

Governance

SIF Governance Document

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As part of the RIO-3 network price control, Ofgem directs the distribution of funds to strategically important network innovation projects out of the Strategic Innovation Fund (SIF).

The SIF Governance Document is issued further to the SIF Licence Condition and sets out the governance and administration of the SIF. The SIF Licence Condition and the SIF Governance Document take precedence over any associated documents referred to in this SIF Governance Document.

Licensees and the National Energy System Operator (NESO) must comply with the SIF Governance Document. Projects must satisfy the Eligibility Criteria detailed in this SIF Governance Document to be eligible for SIF Funding.

The SIF Governance Document also applies to third-party innovators who wish, where appropriate, to collaborate with Licensees and NESO on SIF Projects.

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RIIO-3 SIF Governance Document change control log

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1. Introduction

Section summary

This chapter sets out the purpose and objectives of the SIF and provides a detailed overview of its operation, including on the differences and the similarities between the SIF and the Network Innovation Allowance (NIA)

- 1.1 RIIO-3 establishes the regulatory arrangements necessary to deliver a clean, secure, and affordable energy system for Great Britain by 2050, supporting significant capital investment in Licensees, protecting consumers from future price volatility, and ensuring that costs are recovered fairly and no consumer is left behind.
- 1.2 Innovation is a key element of the RIIO model for price controls, and our¹ approach is focused on creating an environment that allows innovation to thrive across the whole system.
- 1.3 To deliver a low-carbon energy system that is reliable, affordable, and efficient, at a pace in line with our Net Zero targets, companies must find new ways of developing and operating the energy networks to facilitate the whole system energy transition.
- 1.4 Within RIIO-3, we support innovation in a number of ways, including through the Totex Incentive Mechanism (TIM), which encourages innovation within the core price control framework. The additional network innovation stimulus for RIIO-3 consists of the NIA and the SIF. These innovation incentives are outcome-focused and aim to deliver deployable projects that can be rolled out to business as usual across multiple networks, contributing to the realisation of commercial, environmental, and social benefits.
- 1.5 While NESO is not part of RIIO-3, as it operates under its own distinct regulatory framework, it will still participate in both the NIA and the SIF and will therefore be subject to this Governance Document in line with its Licence Conditions. Further details on NESO's involvement in the SIF can be found in Chapter 5.

Differences and similarities between the NIA and the SIF

- 1.6 The NIA and the SIF are distinct but complementary funding mechanisms. They reflect the need for companies to have flexible research and development pots, alongside the need for greater pace, direction, risk tolerance, and support required due to the Net Zero transition.
- 1.7 The SIF is competitive innovation funding which Licensees can apply for to support - typically higher-risk, higher-reward – transformative Net Zero Projects, including those that challenge existing business models, and thus enable more rapid deployment of proven innovation. Licensees and Project Partners must deliver innovation projects that are deployed at pace

¹ The terms “Authority”, “Ofgem”, “we”, “our” and “us” are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

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and at scale, whilst delivering net benefits to energy consumers. It does this through a multi-phase approach designed to address the biggest challenges facing the Licensee.

- 1.8 The NIA is a baseline allowance that each Licensee receives to fund innovative Projects as part of its price control settlement. The NIA funds research and development by Licensees that they are not otherwise incentivised to undertake, with improvements leading to financial and environmental benefits for consumers.
- 1.9 As set out in further detail in Chapter 3, the SIF Projects are assessed, amongst other things, on their ability to deliver a net benefit for gas or electricity consumers and/or wider whole system benefits, to support competitive markets, provide value for money, and be costed competitively. We therefore expect, in line with the Eligibility Criteria outlined in Chapter 3, that Projects which apply for the SIF or are currently progressing through the SIF, are not also receiving NIA.
- 1.10 The table in Appendix 2 provides a steer on the distinction between the two funds. The table is provided for the purposes of guidance and should not be interpreted as additional Eligibility Criteria. Reflecting the diverse nature of innovation approaches and Projects, Licensees and third-party innovators are encouraged to seek further guidance where needed.

Overview of the SIF

- 1.11 The SIF is supporting network innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. The SIF vision is to accelerate energy network innovation to address climate change and ensure value for money for consumers: the people who use and pay for networks.
- 1.12 Ofgem is the decision-maker in relation to the SIF. A Senior Responsible Owner (SRO) for the SIF is appointed within Ofgem. To support the SIF delivery, Ofgem partnered with Innovate UK, as part of UK Research & Innovation (UKRI)², and entered into a service agreement for which Innovate UK provides to Ofgem the services for the delivery and coordination of the SIF. Innovate UK's role is to deliver the SIF in line with this SIF Governance Document by:
 - Establishing strategic and long-term market direction via the Energy Network Innovation Taskforce and managing the Innovation Delivery Groups;
 - Administering the funding programme, monitoring the delivery of Projects, making recommendations to Ofgem on strategic and operational matters and incentive mechanisms, supporting the best ideas to scale and grow, and;
 - Supporting successful Projects to become business-as-usual activities.
- 1.13 As part of its role in administering the SIF, Innovate UK works closely and maintains relationships with Licensees and energy system stakeholders. Innovate UK may, as part of its role in delivering the SIF, also issue correspondence to Funding Parties on the written

² UKRI is the UK Government's research and innovation agency. It is a non-departmental public body sponsored by the Department for Science, Innovation and Technology (DSIT).

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instruction of the Authority. Ofgem will continue to issue and publish the finalised versions of documents associated with the SIF.

Focusing on Strategic Innovation Challenges

1.14 For RIIO-3, a new approach is being introduced to set clear long term strategic direction in order to:

- elevate network innovation ambitions;
- set clear expectations for transformative and game-changing projects;
- ensure greater accountability for delivery and eventual deployment of innovation projects.

The strategic Innovation Challenges will be set out via a Programmatic Approach outlined in Chapter 2.

1.15 Ofgem will direct NESO and the National Transmission System (NTS) Owner to distribute the SIF Funding. As set out in our Draft Determinations, Ofgem will use the strategic Innovation Challenges set by the Energy Network Innovation Taskforce and invite Applications for Projects to address them.³

1.16 Since the setting of Innovation Challenges and associated funding Cycles will be based on a strategic need, we intend to have three funding Cycles in a given year (for all Phases – see paragraph 1.26 for more information). However, we reserve the right to adjust this number, meaning there may be more or fewer funding Cycles in a given year.

1.17 The timing of these funding Cycles is designed to ensure that the SIF has the flexibility to meet the emerging network innovation needs, setting the pace for the evolution of energy networks. Ofgem also reserves the right to introduce additional Innovation Challenges during RIIO-3 where there is clear evidence of whole energy system need, and/or policy direction requires it.

A multi-phase approach for Projects

1.18 In order to mitigate the risk associated with innovations, the default approach to the SIF is that innovation will be funded in four Project Phases (Discovery Phase, Alpha Phase, Beta Phase and Deployment Phase), with Projects assessed against Eligibility Criteria, set out in Chapter 3 for the Discovery Phase, Alpha Phase and Beta Phase and Chapter 9 for the Deployment Phase, as a condition of receiving the SIF for the relevant Project Phase.

1.19 Projects will, typically, start at the Discovery Phase. Projects which have undertaken the necessary work outside of the SIF may apply directly to the Alpha Phase, Beta Phase or Deployment Phase without the need to formally complete a Discovery Phase, Alpha Phase or Beta Phase. A fuller description of each Project Phase is provided below.

³ See paragraphs 10.20-10.23 of Final Determinations: [RIIO-3-Final-Determinations-overview.pdf](#)

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- 1.20 **Discovery Phase (feasibility studies):** The Discovery Phase will address the Problem definition set out by the Innovation Challenges and explore potential options for solving the Problem. It will facilitate a common understanding of what energy consumers and network users need from the innovation and identify any constraints that may impact on potential solutions to address the Problem and options for the management of those constraints.
- 1.21 **Alpha Phase (experimental development):** The Alpha Phase will focus on preparing and testing the different solutions to the Problem identified during the Discovery Phase and detailed design ahead of any future large-scale demonstration of the Project.
- 1.22 **Beta Phase (build, operation, and/or demonstration):** The Beta Phase will focus on the demonstration of the preferred solution to the Problem. The duration of the Beta Phase will depend on the scale and complexity of the solution to be deployed. At the end of a Beta Phase, we would expect derisked proven innovation with clear rollout costs and benefits.
- 1.23 **Deployment Phase (roll out):** The Deployment Phase will focus on the deployment of the proven solution into business as usual. It will be aimed at supporting Projects that do not have an alternative timely route to funding in the price control. Details on the duration and workings of the Deployment Phase are set out in Chapter 9 and will be further outlined in additional published guidance.
- 1.24 Procedural requirements, such as the maximum £ value which the Funding Party may apply to receive from the SIF in each Project Phase and the length of each Project Phase in months, will be specified in the Application Guidance. There follows an illustrative example of Project phasing:
- Discovery Phase: up to five months, and related SIF Funding capped at £200k;
 - Alpha Phase: up to eight months, and associated SIF Funding capped at £650k. More SIF Funding could be provided if there is evidence to support any assertion that Alpha Phase work described in paragraph 1.21 cannot be completed within the period specified in the Application Guidance;
 - Beta Phase: between nine months' and five years' duration, and budgets would start at £650k;
 - Deployment Phase: related SIF funding starts at £500k.
- 1.25 Separate assessments will be undertaken and separate funding decisions made by Ofgem for each of the Project Phases. Funding awarded for one Project Phase does not guarantee funding for subsequent Project Phases. The results of each Project Phase may be considered as part of Ofgem's funding decisions in relation to subsequent Project Phases.
- 1.26 As mentioned above in paragraphs 1.16 and 1.17, there will be three opportunities per year to apply for the Project Phases. These opportunities are known as Cycles. This phased approach provides Projects with multiple opportunities to apply for SIF Funding and offers greater flexibility to determine the optimal time to submit or progress an idea. Licensees are expected to use this flexibility to actively accelerate the development and deployment of innovation, ensuring timely delivery of consumer benefits.

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SIF Governance Document

1.27 This SIF Governance Document is issued by Ofgem further to the SIF Licence Condition.

1.28 This SIF Governance Document sets out the regulation, governance, and administration of the SIF. It contains details of:

- Programmatic Approach (Chapter 2);
- Eligibility Criteria for Projects (Chapter 3);
- Supporting collaboration and project learning dissemination (Chapter 4);
- National Energy System Operator Participation (Chapter 5);
- Requirements for Applications – this includes standard Application question categories and additional information to support Applications, such as the parameters for varying levels of Compulsory Contribution (Chapter 6);
- Details on Project assessment (Chapter 7);
- Requirements for Project delivery (Chapter 8);
- Deployment Phase (Chapter 9);
- The information that will be published in the SIF Funding Direction and the process for issuing the SIF Funding Direction for each Cycle (Chapter 10);
- The requirements in relation to Project administration – this includes compliance, halting a Project, audits, and details on bank accounts (Chapter 11);
- The default treatment of Intellectual Property Rights (IPR), which Ofgem has created to facilitate knowledge transfer, and the treatment and calculation of royalties generated through a Project (Chapter 12);
- Defined terms (Appendix 1);
- Similarities and Distinction between NIA and SIF (Appendix 2).

Compliance

1.29 Licensees are required by the SIF Licence Condition to comply with this Governance Document. Licensees must ensure that their collaboration with others in the context of the SIF is in line with the SIF Governance Document.

1.30 The following list provides clarity on the hierarchy and issuer of documents issued as part of the SIF:

- The SIF Licence Condition (issued by Ofgem for each of the Licensees);
- The SIF Governance Document (issued by Ofgem);
- Innovation Challenge Document (issued by Ofgem);
- Application Guidance (issued by Innovate UK);
- Recommendations and Funding Decision report (compiled by Innovate UK following the assessment of Projects and the feedback from the Expert Assessors, although considered and issued by Ofgem);
- The SIF Project Direction (compiled by Innovate UK, issued by Ofgem); and
- Annual SIF Funding Direction (compiled by Innovate UK, issued by Ofgem); and

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- NESO Scope of Participation (compiled by NESO, approved by Ofgem).

- 1.31 This SIF Governance Document applies prospectively to all current and future Projects, including active Projects already underway which we have issued SIF Project Directions prior to this SIF Governance Document coming into effect. In-flight Projects will not be required to retrospectively complete new requirements, but new guidance may be provided to support clearer reporting and transparency.
- 1.32 In circumstances where a Project is unable to comply with an updated SIF Governance Document coming into force while the Project is in-flight, Ofgem is willing, in exceptional circumstances, to consider requests for disapplication of certain requirements of the SIF Governance Document on a case-by-case basis and, if necessary, any amendments to the SIF Governance Document required to support the disapplication.
- 1.33 In these circumstances, Funding Parties must make a formal written request to Innovate UK and Ofgem for the disapplication of certain requirements as set out in this SIF Governance Document. The Funding Party must engage with Innovate UK and Ofgem and provide evidence as to why an in-flight Project is unable to comply with the requirements set out in the updated SIF Governance Document.
- 1.34 Innovate UK and Ofgem will review the request and will only approve disapplication of certain requirements in the SIF Governance Document where it considers that a satisfactory justification has been supplied. As part of this, Ofgem will consider if any amendments to the SIF Governance Document are required to underpin such a disapplication of the SIF Governance Document and consult on amendments to the SIF Governance Document if necessary. Ofgem will confirm any decision in writing.
- 1.35 The SIF Licence Condition and the SIF Governance Document in no way relieve affected parties, including Licensees and Project Partners, from their responsibility to ensure ongoing compliance with their Licence obligations and with legislation, including competition, data protection, environment, and consumer protection laws.

Review

- 1.36 Ofgem may, from time to time, following consultation with interested parties, revise the SIF Governance Document in accordance with the SIF Licence Condition.

2. Programmatic Approach

Section summary

This chapter sets out the components of a Programmatic Approach of SIF delivery.

- 2.1 For RIIO-3, a Programmatic Approach has been introduced to set and deliver clear long term strategic direction. It is intended to elevate energy network innovation through more collaborative delivery and accountability for transformative Projects which lead to system outcomes.

Energy Network Innovation Taskforce

- 2.2 In order for the Programmatic Approach to work most effectively during RIIO-3, Ofgem established an Energy Network Innovation Taskforce (ENIT) to identify and recommend a portfolio of ambitious, outcome-focused Innovation Challenges over the price control. It operated independently under formal terms of reference. To set ambitious and achievable Innovation Challenges, the ENIT's role has crucially included co-design and target-setting with industry. Additionally, in order to provide a comprehensive report of recommendations the ENIT's work also included, but was not limited to wide stakeholder engagement, analysis of emerging and enabling technologies and reviewing existing literature. The ENIT set up working groups as to define outcome-orientated, target-based Innovation Challenges. Post-publication of the ENIT's report, it is expected that some of these working groups will become Innovation Delivery Groups (IDGs) see explanation in paragraphs: 2.4 - 2.14.
- 2.3 At appropriate points across the price control, Ofgem may publish an Innovation Challenge Document with updated or new Innovation Challenges. This may include the recommendations from the ENIT but may also be a separate document. It is anticipated that this will be done strategically to improve or update Innovation Challenges recommended from the ENIT's report, and it would include feedback from IDGs (explained below) and their progress. Feedback from the IDGs would include but not be limited to areas such as recommendations for wider changes needed to maximise the impact of innovation funding.

Innovation Delivery Groups

- 2.4 IDGs must coordinate programmes of work in order to address individual Innovation Challenges recommended by the ENIT. IDGs will ultimately move developed solutions and/or successful projects into business-as-usual activities in order to deliver the target Innovation Challenge outcomes at scale.
- 2.5 Each Innovation Challenge will have at least one Senior Sponsor from a relevant Licensee. The Senior Sponsor(s) will be responsible for the outputs from their respective IDGs, and they will also be expected to actively participate in the Ofgem Annual Innovation Meeting, or equivalent meeting to report on progress towards outcomes and collaborate on resolving blockers.

