Peter Bingham
Director, Strategic Planning, Engineering and Technology
Ofgem

By email:
connections@ofgem.gov.uk

7th May 2024

Dear Peter,

Update on reform to the electricity connections process following proposals from the Electricity System Operator

SP Energy Networks (SPEN) represents the distribution licensees of SP Distribution plc (SPD) and SP Manweb plc (SPM) and the transmission licensee, SP Transmission plc (SPT). We own and operate the electricity distribution networks in the Central Belt and South of Scotland (SPD) which serves two million customers, and Merseyside and North Wales (SPM) which serves one and a half million customers. We also own and maintain the electricity transmission network in Central and South Scotland (SPT). As an owner of both transmission and distribution network assets, we are subject to the RIIO price control framework and must ensure that we develop an economic, efficient and coordinated onshore electricity system.

We are supportive of the Electricity System Operator's (ESO's) updated Connections Reform proposal and its potential contribution to the Connections Action Plan (CAP) objectives and vision but await further details on how it is to be developed. This response provides SPEN's current views on the updated Connections Reform proposal and Ofgem's views of next steps, which may be subject to change as details of the proposals are developed. This response is structured to address the questions asked in Ofgem's Open Letter, as follows: Ofgem's Position, Ofgem's view of next steps and whether this proposal goes far enough.

Ofgem's Position

We agree the ESO's TMO4+ proposal sets out a gated process to prioritise connections which are ready to connect. In addition, we cautiously support the ESO's intention for the proposal to take effect from 1st January 2025, mindful of not only addressing the rapidly growing connections queue but also the need to develop the necessary detail behind these proposals. We recognise the scale of the challenge to deliver to this timeline whilst adhering to appropriate governance frameworks and ensuring the ESO, Transmission Owners (TOs), Distribution Network Owners (DNOs) and other stakeholders are given adequate time, ahead of the 1st January 2025 to implement and efficiently embed policies, processes and procedures within our organisations that with little less than 7 months to go live, lack critical detail and are essentially "to be agreed". We therefore call for greater prioritisation of activities across Connections Reform and Connections Action Plan (CAP) actions, in order to make best use of time and finite resources.

We agree with Ofgem that in isolation the TMO4+ proposal will not fully achieve the CAP objective – given the very nature of the challenges are ever evolving and increasing in number and complexity, we would not expect nor believe it to be realistic to expect this solution to overcome the connections challenge by itself. Connection dates are dependent on both the volume of connections and the timely and efficient delivery of network infrastructure. We are supportive of the Transmission Acceleration Action Plan (TAAP) objectives and are actively considering how we can best address this now and in our RIIOT3 business plan.

Regarding Ofgem's expectations of how the TMO4+ proposal will deliver improvements across the CAP actions areas, we will take the opportunity to set out our current views, as follows:

With respect to '**CAP 3.1 Raise Entry Requirements**', we are supportive of the proposed Gate 2 Milestone criteria as a compromise between the certainty of a project delivering and the need for developers to have a connection date and location prior to submission of planning consent. However, we believe entry requirements at Gate 1, under Letter of Authority Phase 1, proposed Phase 2 and with the removal of securities, user commitment and Queue Management Milestones at this stage, do not act as any meaningful barrier to entry. In addition, discussion on the methodology for the network design exercise at Gate 1 and associated application fees have not yet started. A cost reflective application fee at Gate 1 is also unlikely to represent a meaningful barrier to entry. Therefore, we are supportive of financial, and other, instruments at Gate 1, to encourage only viable projects to enter and remain in the connections process. It is also important that these higher barriers to entry are specifically tailored to each technology type so that all projects have a fair opportunity to apply for a connection to the transmission network. Otherwise, we fear that under these proposals we will see an increase in speculative applications at Gate 1, tying up ESO/TO resources and diminishing the value of any investment signals as a result of Gate 1.

With respect to '**CAP 3.2 Remove stalled projects**', we are prepared to continue to work with the ESO, Network Operators and stakeholders on defining the criteria required to ensure projects progress post Gate 1 and post Gate 2. It is important that projects are not allowed to stagnate in the pool of Gate 1 projects never to reach Gate 2, as this risks distorting any investment signals coming from Gate 1's Network Design Exercise which is a crucial tool for TOs to forecast and plan our future network requirements.

