

Centrica plc
Regulatory Affairs
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
www.centrica.com

Akshay Kaul
Infrastructure and Security of Supply
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

16 June 2023

Sent by email to: connections@ofgem.gov.uk

Dear Akshay

Open letter on future reform to the electricity connections process

Thank you for the opportunity to respond to Ofgem's 16 May 2023 open letter on the actions it is taking to shorten average connection times for low carbon generation and ensure these assets can connect to help in supporting net zero, delivering affordability for consumers and maintaining security of supply.

We support Ofgem's findings that urgent action is needed now and agree with the approach set out in the open letter. The key changes we believe are needed are:

- Swift application of queue management milestones to remove stalled projects from the queue. These must be applied to existing as well as future projects.
- Reform of the connections process to ensure only viable projects enter the queue and progression is more closely linked to project readiness.
- Reform of the arrangements for connecting distributed generation projects that have a transmission impact. This process is inefficient, opaque to stakeholders and potentially discriminatory – because distribution projects end up behind projects in the transmission queue that applied months after them. Whilst we believe networks want to improve the transmission-distribution interface, we are concerned that their 'ways of working' to deliver change will either lead to reform stalling or being ineffective.

As our priorities for change very much align with the outcomes and principles in the open letter, our response focusses on points that may need additional attention to ensure Ofgem's objectives are delivered effectively. We've structured the rest of our response below around the sections of the letter where Ofgem was particularly seeking stakeholder views.

Section 1: The nature and priority of connections issues

We agree with Ofgem's assessment of the problem and the case for change.

Queue management milestones for transmission (CMP376)

The ESO has said verbally that the aim of bringing forward connection dates by up to 10 years is only achievable if the industry code change to introduce queue management milestones to electricity transmission (CMP376) is applied to existing contracts. We do not normally support retrospective regulation, but this is an exception. We urge Ofgem to make CMP376 applicable to both the existing queue and future applicants.

Distributed generation connections held back by the transmission queue

The open letter rightly recognises the challenge faced by smaller renewable and flexible generation projects that, whilst connecting to the distribution network, must join the queue for transmission reinforcements. Even small projects of a few MW connecting at distribution level are being quoted connection dates of 10+ years due to transmission works. This is a barrier to Government's objective of increasing solar capacity to 70GW by 2035¹. Solar is the one generation type that is underrepresented in the current connection queue, compared with the ESO FES scenarios². Connection delays are frustrating the development of local solar farms and preventing British manufacturing from using PV to decarbonise their sites and reduce costs. The latter is having a consequential impact on economic growth and jobs.

Section 4: Priority areas of focus for Ofgem / What we can expect from Ofgem

We split our response to cover a) Ofgem's role within current and future connections reforms and b) priority areas of focus i.e., the types of reforms and their broad timing.

Ofgem's role and ways of working

We support Ofgem's role as set out in Figure 1, but Ofgem must:

- Ensure networks improve transparency around option implementation – the SCG work is opaque and the ESO has been sending mixed messages on some topics.
- Be clear and avoid ambiguity when endorsing ESO and SCG initiatives.
- Act quickly and drive further action if industry initiatives stall

Transparency and stakeholder engagement

We support these processes being industry-led, and they must deliver rapidly. We understand Ofgem is engaging closely with the networks on these (ESO 5-point plan, SCG 3-step plan, ESO GB Connections Reform). The networks must also engage with stakeholders, so that the status and detail of reforms are clear to connections customers. Where needed, connections stakeholders should be involved in the development of reforms.

Engagement and transparency for stakeholders around these has so far been mixed:

- The ESO provided early transparency on its 5-point plan, but later this has been patchy on the details of implementation. Distributed generation queuing for

¹ British Energy Security Strategy, April 2022 and Powering Up Britain – Energy Security Plan, March 2023

² National Grid ESO, 'Contracted background vs FES 2035', presentation to UKPN connection stakeholders, 18 May 2023

transmission works has been given mixed, often conflicting messages, on whether it would be offered earlier connection dates from the ESO's review of the contracted background.

- Connections customers have no visibility of the work of the ENA Strategic Connections Group (SCG). The SCG has not held any stakeholder events or webinars – despite stakeholders requesting this. Individual DNOs have engaged separately via their Incentive on Connections Engagement (ICE) forums, and it's clear that there is a lot of underlying detail to the SCG 3-step plan that needs sharing with customers.

Providing regulatory direction – endorsement of industry initiatives

We have seen evidence of Ofgem giving its backing to elements of the short-term plans, such as the ESO's time-limited two-step offer in England and Wales. This has been helpful.

When giving its backing to these short-term initiatives, we need Ofgem to be unambiguous in its directions, especially on complex topics. As an example, we support the aim of Annex D of the open letter on Distribution Queue Optimisation, but we feel this should have given DNOs the explicit ability to manage stalled projects with pre-2017 contracts out of the queue.

Annex D does not give clarity to projects connecting at distribution level on how they can also benefit from the earlier connection dates expected to be offered to transmission customers.

Acting quickly and driving further action if industry initiatives stall

The physical GB electricity network and industry arrangements are highly complex. This must not be used as a barrier to change, especially on reforms to improve coordination at the transmission-distribution interface. To prevent this, we need Ofgem to remain present in industry discussions and step in to drive further action if needed.

