

Newington House
237 Southwark Bridge Road
London
SE1 6NP

Direct Dial: 020 7901 7295

Email: Marzia.Zafar@ofgem.gov.uk

Date: 22 July 2026

Dear UK Power Networks (Operations) Limited,

**Strategic Innovation Fund – Approval of the Material Change request for UKPN/
Neighbourhood Watts**

The Strategic Innovation Fund (SIF) supports network innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. It facilitates collaboration with other public funders of innovation so that activities appropriately funded by network consumers are coordinated with activities funded by Government, and funding gaps are avoided. The SIF Governance Document sets out the governance and administration of the SIF.¹

On 1st June 2026, UKPN was awarded SIF Funding for Neighbourhood Watts (the Project).² The purpose of the Project is further develop selected aspects of SF6 management. Further to this decision, on 9th June 2026 Ofgem³ issued a SIF Project Direction.⁴

On 10th July 2026 UKPN submitted a Material Change request for the Project to the Authority. The Material Change request was submitted due to:

- Change in Project Partner names:

From Community Energy South Ltd to Community Energy Pathways C.I.C

From Energy Systems Catapult Limited to Energy Systems Catapult Services Limited

¹<https://www.ofgem.gov.uk/sites/default/files/2026-06/ED2%20SIF%20Governance.pdf>

<https://www.ofgem.gov.uk/decision/updates-strategic-innovation-fund-governance-document>

² <https://www.ofgem.gov.uk/policy/strategic-innovation-fund-cycle-5-projects-funding-decisions>

³ The terms the "Authority", "Ofgem", "we" 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.

⁴ <https://www.ofgem.gov.uk/policy/strategic-innovation-fund-cycle-5-projects-funding-decisions>

Ofgem's review

As set out in chapter 1 of the SIF Governance Document, Ofgem is the decision-maker in the SIF. Furthermore, as set out in chapter 8, Ofgem will consider Material Changes in circumstances and requests to change SIF Project Directions on a case by case, and will engage with monitoring officers on Projects to support the assessment of Material Change requests.

Ofgem has reviewed this Material Change requested submitted by UKPN and has engaged with the Monitoring Officer on the Project. Ofgem has reviewed the reasoning for the Material Change submitted by UKPN and considers it to satisfy the Eligibility Criteria in chapter 3 of the SIF Governance because:

- That the requested change to the Project Direction should be approved as the requested change does not violate any of the Eligibility Criteria outlined in Chapter 3 of the SIF Governance Document.
- That the requested change to the Project Direction should be approved as the requested change also does not violate the eligibility outlined in the Innovation Challenge Documentation.

As such, UKRI recommended approval of the Material Change request to Ofgem.

Decision

As a result of the reasons outlined above, Ofgem approves of this Material Change request.

In accordance with Section 17 of the Project Direction issued on 9th June 2026 and paragraph 8.28 of the SIF Governance Document, the amended SIF Project Direction for UKPN/ Neighbourhood Watts is published in the Schedule 1 of this letter. The amended SIF Project Direction is effective as of the date of this letter and, unless stated otherwise, supersedes the SIF Project Direction issued on 9th June 2026. The letter constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989 and 38A (Reasons for decisions) of the Gas Act 1986.

If you would like to discuss any of the issues, you can contact Ofgem via networks.innovation@ofgem.gov.uk. Alternatively, you can contact UKRI via SIF_Ofgem@innovateuk.ukri.org.

Yours sincerely,

Marzia Zafar

SRO for the Strategic Innovation Fund

Deputy Director of Digitalisation, Innovation and Decentralisation.

