



Making a positive difference
for energy consumers

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Letter of support to facilitate the processing of the TEC Amnesty

Dear David,

I am writing to express Ofgem's acknowledgement that National Grid Electricity System Operator (NGESO) will not apply the Cancellation Charge to select customers under the Transmission Entry Capacity (TEC) Amnesty – as is typically required under the Connection and Use of System Code (CUSC).¹ The TEC Amnesty offered customers the opportunity to terminate or reduce their TEC, without the Cancellation Charge from their contract applying as it normally would.²

This letter applies only in relation to the relevant customers that expressed interest under the TEC Amnesty during its application window (from 1st October 2022 until 30th April 2023) for which Ofgem has received cost information, and only those which proceed with TEC Amnesty when subsequently offered in writing by NGESO. In any case, Ofgem's support on this is offered only so far as is necessary to achieve the delivery of the TEC Amnesty for those applicable and participating customers (agreed with ESO and TOs to be time-limited until **30th September 2024** to grant NGESO sufficient time to facilitate the processing of

¹ As per section 15 of the CUSC, on User Commitment Methodology: the Cancellation Charge is payable by certain users upon termination of a Construction Agreement or reduction in transmission entry capacity or developer capacity prior to connection, or where there is a reduction in TEC post connection. References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority.

² [TEC amnesty is now closed | ESO \(nationalgrideso.com\)](#).

final sums for all projects under TEC Amnesty) and is based on the proposals as set out in this letter and the letter published by NGESO on 15th August 2023. This end date of 30th September 2024 marks the cut-off point after which the Cancellation Charge will be applied as normal. For avoidance of doubt, this means any projects which have incurred additional spend beyond what Ofgem has reviewed to date under TEC Amnesty – and which have not yet settled on and submitted their final sums to NGESO and Ofgem to review – will be precluded from having this additional spend covered under TEC Amnesty. The existing frameworks will continue to apply beyond this point. We continue to expect that all other licence obligations will be adhered to. Nothing in this letter limits our ability to take action in line with our Enforcement Guidelines where we deem such action necessary.³ No formal derogations have been requested by NGESO in relation to the TEC Amnesty.

We are committed to enable the recovery of the spend to date by ESO and TOs as referenced in the submissions, for projects participating in the TEC Amnesty. This letter in no way limits our ability to later take any action in relation to expenditure efficiency we deem fit where any material error is identified in future on the submissions received under the TEC Amnesty, and to account for any reuse or resale of relevant assets.

Our understanding of the proposals

Under TEC Amnesty, participating customers' (ie those who accept NGESO's offer to Terminate or Reduce their TEC, subsequent to publication of this letter) Construction Agreements will be terminated or will have their TEC reduced prior to connection, which would ordinarily necessitate the levying of the Cancellation Charge on the applicable users.⁴ NGESO proposes that for a limited period until 30th September 2024, it will *not* levy the Cancellation Charge upon projects which have requested to terminate or reduce their TEC under the TEC Amnesty (between 1st October 2022 and 30th April 2023).

Funding the TEC Amnesty will consequently have an impact on other customers' charges in the relevant charging year, since the Cancellation Charge not being administered will mean corresponding costs will be recovered from all users of the transmission network via Transmission Network Use of System (TNUoS) charges.⁵

³ [The Enforcement Guidelines | Ofgem](#).

⁴ As provided for in the User Commitment Methodology and Clause 11.2 of proforma Construction Agreement CUSC Exhibit 3 Part 1 and Exhibit 3A.

⁵ Schedule 8 of the STC: NGESO is liable to pay the TO "final sums" upon termination of any TO Construction agreement – this entails what has been spent/incurred by the TO less any capital items and associated costs the TO wishes to retain. Final sums are recovered through TNUoS **less** what is received from Users via the Cancellation Charge (Transmission Licence SpS 3.1 Part B).

NGESO is obligated to ensure arrangements conform with the CUSC and that it itself complies with the CUSC and the System Operator-Transmission Owner Code (STC).⁶ Failure by NGESO to levy the Cancellation Charge is contrary to the terms of the CUSC and will constitute NGESO breaching its Licence conditions.⁷ NGESO has confirmed it will, aside from the actions set out above in relation to the Cancellation Charge, otherwise follow the existing regulatory framework in the licence and will follow the STC.⁸

The expected benefits and need for TEC Amnesty

The TEC Amnesty is one of the key elements of the ESO's 5-point plan to improve connection timelines and processes and supports our wider work on Connections Reform.⁹ It allows for the timely removal of projects from the connections queue, with the aim of ultimately helping to better optimise the connections process and passing these benefits onto consumers. This will help mitigate delays in connection offers for customers by freeing up additional capacity.

