

6th January 2025

Dear Electricity Connections team,

Re: Connections Reform - Policy Consultation on Required Licence Changes

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc, collectively known as “NGED”, in response to your Connections Reform - Policy Consultation on Required Licence Changes, which ran from 27 November 2024 to 6 January 2025.

Thank you for giving us the opportunity to respond to your consultation on proposed licence changes to enable TMO4+ Connections Reform. We attach our detailed response to questions 44-53 and 55 (with our views on the implications for DNOs in questions 11, 14, 18-19, and 21-23).

We wanted to use this letter to provide an Executive Summary of our views and highlight some overarching comments that apply to the wider suite of connections reform that are the subject of recent and ongoing consultations.

The licence framework has a pivotal role to play, alongside codes and legislation, in giving effect to the TMO4+ Connections Reform, whilst mitigating some of the legal and regulatory risks which specifically arise for DNOs. While we support the intent of the proposed reforms and the need for amendments to the TOs’ and the NESO’s licences, we highlight some important aspects that require careful consideration in terms of changes to the DNOs’ licences needed to ensure the overall success of the connections reform programme.

1) It is imperative that changes to the distribution licence progress in parallel with the NESO and the transmission licence changes being considered, and in any case should be completed before the reformed connections process is implemented.

Nearly 60 per cent of GB’s required solar, onshore wind, and battery generation, due to connect before 2035, will connect to the electricity distribution networks. Given this demand, and the increasing importance of the distribution network to the efficient and sustainable functioning of the whole electricity system, we believe that any required distribution licence changes should be implemented at the same time as TOs and the NESO, or at least prior to the reformed connections process being implemented. Implementing the necessary regulatory changes in a timely manner is a key enabler of the Government’s Clean Power Plan 2030 (CP30).

The consultation states that Ofgem is not proposing to make any changes to the DNO licence at this point but is interested in respondents' views on the changes that may be required in the future. While we appreciate that Ofgem is engaging with stakeholders at an early stage of its thinking, any necessary changes to the distribution licence should be completed at the same time as TO and NESO licence changes to avoid asymmetrical implementation and resulting regulatory inconsistencies across the transmission / distribution boundary.

In our response to the recent NESO Connections Methodologies consultation¹, we noted that the regulatory framework, including the DNO licence, should be updated to empower the DNOs to discharge their role in CP30, as envisaged in the connections methodologies. We stressed that swift progress must be made to update the regulatory and statutory framework to enable DNOs to fulfil their network role with the appropriate level of protection.

Implementation of the reformed connections process must not move forward ahead of all regulatory changes needed to facilitate it. Accordingly, we believe it is crucial to ensure that the obligations held at every level of the electricity system are compatible with the reformed connections process from the point of implementation.

In coordination with the other DNOs, and as advised by the ENA, we are currently working through drafting proposals on the changes required within the licence, which we propose to send to Ofgem post submission of consultation responses.

2) We believe Ofgem's Scenario 2 offers greater benefits for customers, whereby DNOs and Independent Distribution Network Operators (IDNOs) will perform both the readiness and strategic alignment checks, before passing connection applications on to the NESO.

We believe that Scenario 2 (para. 5) offers multiple benefits.

Firstly, Scenario 2 is superior from the perspective of deliverability, as it would reduce the resource pressures that NESO would face under Scenario 1, where it would be required to individually assess all distribution projects that will be within scope of the reformed connections process. For instance, we estimate that, in NGED's licence areas, there are approximately 1000 projects exceeding 1MW in the queue, totalling approximately 45GW.

Secondly, Scenario 2 would deliver increased clarity of roles and ownership of the process. To demonstrate this, we consider that under Scenario 1 DNOs/IDNOs would have the responsibility for validating that applicants meet the "Gate 2" readiness criteria, whereas NESO would be responsible for determining if projects align with strategic plans and thereafter informing DNOs/IDNOs which projects are eligible for a "Gate 2" offer. We believe that Scenario 1 arrangements would be inefficient, by segmenting a single process into separate sub-processes and diffusing the responsibility across multiple parties. This increases the risk of not meeting the required deadlines, including those for issuing a connection offer.

Finally, Scenario 2 would be preferable for distribution customers who already have or aspire to have a connection agreement with DNOs. Under Scenario 2, these customers will understand which party is accountable for performing both the readiness and strategic alignment checks, the outcome of which could have far-reaching commercial impacts on these parties. On the other

¹ [Connections Reform | National Energy System Operator](#) which ran between 5 November 2024 – 2 December 2024.

hand, Scenario 1 will introduce avoidable complexities in the process for assessing criteria, and the need for further layers of communications with other parts of the system, which appears counterproductive given the greater visibility DNOs have of their own networks and closer relationships with their customers. We believe, moreover, that Scenario 1 still requires significant DNO input in order to work.

3) Distribution connectees should also receive indicative “Gate 1” offers. This will align the initial stage of the application for a connection at distribution with transmission.

The consultation document states that distribution connectees will not receive indicative “Gate 1” offers, unlike customers directly connecting to the transmission system (para 5.5). Consequently, it is proposed that the initial stage of the application for a connection at distribution will remain largely unchanged. This will result in DNO capacity being held by projects that cannot progress, which in turn could have a knock-on impact to lower voltage customers as this capacity would not be available. For the whole queue to Gate 2 process (CMP 435) this would result in lots of projects keeping firm DNO capacity when it is not required. In addition, for the new application process (CMP 434) it would mean that projects that do not meet the Gate 2 criteria (for either readiness or strategic alignment) would be given a firm DNO offer when that project may never progress any further.

For new applicants, where there is no capacity available or the projects have not met Gate 2, it would be inefficient to send DNO offers as per the current process as this would hold capacity at the DNO level where a project cannot progress. Mirroring the transmission “Gate 1” process would be the most sensible and efficient route for these projects.

We believe that there are good reasons to extend “Gate 1” offers at distribution. This will provide visibility of projects that want to connect but are yet to meet Gate 2. Having similar arrangements across transmission and distribution could provide additional benefits, such as simplicity of regulatory arrangements for developers, and a more level, and thus competitive, playing field across transmission and distribution.

We also note that continuing with the current arrangements in the context of CP30 may lead to a situation whereby a distribution customer may receive a firm offer where there is unlikely to be capacity for new entrants for several years; for instance due to the “grandfathering” of existing projects that will limit the amount of available capacity to be allocated. In such cases, firm DNO offers would be misleading and could cause confusion for customers. Valuable time would also be wasted producing offers that are not going to progress.

In addition to creating inefficiencies, continuing with the current approach could have the undesired effect of exacerbating the challenges for DNOs already inherent in the connections reform programme. For instance, the level of people resource required to manage issues stemming from reordering the existing connections queue should not be underestimated. Bearing this in mind, under the current approach new applications would all need studying, whereas only those that meet Gate 2 would need immediate studying if Gate 1 offers were available at distribution.

For each of these reasons, we see merit in distribution customers also receiving indicative “Gate 1” offers, rather than a firm offer. A firm offer should only be given if the Gate 2 readiness and strategic alignment criteria have been met.

Conclusion

We look forward to working with Ofgem in the next stages of the required licence change work to give effect to the intended TMO4+ Connections Reform.

Should you have any questions about the points raised in this consultation, please do not hesitate to reach out to me using the contact details below.

Yours faithfully,

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