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National Energy System Operator
Limited, National Gas
Transmission Plc

Direct Dial: 0141 354 5416
Email: luke.blackaby@ofgem.gov.uk

Date: 30 October 2026

Dear Company Secretaries,

October 2026 SIF Funding Direction

The Strategic Innovation Fund (SIF) is a funding mechanism for the Electricity System Operator, Electricity Distribution and Transmission, Gas Transmission and Distribution sectors, within the RIIO-2[1] and RIIO-3 network price controls.[2]

The purpose of this SIF Funding Direction[3] is to:

1. Implement our recent decisions to distribute SIF Funding to the Cycle 6 projects that were awarded funding. Cycle 6 Discovery was awarded funding on 25th August 2026[4] and Alpha and Beta were awarded funding on 8th October 2026[5].
2. Reconcile and invoice UKRI's actual costs for delivering the SIF in 2025/26 financial year and first four months of 2026/27, respectively.

This funding direction will not be reconciling SIF Funding Returns from any previously completed projects. SIF Funding Returns now form part of an annual reconciliation process, capturing the regulatory year cycle to 31

[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. RIIO-3 means the network price control which runs between 1 April 2026 and 31 March 2031 for gas transporter and electricity transmission 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
[3] Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the SIF Governance Document.
[4] Strategic Innovation Fund: Cycle 6 projects funding decisions | Ofgem
[5] Strategic Innovation Fund: Cycle 6 Alpha and Beta projects funding decisions | Ofgem

March each year. In these annual SIF Funding Returns, all projects completed within the relevant regulatory year and requiring to return unspent SIF funds will be included.

Accordingly, this Funding Direction sets out the amount that National Energy System Operator Limited (NESO) and National Gas Transmission (NGT) will recover from its customers in relation to the SIF. It also specifies the net amounts to be transferred between NESO, UKRI and other electricity Funding Parties (i.e. electricity network licensees); and NGT, UKRI and other gas Funding Parties (i.e. gas network licensees) in relation to their SIF Projects.

NESO must transfer funds as set out in Schedule 1 below, and NGT must transfer funds as set out in Schedule 2 below. NESO and NGT must transfer funds to the nominated bank account as notified by Funding Parties as per the requirements in the SIF Project Directions. The Funding Party must adhere to requirements regarding Project banking arrangements as specified in the SIF Governance Document[6]. If Funding Parties anticipate any problems fulfilling these requirements, they should notify Ofgem as soon as possible.

Background

In line with the funding arrangements in the 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 paid to Funding Parties by NESO and NGT. Ofgem also specifies the manner in which and the times at which NESO and NGT are required to transfer that SIF Funding.

[6] Updates to the Strategic Innovation Fund governance document
Chapter numbers differ between the SIF Governance Documents that apply to different price controls. Under the RIIO-3 SIF Governance Document (published 1 April 2026), funding arrangements are chapter 10 and project administration, including bank accounts, is chapter 11. Under the ED2 SIF Governance Document (June 2026), which applies to electricity distribution, they are chapters 9 and 10.

Table 1 below also sets out the network licensees who were eligible to participate in Cycle 6 of the SIF.

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)	Part E of Condition F2
National Gas Transmission Plc (NGT)	Special Condition 5.7
Cadent Gas Limited (Cadent)	Special Condition 9.11
Northern Gas Networks Limited (NGN)	Special Condition 9.11
Scotland Gas Networks plc (ScGN)	Special Condition 9.11
Southern Gas Networks plc (SGN)	Special Condition 9.11
Wales & West Utilities Limited (WWU)	Special Condition 9.11
Electricity North West Limited (ENWL)	Special Condition 9.9
Northern Powergrid (Northeast) Plc (NPgN)	Special Condition 9.9
Northern Powergrid (Yorkshire) Plc (NPgY)	Special Condition 9.9
National Grid Electricity Distribution: West Midlands Plc (WMID)	Special Condition 9.9
National Grid Electricity Distribution: East Midlands Plc (EMID)	Special Condition 9.9
National Grid Electricity Distribution: South Wales Plc (SWALES)	Special Condition 9.9
National Grid Electricity Distribution: South West Plc (SWEST)	Special Condition 9.9
UK Power Networks: London Power Networks Plc (LPN)	Special Condition 9.9
UK Power Networks: South Eastern Power Networks Plc (SPN)	Special Condition 9.9
UK Power Networks: Eastern Power Networks Plc (EPN)	Special Condition 9.9
SP Energy Networks: Distribution Ltd (SPD)	Special Condition 9.9
SP Energy Networks: Manweb Plc (SPMW)	Special Condition 9.9
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution Plc (SHEPD)	Special Condition 9.9

Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution Plc (SSEPD)	Special Condition 9.9

Below we specify the amount of SIF Funding to be distributed to network licensees who are leading Projects that we have decided to fund.

The values in this document align with the SIF Funding Decision published on 25th August 2026 for Cycle 6 Discovery, and 8th October 2026 for Alpha and Beta Projects. These figures awarded are based upon the forecasts submitted by individual Projects. However, we recognise the actual expenditure on Projects may differ from these figures. Accordingly, there will be a 'true-up' of the figures quoted in this SIF Funding Direction against actual expenditure via an annual reconciliation process.

To minimise cashflow risk, NESO and NGT have both forecast the value of the SIF Funding requirement in advance of this direction.[7] As the Project Phases and the SIF rounds progress, the NESO and NGT must reconcile their forecast values of the SIF Funding requirement against the actual values specified in this direction to ensure the amount of funding recovered from consumers is accurate.

Cycle 6 - SIF Funding awarded

Discovery

As per our SIF Funding Decision published on 25th August 2026, we awarded SIF Funding to 10 Projects for the Cycle 6 Discovery phase, 8 of which were awarded under RIIO 2 price control and 2 were awarded under RIIO 3 price control. 2 projects awarded under RIIO2 price control were addressing Round 5 challenges. The Projects we decided to fund are listed in Table 2a and 2b below.

Alpha

As per our SIF Funding Decision published on 8th October 2026, we awarded SIF Funding to 4 Projects for the Cycle 6 Alpha phase, 1 of which was awarded under RIIO 2 price control and 3 were awarded under RIIO 3 price control. 1 project awarded under RIIO2 price control and 2 projects under RIIO3 price control were addressing Round 5 challenges. The Projects we decided to fund are listed in Table 3a and 3b below.

Beta

As per our SIF Funding Decision published on 8th October 2026, we awarded SIF Funding to 2 Projects for the Cycle 6 Beta phase, 1 of which was addressing Round 4 challenge and 1 of which was addressing Round 5

[7] The NESO and NGT are able to input forecast values for the SIFF term when setting network charges for the year ahead. In future years, the NESO and NGT then reconcile these forecast values against actual values we specify within these SIF Funding Directions.

Challenge. 1 of which was awarded under RIIO 2 price control and 1 was awarded under RIIO 3 price control.

The Projects we decided to fund are listed in Table 4a and 4b below.

Table 2a – SIF Funding requested by the successful Cycle 6 Discovery Phase Projects under RIIO 2

Price Control Period	SIF Round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
RIIO 2	5	Discovery	Electricity	BFIIT - Bradford Flexible Industrial Infrastructure Transition	NPgN	£198,237
RIIO 2	5	Discovery	Electricity	Quantum Inspired Power System (QUIPS)	SHEPD	£134,889
RIIO 2	IDG[8] 5	Discovery	Electricity	Innovation Challenge 5 Innovation Charter	EMID	£199,861
RIIO 2	IDG 3	Discovery	Electricity	Roaming MPANs (Roaming Meter Point Administration Numbers)	SSEPD	£166,092
RIIO 2	IDG 4	Discovery	Electricity	SOS RACER (Security of Supply - Revised Approach to Consider Embedded Resources)	EMID	£167,822
RIIO 2	IDG 1	Discovery	Electricity	Data-Integrated Systems for Power Transmission and Community Heat (DISPATCH)	EMID	£181,366
RIIO 2	IDG 1	Discovery	Electricity	Innovation Challenge 1 Innovation Charter	SSEPD	£199,412
RIIO 2	IDG 3	Discovery	Electricity	Innovation Challenge 3 Innovation Charter	EPN	£ 200,000
Total of SIF Funding for Projects due to network licensees						**£1,447,679**

