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Date: 9th June 2026

Dear UK POWER NETWORKS (OPERATIONS) LIMITED,

UK POWER NETWORKS (OPERATIONS) LIMITED submitted Neighbourhood Watts (the Project) to be considered for funding through the Alpha Phase of Round 4 of the Strategic Innovation Fund (SIF). In our SIF Funding Decision issued on 1st June 2026, we selected the Project for conditional funding for the Round 4 Alpha Phase and as a result we are now issuing this SIF Project Direction to implement that decision.

UK POWER NETWORKS (OPERATIONS) LIMITED must comply with the conditions contained in this SIF Project Direction as a condition of the Project receiving funding through the SIF. These conditions can be found in the Schedule to this document.

Progression through SIF Phases

The SIF consists of a multi-phase approach for Projects in order to mitigate the risk associated with innovations. The Discovery Phase focuses on feasibility, the Alpha Phase on experimental development, and the Beta Phase on deployment and demonstration. The Innovation Challenge issued for each Round will state if a Project can apply directly to Alpha or Beta, without the requirement to have progressed through Discovery and Alpha.

Role of UK Research & Innovation (UKRI)

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

SIF Project Direction

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

- Set out the Project-specific conditions, to which the Funding Party is committing in accepting SIF Funding.
- 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.
- Where applicable, set out conditions (such as Project stage gates) linked to milestones and deliverables, which Projects must meet.
- Set out the SIF Approved Amount for the Project, that will form part of the calculation contained in the SIF Funding Direction issued by the Authority under chapter 7 of the SIF Governance Document.
- 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 SIF Approved Amount as set out in the SIF Funding Direction.

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

Decision

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

This SIF Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Marzia Zafar

Deputy Director, Digitalisation, Innovation and Decentralisation

SRO for the Strategic Innovation Fund

For and on behalf of the Authority

Schedule to SIF Project Direction

1. PROJECT DETAILS

Application number: 10193693

Project title: Neighbourhood Watts

Innovation Challenge/Project Phase: Faster network development/ Round 4 Alpha Phase

Project start date: 1st June 2026

Project end date: 31st January 2027

SIF Approved Amount for SIF Funding: £499,090

2. PREAMBLE

This SIF Project Direction is issued by the Gas and Electricity Markets Authority (the "Authority") to UK POWER NETWORKS (OPERATIONS) LIMITED (the "Funding Party") pursuant to the SIF Governance Document issued pursuant to Special Condition 9.9 of the Electricity Distribution Licence. It sets out the conditions to be complied with in relation to Neighbourhood Watts (the "Project") as a condition of it being funded under the SIF Funding Mechanism, as defined in the SIF Governance.

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

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

3. PROJECT-SPECIFIC CONDITIONS

In accepting funding for the Project, the Funding Party is subject to the following Project-specific condition(s):

Condition 1

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

Table 1. Project Partners

COMMUNITY ENERGY PATHWAYS C.I.C
ENERGY SYSTEMS CATAPULT LIMITED
FUSE ENERGY SUPPLY LIMITED

Condition 2

The Funding Party must report on the financial contributions made to the Project as set out in its Application. Any financial contributions made over and above that stated in its Application should also be reported and included on the Innovation Funding Service (IFS).

Condition 3

The Funding Party must make reasonable endeavours to participate in all meetings related to the Project that they are invited to by Ofgem, UKRI and Department for Energy Security and Net Zero during the Alpha Phase.

Condition 4

The Project will be allowed a flexible start date and duration within the 8-month period from the date the Project Direction is issued. The Project must tell the monitoring officer the start date and end date of the Project.

Condition 5

Prior to the End of Phase Review, the Funding Party must provide to the Monitoring Officer a plan outlining how the Project will deliver an inclusive approach to participation. This must include, at a minimum:

- (i) the prioritisation criteria that will be used to support inclusive participation; and
- (ii) a clear method for identifying and enabling participation from consumers who may otherwise be excluded.

4. COMPLIANCE

The Funding Party must comply with Special Condition 9.9 of the Electricity Distribution Licence, the SIF Governance Document and with this SIF Project Direction.