We understand from the information shared with us that the TEC Amnesty is expected to remove up to 8GW of generation (across around 50 projects) holding transmission connection agreements. This therefore represents a clear opportunity to release capacity which is no longer required sooner than it otherwise would be, helping to improve connection timescales for customers.

We understand the urgency with which improvements need to be made to connection timescales. Increasing application volumes (at all voltage levels) are putting greater pressure on systems and processes, which has meant that the number of new connection offers provided by NGESO has grown tenfold over the course of the last five years (and there has been an increase of 80% in the last year alone).¹⁰ The resulting size of the transmission queue is significant, with over 340GW of new generation now holding connection agreements. Further, over 40% of all new generation capacity holding transmission connection agreements today have connection dates of 2030 or beyond (some as late as 2037). These impacts permeate into the distribution network, hinder the growth of new generation and ultimately slow Great Britain's progress to net zero. There is a clear need to take action now to enable the optimisation of the connection queue to deliver

⁶ Transmission Licence SC C10 paragraphs 3 and 9; SC B12 paragraph 9.

⁷ CUSC Section 15 – User Commitment Methodology, Part One, s1.

⁸ TO can recover Final Sums under the TOCA and ESO collects this amount via TNUoS (Special Conditions 3.1 Part B TSt) with adjustment to the cancellation charge collected (Special Condition 3.2 Part A Termt).

⁹ [What are we doing now? Our five point plan | ESO \(nationalgrideso.com\)](#);
[Open letter on future reform to the electricity connections process | Ofgem](#).

¹⁰ ESO, GB Connections Reform - Case for Change, December 2022; ESO Connections Data.

improved connection dates and processes for customers, which we outlined in our open letter earlier this year.¹¹

We recognise that administering the TEC Amnesty has a consequential impact on other customers' TNUoS charges in the relevant charging year (as a result of not applying the Cancellation Charge to select customers) and on the bi-annual process to establish the security placed by customers to financially secure the cost of investment works (select customers will not be required to place security with NGESO before the start of the next security period).¹² Both processes are time critical and have been an additional consideration in our support to facilitate the processing of the TEC Amnesty.

Releasing this capacity from the queue is in the interests of consumers and net zero and is in line with our consumer interests framework. Our support to facilitate the processing of the TEC Amnesty signals our commitment to achieving our objective and desired outcomes for Connections Reform.¹³

Steps taken

To demonstrate that this non-compliance with the CUSC is justifiable, proportionate and in the interests of consumers, NGESO have provided a list of projects to be offered the TEC Amnesty and the costs accrued for each which are based on the TOs' expected Final Sums and recovered through TNUoS. TOs also provided justification for each scheme where the costs incurred were equal to, or greater than, an agreed threshold (£1 million in spend).¹⁴ They were also required to provide a description of the decision-making approach applied in the management of costs to limit the impact of terminations.

We have reviewed the cost information and supporting explanation received in relation to schemes above the agreed threshold and performed a high-level validation of the information provided for all remaining projects (approx. 50 in total). On the basis of what has been received, we have not identified any material errors in the information or calculations provided. We have not taken steps to verify the efficiency of costs incurred

¹¹ [Open letter on future reform to the electricity connections process | Ofgem.](#)

¹² 'Security' is placed by connecting customers and is a proportion of the liability incurred in relation to the works required to facilitate a particular project. Through the bi-annual security process the required security must be placed 45 days before the start of the next security period.

¹³ As set out in our open letter: [Open letter on future reform to the electricity connections process | Ofgem.](#)

¹⁴ The data submission process followed as described here for the TEC Amnesty was administratively similar to the ET1 closeout process. This is a process that, amongst other things, facilitates settlement of mismatches that occur between termination costs and income for projects that terminated during the ET1 price control period, i.e. where receipts are higher than costs incurred for terminated projects across the ET1 period, the difference is returned to consumers (and additional funding where there is a shortfall). Given the low materiality of the forecast settlement adjustment across the ET1 period (<£10m), and to reduce resource burden, an evaluative process proportionate to material claims only was agreed and implemented. Detailed information was required only in instances where the costs incurred were equal to or greater than £1m (2009/10 prices) for terminated schemes.

under TEC Amnesty; however, the data has been processed accurately and the estimations of cancellation charges are consistent with what was anticipated based on the costs associated with the projects identified.