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- 2.6 The intention is for IDGs to have autonomy to decide what will work best for their Innovation Challenge, with the responsibility residing with Senior Sponsor(s) and monitoring of consistency and standards from Innovate UK as the SIF Delivery Partner.
- 2.7 IDGs will include key decision makers and relevant subject matter experts from Licensees, third-party innovators, supply chain partners, and other suitable stakeholders which may be named within the Innovation Challenge recommendations. Licensees must provide reasonable support and input to IDGs to facilitate the achievement of Innovation Challenges, including participation in meetings, sharing of data and insights, and collaboration on joint initiatives and reviews and reporting on progress towards delivery of outcomes. Additional guidance will be provided on the activities each IDG should be undertaking.
- 2.8 Distribution Network Operators (DNOs) participated in work for the ENIT and will be actively encouraged to participate in the IDGs. Ofgem will review their involvement formally through the ED3 process, with the expectation that DNOs will play an active role, such as in sponsoring Innovation Challenges.
- 2.9 The IDGs will develop publicly available Innovation Charters which set out the IDG's delivery strategy for addressing the innovation needs of their Innovation Challenge. This will be formally approved by Ofgem. Following approval, the IDG can move to operational delivery through submitting further applications into the SIF. Projects must clearly demonstrate how they will contribute to achieving Innovation Challenge outcomes and integration within the relevant IDG's programme. The Innovation Charter will include as a minimum:
- A portfolio of work with dedicated work areas that collectively drive forward the prospects of achieving Innovation Challenge outcomes, with time-bound objectives. This should include a strategic, growth-minded spread of opportunities, ranging from high-risk, high-reward areas to more steady, incremental opportunities;
 - A high-level delivery plan including key focus areas, such as a stakeholder engagement plan;
 - A guide for Compulsory Contributions requirements, working within the SIF requirements; and
 - Project Partner requirements.
- 2.10 Each IDG may choose to undertake a Discovery Phase Project to their Innovation Charter. This Discovery Phase Project will follow the same assessment and monitoring process set out in Chapter 6 and 7. At agreed points through the price control, the IDG may update the Innovation Charter, through a Discovery Project. The expectation is that this will only apply where there are significant developments in policy or technology, that would require the IDG to materially adapt their approach to achieving their Innovation Challenge.
- 2.11 Where suitable, IDGs are encouraged to involve wider Projects or programmes of work from across the innovation landscape, such as other government schemes.
- 2.12 With support from Innovate UK, all participants of the IDGs will be expected to maintain collectively their Innovation Charter, a risk register and complete the dissemination requirements outlined below.

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- 2.13 In order to support open and accessible innovations for third-party innovators, each IDG will be expected to support ideation activities which may include educational webinars on the IDG focus, review of third-party proposals and participation in workshops to build consortia, amongst other activities.
- 2.14 Live Projects funded under RIIO-2 will be expected to engage with the relevant IDGs.

Knowledge and dissemination requirements

- 2.15 IDGs hold responsibility for facilitating knowledge dissemination and fostering sector-wide collaboration including engagement with other relevant programmes and business as usual initiatives. Additional guidance will be provided to support this and the following requirements below.
- 2.16 An annual performance report shall be produced by each IDG at least 6 weeks before the Annual Innovation Meeting, or equivalent meeting. This report should demonstrate:
- Progress against Innovation Challenge outcomes;
 - Updates on the portfolio of Projects sponsored by the IDG, including learnings and insights.
- 2.17 An Annual Innovation Meeting, or equivalent meeting, will be convened by Ofgem with input from NESO and the Department for Energy Security and Net Zero (DESNZ). These meetings provide a forum for reviewing progress against Innovation Challenges, discussing IDG activities, and promoting transparency and peer learning.
- 2.18 In addition, each IDG will be expected to organise and attend an annual event which focusses on disseminating learnings and gaining insights from communities most relevant to the IDG's Innovation Challenge. This event may be part of a wider Community Forum event or an IDG's specific event.

3. Eligibility Criteria

Section summary

This chapter sets out the components of a Programmatic Approach of SIF delivery.

- 3.1 Projects submitted to the Discovery Phase, Alpha Phase, and Beta Phase must meet the Eligibility Criteria in order to receive the SIF Funding. The process for assessing Projects against the Eligibility Criteria and the questions included in the Application process are detailed in Chapter 6. The Eligibility Criteria for the Deployment Phase is set out in Chapter 9.
- 3.2 Ofgem shall take a scaled approach to the assessment of Eligibility Criteria to inform decision-making. Guidance will be issued to explain the scoring approach, with each Eligibility Criterion being scored on a 1 - 5 basis, including minimum requirements. The intention is to take a more proportionate approach to supporting Projects, offering more flexible to fund the most transformational projects. Where Projects score lowly but meet the minimum requirements Special Conditions will be applied.
- 3.3 **Eligibility Criterion 1: Projects must address the Innovation Challenges set by Ofgem.** This should include how the Project addresses overall ambitions of delivery of clean green energy systems to support climate ambitions.
- 3.4 **Eligibility Criterion 2: Projects must have clearly identified potential to deliver a net benefit to gas or electricity consumers (whomever is paying for the innovation)⁴ and/or a whole system benefits.** Whole system benefits refer to positive impacts across the broader energy system, including supply, demand, generation, system operation, and across energy vectors (e.g. gas, electricity, heat). Whole system benefits could also include energy system cost efficiency, such as more effective markets, more efficient use of infrastructure. This does not constrain such Projects from delivering a benefit to consumers of other sectors (who are not paying for the innovation), allowing them to participate in and benefit from the energy transition.
- 3.5 Benefits could include any consumer benefits (domestic, commercial, industrial) and/or consumers in vulnerable situations, for example, those resulting from the removal of barriers which prevent their participation in the market and from the promotion of their access to smart systems and their participation in the energy transition. Further detail regarding the evidencing of benefits is included in paragraphs 6.20 to 6.26.
- 3.6 **Eligibility Criterion 3: Projects must involve network innovation.⁵** This means, for example, Projects must include activities ordinarily associated with the operation of the network or system operation, have the potential to keep the costs of networks (now or in the future) low

⁴ In considering consumers in the regulatory framework, we consider users of network services (for example generators, shippers) as well as domestic and business end consumers, and their representatives.

⁵ Network investment that is not in itself innovative will be treated as such if it contributes to a Project which is innovative, and the network component of the Project delivers net benefits to energy consumers.

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and/or improve the services and products provided by Licensees for consumers in line with our Net Zero ambitions.

- 3.7 Where Ofgem has the remit to fund such activities, Projects may involve non- network activities such as generation, storage, supply, demand and behind the meter activities (for example in-home consumer products / services) if (i) they have the potential to deliver net benefits to network consumers, (ii) would not happen but for the provision of RIIO innovation stimulus funding and, (iii) in the case of third-party innovators, depend on network access. In these cases, we expect Projects to involve funding contributions from other sources (such as funding from other public bodies or private sector) as benefits will accrue not only to network consumers, but more widely across the supply chain.
- 3.8 **Eligibility Criterion 4: Projects must support or, at a minimum, be consistent with the development and growth of competitive markets.** The intention for this Eligibility Criterion is to support overall economic growth and address elements such as market failure, as the growth of competitive markets is intended to yield greater downstream benefits for consumers. Where appropriate and necessary, the level of complexity of contractual arrangements between Licensees and third parties shall be reasonable in the circumstances. For example, where there is no contractual precedent because an activity is very novel, or the cost of the third-party activity is low as compared to overall Project value, or Projects trial new market arrangements, a proportionate approach may be taken.
- 3.9 **Eligibility Criterion 5: Projects must be innovative, novel, and/or risky.** Projects must generate new learning and entail a degree of risk, so that they would not otherwise be taken forward as business-as-usual activities or funded through other mechanisms within the price control. For example, it is permissible for elements of an innovation Project to involve less risk to enable the testing of an innovation, for example a Beta Phase may involve installation of some mature technologies to enable the wider objective of the trial. This should be factored into the level of funding sought.
- 3.10 **Eligibility Criterion 6: Projects must include participation from a range of stakeholders.** Stakeholders should include third-party innovators, where appropriate, such as, but not limited to, start-ups, consumer groups, small and medium-sized enterprises, energy generators and suppliers, original equipment manufacturers, and academics.⁶ The Project Partners involved in the Project must satisfy the requirements set out in the Innovation Challenge Document and Application Guidance and be appropriate to the focus of the Project.
- 3.11 **Eligibility Criterion 7: Projects must provide value for money and be costed competitively.** This means, for example, that the budget allocated to specific Project Deliverables should be reasonable, the costs of Project Partners should be competitive, and

⁶ Consistent with subsidy control rules, the requirement for third-party access to a network is a pre- condition of the funding of third-party contributions to Projects out of the SIF.

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that existing assets and facilities should be utilised, where this supports cost efficiency. Consideration should also be given to the distribution of costs among Project Partners. Some Projects will have identifiable Project Partners who will potentially derive a commercial benefit from a successful innovation Project. This potential benefit should be reflected through an appropriately balanced distribution of costs within the Project.

- 3.12 **Eligibility Criterion 8: Projects must be well thought through and have a robust methodology so that they are capable of progressing in a timely manner.** As decision-maker in relation to the SIF Funding, Ofgem must be reasonably confident that Projects are deliverable with, for example, robust Project plans, cost breakdowns, and risk assessment. Where applicable, Projects should show risk mitigation measures, for example, the inclusion of Ofgem Stage Gates.
- 3.13 **Eligibility Criterion 9: Projects must clearly demonstrate how they build upon existing or previous innovative work and articulate how they provide additional value or advancement.** These initiatives should include sector-wide programmes and can also include Projects beyond NIA or previous SIF Phases. This could also include international demonstrations, which are yet to be adopted in GB. If a Project is entirely new in its innovation, it must similarly demonstrate its novel approach (such as technological) and make a compelling case for how it can add additional value or advancement to address the Innovation Challenge.
- 3.14 **Eligibility Criterion 10: Projects must consider the needs of the end customers and outline how these stakeholders have been, or will be, meaningfully engaged in the development and adoption of the innovation.** While the SIF is ultimately funded by and for the benefit of consumers, it is also recognised that wider stakeholder involvement is essential to ensure innovation works effectively for everyone involved. Projects must therefore demonstrate that they have considered the needs of domestic, industrial, and/or commercial customers and show how these stakeholders have played, or will play, an effective role in the development and adoption of the innovation. This includes, where appropriate, engagement with domestic, industrial, and commercial customers to ensure their perspectives and needs are reflected in the Project.
- 3.15 **Eligibility Criterion 11: Projects must demonstrate a clear approach to open data, knowledge sharing, and dissemination of learnings.** This means ensuring that insights and outcomes are accessible to relevant stakeholders and contribute to broader sector impact.
- 3.16 **(For Alpha Phase and Beta Phase only) Eligibility Criterion 12: Projects must provide a clear scalable pathway for deployment demonstrating how the innovation will achieve sustained impact.** This could include integration into business-as-usual operations, scale-up or roll-out activities, or broader commercialisation. Where appropriate, Projects may be building evidence to inform regulatory or policy changes. Consideration should also be given to the scale up of innovation across other Licensees.

4. Supporting collaboration and project learning dissemination

Section summary

This chapter sets out the requirements to support the sharing of learning and collaboration with others.

- 4.1 The requirements of this chapter apply unless the Authority has given its consent in writing for the Licensee not to comply with those requirements.
- 4.2 We expect Licensees to collaborate with each other and, where appropriate, with third-party innovators, to develop innovations in partnership with stakeholders, share Project data, and disseminate Project learnings as Project Partners on the Projects funded by the SIF.
- 4.3 When issuing Innovation Challenges, Ofgem may, where appropriate, impose requirements in relation to the types of organisations that need to participate in the Project as Project Partners. These requirements may include, but are not limited to, involving academics in research Projects or engaging professional market researchers in Projects that involve consumer research.
- 4.4 Licensees must have in place efficient and effective processes that promote partnerships with third parties. This should include processes aimed at offering suitable support, information, and guidance to innovators new to the energy sector, innovators less familiar with energy system challenges, to small and medium enterprises, and to early-stage innovators.
- 4.5 Licensees should work collaboratively, so that this support aimed at improving access to innovation partnership opportunities is realised in the most efficient and effective manner.
- 4.6 If multiple Licensees decide to collaborate on a Project, they must appoint one Funding Party who will act as a single point of contact.

Developing innovations in partnership with stakeholders

- 4.7 Licensees are expected to work collaboratively with the relevant IDGs and with other organisations in the energy sector to explore technological, operational, or commercial innovation ideas that address the Innovation Challenges set by Ofgem.
- 4.8 Licensees should work closely with other parties in the energy supply chain to develop less explored or previously unexplored technological, operational, or commercial arrangements that have the potential to facilitate the energy system transition and/or address consumer vulnerability. Licensees may benefit from the technologies used and lessons learned in other industries; therefore, partnerships with others outside the energy industry could be valuable. Other parties, such as local authorities, consumer representatives, and universities, may be carrying out pilot studies, and collaboration could offer opportunities for Licensees to better understand the impact of these studies.
- 4.9 To help Ofgem better understand how ideas and proposals from innovators progress, each Licensee is required to maintain a Project Log of their early interactions with innovators and

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share it with Ofgem on request. To reduce reporting burden, this may be an extract from the “Innovation Measurement Framework Table 5 – Ideas Log” submitted by Licensees as part of their annual Regulatory Reporting Packs (RRPs), where this table is a requirement. Ofgem may follow up on the contents of the Project Log in relation to rejected ideas in order to understand how these ideas can be explored through alternatives routes. Where such follow-up occurs, Licensees must provide the requested information in full. Where it would inform the SIF programme, Ofgem may request that Innovate UK also receive this information. See paragraphs 11.12 and 11.13 for details.

- 4.10 Licensees will also be expected to provide reasonable resources to support Innovate UK led idea-generating workshops against relevant Innovation Challenges as part of the IDGs.

Sharing Project data

- 4.11 Licensees must comply with the Data Best Practice Guidance and principles in relation to all data gathered, generated, or shared throughout the Project.⁷
- 4.12 For the Beta Phase only, the Funding Party is required to maintain a Learning and Data Log that captures key deliverables, data sets, reports, and/or other relevant documents produced during the Project. This Learning and Data Log must document the openness (i.e. will an item be made public) of each item, the rationale for any redactions or desensitisation (e.g. due to commercial sensitivity), and the intended audience or dissemination route. As defined by and in accordance with the Data Best Practice Guidance, all Licensees must implement a robust data triage process. Where a Project involves multiple Project Partners, the consortium must apply a consistent Open Data Triage methodology, as detailed in Ofgem’s Data Best Practice Guidance, to ensure alignment across all data-related activities.⁸
- 4.13 We require the Funding Party to treat all data gathered and created in the course of a Project as Presumed Open to all and accordingly share data with requesting parties as per the Data Best Practice Guidance principles; unless the Licensee can demonstrate it is not in consumers’ interests to do so, or that there are other regulatory, legal or commercial reasons not to do so. Where data cannot be open, we require Licensees to provide the requesting parties with reasons why the requested data cannot be shared, and to identify and deliver a de-sensitised version incorporating the minimum number of changes.
- 4.14 When information regarding a Project is put in the public domain, the Funding Party must make sure all data is signposted and easily found. For Beta Phases, it is expected that information is shared throughout the lifetime of the Project.
- 4.15 The Funding Party must put in place a publicly available data policy, which covers its portfolio of Projects, setting out how the data used and generated by Projects will comply with Data

⁷ Data Best Practice Guidance <https://www.ofgem.gov.uk/decision/decision-definition-energy- system- data-data-best-practice-guidance>

⁸ Data Best Practice Guidance <https://www.ofgem.gov.uk/decision/decision-definition-energy- system- data-data-best-practice-guidance>

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Best Practice Guidance, including how data and software processing scripts will be made available to stakeholders.

- 4.16 The Funding Party will be required to consent to non-sensitive aspects of their Application and support information being shared with public funders of innovation, including departments and agencies of the UK Government, NESO and the devolved administrations.
- 4.17 In addition to the above data requirements, within the SIF Project Directions, with the aim of sharing learning and promoting collaboration and interoperability, 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).
- 4.18 All Projects will have specific Project monitoring requirements which are set out in Chapter 8. All data gathered or created in the course of a Project must be made available on the Dissemination Platform in a way that makes it easily accessible for an audience ranging from consumer, researcher to innovator.
- 4.19 Furthermore, Licensees and third parties should not prohibit or make difficult any reasonable requests to facilitate digital links between websites and platforms that seek to enhance Project learning or dissemination activities.

Sharing learning

- 4.20 Facilitating knowledge transfer is one of the key principles of the SIF. Ultimately, consumers are funding Projects, and we require the learning to be disseminated and utilised as effectively as possible to ensure that all Licensees, and therefore all consumers, can benefit from Projects.
- 4.21 Projects must ensure learning is shared as widely as possible, ensuring contact with different stakeholder groups and the relevant IDGs.

Dissemination Platform

- 4.22 In the RIIO-3 NIA Governance Document we require Licensees to use a single online Dissemination Platform to share learnings, comply with reporting requirements and share Project data. This service is funded and governed under the RIIO-3 NIA Governance Document, where more details can be found.⁹
- 4.23 We require Licensees and the Single Entity Supplier managing the Dissemination Platform to work collaboratively so that all reporting on SIF Projects (as required by Chapter 8 of the RIIO-3 SIF Governance Document) should be easily accessible for an audience ranging from consumers to researchers and innovators.

⁹ See NIA RIIO-3 document Chapters 3 and 5.

