secretaries,

May 2025 SIF Funding Direction

The Strategic Innovation Fund (SIF) is a funding mechanism for the Electricity System Operator, Electricity Distribution and Transmission, Gas Transmission and Distribution sectors, within the RIIO-2¹ network price control.²

The purpose of this SIF Funding Direction³ is to:

1. Implement our recent decisions to distribute SIF Funding to the Cycle 2 projects that were awarded funding. Cycle 2 Discovery were awarded funding on 29 April 2025⁴, and Cycle 2 Alpha and Beta were awarded funding on 28 May 2025⁵.
2. Reconcile UKRI's actual costs for delivering the SIF in 2023/24 and 2024/25 and distribute UKRI's forecast costs for 2025/26.

This funding direction will not be reconciling SIF Funding Returns from any previously completed projects. SIF Funding Returns will now form part of an annual reconciliation process, capturing the regulatory year cycle to 31 March each year. In this annual SIF

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

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

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

⁴ [Strategic Innovation Fund: Cycle 2 discovery projects funding decision | Ofgem](#)

⁵ [Strategic Innovation Fund: Cycle 2 Alpha and Beta projects funding decision | Ofgem](#)

Funding Return, all projects completed within the relevant regulatory year and requiring to return unspent SIF funds will be included.

Accordingly, this Funding Direction sets out the amount that National Energy System Operator Limited (NESO) and National Gas Transmission (NGT) will recover from its customers in relation to the SIF. It also specifies the net amounts to be transferred between NESO, UKRI and other electricity Funding Parties (i.e. electricity network licensees); and NGT, UKRI and other gas Funding Parties (i.e. gas network licensees) in relation to their SIF Projects.

NESO must transfer funds as set out in Schedule 1 below, and NGT must transfer funds as set out in Schedule 2 below. NESO and NGT must transfer funds to the nominated bank account as notified by Funding Parties as per the requirements in the SIF Project Directions. The Funding Party must adhere to requirements regarding Project banking arrangements as specified in chapter 8 of the SIF Governance Document⁶. If Funding Parties anticipate any problems fulfilling these requirements, they should notify Ofgem as soon as possible.

Background

In line with chapter 7 of SIF Governance Document and pursuant to the following licence conditions detailed in Table 1 below, Ofgem calculates and, by direction, specifies the net amount of SIF Funding (less any SIF Funding Return) that is to be paid to Funding Parties and UKRI by NESO and NGT. Ofgem also specifies the manner in which and the times at which NESO and NGT is required to transfer that SIF Funding. Table 1 below also sets out the network licensees who were eligible to participate in Cycle 2 of the SIF.

⁶ [Updates to the Strategic Innovation Fund governance document](#)

Table 1 – Network licence conditions

Network Licensee	Licence Condition
National Grid Electricity Transmission Plc (NGET)	Special Condition 9.19
SP Transmission Limited (SPT)	Special Condition 9.19
Scottish Hydro Electric Transmission Plc (SHE)	Special Condition 9.19
National Energy System Operator Limited (NESO)	Condition F2
National Gas Transmission Plc (NGT)	Special Condition 5.7
Cadent Gas Limited (Cadent)	Special Condition 9.13
Northern Gas Networks Limited (NGN)	Special Condition 9.13
Scotland Gas Networks plc (SGN)	Special Condition 9.13
Southern Gas Networks plc (SGN)	Special Condition 9.13
Wales & West Utilities Limited (WWU)	Special Condition 9.13
Electricity North West Limited (ENWL)	Special Condition 9.9
Northern Powergrid (Northeast) Plc (NPgN)	Special Condition 9.9
Northern Powergrid (Yorkshire) Plc (NPgY)	Special Condition 9.9
National Grid Electricity Distribution: West Midlands Plc (WMID)	Special Condition 9.9
National Grid Electricity Distribution: East Midlands Plc (EMID)	Special Condition 9.9
National Grid Electricity Distribution: South Wales Plc (SWALES)	Special Condition 9.9
National Grid Electricity Distribution: South West Plc (SWEST)	Special Condition 9.9
UK Power Networks: London Power Networks Plc (LPN)	Special Condition 9.9
UK Power Networks: South Eastern Power Networks Plc (SPN)	Special Condition 9.9
UK Power Networks: Eastern Power Networks Plc (EPN)	Special Condition 9.9
SP Energy Networks: Distribution Ltd (SPD)	Special Condition 9.9
SP Energy Networks: Manweb Plc (SPMW)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc (SHEPD)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution Plc (SSEPD)	Special Condition 9.9

Below we specify the amount of SIF Funding to be distributed to network licensees who are leading Projects that we have decided to fund.

The values in this document align with the SIF Funding Decision published on 29 April 2025 for Cycle 2 Discovery Projects, and 28 May 2025 for Cycle 2 Alpha and Beta Projects. These figures awarded are based upon the forecasts submitted by individual Projects. However, we recognise the actual expenditure on Projects may differ from these figures. Accordingly, there will be a 'true-up' of the figures quoted in this SIF Funding Direction against actual expenditure via an annual reconciliation process.