With respect to '**CAP 3.3 Better utilise existing network capacity**', across SPEN we have worked hard to fully utilise our existing network capacity, with 10.2GW of contracted and connected projects accelerated under Load Management Schemes (LMS) since 2017. Many of which have benefited from network access ahead of enabling works through Restricted Available Access upon securing planning consent. We have engaged with the ESO on developing the latest Construction Planning Assumptions methodology and are committed to supporting further improvements as part of TMO4+ implementation.

We are working with the ESO and other TOs on the definition of Enabling Works and alignment with the principles set out in Connect and Manage. It must be cautioned that a change to the enabling works definition could have negative consequences for connection dates in Scotland, as outlined in the recent Connection Delivery Board paper on Package 2.

We would welcome feedback from Ofgem on how anticipatory network build identified as part of Gate 1 is best initiated and funded. We look forward to exploring how the gated TMO4+ process can enable network assets to be utilised in an optimal way.

On 'Stimulating competition and contestability for design and delivery of connections infrastructure' we note the recommendations from the Electricity Networks Commissioner's 2023 report that the contestable provision of all strategic transmission assets is unlikely to lead to success and this must be borne in mind, when developing the new connections model. We do not believe that the analysis to date properly accounts for the impact on the supply chain that will be common to all who engage in this process, and there is a strong risk of creating supply chain constraints with real potential for price, cost and manufacturing timescales all increasing - the very opposite of what is needed.

With respect to '**CAP 3.4 Better allocate available network capacity**', we support a move to capacity allocation based on readiness. However, this comes with the implication that smaller, more agile,

distribution and Battery Energy Storage Systems (BESS) are likely to achieve the Gate 2 criteria earlier or at lower cost (where an option is required to secure land) than a larger project. We welcome further consultation on how the readiness criteria can be linked to strategic planning in order to deliver a network that efficiently and cost effectively meets Net Zero requirements.

With respect to '**CAP 3.5 Improve data and processes and sharpen obligations and incentives**', we support the ambition to improve the customer experience and improve consistency between transmission and distribution. With a complex package of proposals now tabled it is imperative that communication with industry throughout the remainder of the detailed design and implementation phases is consistent and clear. Network Operators will require adequate time to train our people and update our systems and processes in order to ensure the customer experience throughout this change is as seamless as possible.

With TMO4+ now only providing indicative offers at Gate 1, this could be considered to be not as favourable to Distribution customers, when compared to the earlier Distribution Forecasted Transmission Capacity (DFTC) proposal under TMO4. DFTC may now not fulfil one of the progress indicators identified in the CAP that "*Transmission works impacts for distribution customers are flagged and understood more quickly*". However, we accept that the move is an unavoidable consequence of the TMO4+ proposal.

With respect to '**CAP 3.6 Develop longer term connection process models aligned with strategic planning and market reform**', we fully support the alignment of the connections process with strategic network plans and electricity market reforms. We welcome further clarity on the scope and timelines associated with CSNP and SSEP, particularly in relation to TMO4+ Gate 1. We would also support Gate 2 criteria linked to SSEP in order to ensure the connections queue is aligned with Net Zero requirements and to help inform a well-balanced network.

Ofgem's views of next steps

We welcome the first joint CUSC/STC working groups in order to ensure TO views are adequately represented in the design and implementation of the new connections process. We stand ready to support the ESO and industry throughout the code modification process to pressing timelines.

We will work with the ESO and Ofgem to develop a clear statement of forecasted benefits in line with the outcomes of the CAP. However, there is a risk that the acceleration of connections will be limited as most connections will remain behind, and reliant on, critical enabling works. Also, that the new queue continues to grow to be vastly in excess of Net Zero requirements before more stringent Gate 2 criteria can be introduced.

In addition, further consideration must be given to the timing of the re-assessment of the existing contracted background that has met Gate 2 criteria and the start of the new connection process. This is to ensure that new applicants are given the best possible connection dates on first asking, by first fully determining the new network background. The number of projects capable of meeting the Gate 2 criteria by the chosen deadline and the draw of not only having an option of an earlier connection date, but also the potential removal of some securities and liabilities, should not be underestimated. Conversely, careful consideration will need to be given to any negative consequences which could fall on projects which choose to stick with their current contract.

We agree on identifying and understanding the risks associated with this proposal and think coordinated risk management should be introduced immediately between the ESO and TOs, including where appropriate the ENA/DNOs. This will improve transparency, communication and prioritisation during the detailed design and implementation phases.

We also support a clear impact assessment conducted with engagement from the TOs and DNOs.

