

7 May 2024

Re: Update on reform to the electricity connections process following proposals from the ESO

Dear Peter,

Energy UK welcomes work to implement the CAP is progressing and remains confident that the TMO4+ proposal, along with other proposed reforms, holds real potential to reduce the delays seen recently in the transmission connections queue. This reform in isolation will not be enough to meet the objectives of the CAP, however, but by advancing projects that display a greater readiness to connect, Energy UK agrees that real potential exists to accelerate the connection queue process. Further work over the rest of this year to refine and implement the necessary code reforms will require significant resource from Ofgem, the NESO, and wider industry if the intended timelines are to be delivered.

Much work remains outstanding before this can be delivered, and there are some areas of concern that the NESO and Ofgem must address for the CAP to succeed. As TMO4+ is progressed, we would welcome full engagement with wider industry outside of the existing stakeholder groups to ensure that all stakeholders are able to fully engage with the proposal before the code modification process begins.

It would also be welcome to see further discussion and development of solutions focussing in the following key areas:

1. Coordination with the SSEP, REMA, network charging reform and other workstreams

More transparency is required regarding the coordination of connections reform and changes including but not limited to the SSEP and CSNP, REMA, Energy Code reform, planning reforms and network charging reforms. To deliver the required mixture of technologies for a net-zero, secure energy system at a competitive cost to consumers, policy and regulatory clarity must be delivered as early as possible to minimise the risk of legal challenge and give investment confidence.

Ofgem could mitigate some of this concern by looking to develop the principles of the connection process in line with the SSEP, and with full consideration of the results of the ongoing REMA consultation process. At the very least, such a measure would provide guidance for connection applicants while the SSEP is developed. Such guidance could effectively act as a 'bridge' between existing business plans and a future where they are based on the SSEP and CSNP.

More specifically, planning reform and funding will need to be addressed to better enable delivery of the accelerated queue and increased network build-out needed to address the additional capacity required. Increased requirements for land rights for projects to advance to Gate 2 will lead to rapid acceleration in the number of projects seeking planning permits from local authorities at a time when these organisations are not sufficiently staffed or resourced to rapidly progress such applications.

Energy UK also notes the emerging workstream within Ofgem on an end-to-end review of connections incentives, obligations and requirements that they are undertaking alongside Baringa. We know Ofgem intend to engage industry regarding needed reforms they can raise in order to remove barriers to connection. Energy UK and its members are keen to input in Ofgem's work here and understand how this workstream will interact with the connections reform process.

2. Wider reform

- a. Bay reallocation/sharing: There is potential to enable projects connecting to the transmission network to share substation bays or reallocate ownership, to reduce the cost of grid extension and reinforcement works. We recommend that the ESO explore modelling the potential savings from this measure with a view to assessing whether the impact is such that this workstream is worth prioritising. However, there remain a number of questions that require clarification. These include the need to clarify definitions on the boundaries between the differing parties and which assets they own 'behind the gate', the exact process by which bays are reallocated, and how cost is allocated between parties should ownership of a bay be reallocated when works are incomplete. There is also a need to consider the potential for speculative projects to game the system by using their position in the queue to charge extortionate rates for bay reallocation / sharing, given the state of the queue. Any reform involving this workstream will require amendments to the CUSC (particularly CUSC 12.2.1) and further work on the standardisation of bay design principles.
- b. Potential impacts on firm connection dates for other customers. While Energy UK welcomes the intention to vastly accelerate the connection timelines and reduce the delays seen to firm connection dates, it is concerning to see a heavy reliance on non-firm connections with a lack of clearly defined limitations and guardrails to ensure that these offers do not simply result in a more complex business model for connecting parties and a more strained energy system. Clear timelines for when a connection becomes firm and how much reliance on firm connections is deemed acceptable before rapid network reinforcement is mandated would be welcome additions to ensure non-firm connections do not become the standard.

There have also been reports from some Energy UK members that flexible technologies, for example energy storage, have had connection applications privileged over other applicants. While this is intended to accelerate the queue for all connecting parties by ensuring the system can continue to connect more assets, in some cases this prioritisation has pushed back the firm application dates of other applicants by months or even years. Indeed, following the introduction of CM376, some members have reported that it is easier for batteries to meet the new milestones for connection. Given that there are 96 GW of batteries currently seeking connection, far beyond what it is expected the network will require by 2035, serious consideration is needed to how batteries meeting the milestones fit with the upcoming SSEP compared to other assets seeking connection. While it is not yet clear which recent changes to connection process appear to be causing this challenge, it likely has something to do with the workstream to reform the treatment of BESS connections, especially non-firm connections. This appears to be becoming increasingly frequent, and further consideration of unintended consequences of these actions should be delivered as part of the workshops to implement code reform concerning the treatment of flexible assets.

- c. Work on Transmission/Distribution boundary clarification and queue enhancement. Energy UK is pleased to see work progressing on enhancing visibility of capacity availability at the distribution level and understanding its interaction with transmission capacity to enable DNOs to secure and allocate capacity to embedded generation more easily. Nonetheless, the work here is facing a number of roadblocks, namely difficulty in understanding the interaction of forecasting future capacity while the other connection reform processes remain incomplete. Forecasting capacity will remain difficult until further clarity on the specifics of the 'Gate 2' criteria is established, and until much more clarity on the state of the distribution network is delivered. This particular workstream has implications for emerging Regional Energy System Planners. As further policy understanding is developed of the local generation and demand trajectories in coming years, we recommend that the NESO and Ofgem give greater priority to this workstream and consider its implications on other workstreams relevant to distribution network build-out and the SSEP.
- d. Concerns regarding the adaptiveness of the reformed connection agreement criteria. The use of measures of financial viability and land use rights provides a solid basis for reducing congestion in the queue. However, concerns remain regarding the level of flexibility of the connection agreement criteria once implemented. Given the uncertainty of how the current CAP

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workstream will interact with the SSEP and REMA, the financial viability of a connection remains subject to significant uncertainty. There are similar concerns from projects proceeding regarding the treatment of existing contracts, liabilities and securities once the new agreement criteria are implemented. The ESO working groups should seriously consider this risk when designing the reformed connections agreement criteria and the treatment of existing contracts and must include engagement with a wide range of stakeholders to ensure both investor certainty and fair treatment of all technologies.

In the coming months, an enormous amount of work must be delivered to engage industry beyond the CPAG and CDB membership, and to implement the necessary code reforms. It will also be essential that the STC and CUSC working groups covering connections reform are closely integrated and are able to make proposals or counterproposals to recommendations from either workgroup.

Energy UK will continue work to support that engagement and coordination wherever possible.

Yours sincerely

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