Table 2b – SIF Funding requested by successful Cycle 6 Discovery Phase projects under RIIO 3

Price Control Period	SIF Round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
RIIO 3	IDG 4	Discovery	Electricity	Innovation Challenge 4 Innovation Charter	NESO	£ 200,000

[8] IDG = Innovation Delivery Group

RIIO 3	IDG 2	Discovery	Electricity	Innovation Challenge 2 Innovation Charter	SHE	£ 200,000

Total of SIF Funding for Projects due to network licensees **£400,000**

Table 3a – SIF Funding requested by the successful Cycle 6 Alpha Phase Projects under RIIO 2

Price Control Period	SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
RIIO 2	5	Alpha	Electricity	Grounds for Change	SHEPD	£ 622,691

Total of SIF Funding for Projects due to network licensees **£622,691**

Table 3b – SIF Funding requested by the successful Cycle 6 Alpha Phase Projects under RIIO 3

Price Control Period	SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
RIIO 3	IDG 2	Alpha	Electricity	RAPID - Routing and Planning through Interoperable Data	SHE	£453,988
RIIO 3	5	Alpha	Gas	Quantum optimisation for future gas network design	NGT	£616,558
RIIO 3	5	Alpha	Gas	Green Gas Access	SGN	£594,862

Total of SIF Funding for Projects due to network licensees **£1,665,408**

Table 4a – SIF Funding requested by the successful Cycle 6 Beta Phase Projects under RIIO 2

Price Control Period	SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
RIIO 2	5	Beta	Electricity	Net Zero Terrace	ENWL	£ 7,188,365

Total of SIF Funding for Projects due to network licensees **£7,188,365**

Table 4b – SIF Funding requested by the successful Cycle 6 Beta Phase Projects under RIIO 3

Price Control Period	SIF round	Project Phase	Sector	Project name	Funding Party	Total SIF Funding to be distributed
RIIO 3	4	Beta	Electricity	DEsign for Live Line Technology Acceleration (DELLTA)	NGET	£ 4,947,031
Total of SIF Funding for Projects due to network licensees						**£4,947,031**

UKRI's costs of operating the SIF in 2025/26 are reconciled and the reconciled amount is included in this funding direction. As directed in the previous funding direction, UKRI will invoice the costs of operating SIF on actual accrued costs at approximately four monthly intervals in 2026/27 and beyond. UKRI's Actual accrued costs of operating the SIF between April 2026 to July 2026 are included in this Funding Direction. The respective underspend against the forecast costs for 2025/26 is £256,367 plus VAT (£307,641) and UKRI's Actual cost of operating SIF in first four months is £818,109 plus VAT (£981,731). After offsetting this remaining balance, UKRI's operating cost for the first four months of 2026/27 is £561,742 plus VAT (£674,091). The majority of activity continues to relate to RIIO-2 activities; as such this invoice will be raised as a cost to RIIO-2 of £561,742 plus VAT (£674,091). As future activity shifts towards management of RIIO-3 projects, invoicing will split to reflect this.

Table 5 – SIF Funding due to UKRI for delivering the SIF

Instalment 1 (to be paid within 28 days of publication)

National Energy System Operator	£623,903
National Gas Transmission Plc	£50,187
Total of SIF Funding due to UKRI for delivering the SIF	**£674,091**

The SIF Funding Return

The SIF Funding Return Mechanism is used to return any SIF Funding Return from Funding Parties to NESO and NGT, and back to consumers. As detailed in 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.

SIF Funding Returns will now be dealt with on an annual basis, covering the regulatory year to 31st March. This means that this Funding Direction will include only payments to be made to Licensees that relate specifically to the award of SIF Funds for Cycle 6.