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4.24 We require the Licensees to ensure that the SIF Project details published on the Dissemination Platform are kept up to date until the Project completes (e.g. requirements detailed in Table 3), including links to websites and attachments.

Additional information

4.25 The Dissemination Platform is not intended to constrain Licensees from using other routes to identify and award contracts to Project Partners. Regardless of which route has been used, it is the responsibility of the Licensees to ensure applicable procurement rules have been followed.

4.26 The use of the online Dissemination Platform is not intended to constrain the dissemination activities of the Licensees. The platform should not be used as the sole means of disseminating learning, and Licensees should, for example, also organise and participate in wider industry forums to disseminate learning from Projects.

Annual Innovation Summit

4.27 Under the RIIO-3 NIA Governance Document, Licensees must collectively organise, with Ofgem approval, an Annual Innovation Summit. The Summit will be held every Regulatory Year for Licensees, Project Partners, and any interested third parties, from 1st April 2027. The Annual Innovation Summit is funded and governed under the RIIO-3 NIA Governance Document, where more details can be found. The aims of the Summit are to:

- i) Facilitate new introductions between potential Project Partners, enabling conversations that can lead to novel innovation projects being submitted into NIA and the SIF.
- ii) Advertise and explore company and sector challenges, including taking a strategic approach to linking with the SIF programmatic approach, where relevant.
- iii) Disseminate novel learning from innovation projects, including but not limited to the SIF and NIA Projects conducted since the previous annual innovation event (subject to any confidentiality or IPR arrangements approved before Registration).
- iv) Demonstrate the leadership of GB energy networks and innovators in a global energy context, including but not limited to the contribution of innovation to improving consumer vulnerability, and advancing sustainability, Net Zero, and economic growth.
- v) Demonstrate, where feasible, the interconnected and whole-systems nature of a clean, flexible, and affordable energy system for all consumers.

4.28 Licensees are expected to collaborate with one another, Ofgem, and Innovate UK in order to deliver the Summit aims.

4.29 Funding Parties may recover costs for participating in such event(s) from individual SIF Projects insofar as the activities are relevant to the SIF Projects.

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4.30 Where having more than one event serves the aims stated above, and it is clear that this would be a more effective and efficient use of funding, Ofgem may agree to cohesive annual programme of innovation events.

Additional information

4.31 The provision of the Annual Innovation Summit is not intended to constrain the dissemination activities of the Licensees. The Summit should not be used as the sole means of disseminating learning, as Licensees should, for example, be engaging in and organising wider industry forums to disseminate learning from Projects.

5. National Energy System Operator (NESO) Participation

Section summary

This chapter sets out the process for NESO ringfenced innovation funding relation to SIF.

- 5.1 Following the establishment of NESO¹⁰ as an independent energy system planner and operator that takes a whole system view, NESO will have an important role in facilitating innovation within the SIF, supporting the development and delivery of new approaches in the energy system.
- 5.2 To maintain independence and appropriately manage any actual or perceived conflicts of interest, a ringfenced funding provision has been established within the SIF for Projects led or partnered on by NESO. Any SIF funding that NESO receives will be from this ringfenced funding provision.
- 5.3 NESO will allocate appropriate and sufficient resources to support active participation in all relevant IDGS as well as other elements of the Programmatic Approach as set out in Chapter 2. Given NESO's role as the system operator, it is anticipated that NESO will lead any IDGs associated with its licensed activities.
- 5.4 NESO is required to participate in specific Projects where it is considered essential to ensure alignment with system-level priorities or to facilitate effective delivery. NESO's participation may take a variety of forms, including but not limited to acting as a Project Partner or contributing to Project governance structures, such as steering groups. Where an Application is submitted without prior engagement with NESO and it is determined by Ofgem that this should have happened, Ofgem may require NESO to review the Application to determine whether, and in what capacity, its involvement is appropriate.

NESO led Applications

- 5.5 NESO will lead innovation projects under the SIF where appropriate. Applications for NESO-led Projects shall be submitted through the standard Application and assessment process set out in Chapters 6 and 7, in the same manner as all other SIF Applications.
- 5.6 The funding arrangements set out in Chapter 5 shall apply to all Projects NESO are participating in. Where a Project is led by NESO, SIF-funded costs (outside of Partner contributions) within the consortium shall be funded from a ringfenced NESO fund.
- 5.7 NESO and Project Partners in NESO-led Projects must comply with all requirements set out in this document, including any applicable conditions in the SIF Project Directions, Funding Directions, and other supporting documentation, in the same manner as all other SIF Projects.

¹⁰ <https://www.ofgem.gov.uk/publications/decision-notice-establish-national-energy-system-operator-neso>

Other Licensee led Applications

- 5.8 As set out in paragraph 5.4, NESO may be required to participate in certain Projects where its involvement is deemed necessary to ensure alignment with system-level priorities or to facilitate effective delivery. Where such participation is required, the nature and extent of NESO's involvement shall be determined in line with the process set out below. SIF-funded costs pertaining to NESO (outside of Partner contributions) within the consortium shall be funded from a ringfenced NESO fund.
- 5.9 As part of any Application, the Funding Party must provide a clear justification as to whether NESO's participation in the proposed Project is requested. Where an Application falls within the scope of NESO's statutory roles and responsibilities and NESO has not been involved in the development, NESO will be required to review the Project to assess the necessity and appropriate involvement. This review should also consider the potential for alignment with related dissemination activities or duplication of existing or planned Projects. The requirement for NESO's participation will be determined on a case-by-case basis, taking into account the Project's objectives and scope.
- 5.10 NESO shall provide a formal recommendation regarding its involvement in the Project to Innovate UK. This recommendation will form part of the overall assessment, alongside feedback from the independent Expert Assessors, and will inform Ofgem's funding decision.
- 5.11 Where Ofgem has decided to fund a successful Application which has requested NESO participation but Ofgem does not consider this to be suitable, and NESO confirms that its involvement is not required, the standard Project Delivery process stated in Chapter 8 shall apply.
- 5.12 Where Ofgem has decided to fund a successful Application which involves NESO participation, and NESO supports the proposed scope as submitted, the standard Project Delivery process outlined in Chapter 8 shall also apply.
- 5.13 For Projects entering the Discovery Phase or Alpha Phases, the Funding Party shall be notified of NESO's proposed involvement and the proposed scope as part of the Project Direction. Further details on the SIF Project Direction can be found in paragraph 7.12.
- 5.14 For all Projects, upon issuing the SIF Project Direction (see paragraphs 7.12 to 7.16 for details), there will be a 10 Working Days clarification period. NESO, the Funding Party, and the Project Partners will have 10 Working Days to agree the detailed scope of NESO's participation. For a Beta Phase Application, a NESO Scope of Participation Request will confirm the level of NESO involvement; this should come from the Funding Party. It will be reviewed and approved by Ofgem, and a revised Project Direction will be issued for all Project Partners, with a subsequent Funding Direction issued.
- 5.15 For Beta Phases, where NESO supports involvement in the Project, but no scope has been considered, the Funding Party will be notified and a Special Condition placed on the Project to confirm scope. This will occur either at the first Ofgem Stage Gate or within 3 months of the start date (whichever is sooner) in accordance with the Project Direction. The initial Project

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Direction will include costs for the drafting of this activity, with a subsequent Material Change request submitted to receive approval of the additional NESO scope.

- 5.16 In cases where a successful Application gives rise to disagreement regarding NESO's participation, the Funding Party must provide a clear and robust justification to Ofgem and Innovate UK (as SIF Delivery Partner) on why NESO's involvement is necessary or not suitable. Ofgem will consider the justification in consultation with Innovate UK and NESO. Ofgem may approve the Application with or without NESO's involvement, impose Special Conditions, or require modifications prior to confirming the funding award. If a resolution cannot be reached, Ofgem reserves the right to reject the Application and/or withdraw funding from the Project.

6. Application Process

Section summary

This chapter describes the Application process.

- 6.1 A Project may apply to commence in the Discovery Phase and subsequently progress to the Alpha Phase and Beta Phase. Alternatively, a Project may apply directly to the Alpha Phase or Beta Phase, without the requirement to complete the preceding Phase(s), provided that the Application demonstrates that the proposed activities are appropriate to the objectives and scope of the intended Phase and meet the applicable Eligibility Criteria and assessment requirements, as determined by Ofgem. Projects which apply directly to the Alpha Phase or Beta Phase, without completing the preceding Phase(s), must notify Innovate UK by email before the closure of each Cycle.
- 6.2 The Application process for the Deployment Phase is detailed in Chapter 9.
- 6.3 The Innovation Challenge Document will set out the eligible scope of activities which an Application is eligible for within the SIF. The Innovation Challenge Document shall be issued at the start of the price control and may be reissued at Ofgem's discretion where necessary to revise, clarify, or update the parameters originally specified.
- 6.4 Each Application is assessed against the Eligibility Criteria set out in Chapter 3 by the Expert Assessors. Where applicable, NESO will also provide input to Ofgem as set out in paragraphs 5.8 to 5.16. Where NESO provides input, this will be shared with Project to support transparency. While the final decision of which Projects should be awarded funding is made by the Authority, these decisions will take into account the Expert Assessors' and NESO's input.
- 6.5 Applications to enter each Phase shall be submitted by a Funding Party in accordance with the requirements set out in the Application Guidance. The Application Guidance will provide the following information:
 - The Innovation Challenge(s) which proposed Projects will be expected to address;
 - Scope and Project requirements, including any bespoke requirements based on the individual IDGs;
 - Questions on general Project information, such as, but not limited to, the organisation type, role, and number of Project Partners;
 - Application questions and any additional guidance to support completion.
 - Where applicable, additional Innovation Challenge-specific Application questions;
 - Dates: Open/close application dates, assessment dates, interview dates, and notification dates;
 - How to apply; and
 - Any supporting information required, including where relevant templates must be used.
- 6.6 The Funding Party will be required to submit answers in relation to defined questions alongside supporting information, as set out in the Application Guidance. Responses to the questions will be used to determine whether a Project meets the Eligibility Criteria identified in

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Chapter 2, upon which the success of the Application depends. In Table 1, the types of questions are outlined below.

- 6.7 Projects, which have been submitted without the support of an IDG, may be accepted. These Projects must still meet all of the set requirements in the Innovation Challenge Document.

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Table 1: Application question categories – ‘x’ denotes the category as a requirement for the phases, Discovery, Alpha, and Beta.

Question Categories	Discovery	Alpha	Beta	Information Requirements as an Example	Supporting Information as Example
Solution statement			x	Describe the solution, how the Project will develop the solution, and how it addresses the identified problem. Outlining how the idea has evolved since inception, including key insights, iterations, or refinements.	
Problem Statement	x	x		Provide a clear, concise summary of the problem the Project addresses, who is affected, why it matters, and the potential consequences if unresolved. If the problem statement has changed since the last Phase, please explain how it has evolved.	
Portfolio Integration and Strategic Alignment	x	x	x	Describe how this Project fits within a broader portfolio of work within an Innovation Delivery Group, including how it aligns with other Projects, builds on previous innovations, avoids duplication, and contributes collectively to the relevant Programmatic Approach outcomes. For proposals, which sit out of the scope of IDGs a justification must be provided.	Operational supporting document to support information on similar Projects, lessons learned, images, and diagrams.
Summary Video	x			Provide a video (max 60 seconds) summarising the problem, the solution, and customer benefits. This is not required for a Discovery Phase Application for an Innovation Delivery Group development of an Innovation Charter. See paragraph 2.10.	
Innovation Justification	x	x	x	Explain how the Project delivers novel, ambitious innovation in Licensees and what makes it distinct from existing approaches.	
Impacts and benefits	x	x	x	Provide a forecast of cumulative net benefits to energy consumers at the network partner level, and detail any realised benefits to date, whether quantified or qualified. See additional information in paragraphs 6.20 to 6.26.	A Business Case for Alpha Phase only For Beta Phase only Cost Benefit Analysis

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Question Categories	Discovery	Alpha	Beta	Information Requirements as an Example	Supporting Information as Example
Team and resources	x	x	x	Identify who will be involved in delivering the Project.	
NESO involvement	x	x	x	If the Project requests NESO to be a Project Partner and NESO is not already involved, the Project must provide a clear and robust justification for NESO’s involvement in its delivery. This should include a detailed outline of NESO’s intended role and scope, responsibilities, and contributions to successful delivery, as well as how this aligns with NESO’s statutory functions and system-level objectives. If NESO is already a Project Partner, proceed to ‘Team and Resources’ question category.	
Project management and delivery	x	x	x	Explain how you will manage the Project effectively, including the Project plan, key milestones, and associated risks.	A Project timeline schedule with milestones, deliverables, and interdependencies. Ofgem Stage gates and risks. For Alpha Phase and Beta Phase, a full Gantt chart. A risk register.
Key outputs and Dissemination	x	x	x	Describe clearly and precisely the expected key outputs of the Project and the anticipated outputs of following Phases including the plans for sharing outputs, data, insights, and learnings.	For Beta Phase only Learning and Data Log
Intellectual Property Rights, procurement, and contracting	x	x	x	State whether you are using the default SIF IPR arrangement or an alternative arrangement. See additional information in Chapter 12.	
Commercialisation, route to market, and business as usual		x	x	Explain how the idea will be deployed within the network and across others after Project completion.	For Beta Phase only, a deployment strategy.

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Question Categories	Discovery	Alpha	Beta	Information Requirements as an Example	Supporting Information as Example
Policy, standards, and regulations		x	x	Identify and explain any potential barriers related to regulations, policies, or standards. See additional information in paragraphs 6.17 and 6.18.	For Alpha Phase and Beta Phase, optional supporting document
Consumer impact and engagement			x	Describe and explain how you will engage with consumers and address their needs and preferences. See additional information in paragraph 6.19	
Value for money	x	x	x	Detail the Project costs and explain how they are proportionate to delivering the Project successfully.	

- 6.8 Ofgem may appoint consultants to assist the Expert Assessors or the Authority as appropriate. Any materials/documents produced by the consultants, together with the Application, will be made available to the Expert Assessors, Innovate UK, and to the Authority. This will form part of the evidence base that the Expert Assessors will use to arrive at their recommendation and which the Authority will use to make its decision.

Additional information to support Applications

Funding requested

- 6.9 For each Application to the Discovery Phase, Alpha Phase, and Beta Phase, in order to calculate the SIF Funding Request, the Funding Party must set out the following:
- **Total Project Phase Costs:** These are the forecast costs the Funding Party expects will be required to undertake the Project Phase;
 - **Compulsory Contribution:** The Compulsory Contribution towards the Project; and
 - **SIF Funding Request:** The Outstanding Funding Required. At the Beta Phase, this should include a deduction for the bank account interest that the Funding Party will earn on the balance of funding over the duration of the Beta Phase.
- 6.10 The Funding Party should clearly identify the assumptions that underline the way in which the costs, External Funding, and hence the Outstanding Funding Required, have been calculated.
- 6.11 Compulsory Contributions will be defined as a percentage based on the Total Project Phase Costs. While the SIF funding award remains capped as per the award Project Direction, this allows for efficiencies to be mirrored in the contribution required from Project Partners. If a Project Partner spends less than their anticipated Total Project Phase Costs, then their contribution will be the same percentage of the lesser amount as stated in the Project Direction.

Contingency funds

- 6.12 With the Beta Phase, Projects can include a reasonable contingency fund within Application to cover unquantifiable costs that may arise during delivery. This should be proportionate to the Project's scope and risk profile and clearly identified within the forecast submitted as part of the Application. Note: this will still be considered as part of the Eligibility Criterion 8: Projects must be well thought through and have a robust methodology so that they are capable of progressing in a timely manner as set out in Chapter 3.

Variations in the Compulsory Contribution

- 6.13 The default level of Compulsory Contribution required for Projects is 10%. The Compulsory Contribution should be private funds from the Funding Party. Project Partners may provide their Compulsory Contribution via a contribution in kind.¹¹ All Compulsory Contribution must take account of the risk and benefits associated with the Project.
- 6.14 However, to encourage greater innovation and ensure the efficient use of consumer funds, Ofgem may apply flexibility to this contribution requirement based on specific characteristics of each Project. This may include:
- Reducing or removing the Compulsory Contribution for high-risk, high-impact Projects where the benefits are primarily or exclusively for consumers, or where the outcomes extend beyond network benefits. In such cases, a financial contribution from the Funding Party or Project Partners may not be appropriate if it would represent a barrier to delivery. This will be considered at Ofgem’s discretion. For example, the Compulsory Contribution may be reduced to 0% or 5%.
 - Increasing the Compulsory Contribution for lower-risk Projects, particularly grid-edge activities or the application of established technologies aimed at commercial expansion. Where such Projects offer clear financial returns to Licensees or third parties, a higher contribution may be required to ensure that the SIF Funding remains targeted toward consumer benefit. The appropriate contribution level will be determined by Ofgem on a case-by-case basis.
- 6.15 Ofgem will consider whether to vary the Compulsory Contribution on a case-by-case basis. Ofgem will then confirm the value of the Compulsory Contribution in relation to the potential Applications against an Innovation Challenge. Ofgem will confirm the minimum Compulsory Contribution required through the Innovation Delivery Group, and this will be published as part of the Innovation Charter.
- 6.16 Projects funded under the initial Discovery Phase as part of establishing the Innovation Charter are 100% funded by the SIF as described in paragraph 2.10.