We acknowledge the huge effort the ESO has made to rapidly deliver these enhanced TMO4+ proposals and welcome further consultation with networks owners, wider industry and connection customers going

forwards. It is imperative that, on the connections reform project, the TOs and DNOs are given sight of detailed implementation plans and material in sufficient time to be able to act on them.

We agree with Ofgem's position that the ESO will need to identify and recommend any regulatory and legislative changes required as soon as possible to enable or mitigate any identified risks with the proposals.

With respect to a robust options development and implementation plan, we feel there is a need for immediate clarity and prioritisation of activities in order to ensure adequate time for process implementation.

Furthermore, considering contingency options it will take time for the impact of these proposals to be assessed. As an example, Ofgem have requested an assessment of the impact of applying Gate 2 to the whole queue by September 2024 to align with the code modifications. Therefore, with limited time and resource between now and implementation, it is important to maintain sight of what can be delivered and what actions will deliver best value.

We welcome further communication from the ESO to stakeholders and Ofgem's continued public support for the proposals.

Does this proposal go far enough?

Q. Are there any other proposals you would like to see brought forward as part of, or alongside, this reform to achieve the aim of significantly reduced connection timescales?

Addressing the Number of Applications

A key contributor to increasing connection timescales is the volume of transmission connection applications being received, which have reached record levels, with the connections queue growing at >20GW a month for the last 12 months. For context, SPT processed almost 800 in-area and affected area applications in 2023, an 80% increase on 2022. Right now, this creates additional challenges around the complexity and processing of connection applications to challenging license timescales, which are no longer appropriate for the volume of connection applications being submitted on a monthly basis. Unfortunately, the TMO4+ proposals do nothing to address this problem. Application windows at Gate 1 and Gate 2 provide the opportunity for a more coordinated network design, but risk creating additional challenges and bottlenecks. Growing pressure on TO and DNO license timescales and the recent extensions associated with the ESO and NGET's two-step offer process is proof that finite resources cannot deliver an excessive volume of work in a fixed time period.

Therefore, as part of the proposed impact assessment, we feel it is imperative that the new process is first modelled based on recent application numbers. With the ESO, TOs and DNOs capacity to deliver against what is proposed, then confirmed. There should also be contingency plans ready if the number of connection applications exceed those expected.

Ahead of connections reform being introduced, and in order to allow finite resources and time to be focused on the work necessary to introduce these new proposals, the ESO and network operators need adequate time this year to undertake the code modification work and detailed network planning work, whilst also reviewing existing processes to support the final agreed connections model. Consideration must therefore be given this year to a shortterm moratorium from the processing of connections applications. We are therefore proposing that a paper outlining the benefits and disadvantages of introducing a connections applications moratorium this year is presented and discussed at the next Connections Deliver Board meeting.

Raised Barriers to Entry

We have supported the introduction of a Letter of Authority and the Gate 2 Milestone criteria as additional barriers to application and queue entry at transmission. However, at Gate 1 the TMO4+ proposal removes securities, user commitment and Queue Management Milestones with as yet no detail on fee structure or additional instruments to encourage only viable projects to enter and remain in the process. Therefore, we welcome further discussion on what financial or other commercial instruments can be used to ensure our resources are targeted at the projects which will progress and subsequently connect. Whilst we understand that the developer community may have reservations and concerns here, it is equally important that the market ensures that viability and the associated requirements that are required to measure that (at the earliest possible stage) are carefully introduced to ensure both (i) projects that enter the market will actually participate and (ii) design and planning functions can proceed with more certainty and ultimately reduce artificial or superfluous cost that may ultimately find its way onto consumers bills.

We also support the CAP action to prevent any duplication of applications across Transmission and Distribution, which again is important to manage the finite number of resources available to manage transmission connection applications and contracts.

Obligations and Incentives

Q. What obligations and incentives for the ESO and network companies would you like to see introduced alongside, or a part of, the TMO4+ proposal, to ensure the intended outcomes of better customer experience and timely connection dates are delivered?

We are strongly of the view that reform to the RIIO-T2 connection related incentives is needed as the TMO4+ proposal will bring meaningful change to the current connections process. The incentives need to drive the right behaviours from TOs, DNOs and the ESO. The current incentives focus on processing large volumes of connection applications to unrealistic licensed timelines. Instead, in line with the drivers of the Connections Reform work, the focus should be on delivering coordinated solutions which bring both network and wider consumer benefits. This should include a focus on managing the transmission and distribution connections queues and the potential for spatial planning to signal where there is network requirements and an opportunity to connect, which is a move away from the current developer-led approach.

