

6<sup>th</sup> May 2024

Ofgem  
10 South Colonnade  
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London  
E14 4PU

**RE:** Microsoft's response to Ofgem letter on the update reform to the electricity connections process following proposals from the ESO

## Introduction

Microsoft appreciates the opportunity to offer these comments on the Letter published by Ofgem on 19 April 2024 on the updates to the electricity connection process proposed by ESO. In the sections below, we provide Ofgem with our perspectives on the proposed changes.

As previously mentioned in our reply from July 2023 to the stakeholders' consultation by ESO on the connection reform, Microsoft acknowledges the need for the ESO and key relevant stakeholders like Ofgem to address the challenges currently experienced in delivering new connections in a timely manner. Due to the large number of applications and projects received by the ESO, which is ever growing with time, Microsoft observes increasing connection delivery timelines.

The UK Government has set out very clearly its ambitions to being a global centre of AI. But without sufficient power capacity realising this ambition will not be possible. Hence, we welcome the opportunity to continue engaging in constructive discussions on how to improve the overall process. We want to continue collaborating with the ESO, as the resolutions require a coordinated and strategic long-term approach to address broad system needs (i.e., network growth, decarbonisation, and system resilience) and, as demonstrated by ESO, the ability to adjust aspects and details of the reform through time to ensure its effectiveness.

We are aligned with the goals and the purpose of TMO4+, particularly with the necessity to (1) apply the features of the connection reform to projects already in the queue, and (2) address the backlog of connection requests which is hampering the ability of projects to advance based on their readiness.

It is also important to underline that decisions on projects that will be granted connection in the 2030s are now being taken, therefore consultation with the industry, especially on selection criteria and strategic alignment with other policies, is fundamental to make sure that projects that are already in the queue are still viable as well as the way TMO4+ gets implemented.

On the following pages, we provide comments on four specific points.

**Comment 1. Higher entry requirements for Gate 1**

To further optimize the access criteria for Gate 1 and make sure that only customers committed to the realization of their projects can be considered, we support additional entry requirements that include financial-based solutions. For instance, applicants to Gate 1 could be requested to pay a fee equivalent to the renting of the network capacity linked to their project which will then be discounted once the project is given a firm slot in the queue and firm connection date. It is important that the setting up of the financial instrument is a purely financial tool which can be easily set up, to avoid unnecessary administrative steps.

**Comment 2. Timing of Gate 1 and Gate 2 periods**

While we support the general approach behind TMO4+, as we underlined in our previous filing on the topic, the annual application window would create an issue for large energy users with regards to timely decision making on investments.

The way in which the model works can impact a customer's ability to apply throughout the year, as it is based on an annual application window to allow for treating the application in batches. While in the long-term, this may result in a greater visualization of available power and provide certainty of availability, introducing a 1-year window in the medium-term would be too slow in providing investment decision makers with information on power availability.

For instance, developers have time-limited exclusivity on land that allows them to conduct their due diligence (which includes an energy feasibility study). The energy feasibility study is often informed by a response from the network utility (whether it is, for instance, pre-application session, or connection offer). Being limited to an annual application window for Gate 1, and then having to wait for a connection offer, will hamper the due diligence process and create uncertainty with regards to the viability of the project. As the choice (national/international) of their location for investment requires some speed in gaining an understanding about power availability, countries that provide timely energy related information will have an advantage in attracting investment, and vice versa.

We believe that it is crucial that a more frequent Gate 1 application window is put in place that can provide guidance with regards to power timelines and costs. While this might increase the amount of workload for the ESO and NG, this could be mitigated by increasing the entry/application requirements to Gate 1 (see Comment 1). We recommend having a transition phase where the batching and assessment of the applications is done more often to alleviate the sharp growth increase in application volumes. Quarterly-based application periods and/or screenings for Gate 2 would mitigate this issue.

**Comment 3. Strategic criteria to further screen projects for Gate 2**

ESO update to the connection reform refers to the fact that projects may also be deemed by the ESO to have met Gate 2 where they meet specific strategic criteria. We encourage Ofgem to consider a fast-track advancement of the project if it is ready before others. It is important that different industrial representatives are included in the work of defining such criteria, which can be inspired by upcoming work on the Strategic Spatial Energy Planning. To be able to provide accurate feedback, we are available to be involved in the simulation of how the system would impact our projects.

**Comment 4. Impact on projects already in the queue**

While we recognize the need to extend TMO4 to projects already in the queue, it is crucial to provide further clarity on how and when customers will know when projects already in the queue will be assessed for Gate 2. This will contribute to providing more clarity for business decisions that need to be made now for projects that will come online in the next 5 to 10 years.

Additionally, in the spirit of rewarding those projects based on their readiness, it should be made possible that applications that can demonstrate - already today - their readiness be given priority. A transition period may be considered to provide clarity on the first assessment to access Gate 2 and to reprioritize projects in the existing queue based on faster readiness.

Also, if the power timelines of our currently contracted connection schemes could be improved, we would be eager to explore whether we could speed up the delivery of our projects/investments - which have been slowed down due to long power lead times.

We seek to continue investing in cloud, grid, and clean energy technologies in the UK and are willing to contribute to help mitigate the challenges facing the UK electricity system. We are happy to engage in further discussions on this topic.