Policy and regulatory challenges to deployment, derogations, and requests for changes in regulation

- 6.17 If a future Project Phase may require a regulatory derogation or exemption, the Funding Party must state this in its Application and, where appropriate, include supporting evidence, timing, and application plans. This information may be provided as an annex.

¹¹ This includes any non-cash benefit (e.g. resources/services) of monetary value that are provided for the delivery of the project-by-project partners.

- 6.18 Evidence submitted under paragraph 6.17 must follow Ofgem’s latest licence derogation guidance and indicate if similar derogations or code changes would be needed to roll out the Method(s) if successful.¹²

Interruptions to consumers’ supply

- 6.19 Applications must detail any planned interruptions to consumer supply, including their duration, reason, and mitigation measures. Where unplanned interruptions are possible, the risks, potential impact, and causes must be identified. The Funding Party must also explain what alternative approaches were considered to reduce or avoid such interruptions, and why these alternatives were not adopted.

Evidencing benefits

- 6.20 Projects should have clearly identified potential to deliver a net benefit to gas or electricity consumers and/or to the wider energy system. The types of benefit included in net benefit are not restricted to financial benefits. Benefits may also include non-financial benefits (such as environmental benefits, social benefits, or carbon cost) that can have a financial value assigned to them that is calculated under approved methodologies, such as the Green Book guidance¹³.
- 6.21 Net benefits can be financial, such avoidance of CAPEX and OPEX costs, or non-financial, such as environmental, societal, or carbon costs. For each identified net benefit, a quantitative methodology should be developed using an approved methodology, such as the RIIO-3 cost benefit analysis model, Green Book guidance, or the whole system cost benefit analysis model developed by the Single Responsible Entity.
- 6.22 The Funding Party can evidence net benefits to consumers across the range of areas outlined below. In addition to these, evidence of specific benefits might be required in the context of a specific Innovation Challenge. The Funding Party can also demonstrate how new products or services contribute to the benefits outlined below.
- 6.23 Financial cost reductions can be evidenced by future reductions in the cost of operating the network, or cost savings per annum on energy bills for consumers, or cost savings per annum for users of network services.
- 6.24 Carbon reductions (tonnes of CO₂ savings per annum) against a business-as-usual counterfactual. This can include all direct and, where suitable justified, indirect emissions. The Funding Party should be able to measure carbon savings within the Beta Phase. The Funding Party should also be able to provide estimated Projections of carbon savings. An ongoing monitoring and assessment

¹² [Guidance note on Derogation from Codes and Standards in electricity generation, supply, distribution and transmission licences | Ofgem](#)

¹³ [The Green Book and accompanying guidance - GOV.UK](#)

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mechanism of the carbon reductions should be developed during the Project lifecycle.

6.25 Improved access to revenues for users of network services, or the creation of new revenue streams. This can be demonstrated through, but are not limited to:

- Cost savings per annum made available to third parties through network services;
- User satisfaction metrics; or
- Number of third parties that are eligible to access network services per annum.

6.26 Number of products, processes, and services launched which are new to the market within Great Britain. Products and services can include, but are not limited to:

- Energy markets;
- Access or connection to physical infrastructure;
- Data services; and
- Insights and analysis.

7. Assessment of Projects

Section summary

This chapter sets out the Project assessment process.

- 7.1 The assessment of Projects will be undertaken by the Expert Assessors, with support from Innovate UK. The Expert Assessors will assess each Application on its compatibility with the Eligibility Criteria in Chapter 3, as evidenced by responses to the Application questions discussed in Chapter 6, and taking into consideration any additional and relevant information available. NESO will assess each Application within its licensed activities and provide input regarding its involvement in the Project in line with Chapter 5.
- 7.2 The assessment process for the Deployment Phase is detailed in Chapter 9.
- 7.3 If deemed necessary to support assessment of the strategic alignment of a Project and understand policy issues associated with a Project, the Funding Party may be asked to discuss the Project with the Expert Assessors, Ofgem, DESNZ, Innovate UK, NESO, and other government agencies and bodies, as appropriate to aid the assessment of the Application against the Eligibility Criteria. However, Projects will still be assessed against the Eligibility Criteria set out in Chapter 3 when Ofgem determines whether Projects are funded.
- 7.4 If an interview takes place, the Funding Party will be provided with at least 10 Working Days' notice of the date of the interview.
- 7.5 Ofgem, the Expert Assessors, and Innovate UK may, at any point during the assessment process, raise clarificatory questions about a Project to facilitate its assessment against the Eligibility Criteria outlined in Chapter 3. If applicable, the Funding Party must submit written responses to any clarificatory questions raised outside an interview to Ofgem and Innovate UK.

Authority decision to fund Projects

- 7.6 Innovate UK will collate the recommendations provided by the Expert Assessors and input from NESO and produce a written report to the Authority. Having taken into account the Expert Assessors' and NESO recommendations (where appropriate), the Authority will decide which Projects should receive SIF Funding.
- 7.7 The Authority will aim to issue its decision no later than 12 weeks after the Application window for the relevant Project Phase closes, subject to the terms of related SIF Project Directions.
- 7.8 If a decision is made not to award SIF Funding to a Project, the Project may seek feedback from the Authority as to why the Project was unsuccessful.
- 7.9 If a Funding Party decides to submit a Project which is based on or related to a previously unsuccessful Project, the Funding Party must contact Innovate UK and

Ofgem prior to submission to confirm that the Project has addressed feedback to a previous unsuccessful Application. Where a Project has been unsuccessful in applying for SIF funding and a subsequent decision is taken to apply into the NIA for the same Project or a substantively similar one¹⁴, Ofgem must be notified prior to registration of the Project.

- 7.10 In its decision, the Authority may decide to fund all or part of a Project proposed by the Funding Party. It may also make changes to the Project proposed by the Funding Party, including making amendments to the proposed Method, Project Deliverables, and additional Ofgem Stage Gates. Ahead of making a decision to fund part of a Project, or making changes to the Project proposed, Ofgem will engage with the Funding Party to consider the feasibility and impact of such a decision. Ultimately, the Funding Party will be able to consider such changes as per the engagement on the SIF Project Direction, specified in paragraphs 7.12 to 7.16. The Authority may consider awarding funding to one or more Projects within portfolio of independent Projects where it considers that the collective delivery of those Projects is necessary to achieve the intended outcomes.
- 7.11 In addition to publishing the Authority's decision, Ofgem will publish the Expert Assessors' recommendations and, where appropriate, NESO's input, alongside its decision.

SIF Project Direction

- 7.12 Once a SIF Project Direction has been issued, the Funding Party must comply with all of the terms within it (subject to the amendment of the SIF Project Direction as set out in Chapter 8, or revocation of the SIF Project Direction as set out in Chapter 8). Failure to do so means that Ofgem may treat all or part of the SIF Approved Amount received by the Funding Party as the SIF Disallowed Expenditure.
- 7.13 Shortly after notification of its funding decision to Funding Parties, Ofgem will send a draft SIF Project Direction for each Project that has been approved for the SIF Funding to the Funding Party. If the Funding Party cannot accept this draft, the SIF Project Direction (including any clarification of and amendments to the draft the SIF Project Direction agreed in writing by Ofgem) within 10 Working Days of receipt of the draft, a SIF Project Direction in respect of the Project will not be issued and the Project will not receive SIF Funding.
- 7.14 Once the SIF Project Direction has been issued by the Authority and provided the Funding Party complies with the RIIO-3 SIF Governance Document, the Innovation Challenge- specific requirements and with the SIF Project Direction, the Project identified within it is an eligible SIF Project.

¹⁴ See NIA RIIO-3 document, Chapter 4.

7.15 The SIF Project Direction will:

- Set out the Project-specific conditions, to which the Funding Party is committing in accepting the SIF Funding; and
- 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 Application;

7.16 Where applicable, set conditions linked to milestones and deliverables, which Projects must meet including;

- Agree contracts across all Project Partners within 3 months of the SIF Funding award. For Beta Phase which have demonstrably complex contracting, this may be extended to within 6 months if Ofgem approves;
- Set out the Approved Amount for the Project, that will form part of the calculation contained in the SIF Funding Direction issued by the Authority under Chapter 10;
- Set out the Project budget that the Funding Party must report against and how variations in the Project budget will be reported;
- Where applicable, set out special information sharing requirements applicable to the Project;
- Set out the mechanism for the Funding Party receiving the Approved Amount as set out in the SIF Funding Direction; and
- Any additional Special Conditions, such as additional Ofgem stage gates and interaction with other Projects, etc.

8. Project delivery

Section summary

This chapter sets out requirements in relation to Project delivery, including Project reporting and requirements to support Project monitoring.

Project monitoring

- 8.1 All Projects receiving SIF Funding will be subject to monitoring and review and, for this purpose, will be allocated a Monitoring Officer or dedicated contact who will be employed by Innovate UK.
- 8.2 The Project Delivery process for the Deployment Phase is detailed in Chapter 9.
- 8.3 During Project delivery, Ofgem and Innovate UK, with the assistance of information gathered by the Monitoring Officer, will monitor Projects. The Monitoring Officer must review each Project's progress against the scope, timeline, deliverables, milestones, and budget agreed in the SIF Project Direction. Monitoring must support the identification of potential problems and the assessment of whether Projects have met the conditions set out in the Project Direction. Monitoring must also support Ofgem's assessment of requests for Material Changes (discussed later in this Chapter).
- 8.4 To ensure effective governance, all Projects must comply with procedural requirements for monitoring and reporting. This includes attending scheduled meetings, submitting timely and accurate reports, and delivering agreed outputs. These requirements are detailed in Table 2 below and form part of the conditions set out in the Project Direction.
- 8.5 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. Attendees from Project Partners will also be required to attend monitoring meetings as advised by Innovate UK.
- 8.6 A kick-off meeting must be held within one month of the Project start date, with participation from all Project Partners.
- 8.7 All Projects are expected to maintain ongoing updates and input to relevant Innovation Delivery Groups as mentioned in Chapter 2.

Table 2: Project meeting requirements– ‘x’ denotes the category as a requirement for the phases, Discovery, Alpha, and Beta.

Meetings	Discovery	Alpha	Beta	Additional Information
Kick-off meeting	x	x	x	Must be completed within 1 month of the Project start date.
Mid-point meeting		x		Must be completed by the mid-point of the Project.
Quarterly meetings			x	Must take place every 3 months throughout the Beta Phase.
Ofgem Stage Gates			x	Key decision points to de-risk a Project which will be determined within the Project Direction. The Monitoring Officer, Ofgem, or Innovate UK may require Projects to hold additional Ofgem Stage Gate(s) if necessary see paragraph 8.19 to 8.23.
End of Phase Meeting	x	x	x	For Discovery Phase and Alpha Phase, this must be completed within 1 month of Project end. For Beta Phase, this must be completed within 3 months of Project end.

Project Reporting

- 8.8 The following section sets out standard reporting requirements. As per Chapter 4 of the RIIO-3 SIF Governance Document, all reporting must be published on the Dissemination Platform.
- 8.9 During Project delivery, the Funding Party must provide a submission to Innovate UK and Monitoring Officer on the Project’s progress against the Project timeline, milestones, budget, and Project Deliverables.
- 8.10 Additionally, Funding Parties must collaborate with Innovate UK, as appropriate and as part of the monitoring meetings, to draw out relevant insights from Projects in order to support knowledge consolidation and dissemination from the SIF to the wider energy system.
- 8.11 Reporting in the Discovery Phase and Alpha Phase must support monitoring to ensure that the Project is being delivered efficiently and in line with milestones specified in the SIF Project Direction. Ofgem and Innovate UK may issue further guidance and templates in relation to in-Project Phase reporting.
- 8.12 Submission will be set at agreed points dependent on the Phase – see Table 3 below. Materials should be provided to Innovate UK in a timely manner and shall be proportionate to the relevant Phases. The minimum Project reporting requirements are outlined below in Table 3.

Table 3: Minimum Project Reporting requirements

Project Stages	Reporting Requirements
Kick-off meeting	<ul style="list-style-type: none"> • Overview of Submission; • Recap of learnings from previous Phases or other

Project Stages	Reporting Requirements
	<p>Projects;</p> <ul style="list-style-type: none"> • Plans until the next meeting; • Any barriers for delivery including regulatory, deployment or other issues; • Updates to the Learning and Data Log; • Progress against any conditions set out in the Project Direction; • Updates on finances, risk register, schedule and Project timeline and/or Gantt chart; • Where necessary - updates or changes, or potential impacts to original stated benefits; • Where necessary - updates or changes deployment strategy, including business as usual roadmap and commercialisation plans where appropriate; • Any Change Requests; • For Beta Phase only, Ofgem Stage Gate Criteria.
Mid-point meeting/ Quarterly meetings	<ul style="list-style-type: none"> • Progress update since last meeting; • Outline demonstrations, key insights, and learnings, including updates of the Learning and Data Log; • Plans until the next meeting; • Any barriers for delivery including regulatory, deployment, or other issues; • Progress against any conditions set out in the Project Direction; • Updates on finances, risk register, schedule, and Project timeline and/or Gantt chart; • Where necessary - updates or changes, or potential impacts to original stated benefits; • Where necessary - updates or changes deployment strategy, including business as usual roadmap and commercialisation plans where appropriate; • For Beta Phase only, Ofgem Stage Gate updates.
Annual (Beta Phase only)	<ul style="list-style-type: none"> • Annual report; • Community Forum participation from all Project Partners; • Input into the relevant Innovation Delivery Group annual performance report; this may be an extract from the annual report. • Full financial updates;
Adhoc	<ul style="list-style-type: none"> • Change Requests see paragraph 8.24 to 8.38; • Updates to supply interruptions or consumer engagement plans, see paragraph 6.19; • For Beta Phase only, an updated summary video within

Project Stages	Reporting Requirements
	6 months of starting.
End of Phase Meeting / Close Down	<ul style="list-style-type: none"> • An End of Phase report; • A public show and tell; • Where invited, an insight session with the relevant Innovation Delivery Group; • For Beta Phase only, a financial auditors report; • For Beta Phase only, a Community Forum participation from all Project Partners; • For Beta Phase only, an updated completion Cost Benefit Analysis and Business Case; • For Beta Phase only, an updated deployment strategy. • For Beta Phase only, an update to the summary video.

8.13 During Beta Phase delivery, the Funding Party must publish an Annual Report on its Project. This must outline the progress made by the Project to date, the main findings and learning, and the future direction/scope of the Project. Reporting in the Beta Phase must also support monitoring to ensure that the Project is being delivered efficiently and in line with milestones specified in the SIF Project Direction. Ofgem and Innovate UK may issue further guidance and templates in relation to in-Project Phase reporting.

8.14 Additionally, as set out in Chapter 10, where a Funding Party does not keep the SIF Funding in a bank account or accounts dedicated to the SIF Funding, the Funding Party must provide, alongside its End of Phase Report, an audited schedule of all the memorandum account transactions.

End of phase reporting

8.15 End of Project Phase reporting is designed to facilitate learning and knowledge dissemination.

8.16 At the end of each Project Phase, the Funding Party must present findings (including whether research, development and demonstrations activities were successful or not) at a public show and tell event. The Funding Party must arrange this in line with the availability of Ofgem and Innovate UK. This event may be in person or an online webinar. This event will provide the Funding Party with an opportunity to take questions from interested stakeholders. Webinars must be recorded and saved on a suitable sharing platform. At the show and tell events, interested stakeholders and the Expert Assessors must be given appropriate opportunity to ask questions.

- 8.17 All Projects upon completion, must submit an End of Project Phase report. The Funding Party must submit information related to questions on Project delivery as detailed in Table 3 above. The Funding Party must submit an end of Project Phase report within 1 month upon the completion of Discovery Phase and Alpha Phase and 3 months of the completion of a Beta Phase. Additional guidance shall be provided by the SIF Delivery Partner to outline the requirements of an End of Phase Report.
- 8.18 For Beta Projects, the Funding Party will also be required to share an independent accountant's report (IAR) or statement of expenditure (SoE) with the End of Phase Report, and the text of these documents are not provided directly by Innovate UK but are prepared by your own independent accountant to confirm Project cost legitimacy and adherence to governance requirements. The specific text will detail your financial activities, Project's financial and compliance status.

