

# Energy UK response to NGENSO's Connections Reform Consultation

28 July 2023

## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

## **Summary**

Energy UK is supportive of the work underway across the industry to improve the connections process and welcomes this consultation. Generally, members support NGENSO's preferred Target Model Option. However, some members have concerns that the proposed annual application windows will create delays for smaller projects with shorter development timescales. There are a number of areas in the proposal which require further detail, and we look forward to working with NGENSO to develop these.

## **Coordination**

Energy UK recognises the benefits of a window to assess connections applications, particularly the opportunity for greater coordination in network design leading to anticipatory investment. However, there will be a large number of parties involved in this network design phase, with schemes interacting over different timescales, so it is important that roles and responsibilities are established so that they can coordinate effectively. This includes events such as CfD allocation rounds and seabed leasing rounds, operated by LCCC and the Crown Estate respectively. This is further complicated by the introduction of the Future System Operator, and the yet to be seen impacts of a net zero duty on Ofgem, which is expected as part of the Energy Bill. Where there are new bodies, or new responsibilities for

existing bodies, it is important that they are sufficiently resourced and upskilled to carry out their duties.

Of particular importance is coordinating network design with the establishment of planning consent. If these two processes remain completely independent, projects will have to wait until they have received their connection offer before seeking consents, leading to longer connection times. However, if network planning can be given weight in Planning law, as proposed in NGET's 'Delivering for 2035'<sup>1</sup> report, both consents and connections could be accelerated.

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<sup>1</sup> <https://www.nationalgrid.com/national-grid-sets-out-urgent-reform-energy-transition>

## Consultation Questions

*1. Do you generally agree with our overall initial positions on each of the foundational design options and key variations? Are there any foundational design options or key variations that we should have also considered?*

Yes, Energy UK largely agrees with the views presented on the foundational design options and key variations. In particular, we agree that capacity auctions should not be considered further.

Whilst we don't necessarily support variations that involve changing existing roles, there needs to be greater coordination between parties at the transmission/distribution interface when customers seek connections. The current process is slow and opaque, and the reforms in this consultation do not go far enough to address this issue.

*2. Do you agree with our initial view that the current issues with the connections process could potentially be addressed on an enduring basis through other, less radical, and lower risk means than the introduction of capacity auctions?*

Yes, Energy UK agrees that capacity auctions should not be introduced as part of these reforms. Such auctions would create greater risk to investment.

*3. Do you agree with our initial view that the reformed connections process should facilitate and enable efficient connection under either a market-based (i.e. locational signals) or 'centralised' deployment approach (or an approach somewhere between the two), but not mandate which approach to follow?*

Yes, we support the view that the process should remain flexible to market-based and centralised approaches. Energy UK would likely support a combination of the two, where assets that are deemed essential by the ESO for system security could be planned more centrally, with other deployment left to the market. This would follow the example of the ESO's pathfinder projects, which were granted special capacity in specific regions.

Energy UK would not support a move to a completely centralised approach. Given the extent to which the FSO or any other central stakeholder is remote from the economics of renewable generation and flexibility projects, we are concerned that centralised deployment of connections would not best enable delivery of decarbonisation targets, the investment for which will come from the private sector.

*4. Do you agree with our initial recommendation that TMA A to TMA C should all be progressed, irrespective of the preferred TMO?*

Yes, we support these reforms to the pre-application process, which should be fast-tracked as a quick win, particularly TMA A. From member experience, pre-application meetings are often required because there's insufficient information available to applicants, so improving accessibility to this data should be a priority. Any further reforms to increase the barrier to entry for pre-application meetings should be dependent on greater data provision.

*5. Do you agree with our initial recommendation on the introduction of a nominal Pre-Application Stage fee, discounted from the application fee for customers which go on to submit an application within a reasonable time period?*

Yes, introducing a pre-application stage fee would go some way to reducing speculative applications. The level of this fee should ensure cost reflectivity and commitment to the process without presenting a barrier to effective competition.

*6. Do you agree with the importance of the TMA A 'Key Data'? Please provide suggestions for any other key data that you suggest we consider publishing at Pre-Application Stage.*

Yes, we consider TMA A important. Whilst greater data provision is always welcome, we would encourage ESO to start by seeking quick wins in this area, before moving on to more ambitious reform. The TMA A key data, such as capacity data, visualization of enabling works and the transmission queue must also be made available to projects connecting at distribution level that could have a transmission impact. One of the main frustrations faced by embedded generation (EG) projects expecting to fall under "Statement of Works" is lack of good quality data.

