

National Energy System Operator Limited
National Gas Transmission Plc
Electricity Northwest Limited
National Grid Electricity Transmission Plc,
Northern Powergrid (Northeast) Plc,
Scottish Hydro Electric Power Distribution Plc
Southern Electric Power Distribution
Scottish Hydro Electric Transmission Plc,
London Power Networks Plc,
South Eastern Power Networks Plc,
Eastern Power Networks Plc
Northern Gas Networks Limited



Making a positive difference
for energy consumers

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Dear Company Secretaries,

Date: 28 May 2025

SIF Funding Return Direction

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

Chapter 7 of the SIF Governance Document sets out the funding arrangements for SIF. The purpose of this Funding Return Direction is to instruct each Network Licensee on the return of underspent SIF Funding. In this Direction, the term "Funding Return" refers to the return of underspent funding allocated to a project through the SIF's Funding Mechanism.

At the end of each Regulatory Year, we issue a SIF Funding Return Direction, requiring Funding Parties to return any underspent SIF amounts to National Energy System Operator (NESO) and National Gas Transmission (NGT). This is the first SIF Funding Return Direction, replacing the 'off-set of underspend against future awards' approach.

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>

Accordingly, this direction sets out;

- Projects that have completed within the regulatory year 2024/25, and have underspent on SIF funding received
- The collective amount that each Funding party will return to National Energy System Operator Limited (NESO) and National Gas Transmission Plc (NGT).
- The collective amount that NESO and NGT must return for their own SIF projects

Schedule 1 and 2 will outline all funding returns required by Electricity and Gas Funding Parties, respectively.

NGT and NESO must manage these returned amounts, together with un-spent amounts from their own SIF projects, in the interest of 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.

Funding parties are also required to return interest income received from the holding of SIF funding. Each funding party is responsible for addressing this separately.

Background

As per 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 that is to be returned to NESO and NGT by the Funding parties. Ofgem also calculates and directs NESO and NGT on funding they hold for their own SIF projects. Ofgem further specifies the manner and the timelines of how and when Funding parties are required to return that SIF Funding.

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

Total Amounts to be Returned

Discovery Round 3 – SIF Funding Return;

As per our SIF Funding Decision published on 8th March 2024, we awarded SIF Funding to 44 Projects for the round 3 Discovery phase. All 44 projects completed within the regulatory year 2024/25 and the final eligible SIF awards have been calculated and agreed. The projects that will return funds are listed in Table 2 below.

Through the Funding Return Mechanism (FRM), 20 concluded Electricity and 7 concluded Gas projects are returning £85,937 and £41,635 respectively of unspent funds.

Alpha Round 2 – SIF Funding Return;

As per our SIF Funding Decision published on 10 October 2023, we awarded SIF Funding to 36 Project for the round 2 Alpha Phase. All 36 projects completed within the regulatory year 2024/25 and the final eligible SIF awards have been calculated and agreed. The projects that will return funds are listed in Table 2 below.

Through the Funding Return Mechanism (FRM), 22 concluded Electricity and 3 concluded Gas projects are returning £415,915 and £111,230 respectively of unspent funds.

Beta – SIF Funding Return;

Beta projects are typically multi-year projects, meaning that projects from a specific round will all have different end points.

In the regulatory year 2024/25, one Beta Round 1 project completed. This project is listed in Table 2 below and required to return £7,917.

There are no disallowed expenditure or royalty incomes to be returned on any of the projects above.

Table 2 – SIF Funding Returns due from the Projects

Project Name	Network Licensee	Total SIF Funding to be returned
Discovery Rd 3 - Electricity Projects		
KnowMyFlex	EPN	£5,553
SizeWise	EPN	£2,263
WASH (Wastewater Sourced Heat)	EPN	£684
Wayl-ease	EPN	£1,262
CarbonFlex	LPN	£619
Flex Direct	LPN	£1,380
Network Security in a Quantum Future	NGESO	£635
Probabilistic Pathways for Energy System Planning	NGESO	£4,029

