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

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Dear Company Secretaries,

Date: 9th September 2026

SIF Funding Return Direction

The Strategic Innovation Fund (SIF) is a funding mechanism established under the RIIO-2 network price control to support innovation across the Electricity System Operator, Electricity Distribution and Transmission, Gas Transmission and Distribution sectors, within the RIIO-2[1] network price control.[2]

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

At the end of each Regulatory Year, we issue a SIF Funding Return Direction, requiring Funding Parties to return any underspent SIF amounts to National Energy System Operator (NESO) and National Gas Transmission (NGT).

Accordingly, this direction sets out;

- Projects that have completed within the regulatory year 2025/26, and have underspent on SIF funding received
- The collective amount that each Funding party will return to National Energy System Operator Limited (NESO) and National Gas Transmission Plc (NGT).
- The collective amount that NESO and NGT must return for their own SIF project.

[1] RIIO stands for (Revenue = Incentives + Innovation + Outputs). It is Ofgem's network price control framework. RIIO-2 means the network price control which runs between 1 April 2021 and 31 March 2026 for gas transporter and electricity transmission licensees, and between 1 April 2023 and 31 March 2028 for electricity distribution licensees.
[2] Fuller details regarding the SIF can be found here: https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/network-price-controls-2021-2028-riio-2/network-price-controls-2021-2028-riio-2-riio-2-network-innovation-funding/strategic-innovation-fund-sif

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

NGT and NESO must manage these returned amounts, together with un-spent amounts from their own SIF projects, in the interest of consumers. As detailed in chapter 7 of the SIF Governance Document, this will include unspent SIF Funding, SIF Disallowed Expenditure, SIF Halted Project Revenues, SIF Returned Project Revenues and SIF Returned Royalty Income.

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

Background

As per chapter 7 of SIF Governance Document and pursuant to the following licence conditions detailed in Table 1 below, Ofgem calculates and, by direction, specifies the net amount of SIF Funding that is to be returned to NESO and NGT by the Funding parties. Ofgem also calculates and directs NESO and NGT on funding they hold for their own SIF projects. Ofgem further specifies the manner and the timelines of how and when Funding parties are required to return that SIF Funding.

Table 1 – Network licence conditions

Network Licensee	Licence Condition
National Grid Electricity Transmission Plc (NGET)	Special Condition 9.19
SP Transmission Limited (SPT)	Special Condition 9.19
Scottish Hydro Electric Transmission Plc (SHE)	Special Condition 9.19
National Energy System Operator Limited (NESO)	Condition F2
National Gas Transmission Plc (NGT)	Special Condition 5.7
Cadent Gas Limited (Cadent)	Special Condition 9.13
Northern Gas Networks Limited (NGN)	Special Condition 9.13
Scotland Gas Networks plc (SGN)	Special Condition 9.13
Southern Gas Networks plc (SGN)	Special Condition 9.13
Wales & West Utilities Limited (WWU)	Special Condition 9.13
Electricity Northwest Limited (ENWL)	Special Condition 9.9
Northern Powergrid (Northeast) Plc (NPgN)	Special Condition 9.9
Northern Powergrid (Yorkshire) Plc (NPgY)	Special Condition 9.9
National Grid Electricity Distribution: West Midlands Plc (WMID)	Special Condition 9.9

National Grid Electricity Distribution: East Midlands Plc (EMID)	Special Condition 9.9
National Grid Electricity Distribution: South Wales Plc (SWALES)	Special Condition 9.9
National Grid Electricity Distribution: South West Plc (SWEST)	Special Condition 9.9
UK Power Networks: London Power Networks Plc (LPN)	Special Condition 9.9
UK Power Networks: South Eastern Power Networks Plc (SPN)	Special Condition 9.9
UK Power Networks: Eastern Power Networks Plc (EPN)	Special Condition 9.9
SP Energy Networks: Distribution Ltd (SPD)	Special Condition 9.9
SP Energy Networks: Manweb Plc (SPMW)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc (SHEPD)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution Plc (SSEPD)	Special Condition 9.9

Total Amounts to be Returned

Alpha Round 3 – SIF Funding Return;

As per our SIF Funding Decision published on 14th October 2024, we awarded SIF Funding to 21 Projects for the round 3 Alpha phase. All projects completed within the regulatory year 2025/26 and the final eligible SIF awards have been calculated and agreed. The projects that will return funds are listed in Table 2 below.