5. SIF APPROVED AMOUNT

The SIF Approved amount of £499,090 (as detailed under Section 1: Project details of this Project Direction) will be recovered by National Energy System Operator from GB customers and transferred to the Funding Party. The Funding Party is responsible for notifying National Energy System Operator of the bank account details to which transfers must be made, in addition to completing Annex 2 of this SIF Project Direction. If a Funding Party is required to return funding to National Energy System Operator, the

reverse applies. The Funding Party must provide bank account details to National Energy System Operator within two weeks of accepting this SIF Project Direction.

6. PROJECT BUDGET

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

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

7. PROJECT IMPLEMENTATION

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

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

8. REPORTING

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

As set out in Chapter 6 of the SIF Governance Document, the Funding Party may be required to submit an end of Phase report to the UKRI monitoring officer within six months of the Project ending, if the Project is not planning on submitting an Application to Beta Phase and, if the Funding Party submits an Application for the Project for Beta Phase but is not successful. Within this report, the Funding Party must submit information related to questions on Project delivery as detailed in Chapter 6, table 5 of the SIF Governance Document.

9. MONITORING

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

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

10. EVALUATION

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

11. DATA SHARING

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

12. CYBER SECURITY

It is the responsibility of the Funding Party and all Project Partners to implement and maintain appropriate security measures to protect personal data in accordance with The [GDPR \(General Data Protection Regulation\)](#) and [DPA \(Data Protection Act\) 2018](#). Protection of computer systems from unauthorised access or being otherwise damaged or made inaccessible must be in place alongside effective working practices. These must be maintained in line with the Funding Party's IT management strategies and policies.

13. PROJECT WORK PACKAGES

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

Project Work Packages are outlined below in Table 2, based upon details contained within Question 7 and Appendix Question 9 in the Funding Party's Application.

Table 2. Project Work Packages

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
WP1	Project Management	22/01/2027	<p>Describe overall Work Package Objectives</p> <ul style="list-style-type: none"> - To deliver the project on time, to budget and to SIF governance requirements - To ensure strong governance and coordinated delivery through a project Steering Group involving partners and key stakeholders (Ofgem, DESNZ, GB Energy) <p>Describe the high level tasks to achieve the work package objectives.</p> <ul style="list-style-type: none"> 1.1.1 - Mobilise partners and ensure contract is signed 1.1.2 - Identify and agree on key milestones under each workstream, risks, dependencies, and review process 1.1.3 - Agree data acquisition plan for any data required (incl. relevant data sharing arrangements) 1.2.1 - Monitor progress and learning with fortnightly team meetings, support with data acquisition requirements from internal data teams 1.2.2 - Convene and host a series of project steering groups (for each milestone) formed of project partners and key stakeholders (DESNZ, Ofgem, GB Energy) 1.2.3 - Prepare mid-point report 1.3.1 - Monitor progress and learning with fortnightly team meetings 1.3.2 - Convene and host a series of project steering groups (for each milestone) formed of project partners and key stakeholders (DESNZ, Ofgem, GB Energy) 	£69,124

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			1.3.3 - Produce end of phase reporting, end of phase meeting with Innovate UK and Show & Tell webinar	
WP2	Stakeholder Engagement	14/12/2026	<p>Describe overall Work Package Objectives</p> <p>- To ensure that work completed is aligned with the experience and expertise of community energy groups and that the valuable perspective and feedback from these groups is captured and used to inform other work packages</p> <p>Describe the high level tasks to achieve the work package objectives.</p> <p>2.1.1 - Define stakeholder engagement strategy outlining objectives, target stakeholders, communication channels and activities for ongoing engagement</p> <p>2.1.2 - Develop communication plan specifying frequency, content, format and channels for engaging stakeholders throughout project</p> <p>2.1.3 - Design feedback collection methods including surveys, focus groups, interviews and online feedback forms</p> <p>2.2.1 - Develop a purpose and set of outcomes for the Community Energy Advisory Group</p> <p>2.2.2 - Recruit a Community Energy Advisory Group from key stakeholders and community energy groups</p> <p>2.2.3 - Host a Community Energy Advisory Group: Review key progress in value pool mapping in WP3</p> <p>2.2.4 - Compile stakeholder feedback on the value pool matrix created in WP3, including any key barriers and enablers for inclusion in value pool mapping report</p> <p>2.2.5 - Host a Community Energy Advisory Group: In-person proposition requirement</p>	£31,477