BluePrint - Building Industry Collaboration and Methodologies for Developing Offshore Wind Behind Constraint	SHE	£18,033
REVISE - Revisiting and Evaluating Environmental Inputs on Line Ratings	SHE	£20,802
SYSMET - System Strength Measurement and Evaluation	SHE	£468
SeaChange	SHEPD	£5,238
Balancer	SPN	£2,247
CLIP: Community Led Integrated Planning	SPN	£52
Data Mate	SPN	£1,034
HeatNet	SPN	£6,562
OptiHeat	SPN	£3,678
MaxFlex	SSEPD	£713
Nature4Networks (N4N)	SSEPD	£7,762
UN:LOCK - Unblocking Networks: Local Optimisation, Consumers and Knowledge	SSEPD	£2,921
		£85,937
Alpha Rd 2 Electricity Projects		
INSIGHT	SHE	£33,464
REACT	SHE	£41,315
NIMBUS	SHE	£4,831
Whole Energy System Resilience Vulnerability Assessment (WELLNESS)	NGET	£30,000
Powering Wales Renewably	NGESO	£9,773
Scenarios for Extreme Events	NGESO	£490
Inform	NPgN	£6,500
Guidelight	LPN	£804
Full Circle	LPN	£19,414
Heat Risers	LPN	£4,787
Watt Heat	LPN	£24,293
CommsConnect	SPN	£32,394
Trinity	SPN	£3,036
Park & Flex	SPN	£21,296
Lightspeed	SPN	£1,359
SHIELD - Smart Heat and Intelligent Energy in Low-Income Districts	EPN	£104,311
Connectrolyser	EPN	£16,403
CRDo+: Climate Resilience Demonstrator (extension to new climate risks)	EPN	£4,603
Indus	EPN	£4,042
Net Zero Terrace	ENWL	£2,500
Local Energy Oxfordshire - Neighbourhoods (LEO-N)	SSEPD	£7,977
VIVID - Vulnerability Identification Via informative Data	SHEPD	£42,323
		£415,915
Beta 1 Electricity Projects		
INCENTIVE	SHE	£7,917
Total of SIF Funding Returns from individual Electricity Projects		£509,768
Discovery Round 3 - Gas Projects		
PATCH – Production And long-Term Containment of Hydrides	NGN	£3,781
Regional Energy Strategic Modelling (RESM)	NGN	£4,529

B-Linepack+	NGT	£2,037
Carbon and Hydrogen transportation to SAF production facilities	NGT	£25,854
HyNTS Maritime	NGT	£821
Look NorthH2	NGT	£3,895
Realistic modelling of power-to-gas operability	NGT	£718
		£41,635
Alpha Rd 2 Gas Projects		
HyNTS Waste Heat Recovery for Electrolysis	NGT	£12,189
HyNTS Hybrid Storage	NGT	£5,192
Hydrogen Cost Reduction (HyCoRe)	NGN	£93,849
		£111,230
Total of SIF Funding Returns from individual Gas Projects		£152,865
Total of SIF Funding Returns from Individual Electricity and Gas Projects		£662,633

If you have further questions or want to discuss, please contact Luke Ames Blackaby on luke.blackaby@ofgem.gov.uk.

Yours faithfully,

Marzia Zafar

Deputy Director, Decentralisation & Digitalisation

Signed for and on behalf of the Authority

Schedule 1: Funds to be returned to NESO

The net amounts of SIF Funding that must be returned by Funding parties to NESO

Table 3 contains the net amounts that must be returned to NESO by network licensees, relating to projects completed in Regulatory Year 2024/25 for the round 3 Discovery, round 2 Alpha and round 1 Beta Phase of the SIF.

Table 3 – SIF funding to be returned to National Energy System Operator(NESO) by Electricity licensees

Network Licensee		Instalment (to be paid on or before 28 June 2025)
Electricity North West Limited (ENWL)	ENWL	-£2,500
National Grid Electricity Transmission Plc (NGET)	NGET	-£30,000
Northern Powergrid (Northeast) Plc (NPgN)	NPgN	-£6,500
Scottish and Southern Energy Power Distribution (SHEPD): Scottish Hydro Electric Power Distribution Plc	SHEPD	-£47,561
Scottish and Southern Energy Power Distribution (SSEPD), Southern Electric Power Distribution Plc	SSEPD	-£19,373
Scottish Hydro Electric (SHE) Transmission Plc	SHE	-£126,830
UK Power Networks: London Power Networks Plc (LPN)	LPN	-£51,297
UK Power Networks: South Eastern Power Networks Plc (SPN)	SPN	-£71,658
UK Power Networks: Eastern Power Networks Plc (EPN)	EPN	-£139,122
Total net amount of SIF Funding to be received by NESO from Electricity licensees		-£494,841

SIF Funding that NESO must return from its own SIF Projects

Table 4 contains the net amount that NESO must return from its own SIF projects relating to projects completed in the Regulatory Year 2024/25, for the round 2 Alpha and round 1 Beta Phase of the SIF.

Table 4 – SIF Funding that NESO must return from its own SIF Projects

Network Licensee	Amount to return for own projects
National Energy System Operator Limited	-£14,927

Schedule 2: Funds to be returned to NGT

SIF Funding that must be returned by Gas Network Licensee to NGT

Table 5 contains the net amounts that must be transferred by Gas Licensees to NGT, relating to projects completed in Regulatory Year 2024/25 for the round 3 Discovery and round 2 Alpha Phase of the SIF.

Table 5 – SIF funding to be returned by Gas Licensees to NGT

Network Licensee		(to be paid on 28 June 2025)
Northern Gas Networks Limited	NGN	-£102,159

SIF Funding that NGT must return from its own SIF Projects

Table 6 contains the net amount that NGT must return from its own SIF projects relating to projects completed in the Regulatory Year 2024/25, for the round 3 Discovery and round 2 Alpha Phase of the SIF.

Table 6 – SIF Funding that NGT must return from its own SIF Projects

Network Licensee	Amount to return
National Gas Transmission Plc	-£50,706