Ofgem Stage Gates

- 8.19 During the Beta Phase, Projects will be subject to one or more Ofgem Stage Gates at key decision points to suitably de-risk the Project. Ofgem Stage Gates are an opportunity for Ofgem and Innovate UK alongside the Monitoring Officer to assess the performance of the Project, and derisk elements of delivery and ensure that the strategic basis for undertaking the Project remains.
- 8.20 Ofgem Stage Gates operate as checkpoints to suitably derisk a Project, being strategically positioned at key decision points over the course of delivery of a Beta Phase Project.
- 8.21 Opportunities for Ofgem Stage Gates may be identified and included in Project Plan by the Funding Party. In assessment, the Expert Assessors and/or Ofgem may note additional/ alternative points on the Project Plan as opportunities for an Ofgem Stage Gate and include the insertion of such as a special condition. If included as a special condition, this will be set out in the Project Direction.
- 8.22 Ofgem Stage Gates may also be used by exception where there are issues with performance, Project change, or previously unidentified material risk.
- 8.23 Additional guidance will be provided by Innovate UK on the Ofgem Stage Gate process including criteria setting, evidence, and assessment.

Project changes

- 8.24 The Funding Party must keep its Monitoring Officer updated on risks and whether any Project changes are necessary.

Ofgem approval of Material Changes

8.25 Changes to the SIF Project Direction only need to be made by Ofgem where there has been a Material Change in circumstances. A Material Change includes (but is not limited to) the following:

- A change which, alone or together with other changes, delays the due date of Project Deliverables or Project end date outside of the end date stipulated on the Project Direction;
- Any change to the scope of a Project Deliverable;
- A change to any Project learning which the Funding Party is expected to deliver in compliance with the SIF Project Direction;
- A change to the Project Partner(s) set out in the SIF Project Direction (because an additional or replacement Project Partner is sought by the Funding Party); or
- A request for an increase in the SIF Funding may be considered under exceptional circumstances and only for Beta Projects. Such requests must be clearly justified and will be subject to Ofgem's discretion.

8.26 A Material Change does not include the following non-exhaustive list of examples:

- A change in the allocation of the SIF Funding to the cost categories set out in the SIF Project Direction, provided that the change does not increase the overall Project SIF Funding Request (unless any increase is met by additional contributions from the Funding Party or its Project Partners); and
- An overspend in the Project SIF Funding Request set out in the SIF Project Direction, where the overspend is met by additional contributions from the Funding Party or its Project Partners.

8.27 If a Funding Party considers that there has been a Material Change in circumstances, it must submit (via its assigned Monitoring Officer) a written request to Ofgem to change the SIF Project Direction. This request should provide sufficient detail to allow Ofgem to decide whether the change would be appropriate in the circumstances, including whether it would be in the best interests of consumers.

8.28 Ofgem will consider requests to change the SIF Project Directions on a case by case basis and engage with Monitoring Officers to support its decision in relation to such requests; however, Ofgem must be satisfied that the changes continue to ensure that the Project satisfies the Eligibility Criteria specified in Chapter 3.

8.29 Once Ofgem has enough information to make its decision on changes to the SIF Project Directions, it will provide its response in writing to the Funding Party, including any revisions that it has decided to make to the SIF Project Direction. Ofgem will also publish its decision on its website.

Managing non-Material Changes

- 8.30 Any change to the Project, which is not a Material Change, may be made by the Funding Party without a change to the SIF Project Direction. However, the Monitoring Officer should be notified of such non-Material Changes.
- 8.31 If there are non-Material Changes during the Discovery Phase or Alpha Phase that delay the Project and which could mean that the Project cannot be successfully completed within the timeframe specified in the SIF Project Direction and, as a result, which may affect the Funding Party's ability to submit an Application within the Cycle for the subsequent Project Phase, the Funding Party must engage with its Monitoring Officer to discuss how to manage the delay to the Project. The Funding Party may decide that the Project could, for example:
- Continue as is, but that the Funding Party may break their Application for Alpha Phase or Beta Phase until a future Cycle with an appropriate Innovation Challenge, under which the Project can apply;
 - continue, subject to the submission of a Material Change request to Ofgem (for example, a request to change the scope of a Project Deliverable to enable the Project to proceed);
 - Be closed down in line with the original intended timeframe, with the end-of-Project Phase reporting taking account of the difficulties encountered; or
 - Where the management of delays after engagement with the Monitoring Officer means that the Application window is not missed, the Application for the subsequent Project Phase could still be submitted, take account of difficulties encountered during the previous Project Phase and include necessary mitigations for the future management of such difficulties.

Halting a Project

- 8.32 Ofgem may halt or pause a Project funded under the SIF, in full or in part, where continued funding or delivery is no longer justified. This process ensures the responsible use of consumer funding, maintains accountability, and supports the strategic aims of the SIF.
- 8.33 Ofgem may decide to halt a Project, or any part thereof, where one or more of the following conditions apply:
- The Funding Party or Project Partners have not met the conditions set out in the Project Direction, including governance, reporting, or financial compliance and/or agreed milestones and deliverables;
 - There is evidence of material underperformance via monitoring and significant risk to successful delivery of agreed scope;

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- The Project is rendered redundant due to external developments such as changes in policy, regulation, standards or technological advancements. For example, where a government decision determines a definitive technological pathway;
 - A Material Change in circumstances has occurred which significantly affects the scope, viability, relevance, or benefit of the Project;
 - The Funding Party seeks permission to halt the Project, citing technical, operational, or commercial reasons; or
 - The Funding Party has not agreed all contracts with Project Partners within three months of formal award of funding (or within 6 months as per 7.16, under certain conditions).
- 8.34 Projects which have been halted will still be required to produce an end of Phase report. This information may be published or shared with stakeholders to inform future innovation activity, subject to appropriate confidentiality and data protection requirements.
- 8.35 A Project that is halted must comply with the other requirements of this RIIO-3 SIF Governance Document, including, for example, the requirement to participate in a lesson learned review. Exceptions may be given to public show and tell events, but this will be decided on a case-by-case basis.
- 8.36 Ofgem shall notify the Funding Party of its final determination in writing, setting out the rationale and any associated conditions or requirements.
- 8.37 Requirements related to funding are set out in 10.19 – 10.22.
- 8.38 The Funding Party shall be given a period of **10 Working Days** to provide a formal response. This may include clarifying information, a proposal for mitigation, or a request to enter a period of up to 4 weeks to address the identified issues. Ofgem will then review any response and respond if the SRO deems it necessary. A response from Ofgem may include a request for more information. In such instances, the Funding Party shall be given a period of 10 Working Days to respond as standard, or Ofgem may allow for more if it is deemed more appropriate.

9. Deployment Phase

Section summary

This chapter sets out the process for the access to the Deployment Phase.

- 9.1 A dedicated fund has been allocated as part of the SIF in RIIO-3 to support the transition of proven innovations into operational deployment across the GB energy system. It provides an opportunity for Licensees to deploy innovations that deliver benefits to the energy system, consumers, and other network users. The fund supports deployment of Projects that Licensees are not already incentivised to deploy through existing incentives. The fund also aims to:
- Accelerate the deployment and system-wide adoption of successful innovations;
 - Enable coordinated, scalable roll-out of innovations across multiple Licensees; and
 - Deliver measurable consumer, environmental, and system benefits.
- 9.2 All Licensees holding the SIF Licence Condition, excluding NESO, are eligible to apply for the Deployment Phase, regardless of whether they have previously participated in the Project as a Funding Party or been involved as a Project Partner.
- 9.3 Any Project that has received funding from the NIA, NIC, SIF, or equivalent innovation funds from previous price controls is eligible. Projects that have not originated from the aforementioned funds will be eligible for the Deployment Phase if they can demonstrate that they have done equivalent work and meet the Deployment Eligibility Criteria of this Chapter.
- 9.4 Projects are eligible to apply for funding once they have completed or are nearing completion (where they have sufficient certainty to provide the information requested). Related NIA or SIF projects must have completed by the time a Funding Direction for the Deployment Phase is issued.
- 9.5 Applications must demonstrate a clear pathway to deployment, with a minimum expectation that the solution will be adopted by at least one Licensee. All Applications must demonstrate system relevance and consumer benefit.

Deployment Eligibility Criteria

- 9.6 Projects submitted to the Deployment Phase must meet the Deployment Eligibility Criteria in order to receive Deployment Funding.¹⁵ The process for assessing Projects against the Eligibility Criteria and the Application requirements

¹⁵ Projects applying for the Deployment Phase do not need to meet Innovation Challenges set by the ENIT, however if they do this will contribute towards their meeting of Eligibility Criterion 3.

are outlined below. The process for all other SIF Phases is outlined in Chapters 6, 7, and 8.

- 9.7 Ofgem shall take a scaled approach to the assessment of these Deployment Eligibility Criteria to inform decision making. Guidance will be issued to explain the scoring approach, with each Eligibility Criterion being scored on a 1 - 5 basis, including minimum requirements. The intention is to prioritise deploying Projects which most benefit consumers and/or the whole system.
- 9.8 **Deployment Eligibility Criterion 1: Projects must support delivery of a clean, secure, and affordable energy system for Great Britain.**
- 9.9 **Deployment Eligibility Criterion 2: Projects must involve the deployment of proven innovation.** Proven innovation means that the Licensee can demonstrate that it has been successfully trialled or demonstrated either on the energy system to which their Licence relates or elsewhere in GB. Mature technologies that have been tested internationally may be considered if there is sufficient evidence that the product is ready for rollout in GB.
- 9.10 **Deployment Eligibility Criterion 3: Projects must deliver a net benefit to gas or electricity consumers (whomever is paying) and/or a whole system benefit.**
- 9.11 **Deployment Eligibility Criterion 4: Projects should demonstrate how the solution will be adopted by multiple Licensees.** Applications with multiple licensees party to the rollout will be viewed more favourably. Where that is not the case, a robust justification is required.
- 9.12 **Deployment Eligibility Criterion 5: Projects must support the development of competitive markets.** For example, this may include open and transparent procurement approaches.
- 9.13 **Deployment Eligibility Criterion 6: Projects must provide value for money and be costed competitively.** Projects must show how, where relevant, the solution compares to what has been funded under the Licensee's existing business plan and the additional value to the energy system.
- 9.14 **Deployment Eligibility Criterion 7: Projects must be well thought through and have a robust methodology so that they are capable of progressing in a timely manner.** As decision-maker in relation to the Deployment Phase, the Authority must be reasonably confident that Projects are deliverable with, for example, robust Project plans, cost breakdowns, and risk assessment. Where applicable, Projects should show risk mitigation measures, for example the inclusion of Ofgem Stage Gates.
- 9.15 **Deployment Eligibility Criterion 8: Projects must demonstrate a clear approach to open data, knowledge sharing, and dissemination of learnings.** This means ensuring that insights and outcomes are accessible to relevant stakeholders and contribute to broader sector impact.

9.16 **Deployment Eligibility Criterion 9: Projects must clearly demonstrate why additional funding is needed through the Deployment Phase.** The Deployment Phase will only fund Projects that have no other viable and timely route to deployment. This means transparently outlining any benefits that will accrue to the network through the specific deployment, including through the TIM or through interaction with other incentives in the price control.

Application

9.17 Applications into the Deployment Phase may receive up to 100% funding with no minimum Compulsory Contribution required.

9.18 The materiality threshold for the Deployment Phase is £500k per Project. Licensees may not achieve this threshold by aggregating different types of Projects. The materiality threshold may be met through anticipated costs.

9.19 Where a Project is brought forward by multiple Licensees, the materiality threshold may be met by the cumulative amount of funding requested for all Licensees.

9.20 Each Application is assessed against the Eligibility Criteria. Where applicable, NESO will also provide recommendations to Ofgem as set out in paragraphs 5.8 to 5.16. Where NESO provides input, this will be shared with the Project to support transparency. The Authority will decide, taking into account the Expert Assessors' and NESO's recommendations, which Projects should be awarded funding.

9.21 Applications shall be submitted by a Funding Party in accordance with the requirements set out in the Application Guidance. The Application Guidance will provide the following information:

- Scope and Project requirements, including any bespoke requirements;
- Questions on general Project information, such as, but not limited to, the organisation type, role, and number of Project Partners;
- Application questions and any additional guidance to support completion;
- Dates: Open/close application dates, assessment dates, interview dates, and notification dates;
- How to apply; and
- Any supporting information required, including where relevant templates must be used.

9.22 The Funding Party will be required to submit answers in relation to defined questions alongside supporting information, as set out in the Application Guidance. Responses to the questions will be used to determine whether a Project meets the Deployment Eligibility Criteria above, upon which the success of the Application depends. Table 4 outlines the types of questions that will be asked.

Table 4: Deployment Phase Application categories

Application Categories	Information Requirements	Examples of supporting information
Solution Statement and Needs Justification	A clear description of the solution being deployed, including a statement of the customer or system need it addresses.	
Funding Justification	Outline requirement for funding against any benefits that will accrue to the network through the specific deployment, including through the TIM. The Application should also outline other routes to funding available (such as reopeners) and explain why these are not fit for purpose.	
Innovation Origin	The deployable solution must have been developed through a Project funded under the NIA, NIC the SIF, equivalent innovation funds from previous price controls, or have done equivalent work. A summary of learnings from earlier phases of the Project and outputs.	Show and tell presentations and/or End of Phase reports.
Portfolio Integration and Strategic Alignment	Describe how this Project fits within a broader portfolio of work within an Innovation Delivery Group or meet the wider goals of Clean Power 2030 or Net Zero ambitions.	
Deployment Readiness	Describe how the solution is technically and commercially viable for operational deployment.	Optional supporting documents.
Scale Up to other Licensees	The Application must provide a credible deployment plan, with a minimum expectation of adoption by at least one other Licensee within the RIIO-3 price control period, or a clear justification of why this is not possible.	
Impacts and benefits	The Application must evidence benefits to energy consumers and/or the wider system, such as improved reliability, cost efficiency, decarbonisation, flexibility, or security of supply.	Cost Benefit Analysis.
Team and resources	Identify who will be involved in delivering the Project. This should include the Business Sponsor.	

Application Categories	Information Requirements	Examples of supporting information
Project management and delivery	Explain how you will manage the Project effectively, including the Project plan, key milestones, and associated risks.	A Project timeline schedule with milestones, deliverables, and interdependencies. Any appropriate Ofgem Stage Gates and risks, including a full Gantt chart. A risk register.
Key outputs and Dissemination	Describe clearly and precisely the expected key outputs of the Project, including the plans for sharing outputs, data, insights, and learnings.	Learning and Data log.
Intellectual Property Rights, procurement, and contracting	State whether you are using the default SIF IPR arrangement or an alternative arrangement. See additional information in Chapter 12. This should include your plans for longevity of the solution and outline the plans for the most cost effective way to procurement.	
Policy, standards, and regulations	Identify and explain any potential changes related to regulations, policies, or standards to support the delivery of the deployment. See additional information in paragraphs 6.17 and 6.18.	
Value for money	Detail the Project costs and explain how they are proportionate to delivering the Project successfully. The Application must demonstrate that the costs to be funded arise directly from the deployment of the innovation and would not otherwise be met through business-as-usual funding (i.e. the business plan) or existing funding mechanisms, reopeners, or alternative funding sources. A detailed breakdown of all relevant costs, including justification for eligibility (e.g. capital expenditure, training, software-as-a-service (SaaS), testing). All cost categories must adhere to specified upper limits, and a reasonable contingency provision may be included. This should include additionality of costs or any Funding Gaps.	

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Application Categories	Information Requirements	Examples of supporting information
	<p>The Licensee must provide justification that the deployment would not proceed without Deployment funding due to:</p> <ul style="list-style-type: none"> • The absence of funding provision within its RIIO-3 Business Plan; • The absence of sufficient financial incentive under the TIM (or other incentives under the price control) or Internal constraints such as budget limitations, capability gaps, or timing mismatches. 	
<p>Engineering Justification and Business Plan Certification</p>	<p>A business paper or engineering justification demonstrating the technical and commercial case for deployment against TIM or other business plan incentives.</p>	

Assessment

- 9.23 Deployment Phase Applications will be assessed through a structured, multi-stage process designed to ensure transparency, consistency, and alignment with the SIF objectives. The assessment will evaluate the extent to which each Deployment Phase Application meets the Deployment Eligibility Criteria and demonstrates value to consumers, feasibility of delivery, and readiness for deployment.
- 9.24 Deployment Phase Applications will undergo an initial review to ensure completeness and compliance with the Application Guidance. Following this, detailed assessment will be conducted by a panel comprising Ofgem, Innovate UK, and one or more independent Expert Assessors. This assessment will consider the strength of the solution statement, cost-benefit analysis, engineering and commercial justification, learning outputs, and cost breakdown, including the appropriateness of contingency provisions.
- 9.25 If an interview takes place, the Funding Party will be provided with at least 10 Working Days' notice of the interview date. Interviews will provide an opportunity to clarify key points, test delivery readiness, and assess the Funding Party's organisational commitment.
- 9.26 Where necessary, Funding Parties may also be asked to respond to any areas of interest in writing. These requests will be focused on areas where additional information is required to complete the assessment or validate key assumptions.
- 9.27 The assessment process is designed to be efficient and responsive. Subject to the quality and completeness of the information provided, the aim is to confirm funding decisions within 12 weeks of the application submission deadline. However, this may be later for more complex Applications.
- 9.28 Ofgem will issue a SIF Funding Direction for each successful Project which will set out the total amount awarded for the Deployment Phase, as described in Chapter 9.
- 9.29 A SIF Project Direction will be issued to each successful Project which will set out the terms which the Project must comply with. To protect the commercial sensitivity of the procurement process for the Project, the SIF Project Direction will not be made publicly available until all procurement has taken place and completed.
- 9.30 Portfolio-level impact assessments will be conducted periodically. Mechanisms will be developed to capture learning and co-create improvements to the Deployment Phase.