The Timely Connections Incentive is no longer fit for purpose and should be removed or undergo significant reform to align with the TMO4+ process. The current RIIO-T2 Timely Connections Incentive focuses on incentivising TOs to process large volumes of applications to very short, licensed timescales. These timelines are unrealistic given the volume of applications which TOs are currently processing, reflecting the current industry appetite for transmission connection offers. As highlighted above, SPT processed an almost 80% increase in transmission connection applications from 2022 to 2023.

The Timely Connections Incentive also places a strong emphasis on delivering connection dates which are as close as possible to those requested by the customer. In this regard, we must acknowledge the CAP ambition for transmission connection dates to be no more than 6 months beyond the date requested by the customer. Whilst TOs always endeavour to do what they can to meet customers' requests, the customers' connection date requests can at times be highly unrealistic, particularly considering the current challenges across the GB transmission network, given current the >700GW connections queue. Our expectation would be that with the development of more self-service tools, customers will be equally well placed to justify realistic connection date requests.

The focus of Connections Reform is to move away from the current practice of processing large volumes of connections applications to unrealistic licenced timescales. Instead, in future, the focus of the reformed regime will rightly be on designing coordinated and costeffective connections offers, delivering benefits to developers, the network and consumers alike. We are therefore strongly of the view that continuing to be incentivised to add large volumes of new capacity to the current transmission queue as quickly as possible is counter to the objectives of Connections Reform.

SPT believe that the Quality of Connections Survey Incentive should be maintained as it is especially important that TOs get feedback from customers' direct experiences of working with the TOs throughout the connections process. However, the current incentive will need to be adapted to reflect the new TMO4+ process. In light of the implementation and management of queue management milestones and the introduction of new barriers to entry there is a clear risk that the measurement of customer satisfaction during this period is going to be difficult. We expect many customers to be frustrated with wider industry reforms to the connections process that are not a reflection of the TOs' actual customer service, and it will be important that such frustrations are not inappropriately channelled at the TOs, through the Quality of Connections incentive.

This is a particular risk given that the ESO is currently not subject to its own Quality of Connections incentive, so customers do not have the opportunity to share their connections related feedback directly on the ESO, a key player in the connections process and with whom customers hold their connection offer. Instead, we are seeing on a number of occasions that customers are instead directing their frustrations with the ESO, and its connections process, at the TOs, through the Quality of Connections survey. This is having an impact on our Moments that Matter scores within this incentive.

Going forward, should Ofgem choose to retain a Quality of Connections incentive, it will be important that the ESO is also held directly accountable for its own actions as a key player in the connections process. SPT suggest that the ESO should be subject to a reputation only version of the Quality of Connections Survey Incentive.

Additional Criteria Beyond Readiness

Q. Do you believe additional criteria beyond readiness are needed to deliver (i) security of supply; (ii) system efficiency; (iii) strategic network plans; and (iv) the energy mix GB needs to meet net zero? (See Annex A, point CAP 3.6)

We believe that readiness should not be the only criteria used to define a connection date. Having met readiness criteria, where a project's technology and/or location is judged to provide a network, Net Zero or consumer benefit, that project could be prioritised. The TMO4+ proposals already include provision of a Priority Projects policy which could be developed to help deliver additional security of supply and system efficiency benefits in future.

We are strongly of the view that strategic planning should inform future network build and be linked to the availability of connection contracts in the future. This will be required to move to a process led by anticipatory investment, removing network build from the critical path. As stated above, it is important that the development of the Strategic Spatial Energy Plan (SSEP) and Centralised Strategic Network Plan (CSNP) are considered with the development of the Gate 1 Network Design Methodology, and that all align from their individual implementation. SSEP driving what can be built and where and CSNP used to determine future network requirements.

In addition, the SSEP could inform technology and location specific Gate 2 criteria and CSNP system critical priority projects in future. These aspects will be required to ensure Net Zero targets are met. We are also conscious of the risk to investor confidence of applying one set of Gate 2 criteria now, only for this to potentially be revisited in future, with greater cost to project developers and TOs. The future impact of any decision should be considered carefully.

We thank you for the opportunity to provide our views on the latest Connections Reform proposal. If you wish to discuss our response, please do not hesitate to contact me. In the meantime, SPEN will continue to work closely with Ofgem, government, the ESO and industry players as we further support the development of these important connection reform proposals.

Yours sincerely,

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[redacted]

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