The industry set-up shown in Figure 1 has similarities to the ENA's Open Networks Project (ONP). The ONP has had successes – notably the DNO Queue Management Guidelines being used to day – but impetus slowed. Ofgem will need to act quickly if the same happens for connections reform.

Priority areas of focus – including the transmission-distribution interface

We look forward to reading the Government/Ofgem connections action plan later this summer. Based on the Government's draft Strategic Policy Statement and Ofgem's letter we are confident that its contents will be positive.

Government and Ofgem should host a connections roundtable with generators and grid-connections consultants to complement the round table planned for network company leaders.

We believe substantial changes to the current connections application and queue methodology are needed. The immediate priority must be to address the connections queue, by approving CMP376 and ensuring it can be applied to current stalled projects with existing connection agreements.

Reform of the connections process must follow swiftly. To prevent the current situation reoccurring, we agree that new connection applications must be more robust, requiring a project to evidence of land rights and financial backing. Subsequent progression through the

queue should be more closely linked to project readiness. Lessons could be learnt from the UK offshore regime, where the viability and progress of projects is rigorously assessed by its regulator, the North Sea Transition Authority.

Improvements to the **transmission-distribution interface**, including the 'Statement of Works' process must be made as soon as possible. DNOs have been promising improvements to these processes for stakeholders since summer 2015³. Some improvements for the transmission-distribution interface we would like to see that are not covered in the open letter include:

- **Ensuring distributed generation can benefit from the earlier connection dates the ESO expects to be able to offer under the 5-Point Plan** – we've received conflicting messaging on this from the ESO
- **Ensuring DNOs submit Project Progression requests to the ESO in a timely manner**, so that distributed generation does not enter the transmission queue after transmission projects that applied later – pending any broader reforms such as an integrated T/D queue.
- **Transparency for distributed generation (DG) projects on the status transmission works impacting them.** Currently, as the transmission contract is between the DNO and the ESO, distributed generation has no visibility of this. Projects have an account manager at the DNO, but they typically do not have good information about the state of the transmission works.

The Statement of Works/Project Progression progress needs broader reform that has been considered by the networks and Ofgem to date or in the open letter. Differences with direct transmission connection arrangements mean DG projects face considerable financial uncertainties that can make them un-investable. Two examples where we believe change is needed are:

- **New Super Grid Transformer (SGT) Charging.** To enable local net-zero projects there must be reform of the charging methodology for SGT upgrades. The current policy can lead to a single customer being made liable for the full risk and cost of the works. This is unacceptable and inhibits the viability of good net-zero projects.
- We believe an appropriate solution would be a MW% split as a fixed sum (i.e., a 20MW project pays for 10% of the new 200MW SGT).
- **Postcode Lottery for Infrastructure Sites.** The current distinction between Infrastructure and Customer Grid Supply Point (GSP) Sites is fundamentally unfair and creates a "postcode lottery" on the viability of connections. This also inhibits the development of net-zero projects. We believe that the appropriate solution would be to remove the Customer GSP category and utilise the infrastructure charging methodology on all sites.

Looking at distribution connection arrangements in isolation, DNOs also need to do more to standardise applications, and the processes and requirements for grid connections.

³ The ENA established a Statement of Works Working Group as far back as Summer 2015 and connection customers are still waiting for an enduring solution Source: ENA Statement of Works/Transmission Impact Assessment stakeholder workshop 21 September 2017.

Annex A: Proposed objective, outcomes, and guiding principles

We support the overall objective of shorter average connection dates, better meeting customers' needs and enabling a timely transition to net zero.

We agree with the set of reform outcomes that sit under that objective:

- improved network data for applicants
- reforms that deliver swift improvements, especially to connection times
- requiring more robust connection applications and enabling well-progressed projects to proceed
- greater coordination across system boundaries, particularly transmission and distribution.

We agree with the guiding principles in full.

Annex B: The illustrative reform stages and options for consideration

On page 17 Ofgem says “we would expect to see the most significant improvement in connection dates for smaller solar, wind and storage connections, currently impacted by significant reinforcement works on the transmission system.” We hope this will be true, but as already mentioned, we have had very mixed messages from the ESO on how distributed generation could benefit.

We support the stages of reform set out in Figure 2, provided that distribution-connected projects can benefit from the ESO's Stage 1 incremental reforms. The Stage 2 “transmission/distribution interface” improvements must be in addition, not in lieu of Stage 1 benefits.

Stage 3 appears open to considering a range of approaches to prioritisation, and auction-like mechanisms are mentioned as one option. We have concerns that auctions could have unintended consequences if they favour larger companies who could predatorily outbid smaller players. The existence of many smaller renewable developers in the renewables sector is beneficial in seeding the sector with a range of projects for further development. We would not want this lost.

Networks need to be more strategically planned, with attention being given now to integrating newer technologies including flexibility from hydrogen. This is where aspects of Stage 4 may become relevant. A lighter variant of Stage 4 could be the concept of ‘capacity hubs’ as proposed by National Grid⁴.

This response is non-confidential and can be published by Ofgem. If you would like to discuss anything in further detail, please contact me at helen.stack@centrica.com.

Yours sincerely

Helen Stack
Centrica Regulatory Affairs, UK & Ireland

⁴ National Grid Group ‘Delivering for 2023’, May 2023