A further area on which ESO could provide data is on available capacity on local private networks. For example, where an industrial site is no longer using all of its allocated capacity.

*7. Do you agree with our initial recommendation with regard to TMA D (requirements to apply)?*

Yes, a Letter of Authority is a sensible requirement to apply. Whilst this is not a particularly high barrier to entry, we agree that it would not be appropriate for projects to have received planning consent at the application stage. This requirement would also be consistent with the queue management milestones being established under CMP376. Energy UK would welcome some detail on how ESO plan to confirm Letters of Authority are valid with the relevant landowner.

Further requirements could include the provision of plans for project financing, and evidence of technical and financial capacity to progress the relevant project.

*8. Do you agree with our initial recommendation with regard to TMA E (determination of enabling works), including that it is right to wait until the impact of the 5 -Point Plan is known before forming a view on whether further changes to TMA E are required?*

Energy UK is particularly supportive of TMA E4 – Anticipatory Investment, and welcomes its inclusion in ESO's preferred TMO. That said, as noted at the top of this response, it will be key to coordinate across the parties involved in the planning process that will result in anticipatory investment, and that such planning must tie in with the establishment of planning consents, to ensure these reforms are as effective as possible.

*9. Do you agree with our initial recommendation with regard to TMA F (criteria for accelerating 'priority' projects)?*

Yes, Energy UK supports the recommendation to pursue TMA F1-3, and agrees that TMA 4 would not be appropriate. However, acceleration of priority projects shouldn't be at the detriment of existing projects in the connections queue. As such, we welcome the introduction of a backstop date in TMO4, but require further information on these dates. Members have raised concerns that connections may regularly default to this date, so require assurances that they will be more ambitious than current connections timescales.

*10. Do you agree with our initial recommendation with regard to TMA G 10 (queue management)?*

Yes, Energy UK welcomes the introduction of queue management as laid out in CMP376, and agrees with the reservations about a move to Proactive Queue Management. As above, acceleration of priority projects shouldn't be at the detriment of existing projects in the connections queue. Members are disappointed with the time Ofgem are taking to approve CMP376, given that it is a key enabler of connections reform and Ofgem have been involved throughout the Modification process.

*11. Do you agree these four TMOs present a reasonable range of options to consider for a reformed connections process?*

Yes, Energy UK believes the four TMOs are appropriate.

*12. Do you think any of the four TMOs could be materially improved e.g. by adding, removing or changing a specific aspect of the TMO? If so, what and why?*

Energy UK would welcome consideration of more regular application windows in TMO4. This would give the benefits of treating applications on a batched basis, whilst mitigating the negative impacts of long waits between windows, which could introduce risks to project timelines and investment decisions.

In addition, including additional gates in TMOs 2-4 could more effectively promote projects through the process based on their readiness to connect.

Finally, some members have questioned the value to developers of providing a 'backstop' Connection Date at the 'first offer' stage. We would encourage NGESO to make this connection date as accurate as possible, based on existing network design work and applicants' preferred connection dates.

*14. Do you think 'Submit Consent' is too early for Gate 2 in TMO2 to TMO4? If so, what milestone should be used instead and why?*

Energy UK understands that 'Submit Consent' actually refers to 'submission of planning application' and the language should be changed to reflect this more accurately.

Some Energy UK members suggest that it would be worth further consideration of securing Planning Consent as the Gate 2 milestone. We recognise this milestone would help to ensure that NGESO / TO resources are targeted on the connection of well-progressed projects. However, this should only be the case if the ESO / TOs can provide confidence that preliminary work will start on the connection prior to Gate 2. The new CMP 376 project

development milestones (once implemented) will provide clear indicators which could be used by TOs as an early signal of commitment to justify early phase studies.

Other members suggest that securing planning consent as the Gate 2 milestone would create risks and costs for the developer. This is due to the existing planning regime, where developers have three years from the time of approval to utilise a project's planning permission by beginning construction. Even if an earlier connection date is offered, there is still the risk that it will not be early enough, and the planning permission expires.