Project Delivery

- 9.31 Projects in receipt of Deployment Phase funding shall be subject to a level of monitoring. This will be determined on a case-by-case basis. Additional guidance will be provided. As a minimum each Project must:
- Provide updates on key findings and learnings;
 - Complete a Learning and Data log to identify what deliverables or data will be made public;

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- Input and provide insights to the relevant Innovation Delivery Group and annual performance report;
- Complete an End of Phase Report; and
- Present findings (including whether research, development and demonstrations activities were successful or not) at a public show and tell event. The Funding Party must arrange this in line with the availability of Ofgem and Innovate UK. This event may be in person or an online webinar.

9.32 The specific timing of reporting obligations shall be determined on a Project-by-Project basis and may be set out in the relevant funding agreement or guidance issued by Ofgem via the SIF Project Direction.

9.33 Funding may be reduced, recouped, or withheld if the Project does not meet the requirements set out in the SIF Project Direction.

9.34 Projects in receipt of Deployment Phase funding shall be required to undergo a level of post-delivery monitoring for benefits. This will be defined case-by-case depending on existing mechanisms.

Material Changes

9.35 The Funding Party must keep Innovate UK updated on risks and whether any Project changes are expected through the agreed monitoring arrangements.

9.36 Changes to the SIF Project Direction will need to be approved by Ofgem where there has been a Material Change in circumstances, as set out in paragraphs 8.25 to 8.29.

10. Funding Arrangements

Section summary

The chapter sets out the funding arrangements for the SIF, including the information that will be published in the SIF Funding Direction and the process for issuing the SIF Funding Direction each year.

SIF Funding Mechanism

10.1 The SIF Funding Mechanism is established by the SIF Licence Condition. In each Regulatory Year, the Authority will calculate and, by direction, specify the net amount of the SIF Funding (less any SIF Funding Return) that is to be paid to Funding Parties and Innovate UK by NESO or NTS Owner, and the manner in which and the times at which NESO or NTS Owner is required to transfer those funds.

Recovering administration costs

10.2 The SIF Funding will cover both the costs of funding Projects, which successfully apply for SIF Funding, and Innovate UK's costs of administering the contracted activity.

10.3 Innovate UK will provide Ofgem with details and justification of its costs of administering the SIF.

10.4 Provided that Ofgem is satisfied with Innovate UK's costs of administering the SIF, Ofgem will direct their recovery via the SIF Funding Direction. Innovate UK's costs will be apportioned between gas and electricity network charges, according to the relative split of gas and electricity Projects. For example, if £60m of the SIF Funding is awarded to gas Projects and £40m to electricity Projects, then gas network charges will pay for 60% of Innovate UK's costs and electricity network charges will pay 40% of Innovate UK's costs.

10.5 To ensure clarity and transparency is maintained, when calculating Innovate UK's costs, less any agreed underspend from prior periods, only the relative split of the most recent period will be used.

SIF Funding Direction

10.6 Ahead of each Regulatory Year, the NTS Owner and NESO will forecast costs for the purposes of the SIF Funding after engagement with Ofgem and Innovate UK.

10.7 Ofgem will issue at least one SIF Funding Direction in each Regulatory Year. Each SIF Funding Direction will:

- Set out the total amount that can be recovered from or returned to GB consumers to cover both the costs of funding Projects, which successfully apply for SIF Funding, and Innovate UK's costs of administering the SIF in each Cycle;

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- Identify the net amounts that must be transferred between the NTS Owner, NESO, Innovate UK, and Funding Parties. This may include interest that Ofgem decides should be paid to Funding Parties that is attributable to delay in receiving funding for Projects that have already started; and
- Set out the manner in which, and the timescale over which, the net amounts will be transferred, including whether the SIF Funding is to be distributed by the NTS Owner and NESO in one lump sum payment on a specified date or distributed as multiple payments over the course of the Project.

10.8 All Projects which have underspent the SIF Funding during the Financial Year, will be directed on how to return the underspent the SIF Funding in the Annual SIF Funding Return Direction.

10.9 The SIF Funding Directions will set out:

- The SIF Approved Amounts for each Licensee and Innovate UK that have not
- already been funded through previous SIF Funding Directions;
- SIF Halted Project Revenues, SIF Disallowed Expenditure and SIF Returned Project
- Revenues for each Licensee that have not already been recovered through previous SIF Funding Directions;
- SIF Returned Royalty Income to be returned to consumers from each Licensee, as
- calculated in accordance with Chapter 12;
- The calculation determining the SIF Approved Amounts; the SIF Halted Project
- Revenues; SIF Disallowed Expenditure; SIF Returned Project Revenues; and SIF Returned Royalty Income for each Licensee and UKRI as appropriate; and
- The amounts to be recovered by the NTS Owner and NESO from NTS Charges and
- Transmission Network Use of System Charges; and the amounts to be transferred to the NTS Owner and NESO from all Licensees and UKRI, including as appropriate the SIF Halted Project Revenues, SIF Disallowed Expenditure, and SIF Returned Project Revenues and SIF Returned Royalty Income.

10.10 The transfer of SIF Funding will be made on the day of the month agreed by the NTS Owner and NESO, and Innovate UK, as appropriate.

10.11 The recipient of the SIF Funding under the terms of the SIF Funding Direction is responsible for notifying the NTS Owner or NESO of the bank account details to which the transfer of the SIF Funding must be made. If the Funding Party or Innovate UK is required to return SIF Funding to the NTS Owner or NESO, the reverse applies.

10.12 At the end of each Regulatory Year, costs forecast by the NTS Owner and NESO in accordance with paragraph 10.7 will be reconciled with the actual costs of Projects and such costs of administration of the SIF by Innovate UK as are approved by Ofgem in accordance with paragraph 10.4.

Funding whole system innovation

10.13 Constraints on the distribution of funding by the NTS Owner or NESO mean that Projects led by a gas Licensee can only be paid for by gas consumers, and Projects led by an electricity Licensee or NESO can only be paid for by electricity consumers.

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10.14 This does not prevent whole system Projects from receiving the SIF Funding because a Project can deliver whole system benefits beyond the paying sector, provided that the Project delivers a net benefit to consumers in the paying sector in accordance with paragraph 3.4. Alternatively, whole system Projects can be broken up into two Projects to be delivered separately by two or more Licensees, and each of those separate Projects could be paid for by consumers in gas or electricity sector, respectively.

Altering Project funding

SIF Disallowed Expenditure

10.15 The SIF Disallowed Expenditure includes the expenditure of monies that must be returned if the Project is halted without Ofgem's permission, that have not been spent in line with the approved Project budget contained within the SIF Project Direction, that are unspent in relation to completed Projects, or that represent the SIF Directly Attributable Costs that the Authority decides have been misreported following a Project audit.

10.16 SIF Disallowed Expenditure also includes expenditure of the proportion of the SIF Funding associated with a Project Deliverable (as proposed by the Funding Party), in relation to which Ofgem decides that the Funding Party is at fault for the non-delivery of that Project Deliverable. Where a Project Deliverable is not delivered at the end of the relevant Project Phase, Ofgem will consider whether the SIF Funding should be returned to consumers using the SIF Funding Return Mechanism. After considering the issue, if the Authority determines that the Funding Party is at fault for the non-delivery of the Project Deliverable, Ofgem may decide that the Funding Party must return the SIF Funding associated with the Project Deliverable in question or a proportion of it. It is the proportion of funding assigned to a Project Deliverable (or part thereof) in the SIF Project Direction that Ofgem may decide should be returned. It is not necessarily the specific amount allocated to each Project Deliverable in the Project budget set out in the SIF Project Direction, because that may be amended.

10.17 If Ofgem considers that any funds are the SIF Disallowed Expenditure or the SIF Halted Project Revenues, it will notify the Funding Party which will have 20 Working Days to make related representations.

10.18 Ofgem will consider any representations from the Funding Party before making its decision on SIF Disallowed Expenditure and SIF Halted Project Revenues. Any SIF Disallowed Expenditure and/or SIF Halted Project Revenues must be returned through the SIF Funding Direction following upon the Authority's decision.

SIF Halted Projects

10.19 From the time that either a Funding Party seeks permission to halt a Project, or Ofgem has called for a Project to be halted or paused, the Funding Party must not make any further withdrawals from the Project Bank Account unless:

- The funds have already been committed to the Project by the Funding Party; or

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- The Funding Party can demonstrate to Ofgem that the funds are required to be spent as part of the suspension of the Project.

10.20 Ofgem shall issue a written notice to the Funding Party outlining the intention to halt the Project and the grounds for doing so. This notice may also request additional information to inform Ofgem's assessment.

10.21 If a Project is halted without permission from Ofgem, all SIF Approved Amounts that the Funding Party has received for that Project are SIF Disallowed Expenditure.

10.22 Where a Project is halted in full or in part, the Funding Party must:

- Provide a detailed reconciliation of the SIF Funding received versus actual spend; and
- The SIF Halted Project Revenues and the SIF Disallowed Expenditure will be returned by means of a SIF Funding Direction subsequent to Ofgem's decision.

SIF Returned Project Revenues

10.23 The SIF Returned Project Revenues may be returned to consumers (or retained by the Funding Party) through the SIF Funding Direction in accordance with the following provisions.

Return of revenues generated by the Project

10.24 Paragraph 10.23 applies to revenues generated by the Project that are specifically identified in the SIF Project Direction (other than the SIF Returned Royalty Income).

Notification of revenues

10.25 Any revenues earned, such as revenues generated by hosting external events or training regarding the Project, subject to return under the SIF Funding Return Mechanism, must be identified in the SIF Project Direction.

10.26 It is for the Funding Party in its Application to identify any revenues that could be earned from its Project that may be subject to the SIF Funding Return Mechanism. After considering the issue, if the Authority disagrees with the Funding Party's calculation of such revenues, it may recalculate what, if any, revenues should be returned and specify the value it determines in the SIF Project Direction.

Time limit for revenues to be returned

10.27 The default position is that there is no limitation on the period of time over which consumers could receive funds generated by a Project. This is consistent with the approach taken for the SIF Returned Royalty Income.

10.28 Should the Funding Party consider that it is necessary to have alternative arrangements (e.g. a timescale that aligns with the Project end date), it may identify and justify a deviation from the default, which may be reflected in the SIF Project Direction.

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Return of underspent SIF Funding

10.29 This paragraph applies to the SIF Funding unspent after a Project has complied with the SIF Funding Direction. Any unspent SIF Funding should be clearly identified as part of the end of Project Phase report and returned to consumers through the next available in the Annual SIF Funding Return Direction. Any SIF Funding return will be calculated at the end of each regulatory year.

Recipients of any SIF Returned Project Revenues

10.30 Paragraphs 10.30 and 10.31 apply to all of the revenues described in paragraphs 10.25 and 10.26.

10.31 Ofgem can direct the SIF Returned Project Revenues to be returned to consumers or retained by the Funding Party. Unless specified in the SIF Project Direction, the default position is for SIF Returned Project Revenues to be returned to consumers.

10.32 The Authority may consider it appropriate for a proportion of any revenues subject to the SIF Funding Return Mechanism to be retained by the Funding Party (which may subsequently redistribute them amongst persons involved in the Eligible SIF Project as appropriate). Should the Funding Party consider that it is necessary to have alternative arrangements, it may justify a deviation from the default position stated in paragraph 10.31 (clearly stating why the proposed alternative is in the consumer interest). That alternative may be reflected in the SIF Project Direction. For example, it could be possible to return some money to the Funding Party, where it has made additional financial contributions to the Project (over and above the Compulsory Contribution), which has meant that the Project can take place with a lower amount of the SIF Funding.

11. Project administration

Section summary

The chapter sets out the requirements for administration of Projects that are awarded SIF Funding.

Compliance

11.1 The Funding Party must ensure that the Project is undertaken in accordance with the SIF Licence Condition, the RIIO-3 SIF Governance Document and the relevant SIF Project Direction, and that Project reporting complies with the Regulatory Instructions and Guidance. This includes ensuring compliance with the RIIO-3 SIF Governance Document and the relevant SIF Project Direction by its Project Partners.

Project audits

11.2 All Projects may be subject to an audit at any time. This will include requiring the Funding Party to demonstrate that the Project is compliant with the SIF Licence Condition, the Regulatory Instructions and Guidance, this RIIO-3 SIF Governance Document and the relevant SIF Project Direction. This audit may be undertaken by Ofgem, or by a third party appointed by Ofgem, in which case the costs incurred must be borne by the Licensee(s) of the Project consortium.

Project Bank Account

11.3 A Funding Party that is awarded the SIF Funding must keep the SIF Funding in either:

- i) a dedicated bank account in which the SIF Funding for multiple SIF Projects are pooled (subject to the requirements in paragraph 11.4);
- ii) individual dedicated bank accounts for each Project; or
- iii) in a bank account that meets the criteria set out in paragraphs 11.5 to 11.9 below.

11.4 If a Funding Party receives the SIF Funding for multiple Projects, the SIF Funding for the multiple Projects can be pooled into one consolidated Project Bank Account dedicated to the SIF Funding, provided that the Funding Party can demonstrate tracking of funds at a Project-specific level. Should the SIF Funding for multiple Projects be held in one consolidated bank account, this bank account must be used exclusively for SIF Funding.

Arrangements where the Funding Party does not keep the SIF Funding in a separate bank account

11.5 Where the Funding Party does not keep the SIF Funding in a dedicated bank account or bank accounts, it must provide a financial tracking and reporting system which is functionally equivalent to a dedicated bank account for the SIF Funding. This means the Funding Party must hold in a memorandum account any SIF Approved Amounts, the Compulsory Contribution and all other funding contributed by itself, Project Partners and External Funders

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that the Funding Party has identified within its Application as funding for the Project. The memorandum account must be capable of providing all the information that would be available from a separate bank account.

11.6 The memorandum account must:

- i) Show all transactions relating to (and only to) the Project;
- ii) Be capable of supplying a real time statement (of transactions and current balance) at any time;
- iii) Accrue expenditures when a payment is authorised (and subsequently reconciled with the actual bank account);
- iv) Accrue payments from the moment the receipt is advised to the bank (and then subsequently reconciled with the actual bank account);
- v) Calculate a daily total; and
- vi) Calculate interest on the daily total according to the rules applicable to the account within which the SIF Funding is actually held.

11.7 Where a Funding Party does not keep the SIF Funding in a bank account or accounts dedicated to the SIF Funding, as set out in paragraphs 11.3 to 11.5, the Funding Party's auditors must review the systems and processes that the Funding Party is proposing to use to comply with the requirements set out in this section, before the Project is initiated and any SIF Funding is spent. The findings of this review must then be shared with Ofgem and Innovate UK.

11.8 Where a Funding Party does not keep the SIF Funding in bank account or accounts dedicated to the SIF Funding, the Funding Party's auditors must provide an annual report to confirm that the Funding Party is complying with the requirements set out in this section.

11.9 Where a Funding Party does not keep SIF Funding in a bank account or accounts dedicated to the SIF Funding, the Funding Party must provide to Ofgem an audited schedule of all the memorandum account transactions, including interest (calculated according to paragraph 11.6 (vi) above), together with its End of phase reporting and Beta Phase and Deployment Phase in-Project Phase reporting (as detailed in Chapter **Error! Reference source not found.**).

Arrangements for keeping the SIF Funding within a Project Bank Account

11.10 The Project Bank Account must be used for the sole purpose of holding any SIF Approved Amounts, the Compulsory Contribution and all other funding contributed by the Funding Party, Project Partners and External Funders that the Funding Party has identified within its Application as being used to fund the Project. This does not include funding for initiatives which are being implemented independently of the Project, and which would have proceeded regardless of whether or not the Project is awarded the SIF Funding.