For and on behalf of the Authority

Schedule: Amended 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 SOUTH LTD
COMMUNITY ENERGY PATHWAYS C.I.C
ENERGY SYSTEMS CATAPULT LIMITED
<u>ENERGY SYSTEMS CATAPULT SERVICES LIMITED</u>
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	Describe overall Work Package Objectives - 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) Describe the high level tasks to achieve the work package objectives. 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	Describe overall Work Package Objectives - 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 Describe the high level tasks to achieve the work package objectives. 2.1.1 - Define stakeholder engagement strategy outlining objectives, target stakeholders, communication channels and activities for ongoing engagement 2.1.2 - Develop communication plan specifying frequency, content, format and channels for engaging stakeholders throughout project 2.1.3 - Design feedback collection methods including surveys, focus groups, interviews and online feedback forms 2.2.1 - Develop a purpose and set of outcomes for the Community Energy Advisory Group 2.2.2 - Recruit a Community Energy Advisory Group from key stakeholders and community energy groups 2.2.3 - Host a Community Energy Advisory Group: Review key progress in value pool mapping in WP3 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	£31,477

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			2.2.5 - Host a Community Energy Advisory Group: In-person proposition requirement workshop as part of WP5 and compile feedback 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 2.2.7 - Identify a shortlist of community groups which could participate in Beta Phase trials	
WP3	Value Pool Mapping	12/10/2026	Describe overall Work Package Objectives - 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 Describe the high level tasks to achieve the work package objectives. 3.1.1 - Review different community energy business models, based on publicly available sources, and international examples 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 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) 3.1.4 - Define a high level (e.g. high/medium/low) scoring/ranking methodology to	£95,467

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			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 estimate confidence of ranking per value pool 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 3.1.6 - Prepare a session to test the value pools identified with the Community Energy Advisory Group 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	
WP4	Trial Design	16/11/2026	Describe overall Work Package Objectives - To construct a detailed and clear plan for a community energy trial for selected business models and value pools Describe the high level tasks to achieve the work package objectives. 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) 4.1.2 - Host a trial options selection workshop with project partner consortium 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 4.1.4 - Write up final report which captures the research questions, trial design and	£68,319

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			plan for Beta Phase 4.1.5 - Feasibility assessment to ensure trial design is evaluated for practical implementation including consideration of network constraints	
WP5	Customer Proposition Design	14/12/2026	Describe overall Work Package Objectives - 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 Describe the high level tasks to achieve the work package objectives. 5.1.1 - Proposition Requirements Gathering - including trial, stakeholder and customer needs 5.1.2 - Proposition Requirements Gathering - engagement with Equiwatt 5.1.3 - Prepare and host in-person proposition requirements workshop with Community Energy Advisory Group 5.1.4 - Design consumer propositions using takeaways from the proposition design workshop 5.1.5 - Design recruitment strategy and participant management approach 5.1.6 - Develop and test appeal of Customer Propositions with Community Energy Advisory Group 5.1.7 - Run focus groups with Fuse and non-Fuse customers to test consumer proposition appeal, and analyse and write up the insights	£194,532

Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			5.1.8 - Conduct a quantitative survey via ESC's Living Lab to assess proposition appeal, then analyse and document the findings 5.1.9 - Perform a light technical and commercial feasibility assessment 5.2.1 - Identify any remaining gaps to be expanded on in Beta Phase 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	Describe overall Work Package Objectives - To conduct a CBA and quantify the system benefits of testing selected value pools through trial in line with a plan for Beta Describe the high level tasks to achieve the work package objectives. 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	£40,171



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Reference	Project Work Packages	Deadline	Overall objectives and key tasks	SIF Funding Request
			6.1.8 - Run sensitivity analysis for selected parameters for one priority trial hypotheses	

The Office of Gas and Electricity Markets

Commonwealth House, 32 Albion Street, Glasgow, G1 1LH **Tel** 020 7901 7000

www.ofgem.gov.uk

15. 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.

16. 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.

17. 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.

18. 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.

19. 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 COMMUNITY ENERGY PATHWAYS C.I.C	34,975.00	3,498.00	31,477.00	
ENERGY SYSTEMS CATAPULT LIMITED ENERGY SYSTEMS CATAPULT SERVICES 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)