The developer would have to fund the planning application, which can easily cost £0.5m to £1m, with no certainty that NGESO will offer an earlier connection date. In the case that the planning application expires, the process would need to be repeated, wasting resource for all parties involved.

Other milestones that could be considered:

- **Agreement of Heads of Terms** with the landowner, as an additional later milestone on top of the Letter of Authority provided with the application, to show that the project has completed negotiations and secured the land.
- **A financial health check** for the project demonstrating that the developers have access to funds or a letter from the parent company's CEO confirming intent to fund the project will be funded.
- **Securing Planning Consent** could be used as an additional Gate 3. This aligns with milestone M2 in CMP376.

*15. Do you agree that TMO4 should be the preferred TMO?*

Yes, we agree that TMO4 offers the most benefit. That said, some members developing smaller projects have concerns on how annual windows could stifle the development process and we would welcome some further information on each stage of the process, as detailed at the beginning of this response. NGESO could consider a 9-monthly window, with the ultimate objective of increasing frequency to 6-monthly once the process has been properly established.

Currently, submitting a planning application is the criteria for reaching Gate 2 in TMO 4. Energy UK would welcome some consideration of whether this incentivises projects to rush this stage of the process in order to get a position in the queue, leading to sub-standard planning applications, or whether technology types that find it easier to obtain planning permission are unduly favoured. We would also welcome consideration of whether submission of planning consent is an accurate indicator of how likely a project is to progress to energisation.

Some members also have concerns that ESO will struggle to resource pre-application meetings if they are to take place in a smaller window of time. That said, we recognise the improvements represented by TMA A will go some way to reducing the resource burden of the pre-application process.

With regard to Stage 2 projects, our understanding of the TMO4 process is that it will allow for dynamic queue management only when all developers within a connection window batch keep their long stop date for connection. We are concerned that this inflexible approach to queue management could lead to unnecessary delays and non-cost reflective connection charges. This will give rise to circumstances where shovel ready projects may be able to energise sooner than others ahead of them in the queue, but because those in front were

from an earlier application window and their long stop date cannot be moved, these shovel ready projects would be delayed or paying for network upgrades justified on grounds of projects that are not shovel ready. Some consideration should be given to the queue management of stage 2 projects going forward, and what criteria should be considered.

*20. Do you have any views on the appropriate mechanism to incentivise accurate forecasting of requirements and avoid more RDC than is necessary being requested by DNOs?*

Energy UK supports the concept of Reserve Developer Capacity in principle, however, we have a number of concerns over how it will be developed and implemented, including how DNOs establish the required capacity, and how they are incentivised to ensure it is accurate. This could particularly impact distributed generation, with this impact compounded by the annual application window cycle. Energy UK members would benefit from some case studies of how RDC might work in practice, particularly in edge cases, for example where a developer could choose multiple distribution connections rather than a single transmission connection for their asset.

In general, members would encourage the ENA's Strategic Connections Group to engage more readily with industry, particularly if they are going to be responsible for implementing key areas of connections reform.

*26. Do you agree with our views on network competition in the context of connections reform, including that TMO4 is the option which is most aligned with network competition as it includes the most design time at an early stage in the end-to-end process?*

Energy UK agrees that TMO4 would work well with a 'late competition' version of network competition, where developers compete to build aspects of an already well-defined system. It would work less well for 'early competition', given the difficulties already identified with coordinating multiple different bodies in network planning.

*28. Do you agree with our current views in respect of the implementation period?*

Energy UK welcomes the ambitious timeline. In order to achieve this timeline, it will be key for Ofgem to expedite the necessary licence and code changes. We would welcome a commitment to do this in the Connections Action Plan in September. Ofgem should also dedicate sufficient resource to this process, particularly given that they are already pushing back timelines for Code Modifications, including CMP376, which is a vital enabler of connections reform.

*30. What further action could Government and/or Ofgem take to support connections reform and reduce connection timescales, including in areas outside of connections process reform?*

- Reform of planning and consents
- Streamlining of regulatory processes and better resourcing of Ofgem and environmental regulators
- Apply a net zero test to all regulatory bodies and the FSO

- Consider expansion of competition across networks.
- Establish strategic spatial planning to create a strategic approach to coordination and delivery of infrastructure across the UK in line with Net Zero 2050.
- Introducing greater transparency to the connections process