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			<p>workshop as part of WP5 and compile feedback</p> <p>2.2.6 - Host a Community Energy Advisory Group: Develop and test appeal of customer propositions with Community Energy Advisory Group for WP5 and compile feedback</p> <p>2.2.7 - Identify a shortlist of community groups which could participate in Beta Phase trials</p>	
WP3	Value Pool Mapping	12/10/2026	<p>Describe overall Work Package Objectives</p> <p>- To build a structured view of the value of community energy and local balancing by synthesising existing evidence and policies, mapping them against stakeholders and identifying gaps to inform trial design and CBA</p> <p>Describe the high level tasks to achieve the work package objectives.</p> <p>3.1.1 - Review different community energy business models, based on publicly available sources, and international examples</p> <p>3.1.2 - Identify key stakeholders such as DNOs, Suppliers, Government, and Consumers that are relevant to community energy, and to whom value will likely be provided by community energy projects</p> <p>3.1.3 - Review the existing 12 value pools defined, compare with different community energy business models outlined from task 3.1.1, and identify any additional potential value pools and stakeholders (from 3.1.2)</p> <p>3.1.4 - Define a high level (e.g. high/medium/low) scoring/ranking methodology to assess the likely value for each value pool (from 3.1.3) for each relevant community energy business model (from 3.1.1) for each relevant stakeholder (from 3.1.2). Also</p>	£95,467

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			<p>estimate confidence of ranking per value pool</p> <p>3.1.5 - Using the methodology outlined in 3.1.4, score and rank the business models to help determine those models with the most value per stakeholder</p> <p>3.1.6 - Prepare a session to test the value pools identified with the Community Energy Advisory Group</p> <p>3.1.7 - Analysis and write up - Identify the priority value pools and hypotheses for trial design (with UKPN/Fuse and stakeholders). Write up of analysis insights from the confidence matrix</p>	
WP4	Trial Design	16/11/2026	<p>Describe overall Work Package Objectives</p> <p>- To construct a detailed and clear plan for a community energy trial for selected business models and value pools</p> <p>Describe the high level tasks to achieve the work package objectives.</p> <p>4.1.1 - Use findings from WP3 learnings to define trial requirements (including the features such as research questions, participant requirements and treatment groups needed to quantify the value pools assessed in WP3)</p> <p>4.1.2 - Host a trial options selection workshop with project partner consortium</p> <p>4.1.3 - Define research approach to answer research questions - consumer research or experiment methodologies in order to quantify the value pools assessed in WP3</p> <p>4.1.4 - Write up final report which captures the research questions, trial design and plan for Beta Phase</p> <p>4.1.5 - Feasibility assessment to ensure trial design is evaluated for practical implementation including consideration of network constraints</p>	£68,319

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
WP5	Customer Proposition Design	14/12/2026	<p>Describe overall Work Package Objectives</p> <p>- To design, shortlist and feasibility-test initial customer propositions to unlock the full system value that community energy provides, culminating in a robust customer proposition ready for Beta stage trials</p> <p>Describe the high level tasks to achieve the work package objectives.</p> <p>5.1.1 - Proposition Requirements Gathering - including trial, stakeholder and customer needs</p> <p>5.1.2 - Proposition Requirements Gathering - engagement with Equiwatt</p> <p>5.1.3 - Prepare and host in-person proposition requirements workshop with Community Energy Advisory Group</p> <p>5.1.4 - Design consumer propositions using takeaways from the proposition design workshop</p> <p>5.1.5 - Design recruitment strategy and participant management approach</p> <p>5.1.6 - Develop and test appeal of Customer Propositions with Community Energy Advisory Group</p> <p>5.1.7 - Run focus groups with Fuse and non-Fuse customers to test consumer proposition appeal, and analyse and write up the insights</p> <p>5.1.8 - Conduct a quantitative survey via ESC's Living Lab to assess proposition appeal, then analyse and document the findings</p> <p>5.1.9 - Perform a light technical and commercial feasibility assessment</p> <p>5.2.1 - Identify any remaining gaps to be expanded on in Beta Phase</p>	£194,532