Through the Funding Return Mechanism (FRM), 14 concluded Electricity and 1 concluded Gas projects are returning £211,115 and £3,860 respectively of unspent funds.

Cycle 1 – SIF Funding Return;

As per our SIF Funding Decision published on 14th January 2025, we awarded SIF Funding to 12 Projects, 9 of which were for the round 4 Discovery Phase, 2 were round 4 Alpha phase and 1 was Round 2 Beta Phase. 11 out of 12 projects completed within the regulatory year 2025/26 and the final eligible SIF awards have been calculated and agreed. The projects that will return funds are listed in Table 2 below.

Through the Funding Return Mechanism (FRM), 5 concluded Electricity and 1 concluded Gas projects are returning £25,295 and £6,323 respectively of unspent funds.

Cycle 2 – SIF Funding Return;

As per our SIF Funding Decision published on 14th January 2025, we awarded SIF Funding to 15 Projects, 10 of which were for the round 4 Discovery Phase, 4 were round 4 Alpha phase, 1 was Round 3 and 1 was Round 4 Beta Phase. 12 out of 15 projects completed within the regulatory year 2025/26 and the final eligible SIF awards have been calculated and agreed. The projects that will return funds are listed in Table 2 below.

Through the Funding Return Mechanism (FRM), 7 concluded Electricity and 2 concluded Gas projects are returning £49,471 and £24,628 respectively of unspent funds.

Beta Round 1– SIF Funding Return;

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

In the regulatory year 2025/26, 5 Beta Round 1 project completed.

Through the Funding Return Mechanism (FRM), 2 concluded Electricity and 2 concluded Gas projects are returning £7,846,884 and £6,149,254 respectively of unspent funds. These projects are listed in Table 2 below and required to return £13,996,137.

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

Table 2 – SIF Funding Returns due from the Projects

Project Name	Network Licensee	Total SIF Funding to be returned
Alpha Rd 3 - Electricity Projects		
REVISE	SHE	£ 21,241
SYSMET - SYstem Strength Measurement and EvaluaTion	SHE	£ 52,670
Look NortH2	NGET	£ 44,824
Assessment of Superconducting Technologies for Standards Development	NGET	£ 3,344
Network Security in a Quantum Future	NESO	£ 322
HeatNet	SPN	£ 649
Rural Energy and Community Heat (REACH)	SWEST	£ 6,538
Cross Vector Hub	NPgN	£ 7,558
Fuel Cell Renewable Energy Equity (FREE) (R3A)	NPgN	£ 2,292
Electric Thames	LPN	£ 1,384
Flex Direct	LPN	£ 375
Wayl-Ease	EPN	£ 7,291
Sea Change	SSEPD	£ 5,020
Equiflex - Alpha	SPD	£ 57,607
		£ 211,115
Alpha 3 - Gas Projects		
Exploring Geological Hydrogen Storage Opportunities for the East Midlands (EMStor)	CADENT	£ 3,860
		£ 3,860
Cycle 1 Discovery - Electricity Projects		
R4D: FastTrack - AI for Connections	SSEPD	£ 3,742
I-LAD - Innovating Losses Analysis and Detection	SSEPD	£ 1,351
RIDES	SHEPD	£ 748
Dynamic, Data Driven Asset Rating (3DAR)	SHEPD	£ 2,203