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11.11 A Funding Party can only access the SIF Funding from the Project Bank Account if it meets the requirements for use of SIF Funding set out in the SIF Licence Condition, the SIF Governance Document and the SIF Project Direction.

Project Log details

11.12 Each Funding Party must maintain a Project Log which includes (but is not limited to):

- i) a record of what potential Projects it has considered submitting to the SIF,
- ii) a summary of the problem the proposed Project would attempt to solve, and
- iii) the reasoning for why the potential Project was or was not the subject of an Application.

11.13 Ofgem and Innovate UK may request a copy of the Project Log from time to time to inform the SIF. See paragraph 4.9.

11.14 Projects funded by the SIF are part of a major collaborative drive to transform Great Britain's energy networks through innovation, helping to deliver Net Zero whilst delivering net benefits to energy consumers. It is important that this purpose, and the role of Ofgem and Innovate UK, are understood by all relevant audiences and stakeholders. Therefore, Projects must follow any guidance on the SIF communications, consistent with this SIF Governance Document, approved by Ofgem and issued by Innovate UK. Projects must share this guidance with Project Partners, so that awareness and understanding of the programme is effectively and consistently built and maintained.

11.15 Projects are under strict communications embargo not to publicise anything about their successful Projects until after the formal Ofgem/Innovate UK announcement.

Additional requirements to protect consumers

11.16 The Funding Party (and/or its contractors) and its Project Partners must:

- Not visit a premises of any domestic or micro-business consumer for sales or marketing activities in connection with, in the context of, or otherwise under the guise of the SIF Project; and
- Have regard to the implementation of the smart meter roll-out in the geographical area relevant to the Project to ensure that the Project does not impede the implementation of the roll-out in any way

Dispute Resolution

11.17 There is no formal dispute resolution process under the SIF Governance. All decisions made by Ofgem or its delivery partners in relation to Project eligibility, assessment, funding awards, monitoring, and compliance are final. Projects are encouraged to engage constructively with Ofgem and Innovate UK to resolve any issues informally as they arise.

12. Intellectual Property Rights and royalties

Section summary

This chapter sets out default arrangements for Intellectual Property Rights (IPRs) within Projects.

Intellectual Property Rights

- 12.1 Ofgem recognise that the Projects financed by the SIF may create IPR either for the Funding Party or for any Project Partners (whether for one, both or jointly), and that these rights could restrict the dissemination of knowledge and also provide a valuable income stream from royalties earned.
- 12.2 We have created a default treatment for IPR where the Funding Party or any Project Partners deem any work product or output of the Project to be IPR. We expect that in the majority of cases they will comply with the default IPR conditions. However, we recognise that in some circumstances potential Project Partners may not be prepared to enter into agreements on this basis. We are therefore willing to consider alternative arrangements on a case-by-case basis. The information required to justify these alternative arrangements should be set out in the Application.
- 12.3 Knowledge transfer is one of the key aims of the SIF (see Chapter 4). The benefits of a Project are maximised by the ability of other Licensees to be able to learn from the Project so as to create improved outcomes or reduce costs for consumers. Not all IPR generated by a Project will necessarily be pertinent to this knowledge transfer or required to support the wider rollout of the Project into ‘business as usual’.

IPR Principles and Objectives

- 12.4 The SIF aims to strike an appropriate balance between encouraging the commercialisation of innovation and ensuring that learning from publicly funded Projects delivers system-wide benefits for consumers. At all times, the treatment of IPR within SIF Projects should enable the development of commercial opportunities, while protecting consumers from paying repeatedly for the same innovation (i.e. duplicative development costs).
- 12.5 Accordingly, Projects should support the protection of Project Partner IPR where that protection is integral to future commercialisation. However, this protection must not inhibit the dissemination of learning that is relevant to the implementation of innovations across other Licensees’ networks. To this end, learning shared through the SIF may exclude specific details that would compromise a Project Partner’s commercial position, provided that the broader knowledge required to replicate outcomes, or avoid negative ones, remains accessible to other Licensees.

Scope

- 12.6 The default IPR conditions apply to IPR which is material to the dissemination of knowledge gained from the learning in respect of a Project. This knowledge may be the information,

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understanding or skills necessary to reproduce or simulate the outcome of a Project. It may also be the necessary knowledge to avoid a negative outcome. Where the deployment of IPR materially reduces the cost, difficulty or time associated with reproducing the outcome of a Project, this would also constitute IPR which is material to the dissemination of knowledge.

12.7 It will be the Funding Party's responsibility to describe all work products generated during the course of a Project that are material to the dissemination of knowledge and relevant to a Project, and to identify where such work products constitute IPR and how this will be shared so as to create improved outcomes for consumers.

Ownership and transfer of ownership of IPR

12.8 Each Project Participant in the Project shall retain all rights in and to its Background IPR.

12.9 Each Project Participant shall own all Foreground IPR that it independently creates as part of the Project, or where IPR is created jointly then it shall be owned in shares that are in proportion to the work done in its creation.

12.10 Where any Project Participant transfers any of its rights, title or interest in or to any Foreground IPR to any other person, for example if the Project Participant is taken over by another legal entity, it shall only do so where the assignee/transferee agrees to comply with these default IPR conditions or any alternative arrangements set out in an Application and approved by Ofgem with recommendations provided by Innovate UK

12.11 A Funding Party can only transfer any of its rights, title or interest in or to any Foreground IPR to any other person, subject to:

- Having regard to the true commercial value of the IPR; and
- The assignee/transferee agreeing to comply with these default IPR conditions or any alternative arrangements for IPR set out in an Application and approved by Ofgem.

Licensing of Background IPR

12.12 Where access to a Project Participant's Background IPR is required to undertake the Project, the Project Participant shall grant a non-exclusive license to this Background IPR (Relevant Background IPR), to the other Project Participants, solely for the purposes of the Project during the term of the Project.

12.13 Once the Project is completed, Relevant Background IPR will be licensed for use by the Project Participants in connection with another Project Participant's Foreground IPR solely to the extent necessary to use that Foreground IPR, upon terms to be agreed.

Licensing of Foreground IPR

12.14 Foreground IPR which is produced by a Project could comprise IPR which describes the application of a Method to a Licensee and the benefits that can accrue. It could also include the IPR that describes how a product (for example a piece of equipment and or software), that

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is used to implement a Method achieves its functionality. Foreground IPR can be informal (e.g. know how) or formal (e.g. registered).

- 12.15 Relevant Foreground IPR is Foreground IPR that other Licensees will need to utilise in order to implement the Method(s) being developed or demonstrated in a Project. This must be identified in the Project reporting in sufficient detail to enable others to identify whether they wish to use that IPR. It is not expected that the confidential details of IPR would be disclosed in the Project reporting - only sufficient information to enable others to identify whether the IPR is of use to them. Where Background IPR is required to use the Relevant Foreground IPR, this must also be clearly stated.
- 12.16 Foreground IPR within Commercial Products is not deemed Relevant Foreground IPR. However, these Commercial Products must be made available to other Licensees to purchase in line with the approach the Funding Party outlines in its Application.
- 12.17 Licensing of the Foreground IPR shall be agreed between the Funding Party and Project Partners consistent with the principles of this Chapter.
- 12.18 All Project Partners which are academic institutions will have the freedom in accordance with normal academic practice (notwithstanding the requirements of this document) to:
- Discuss work undertaken as part of the Project in seminars;
 - Give instructions on questions related to such work; and
 - Publish results obtained during the course of the work undertaken as part of the Project.
- 12.19 All other Licensees will have the right to use Relevant Foreground IPR within their network royalty-free.
- 12.20 Where the Relevant Foreground IPR can only be used with a Project Participant's Background IPR, other Licensees and Project Partners will have the right to request a limited licence of such Background IPR for that sole purpose in line with the approach the Funding Party outlines in its Application.
- 12.21 The Licensees of IPR may be required by the licensor to enter into a confidentiality agreement to protect the IPR licensed to it.
- 12.22 Other parties (who are not Project Participants and are not a Licensee) may request a licence to use Relevant Foreground IPR, such licence to be on arms-length terms, which may include payment of a commercial royalty.

Right to protect IPR

- 12.23 Each Project Participant will warrant that it has the right, power, title and authority to license its Relevant Background IPR on the terms of the licence agreement.
- 12.24 Each Project Participant will warrant that use of their Relevant Background IPR in accordance with the terms of the relevant licence agreement will not infringe any third-party rights.

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12.25 Each Project Participant will warrant that it will pay all fees necessary to maintain registered rights that form part of the licensed Relevant Background IPR.

12.26 Each Project Participant will undertake to protect Relevant Foreground IPR (subject to the transfer options above) in the following terms:

- A Project Partner seeks registered protection where that is available and maintains such registered protection for as long as the subject matter of that Relevant Foreground IPR is licensed and used by the other Project Partners;
- Where a Project Partner believes that registered protection should not be filed, it must agree terms with the other Project Participants setting out how this unregistered IPR will be protected and demonstrate how this is consistent with the knowledge transfer and dissemination of information requirements of the Project;
- A Project Partner must comply with agreed publication requirements, including as necessary to comply with academic requirements and co-authoring of publications; and
- A Project Partner must set up a regime whereby unrelated third parties can access the Relevant Foreground IPR so that it can be further disseminated throughout the relevant industry whilst protecting the Project Partners' rights as owners and licensors.

Guidance for third parties on the treatment of IPR

12.27 Third-party innovators are a key stakeholder and valuable contributor(s) in the innovation process. To help enable increased third-party involvement, Funding Parties must work together, and with Innovate UK, to develop and maintain illustrative guidance which helps third-party innovators understand the default IPR arrangements which underpin the operation of the SIF.¹⁶

Royalties

12.28 We have created a default treatment for royalties as detailed below. We expect that in the majority of cases these rules will be suitable. However, we recognise that in some circumstances, potential Project Partners may not be prepared to enter into agreements on this basis, or such an approach to royalties will be unmanageable. We are therefore willing to consider alternative arrangements on a case-by-case basis. The information required to justify these alternative arrangements should be set out in the Application.

12.29 Any royalties earned by a Licensee through Foreground IPR (whether Relevant Foreground IPR or not), are shared with consumers in proportion to the funds that consumers have contributed to the Project. Where a Licensee has transferred its rights, title or interest in or to any Foreground IPR in return for an income, this income is treated in the same way.

¹⁶ This IPR guidance document is intended to be illustrative only and will have no legal standing. This SIF Governance Document will continue to articulate the SIF IPR arrangements.

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12.30 A Licensee is able to recover SIF Directly Attributable Costs. For each Project, the Licensee will return the gross revenue generated through royalties or income generated through IPR less the SIF Directly Attributable Costs.

12.31 We treat royalties (or income generated from the transfer of Foreground IPR) as regulated revenue and apply the following treatment:

- The proportion of royalties (or income generated from the transfer of Foreground IPR), equivalent to the proportion of the total amount contributed by the Licensee (i.e. the Licensee's contribution which is in excess of the Compulsory Contribution, plus the Compulsory Contribution), versus the unspent Project funding and the Licensee contribution will be retained by the Licensee as additional profit; and
- The proportion of royalties (or income generated from the transfer of Foreground IPR), equivalent to the proportion of the Outstanding Funding Required, versus the unspent Project funding and the Compulsory Contribution will be returned to consumers.

12.32 Every Regulatory Year, the Authority will calculate the royalties earned through Projects that are to be returned to consumers. These are the SIF Returned Royalty Income. The SIF Returned Royalty Income will be included in the SIF Funding Direction as outlined in Chapter 10.

12.33 The Authority will follow these steps to calculate the amounts to be defined in the SIF Funding Direction.

12.34 In a given year, Retained SIF Royalties (RSIFR) is the total royalties earned through all Projects to be retained by each Licensee y as additional profit in each year t and is calculated through the following formula:

$$AP_{k,y} = (RR_{k,y} - DAC_{ky}) X \frac{CC_k + ECK}{RA_k + CC_k + ECK}$$

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Where:

- $AP_{k,y}$ is the additional profit earned through royalties to be retained by each Licensee y for a Project k ;
- $RR_{k,y}$ is the pre-tax sum of the SIF Royalties reported by Licensee y on the Project k ;
- $DAC_{k,y}$ is the SIF Directly Attributable Costs reported by Licensee y of maintaining and managing IPR generated through the Project k ;
- CCK is the Compulsory Contribution to the Project k ;
- ECK is the extra Licensee's contribution to the Project k ; and
- RA_k is the SIF Approved Amount set out in the Project k Direction.

12.35 The Licensee must record RSIFR as such, in its internal accounting records and show it as a reconciling revenue item in the reconciliation inputs section of the detailed return required under the Regulatory Instructions and Guidance.

12.36 The remaining royalties are to be returned to consumers. This is the royalty revenue earned by the Funding Party minus the RSIFR. This amount is defined as the SIF Returned Royalty Income.

12.37 Each Funding Party will be required to return any SIF Returned Royalty Income to consumers. The SIF Returned Royalty Income that each Funding Party is required to return to consumers will be set out in the SIF Funding Direction.

Appendix 1 Definitions

Section summary

This appendix contains definitions of terms used in this SIF Governance Document.

A

Alpha Phase

Means the second Project Phase, focusing on preparing and testing the different solutions to the Problem identified during the Discovery Phase, ahead of any future large-scale demonstration of the Project.

Annual Innovation Meeting

Means the annual meeting hosted by Ofgem with the purpose to bring together energy leaders to raise the collective ambition to find, test and deploy transformative technologies.

Annual Innovation Summit

Means the annual event bringing together network companies, third-party innovators, industry leaders and experts, to promote stakeholder collaboration and facilitate dissemination of learnings from innovation projects

Annual SIF Funding Return Direction

Means the direction issued by the Authority pursuant to the SIF Governance Document in relation to return of underspent SIF Funds for Projects which have completed within a Regulatory Year, in accordance with Chapter 10.

Application

Means the application for the SIF Funding. The Application consists of the responses to the Application questions and any supporting appendices.

Application Guidance

Means the set of documents for each Innovation Challenge of Project Phase, which will provide information to the Funding Party on the Application process.

Authority

Means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000. Used interchangeably with the term “Ofgem”.

B

Background IPR

Means Intellectual Property Rights owned by or licensed to a Project Partner at the start of the Project Phase in which they became a Project Partner.

Beta Phase

Means the third Project Phase, focusing on demonstrating the solution's performance and usability.

C

Commercial Products

Means products in relation to which Background IPR is identified prior to the commencement of the Project Phase in which Project Partner became a Project Partner. For the avoidance of doubt, Commercial Products can include Foreground IPR.

Community Forum

Means an event bringing together energy networks, innovators, innovation project partners and industry leaders to share lessons learned and enable networking with a purpose to inspire and challenge thinking, while disseminating learnings and insights from the community of attendees.

Compulsory Contribution

Means the financial contribution by the Funding Party or another Project Partner to the Total Project Phase Costs which is 10 per cent of the value of the Funding Required, unless otherwise specified by the Innovation Delivery Group and approved by Ofgem.

Cycle

Means a structured period, during which Projects can apply for either a Discovery Phase, Alpha Phase or Beta Phase, as specified by Ofgem and Innovate UK.

D

Data Best Practice Guidance

C3 of the Electricity System Operator Licence, and Gas System Planner Licence for the NESO or Part D of Special Condition 9.5 (Digitalisation) for other gas transporter, electricity transmission and electricity distribution Licensees.

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Deployment Application

Means the application for the SIF Deployment Phase. The Deployment Application consists of the responses to the Deployment Application questions and any supporting appendices.

Discovery Phase

Means the initial Project Phase, focusing on enhancing the understanding of the Problem to be solved.

Dissemination Platform

Means the online digital resource where Project registration, Project data sharing and Project learning is shared with the public.

E

Eligibility Criterion

Means the criterion used to assess and compare Projects on Application, in order to assess which Projects (if any) should receive funding and “Eligibility Criteria” is to be construed accordingly.

Eligible SIF Project

Means a Project undertaken by the Funding Party that the Authority decides satisfies the requirements of paragraph 7.12 of the SIF Governance Document.

End of Phase Report

Means submitting information relating to questions on Project delivery as detailed in Table 4, in Chapter 8 on Project Delivery. The Funding Party must submit an end of Project Phase report within 1 month upon the completion of Discovery Phase and Alpha Phase and 3 months of the completion of a Beta Phase. Additional guidance shall be provided by the SIF Delivery Partner to outline the requirements

Energy Network Innovation Taskforce (ENIT)

Means an independent group of industry experts who recommend Innovation Challenges for energy network ecosystem for endorsement by Ofgem.

Expert Assessors

Means experts who together provide relevant knowledge and expertise on the respective Innovation Challenges and/or the energy sector, including in areas such as policy and regulatory, commercial, financial, and technical, and are appointed to inform the Authority’s decision-making on the selection of Projects for the SIF Funding.