Implementation

As the learning from the SIF Projects provides benefits to all Funding Parties and GB consumers as a whole, SIF Funding is raised across all GB consumers through NTS Transportation Owner Charges (in gas) and Transmission Network Use of System Charges (in electricity).

SIF Funding is distributed by NESO and NGT to individual Funding Parties. This means that NESO and NGT make a net payment to each Funding Party per instalment as directed in Schedule 1 and 2, respectively, which is the sum of SIF Funding awarded to the Funding Party across multiple Projects. The Funding Parties are responsible for administering the SIF Funding they receive for Projects as per the project administration requirements in the SIF Governance Document.

In accordance with Part E of Condition F2 (Innovation Funding) of NESO's Electricity System Operator Licence, Special Conditions 5.1 and 5.7 of NGT's Gas Transporter Licence, and the SIF Governance Document, the Authority hereby requires NESO to comply with the conditions in Schedule 1, and NGT to comply with the conditions in Schedule 2 to this SIF Funding Direction. Schedules 1 and 2 set out the amounts that are to be transferred by NESO and NGT to Funding Parties and UKRI, together with the manner and timescale over which these amounts will be transferred – see Tables 6 and 8 in the Schedules appended to this letter.

This SIF Funding Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986 and section 49A (Reasons for decisions) of the Electricity Act 1989.

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

Yours faithfully,

Luke Ames Blackaby

Head of Innovation Hub

Signed for and on behalf of the Authority

Schedule 1: Funds to be transferred by NESO

The net amounts of SIF Funding that must be transferred by NESO to recipients

Table 6 contains the net amounts that must be transferred by NESO to Funding Parties, as appropriate, in the Regulatory Year 2026/2027 commencing 1st April 2026 (and subsequent years as appropriate) for the Cycle 6 Discovery, Alpha and Beta phases of the SIF and UKRI's costs of operating SIF.

For the avoidance of doubt, no adjustments for inflation should be made to these numbers. It also sets out the manner and timescale for making payments.

Table 6 – Net amounts of SIF Funding to be distributed by NESO to recipients

Recipient		**Instalment 1 (to be paid within 28 days of publication)**	**Instalment 2 (1st anniversary of instalment 1)**	**Instalment 3 (2nd anniversary of instalment 1)**	**Instalment 4 (3rd anniversary of instalment 1)**	**Instalment 5 (4th anniversary of instalment 1)**
UKRI		£ 623,903	£0	£0	£0	£0
Electricity North West Limited (ENWL)	ENWL	£ 2,364,935	£ 1,887,842	£ 1,433,705	£ 1,498,147	£ 3,736
National Grid Electricity Distribution (EMID): East Midlands Plc	EMID	£ 549,049	£0	£0	£0	£0
National Grid Electricity Transmission Plc (NGET)	NGET	£ 1,681,923	£ 1,858,646	£ 1,406,463	£0	£0
Northern Powergrid (Northeast) Plc (NPgN)	NPgN	£ 198,237	£0	£0	£0	£0
Scottish and Southern Energy Power Distribution (SHEPD): Scottish Hydro Electric Power Distribution Plc	SHEPD	£ 757,580	£0	£0	£0	£0
Scottish and Southern Energy Power Distribution (SSEPD), Southern Electric Power Distribution Plc	SSEPD	£ 365,504	£0	£0	£0	£0
Scottish Hydro Electric (SHE) Transmission Plc	SHE	£ 653,988	£0	£0	£0	£0
UK Power Networks: Eastern Power Networks Plc (EPN)	EPN	£ 200,000	£0	£0	£0	£0
Total net amount of SIF Funding to be transferred by NESO to recipients		**£ 7,395,119**	**£ 3,746,488**	**£ 2,840,168**	**£ 1,498,147**	**£ 3,736**

The net amount that NESO must retain for its own SIF Projects

Table 7 – Amount that NESO must retain for its own SIF Projects

Recipient	Funding party	Instalment 1 (to be paid within 28 days of publication)
National Energy System Operator	NESO	£ 200,000

Schedule 2: Funds to be transferred by NGT

The net amounts that must be distributed by NGT to recipients

Table 8 contains the net amounts that must be transferred by NGT to Funding Parties, as appropriate, in the Regulatory Year 2026/2027 commencing 1 April 2026 (and subsequent years as appropriate) for the Cycle 6 Discovery, Alpha and Beta phases of the SIF and UKRI's costs of operating SIF.