		£ 8,044
Cycle 1 Discovery - Gas Projects		
Digital Decommissioning of Large-Scale Equipment	NGT	£ 6,323
		£ 6,323
Cycle 1 Alpha - Electricity Projects		
GeoGrid	NPgN	£ 17,251
		£ 17,251
Cycle 2 Discovery - Electricity Projects		
FORTRESS (Flexibility and Optimisation for Resilience in Energy Systems)	SHEPD	£ 5,791
Future Agriculture Resilience Mapping FARM	SHEPD	£ 3,244
Hot Chips	LPN	£ 8,709
Super DuPPR (Dual Purpose Power Reserves)	LPN	£ 453
ODIN - Optimisation and Diagnostics for Innovative Networks	SHE	£ 26,276
RAPID - Automated Routing Infrastructure	SHE	£ 1,221
		£ 45,694
Cycle 2 Alpha - Electricity Projects		
Data to Insights D2I	SHEPD	£ 3,778
		£ 3,778
Cycle 2 Alpha - Gas Projects		
B-Linepack+	NGT	£ 9,121
Future Operability of Gas for System Integration (FOGSI)	NGT	£ 15,507
		£ 24,628
Beta 1 - Electricity Projects		
Crowdflex	NESO	£ 5,248,761

Network-DC	SHE	£ 2,598,123
		£ 7,846,884
Beta 1 - Gas Projects		
HyNTS Compression	NGT	£ 5,981,913
DPLA	CADENT	£ 167,341
		£ 6,149,254
Total SIF Funding Returns from individual Gas Projects		£ 6,184,066
Total SIF Funding Returns from individual Electricity Projects		£ 8,132,765
Total SIF Funding Returns due		**£ 14,316,831**

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

Yours faithfully,

Marzia Zafar

Deputy Director, Strategy Energy Systems Management & Security

Signed for and on behalf of the Authority

Schedule 1: Funds to be returned to NESO

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

Table 3 contains the net amounts that must be returned to NESO by network licensees, relating to projects completed in Regulatory Year 2025/26 for the round 3 Alpha, cycle 1 and 2 Alpha and Discovery and round 1 Beta Phase of the SIF.

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

Network Licensee		**Amount to return**
National Grid Electricity Distribution (SWEST): South West Plc	SWEST	£6,538
National Grid Electricity Transmission Plc (NGET)	NGET	£48,168
Northern Powergrid (Northeast) Plc (NPgN)	NPgN	£27,101
Scottish and Southern Energy Power Distribution (SHEPD): Scottish Hydro Electric Power Distribution Plc	SHEPD	£15,764
Scottish and Southern Energy Power Distribution (SSEPD), Southern Electric Power Distribution Plc	SSEPD	£10,113
Scottish Hydro Electric (SHE) Transmission Plc	SHE	£2,699,531
SP Energy Networks: Distribution Ltd (SPD)	SPD	£57,607
UK Power Networks: London Power Networks Plc (LPN)	LPN	£10,921
UK Power Networks: South Eastern Power Networks Plc (SPN)	SPN	£649
UK Power Networks: Eastern Power Networks Plc (EPN)	EPN	£7,291
Total net amount of SIF Funding to be received by NESO from Electricity licensees		**£ 2,883,683**

SIF Funding that NESO must return from its own SIF Projects

Table 4 contains the net amount that NESO must return from its own SIF projects relating to projects completed in Regulatory Year 2025/26 for the round 3 Alpha, cycle 1 and 2 Alpha and Discovery and round 1 Beta Phase of the SIF.

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

Network Licensee	**Amount to return for own projects**
National Energy System Operator Limited	**£ 5,249,082**

Schedule 2: Funds to be returned to NGT

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

Table 5 contains the net amounts that must be transferred by Gas Licensees to NGT, relating to projects completed in Regulatory Year 2025/26 for the round 3 Alpha, cycle 1 and 2 Alpha and Discovery and round 1 Beta Phase of the SIF.

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

Network Licensee		Amount to return
Cadent Gas Limited	Cadent	**£171,201**

SIF Funding that NGT must return from its own SIF Projects

Table 6 contains the net amount that NGT must return from its own SIF projects relating to projects completed in Regulatory Year 2025/26 for the round 3 Alpha, cycle 1 and 2 Alpha and Discovery and round 1 Beta Phase of the SIF.

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

Network Licensee	Amount to return for own projects
National Gas Transmission Plc	**£6,012,865**