To minimise cashflow risk, NESO and NGT have both forecast the value of the SIF Funding requirement in advance of this direction.⁷ As the Project Phases and the SIF rounds progress, the NESO and NGT must reconcile their forecast values of the SIF Funding requirement against the actual values specified in this direction to ensure the amount of funding recovered from consumers is accurate.

Cycle 2 - SIF Funding awarded

Discovery

As per our SIF Funding Decision published on 29 April 2025, we awarded SIF Funding to 10 Projects for the Cycle 2 Discovery phase, all of which were addressing Round 4 challenges. The Projects we decided to fund are listed in Table 2 below.

Alpha

As per our SIF Funding Decision published on 28 May 2025, we awarded SIF Funding to 3 Projects for the Cycle 2 Alpha phase, both of which were addressing Round 4 challenges. The Projects we decided to fund are listed in Table 3 below.

Beta

As per our SIF Funding Decision published 28 May 2025, we awarded SIF Funding to 2 Project for the Cycle 2 Beta phase, which were addressing one Round 3 challenge and one Round 4 challenge. The Projects we decided to fund are listed in Table 4 below.

⁷ The NESO and NGT are able to input forecast values for the SIFF term when setting network charges for the year ahead. In future years, the NESO and NGT then reconcile these forecast values against actual values we specify within these SIF Funding Directions.

Table 2 – SIF Funding requested by the successful Cycle 2 Discovery Phase Projects

Sif round	Project phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
4	Discovery	Electricity	Conductor	SPN	£ 138,335
4	Discovery	Electricity	FORTRESS (Flexibility and Optimisation for Resilience in Energy Systems)	SHEPD	£ 146,524
4	Discovery	Electricity	Future Agriculture Resilience Mapping FARM	SHEPD	£ 133,092
4	Discovery	Gas	Gas transmission asset resilience through network transitions	NGT	£ 97,650
4	Discovery	Electricity	Hot Chips	LPN	£ 133,079
4	Discovery	Electricity	ODIN - Optimisation and Diagnostics for Innovative Networks	SHE	£ 149,612
4	Discovery	Electricity	Project VOLT	NPgN	£ 147,200
4	Discovery	Electricity	RAPID - Automated Routing Infrastructure	SHE	£ 139,663
4	Discovery	Electricity	SHARED (Smart Hydrogen and Resilient Energy Decarbonisation)	EPN	£ 149,060
4	Discovery	Electricity	Super DuPPR (Dual Purpose Power Reserves)	LPN	£ 119,010

Total of SIF Funding requested by successful Cycle 2 Discovery Phase projects is: £1,353,225

Table 3 – SIF Funding requested by the successful Cycle 2 Alpha Phase Projects

Sif round	Project phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
4	Alpha	Electricity	Data to Insights D2I	SHEPD	£ 499,820
4	Alpha	Gas	B-Linepack+	NGT	£ 498,381
4	Alpha	Gas	Future Operability of Gas for System Integration (FOGSI)	NGT	£ 435,610

Total of SIF Funding requested by successful Cycle 2 Alpha Phase projects is: £1,433,811

Table 4 – SIF Funding requested by the successful Cycle 2 Beta Phase Projects

Sif round	Project phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
3	Beta	Electricity	VERIFY - Vulnerability Evaluation for Resilience Investment and Flexibility	SHEPD	£ 5,331,569
4	Beta	Gas	FutureGrid: CO2	NGT	£ 3,798,826

Total of SIF Funding requested by successful Cycle 2 Beta Phase projects is: £9,130,395

Additionally, as part of our contractual relationship with UKRI, we recently approved UKRI's forecast costs for delivering the SIF in 2025/26. We also agreed and signed off on service cost underspend for 2023/24 and 2024/25. The forecast costs for the operation of SIF in 2025/26 is £3,082,582. The respective underspend against forecast costs for 2023/24 and 2024/25 were £286,746 and £738,384 respectively. UKRI are therefore due payment of £2,057,452 plus vat (£2,468,943) to cover forecast costs, less the crystallised underspends. As detailed in chapter 7 of the SIF Governance Document, UKRI's costs will be apportioned between electricity and gas network charges, according to the relative split of electricity and gas project awards. This apportionment will be based on the value of gas projects and value of electricity projects approved in the financial year 2024/25.

Table 5 – SIF Funding due to UKRI for delivering the SIF

	<i>Instalment 1 (to be paid May 2025)</i>
<i>Total to be distributed by the National Energy System Operator to UKRI</i>	£ 2,289,335
<i>Total to be distributed by National Gas Transmission to UKRI</i>	£ 179,608
<i>Total of SIF Funding due to UKRI for delivering the SIF (inclusive of VAT)</i>	£ 2,468,943

The SIF Funding Return

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

SIF Funding Returns will now be dealt with on an annual basis, covering the regulatory year to 31 March. This means that this Funding Direction will include only payments to be made to Licensees that relate specifically to the award of SIF Funds for Cycle 2, or to UKRI in delivery of services.