For the avoidance of doubt, no adjustments for inflation should be made to these numbers. It also sets out the manner and timescale for making payments.

Table 8 – Net amounts to be distributed by NGT to recipients

Recipient	Instalment 1 (to be paid within 28 days of publication)
UKRI	£50,187
Southern Gas Networks plc (SGN)	£ 594,862
Total net amount of SIF Funding to be transferred by NGT to recipients	**£645,049**

The net amount that NGT must retain for its own SIF projects

Table 9 contains the net amount that NGT must retain for its own SIF Projects in the Regulatory Year 2026/2027 commencing 1st April 2026 (and subsequent years as appropriate).

For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

Table 9 – Net amount to be retained by NGT for its own SIF projects

Recipient	Funding party	Instalment 1 (to be paid within 28 days of publication)
National Gas Transmission Plc	NGT	£616,558

Schedule 3 – Instalment breakdown by Licensee

NESO

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	Innovation Challenge 4 Innovation Charter	£200,000
Total of SIF Funding for Projects due to network licensees			**£200,000**

NPgN

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	BFIIT - Bradford Flexible Industrial Infrastructure Transition	£ 198,237
Total of SIF Funding for Projects due to network licensees			**£ 198,237**

EMID

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	Innovation Challenge 5 Innovation Charter	£ 199,861
Discovery	Electricity	SOS RACER (Security of Supply - Revised Approach to Consider Embedded Resources)	£167,822
Discovery	Electricity	Data-Integrated Systems for Power Transmission and Community Heat (DISPATCH)	£ 181,366
Total of SIF Funding for Projects due to network licensees			**£ 549,049**

SHEPD

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	Quantum Inspired Power System (QUIPS)	£134,889
Alpha	Electricity	Grounds for Change	£622,691
Total of SIF Funding for Projects due to network licensees			**£757,580**

SSEPD

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	Roaming MPANs (Roaming Meter Point Administration Numbers)	£166,092
Discovery	Electricity	Innovation Challenge 1 Innovation Charter	£199,412
Total of SIF Funding for Projects due to network licensees			**£365,504**

SHE

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	Innovation Challenge 2 Innovation Charter	£200,000
Alpha	Electricity	RAPID - Routing and Planning through Interoperable Data	£453,988
Total of SIF Funding for Projects due to network licensees			**£ 653,988**

EPN

Project Phase	Sector	Project name	Instalment 1
Discovery	Electricity	Innovation Challenge 3 Innovation Charter	£200,000
Total of SIF Funding for Projects due to network licensees			**£200,000**

NGT

Project Phase	Sector	Project name	Instalment 1
Alpha	Gas	Alpha Quantum optimisation for future gas network design	£616,558
Total of SIF Funding for Projects due to network licensees			**£616,558**

SGN

Project Phase	Sector	Project name	Instalment 1
Alpha	Gas	Green Gas Access - Alpha	£594,862
Total of SIF Funding for Projects due to network licensees			**£594,862**

NGET

Project Phase	Sector	Project name	Instalment 1	Instalment 2	Instalment 3
Beta	Electricity	Design for Live Line Technology Acceleration (DELLTA	£1,681,923	£1,858,646	£1,406,463
Total of SIF Funding for Projects due to network licensees			**£1,681,923**	**£1,858,646**	**£1,406,463**

ENWL

Project Phase	Sector	Project name	Instalment 1	Instalment 2	Instalment 3	Instalment 4	Instalment 5
Beta	Electricity	Net Zero Terrace	£2,364,935	£1,887,842	£1,433,705	£1,498,147	£ 3,736
Total of SIF Funding for Projects due to network licensees			**£2,364,935**	**£1,887,842**	**£1,433,705**	**£1,498,147**	**£ 3,736**