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			5.2.2 - Bring together outputs across work packages into a coherent narrative 5.2.3 - Produce a clear set of testable objectives for Beta Phase (building on Alpha Phase). 5.2.4 - Review policy and regulatory barriers and enablers	
WP6	Benefits Analysis	15/01/2027	<p>Describe overall Work Package Objectives</p> <p>- To conduct a CBA and quantify the system benefits of testing selected value pools through trial in line with a plan for Beta</p> <p>Describe the high level tasks to achieve the work package objectives.</p> <p>6.1.1 - Establish the BAU (baseline) for the hypothesis 6.1.2 - Gather data for the selected base case + hypothesis with 3-4 value pools 6.1.3 - Document assumptions which form the basis of the CBA 6.1.4 - Conduct cost benefit analysis using the SIF CBA template 6.1.5 - Test CBA results with UKPN team and finalise 6.1.6 - Write up of report indicating recommendations for UKPN planning teams to incorporate Neighbourhood Watts into planning 6.1.7 - Internal quality assurance of CBA assumptions and draft outputs 6.1.8 - Run sensitivity analysis for selected parameters for one priority trial hypotheses</p>	£40,171

14. USE OF LOGO

The Funding Party and the Project Partners, External Funders and Project Supporters or subcontractors, as detailed in the Application, must not use the Innovate UK/UKRI and/or Ofgem logo for purposes associated with the Project in any circumstances.

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

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

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

15. SHARING OF LESSONS LEARNED

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

As outlined in Chapters 3 and 6 of the SIF Governance Document, we require the Funding Party to work collaboratively with other Networks and third-party innovators to disseminate the learnings and data from Projects and ensure that these are publicly available. This includes taking part in annual events.

16. COLLABORATION

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

17. AMENDMENT OR REVOCATION

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

- (i) if the Funding Party considers that there has been a material change in circumstance that requires a change to the SIF Project Direction, and the Authority agrees; or

- (ii) to reflect amendments made to the Licence.

18. HALTING OF PROJECTS

This SIF Project Direction is subject to the provisions contained in Chapter 7 of the SIF Governance Document relating to the halting of Projects. By extension, this SIF Project Direction is subject to any decision by the Authority to halt the Project to which this SIF Project Direction relates and to any subsequent relevant SIF Funding Direction issued by the Authority pursuant to Special Condition 9.9 of the Electricity Distribution Licence.

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

NOW THEREFORE:

In accordance with the SIF Governance Document issued pursuant to Special Condition 9.9 of the Electricity Distribution Licence of the Licence the Authority hereby issues this SIF Project Direction to the Funding Party in relation to the Project.

This constitutes notice of reasons for the Authority's decision pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

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

ANNEX 1: PROJECT BUDGET

SIF Project Direction costs	
Cost Category	Total Project costs (£)
Labour	483,998
Materials	-
Subcontracting	54,197
Travel and subsistence	2,400
Other costs	13,950
Total	554,545

Project Partner	Total project costs (£)	Project contribution (£)	Total SIF Funding requested (£)	Project contribution (%)
UK POWER NETWORKS (OPERATIONS) LIMITED	105,860.00	10,586.00	95,274.00	
COMMUNITY ENERGY SOUTH LTD	34,975.00	3,498.00	31,477.00	
ENERGY SYSTEMS CATAPULT LIMITED	380,160.00	38,016.00	342,144.00	
FUSE ENERGY SUPPLY LIMITED	33,550.00	3,355.00	30,195.00	
Total	£554,545.00	£55,455.00	£499,090.00	11%

**ANNEX 2 TO SCHEDULE: TEMPLATE OF BANK ACCOUNT DETAILS TO BE PROVIDED
TO EITHER NGT (BOX.GSOSETTLEMENTS@NATIONALGRID.COM) OR NESO
(revenue.invoice@national.energy)**

Company name:

Primary Contact Details (only one contact permitted)

First Name:

Last Name:

Email address:

Mobile phone number:

Work phone number:

Address details

Address name:

Street address:

City:

State / region:

Post code:

PO box: (if applicable)

PO box post code: (if applicable)

Banking details

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

Any of the below documents will suffice:

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