Implementation

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

SIF Funding is distributed by NESO and NGT to individual Funding Parties. This means that NESO and NGT make a net payment to each Funding Party per instalment as directed in Schedule 1 and 2, respectively, which is the sum of SIF Funding awarded to the Funding Party across multiple Projects. The Funding Parties are responsible for administering the SIF Funding they receive for Projects as per requirements in chapter 8 of the SIF Governance Document.

In accordance with Special Conditions 3.1 and 3.4 of NESO's Electricity Transmission Licence, Special Conditions 5.1 and 5.7 of NGT's Gas Transporter Licence, and the SIF Governance Document, the Authority hereby requires NESO to comply with the conditions in Schedule 1, and NGT to comply with the conditions in Schedule 2 to this SIF Funding Direction. Schedules 1 and 2 set out the amounts that are to be transferred by NESO and NGT to Funding Parties and UKRI, together with the manner and timescale over which these amounts will be transferred – see Tables 6 and 8 in the Schedules appended to this letter.

This SIF Funding Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986 and section 49A (Reasons for decisions) of the Electricity Act 1989.

If you have further questions or want to discuss, please contact Luke Blackaby on Luke.Blackaby@Ofgem.gov.uk.

Yours faithfully,

Luke Ames Blackaby

Head of Innovation Hub

Signed for and on behalf of the Authority

Schedule 1: Funds to be transferred by NESO

The net amounts of SIF Funding that must be transferred by NESO to recipients

Table 6 contains the net amounts that must be transferred by NESO to Funding Parties, as appropriate, in the Regulatory Year 2025/2026 commencing 1 April 2025 (and subsequent years as appropriate) for the Cycle 2 Discovery, Alpha and Beta phases of the SIF.

For the avoidance of doubt, no adjustments for inflation should be made to these numbers. It also sets out the manner and timescale for making payments.

Table 6 – Net amounts of SIF Funding to be transferred by NESO to recipients

Recipient	Instalment 1 (to be paid on or before 18 June 2025)	Instalment 2 (to be paid on or before 18 June 2026)	Instalment 3 (to be paid on or before 18 June 2027)	Instalment 4 (to be paid on or before 18 June 2028)	
UKRI	£2,289,335				
Northern Powergrid (Northeast) Plc (NPgN)	£147,200				
Scottish and Southern Energy Power Distribution (SHEPD): Scottish Hydro Electric Power Distribution Plc	£1,814,004	£2,110,385	£1,328,986	£857,630	
Scottish Hydro Electric (SHE) Transmission Plc	£289,275				
UK Power Networks: London Power Networks Plc (LPN)	£252,089				
UK Power Networks: South Eastern Power Networks Plc (SPN)	£138,335				
UK Power Networks: Eastern Power Networks Plc (EPN)	£149,060				

The net amount that NESO must retain for its own SIF Projects

Table 7 contains the net amount that NESO must retain for its own SIF Projects in the Regulatory Year 2025/2026 commencing 1 April 2025 (and subsequent years as appropriate). For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

Table 7 – Net amount to be retained by NESO for its own SIF projects

Recipient	Instalment 1 (to be paid on or before 18 June 2025)	Instalment 2 (to be paid on or before 18 June 2026)	Instalment 3 (to be paid on or before 18 June 2027)	Instalment 4 (to be paid on or before 18 June 2028)	

Schedule 2: Funds to be transferred by NGT

The net amounts that must be distributed by NGT to recipients

Table 8 contains the net amounts that must be transferred by NGT to Funding Parties, as appropriate, in the Regulatory Year 2025/2026 commencing 1 April 2025 (and subsequent years as appropriate) for the Cycle 2 Discovery, Alpha and Beta phases of the SIF.

For the avoidance of doubt, no adjustments for inflation should be made to these numbers. It also sets out the manner and timescale for making payments.

Table 8 – Net amounts to be distributed by NGT to recipients

Recipient	Instalment 1 (to be paid on or before 18 June 2025)	Instalment 2 (to be paid on or before 18 June 2026)	Instalment 3 (to be paid on or before 18 June 2027)	Instalment 4 (to be paid on or before 18 June 2028)	
UKRI	£179,608				

The net amount that NGT must retain for its own SIF projects

Table 9 contains the net amount that NGT must retain for its own SIF Projects in the Regulatory Year 2025/2026 commencing 1 April 2025 (and subsequent years as appropriate). For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

Table 9 – Net amount to be retained by NGT for its own SIF projects

Recipient	Instalment 1 (to be paid on or before 18 June 2025)	Instalment 2 (to be paid on or before 18 June 2026)	Instalment 3 (to be paid on or before 18 June 2027)		
National Gas Transmission PLC	£1,904,353	£1,871,361	£1,054,753		