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External Funder

Means an entity (that is not the Funding Party) that provides funding for the Project without requiring a return on its investment.

External Funding

Means Project funding provided by an External Funder or Project Partner.

F

Foreground IPR

Means all Intellectual Property Rights created by or on behalf of any of the Project Partner, Funding Parties to whom they licence intellectual property, agents and sub-contractors as part of, or pursuant to, the Project, including all that subsisting in the outputs of the Project.

Funding Party

Means the Licensee who applies for the 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.

I

Initial Net Funding Required

Means the Total Project Phase Costs minus any funding from Project Partners, External Funders and the Funding Party which is in excess of the Funding Party's Compulsory Contribution.

Innovate UK

Means a research council of UKRI contracted to operate the SIF in partnership with Ofgem and in line with this SIF Governance Document.

Innovation Challenge

Means the strategic challenge which is recommended by the Energy Networks Innovation Taskforce and endorsed by Ofgem to address the Problem to be targeted by Projects.

Innovation Challenge Document

A document published by Ofgem which sets out the Innovation Challenges and

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the eligible scope of activities which an Application is eligible for within Discovery Phase, Alpha Phase and Beta Phase of the SIF.

Innovation Charter

Means the document created by the Innovation Delivery Group which will set out the sub-Challenges they will address, and types of projects required. It will also set out the delivery plan for achieving the Innovation Challenge, including a stakeholder engagement plan, risk register and knowledge dissemination plan.

Innovation Delivery Groups or IDGs

Means a cohort of industry experts, third-party innovators and Licensees who focus on the coordination and delivery of an Innovation Challenges.

Intellectual Property Rights or IPR

Means all industrial and intellectual property rights including patents, utility models, rights in inventions, registered designs, rights in design, trademarks, copyrights and neighbouring rights, database rights, moral rights, trade secrets and rights in confidential information and know-how (all whether registered or unregistered and including any renewals and extensions thereof) and all rights or forms of protection having equivalent or similar effect to any of these which may subsist anywhere in the world and the right to apply for registrations of any of the foregoing.

L

Licensee

Means the holder of a Gas Transporter Licence in relation to its Gas Distribution or Transmission activities, or the holder of an Electricity Transmission or Distribution Licence in relation to its Electricity Transmission and Distribution activities regulated under the RIIO price control framework. Please note that for the purposes of this SIF Governance Document this term also applies to the National Energy System Operator (NESO).

M

Material Change

Means a change which could reasonably be believed to have caused: (i) the Expert Assessors to change their recommendation to the Authority that the Project should be funded; and/or the Authority to change its original decision that the Project should be funded.

Method

Means the proposed way of investigating or solving the Problem.

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Monitoring Officer

Means the person(s) allocated by Innovate UK to review each Project's progress against the scope, timeline, deliverables, milestones, and budget agreed in the SIF Project Direction.

N

National Energy System Operator (NESO)

Means the body established under the Energy Act 2023 as an independent system planner and operator.

NESO Scope of Participation Request

Means a formal submission that defines the proposed scope and nature of NESO's involvement in a Project. The request is subject to review and approval by Ofgem. Upon approval, a revised Project Direction will be issued to all Project Partners, along with an updated Funding Direction covering both the SIF and the NESO-ringfenced fund.

Network Innovation Allowance or NIA

Means an allowance of that name provided to Licensees and NESO to take forward innovation.

Net Zero

Means the achievement of net zero carbon dioxide emissions.

NTS Owner

Means the holder of a Gas Transporter's Licence with Part B of the standard Special Conditions switched on.

NTS Charges

Means the National Transmission System transportation charges that users of the gas National Transmission System have to pay.

O

Ofgem

Means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000. Used interchangeably with the term "the Authority".

Ofgem's Innovation Hub

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Means Ofgem's service which offers support on energy regulation to innovators looking to trial or launch new products, services, methodologies or business models.

Ofgem Stage Gate

Means a mechanism for ensuring the continued performance and enduring strategic basis for undertaking a Project. These checkpoints may align with internal business stage gates (i.e. internal business go or no decision points) to derisk a Project, being strategically positioned at key decision points in a Beta Phase Project.

Outstanding Funding Required

Means Initial Net Funding Required minus the Compulsory Contribution.

P

Presumed Open

Has the same meaning as in the Data Best Practice Guidance.

Problem

Means the obstacle, or issue that needs to be targeted by Projects in response to an Innovation Challenge in order to facilitate Net Zero.

Programmatic Approach

Means setting and delivering a long-term strategic direction for energy network innovation. It involves fostering greater collaboration and ensuring clear accountability among all parties to ensure transformative projects are progressed effectively and deliver system-wide outcomes.

Project

Means the innovation being proposed or undertaken within the specific Project Phase. Although there may be a continuation of work from previous Project Phases, the Discovery Phase, Alpha Phase, Beta Phase, Deployment Phase and any combination of Phases are distinct Projects.

Project Bank Account

Means the bank account used for the purpose of all financial transactions associated with a Project. It is either a separate bank account or a bank account which otherwise meets the requirements of the SIF Governance Document.

Project Deliverable

Means a Project specific output which is:

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- Linked to meeting identified targets for the outputs that will be expected to be delivered through the Project;
- Linked to meeting identified Project milestones, or Project benefits and/or key performance indicators on at least an annual basis;
- Linked to achieving the proposals it puts forward for the generation of new knowledge to be shared amongst all Licensees; and
- SMART – specific, measurable, achievable, relevant and time bound.

Project Log

Means the log that each Funding Party must maintain which includes (but does not need to be limited to) a record of what potential Projects a Funding Party has considered submitting to the SIF, a summary of the Problem the proposed Project would attempt to solve, and the reasoning for why the Project was or was not the subject of a SIF Application. Ofgem may request this information to better understand interactions with innovators and may also share this information with the SIF Delivery Partner (Innovate UK) in order to improve the SIF.

Project Partner

Means any partner that makes a contractual commitment to contribute equity to the Project (e.g. in the form of funding, personnel, equipment) the return on which is related to the success of the Project.

Project Phase

Means a Project at a specified phase. There are four Project Phases: Discovery Phase, Alpha Phase, Beta Phase, and Deployment Phase which each require a funding Application. Although there may be a continuation of work from previous Project Phases, the Discovery Phase, Alpha Phase and Beta Phase are distinct Projects.

R

Regulatory Year

Means a period of twelve months commencing on 1 April.

Relevant Background IPR

Means any Background IPR that is required in order to undertake the Project.

Relevant Foreground IPR

Means any Foreground IPR that is required in order to undertake the Project.

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Regulatory Instructions and Guidance, or RIGs

Means the document of that name published by the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance) of the Gas Transporter Licence, or Standard Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence and Standard Condition 46 (Regulatory Instructions and Guidance) of the Electricity Distribution Licence.

Retained SIF Royalties, or RSIFR

Means total royalties earned through all Projects to be retained by each Licensee.

Regulatory Year

Means a period of twelve months commencing on 1 April at, for Gas Transportation and Electricity Transmission Licensees 05:00 and ending on the following 1 April immediately before 05:00, and for Electricity Distribution Licensees at 00:00 and ending on the following 1 April immediately before 00:00. The first such Regulatory Year (t=1) in RIIO-3 commences on 1 April 2026 at 05:00 hours for Gas Transportation and Electricity Transmission Licensees, and on 1 April 2028 at 00:00 for Electricity Distribution Licensees.

RIIO

Stands for (Revenue = Incentives + Innovation + Outputs). It is Ofgem's framework, stemming from the conclusions of the RPI-X@20 Project, implemented in network price controls.

RIIO-2

Means the network price control which ran between 31 March 2021 and 1 April 2026 for Gas Transporter and Electricity Transmission Licensees, and NESO, and which runs between 31 March 2023 and 1 April 2028 for Electricity Distribution Licensees.

RIIO-2 SIF

SIF awarded to Licensees in RIIO-2.

RIIO-3

Means the network price control which runs between 1 April 2026 and 31 March 2031 for gas transporter and electricity transmission Licensees, and between 1 April 2028 and 31 March 2033 for electricity distribution Licensees.

RIIO-3 NIA Governance Document

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Means the document issued by the Authority under the RIIO-3 NIA Licence Condition.

RIIO-3 SIF Governance Document

Means this document issued by the Authority under the RIIO-3 SIF Licence Condition.

S

Senior Responsible Owner (SRO)

Means the person appointed within Ofgem as the individual who holds ultimate accountability for the Strategic Innovation Fund's intended outcomes, benefits and processes, on behalf of the Authority.

Senior Sponsor

Means the person nominated as a senior representative of relevant Licensee who can actively ensure that IDGs work towards delivering Innovation Challenge outcomes. Senior Sponsor takes accountability their IDG's outputs (including related business in their own organisation) and for reporting progress and resolving blockers to accelerate network innovation.

SIF Approved Amounts

Means amounts approved by the Authority in relation to a claim submitted by Innovate UK to fund the costs administering the SIF, or a claim submitted by the Funding Party to receive the SIF Funding for an Eligible SIF Project, where such claim complies in all respects with such requirements as are imposed by the SIF Governance Document in respect of such claims.

SIF Directly Attributable Costs

Means costs relating to the maintenance and management of IPR generated through Eligible SIF Projects undertaken by the Licensee that have not been otherwise remunerated by network charges, Use of System Charges in respect of electricity distribution Licensees, Directly Remunerated Services or the SIF Funding Mechanism.

SIF Disallowed Expenditure

Means any revenue received under the SIF Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.

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SIF Funding

Means the proportion (if any) of the total amount of funding raised by the NTS Operator or NESO in accordance with the SIF Funding Mechanism that the Authority determines is to be allocated to the Licensee in respect of its Eligible SIF Projects, as adjusted by the amount of any SIF Funding Return.

SIF Funding Direction

Means a direction issued by the Authority pursuant to the SIF Governance Document in relation to the SIF Funding for Projects, in accordance with Chapters 7 and 10.

SIF Funding Mechanism

Means the mechanism by which the Licensee receives the amount of authorised SIF Funding in any Regulatory Year from the NTS Operator and NESO, less any SIF Funding Return.

SIF Funding Request

Means the Outstanding Funding Required, including (for the Beta Phase) a deduction for the bank account interest that the Funding Party will earn on the balance of SIF Funding over the duration of the Project.

SIF Funding Return

Means the total amount, in respect of the Licensee, of any amounts arising under the SIF Funding Return Mechanism.

SIF Funding Return Mechanism

Means a mechanism which provides for payments to be made by the Licensee to the NTS Operator or NESO, in each case to such extent (if any) as may be relevant, of:

- SIF Halted Project Revenues;
- SIF Disallowed Expenditure;
- SIF Returned Royalty Income; and
- SIF Returned Project Revenues.

SIF Governance Document

Means the document issued by the Authority under the SIF Licence Condition.

SIF Halted Project Revenues

Means any revenues received by the Licensee from the NTS Operator or NESO under the SIF Funding Mechanism in respect of an Eligible SIF Project, which

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have not yet been spent or otherwise committed, at the time that the Authority requires that Eligible SIF Project to be halted in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.

SIF Licence Condition

Means either:

- Special Condition 5.7 (The Strategic Innovation Fund) of the Gas Transporter Licence held by National Gas Transmission plc;
- Special Condition 9.11 (The Strategic Innovation Fund) of the Gas Transporter Licence held by Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc, and Wales and West Utilities Limited;
- Special Condition 9.19 (The Strategic Innovation Fund) of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc, and Scottish Hydro Electric Transmission Plc;
- Special Condition 9.19 (The Strategic Innovation Fund) of the Electricity Transmission Licence held by SP Transmission Plc;
- Part E of ‘Condition F2 Innovation Funding’ of the NESO Electricity System Operator Licence and Part C of ‘Condition F2 Innovation Funding’ of the NESO Gas System Planner Licence.
- Special Condition 9.9 (The Strategic Innovation Fund) of the Electricity Distribution Licence held by:
 - Electricity North West Limited;
 - Northern Powergrid (Northeast) plc;
 - Northern Powergrid (Yorkshire) plc;
 - National Grid Electricity Distribution: West Midlands plc;
 - National Grid Electricity Distribution: East Midlands plc;
 - National Grid Electricity Distribution: South Wales plc;
 - National Grid Electricity Distribution: South West plc;
 - UK Power Networks: London Power Networks plc;
 - UK Power Networks: South Eastern Power Networks plc;
 - UK Power Networks: Eastern Power Networks plc;
 - SP Energy Networks: Distribution ltd;
 - SP Energy Networks: Manweb plc;
 - Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution plc; and
 - Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution plc.

SIF Project Direction

Means a direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to an Eligible SIF Project as a condition of

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its funding under the SIF Funding Mechanism.

SIF Returned Project Revenues

Means:

- a) revenues received by the Licensee from the NTS Operator or NESO under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, where that Eligible SIF Project has been carried out in accordance with the applicable provisions of the SIF Governance Document and/or the terms of the relevant SIF Project Direction; or
- b) revenues earned from an Eligible SIF Project by the Licensee other than SIF Returned Royalty Income, that the Authority determines are payable to consumers.

SIF Returned Royalty Income

Means revenue earned from IPR generated through Eligible SIF Projects undertaken by the Licensee, less SIF Directly Attributable Costs, that is payable to consumers under the SIF Funding Mechanism, as calculated in accordance with the provisions of the SIF Governance Document.

SIF Royalties

Means the pre-tax sum of the SIF royalties reported by a Licensee on a Project.

Single Entity Supplier

Means the organisation responsible for delivery of the assigned task, e.g. Dissemination Platform, or Annual Innovation Summit.

Special Condition

Means a condition that must be adhered to by the recipient of SIF funding as part of Ofgem's approval, typically to ensure that an eligibility criterion is met during a Project's lifecycle.

Strategic Innovation Fund or SIF

Means the RIIO-3 innovation funding mechanism of that name applied to strategically important innovation projects.

T

Total Project Phase Costs

Means the forecast costs that the Funding Party expects to require to undertake the Project.

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Transmission Network Use of System Charges

Means the charges used to recover the cost of installing and maintaining the transmission system in England, Wales, Scotland and offshore.

U

User Need

Means the needs that a user has of a service, and which that service must satisfy to secure the right outcome for that user. Further detail on understanding User Needs can be found here:

<https://www.gov.uk/service-manual/user-research/start-by-learning-user-needs>

UK Research & Innovation, or UKRI

Means the UK Government's research and innovation agency. It is a non-departmental public body sponsored by the Department for Science, Innovation and Technology (DSIT).

W

Working Day

Means any day other than a Saturday, a Sunday, Christmas Day, Good Friday, or any other day that is a bank holiday within the meaning of the Banking and Financial Dealing Act 1971.

Appendix 2 Similarities and Distinction between NIA and SIF

Similarities	NIA	SIF
Intended outcome	Both funds are outcomes focused, either <ul style="list-style-type: none"> • for deployment of innovation and/or; • learnings from Projects to be shared to move the whole energy system forward in the Net Zero transition. 	Both funds are outcomes focused, either <ul style="list-style-type: none"> • for deployment of innovation and/or; • learnings from Projects to be shared to move the whole energy system forward in the Net Zero transition.

Distinctions	NIA	SIF
Area of focus	<p>Projects must have the potential to facilitate the energy system transition and/or benefit consumers in vulnerable situations.</p> <p>Partly identified in the Programmatic Approach, but discretion for Licensee and/or Project Partners to identify challenges at working level.</p> <p>Includes Projects focused on near-term challenges created by the Net Zero transition, within existing business models.</p>	<p>Focused on whole system Projects, focused on delivering Net Zero in a cost-competitive way that demonstrates good value for money for the consumer.</p> <p>Long term, strategic, and transformational innovation.</p> <p>Innovation Challenges identified through Programmatic Approach.</p>
Scale and complexity	Projects that do not require demonstrators of £3-5m and above.	<p>i) larger scale projects that typically require demonstrators of £3-5m and above;</p> <p>ii) complex Projects with a wide range of Project Partners.</p>
Ambition level	<p>Projects with a range of Technology Readiness Levels (TRLs).</p> <p>Allows for near-term work reflecting changes in consumer priorities, led by government policy or unexpected events.</p>	<p>Transformative Projects that challenge existing business models are encouraged.</p> <p>‘Moonshot’ (defined as radically ambitious, high-risk, high reward) ideas are encouraged, as these can benefit from more direction and support.</p>

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Regulatory implications	Projects that can be delivered with minimal regulatory oversight and support.	Projects that require greater regulatory engagement and support due to potential regulatory barriers.
Structure	Flexible Use-it-or-Lose-It allowance. Collaboration amongst other Licensees and Project Partners is encouraged.	Competitive fund networks can apply for collaboratively.