Further, we have been reassured that no third party will be unduly adversely affected by the Amnesty due to the Strategic Investment Factor's (SIF) role in the Cancellation Charge, which ensures each customer is only ever liable for their portion of an investment in a project. Thus, other parties will only experience an increase in liability as a consequence of the TEC Amnesty that results in a redesign of the transmission works for a smaller number of customers or capacity. As capacity subject to the TEC Amnesty is no longer expected to be required (eg where projects have become unviable) they would likely still be subject to a termination in the absence of the TEC Amnesty (albeit later in the connections process). Therefore, the only difference in impact between the scenarios with and without the TEC Amnesty is that the impacted customers become aware of their eventual liabilities earlier in the process under the TEC Amnesty.

On the basis of the information received by Ofgem from NGESO on the projects, we are committed to enable the recovery of the spend to date by ESO and TOs as referenced in the submissions. We are satisfied that the data received is reflective of the current expenditure outlaid by the TOs. We have no expectation that this data is incorrect or incomplete; however, we reserve the right to revisit the data received (or take any further actions as necessary) at a later date and under any applicable price control, where any material error is identified on this data in future.

Our assessment has been performed on the basis of the information that has been submitted, in advance of these schemes being terminated or reduced. We recognise that most schemes are not yet financially closed, and that some are currently live and may continue to accrue costs up to financial closure, which will not occur until after a formal offer of the TEC Amnesty has been accepted by the customer. Additionally, as part of the financial closure process, a number of financial reconciliations will be undertaken by TOs (to account for differences between final settlement with a contractor and accrued costs). Whilst financial reconciliation for projects that aren't live may lead to some (positive or negative) variation across individual projects, we understand that this is not expected to be material in aggregate across the suite of projects subject to the TEC Amnesty. The final level of termination or reduction cost to be recovered for each cancelled investment will be determined by the final calculations administered by the relevant parties in accordance with the requirements of the regulatory and contractual framework. We understand that information on the potential level of these final costs is not currently available, and it has not formed part of our review.

NGESO will be required to submit the final level of cost for each individual project in administering the TEC Amnesty to Ofgem once this is finalised after publication of this letter, to confirm that the costs remain appropriate. We understand and expect that there will not be substantial differences between those costs which we have already reviewed against the settled final sums, on the basis that there will be minimal further spend incurred on projects, and we have been provided with the most up to date information of what the TEC Amnesty will cost to GB consumers from NGESO's database.

In any case, our approval of costs under TEC Amnesty only extends to those we have reviewed as at the date of this letter and which proceed with the TEC Amnesty when offered by NGESO following publication of this letter. Where additional spend is accrued beyond what has been submitted to us, we reserve the right to review this spend and will do so on a case-by-case basis. We do not guarantee that any additional costs beyond those reviewed to date will be approved and covered under the TEC Amnesty. For the avoidance of doubt, where cost reductions are identified – either in financial closure or through asset reutilisation or resale – these costs will be returned to customers through TNUoS, such that only actual spend incurred on projects subject to the TEC Amnesty is funded.

In light of all of the above, we have considered our principal objective to protect the interests of existing and future consumers, and our wider statutory duties. We remain satisfied that the costs associated with administering the TEC Amnesty are justified by the benefits achieved through the capacity it will release.

Summary and next steps

As set out above, we acknowledge that in administering the TEC Amnesty, NGESO will not be following the aforementioned terms of the CUSC, specifically in relation to the Cancellation Charge and of its Licence. This is permitted only in order to carry out the processing of the TEC Amnesty, and in any case no later than **30th September 2024**, after which point any additional spend beyond the sums already reviewed by Ofgem will be precluded from being covered under TEC Amnesty.

We expect that this letter will allow for confirmation to applicant customers of the connections and works that can be halted under this treatment, providing certainty on the capacity to be released through the scheme.

We encourage NGESO to take further steps to do all that it can to enable the optimisation of the transmission connection queue to deliver improved connection dates and processes

for customers. We continue to welcome proposals that will see improved access to the network, which will assist in the delivery of net zero targets and better meet the reasonable requirements of connections customers.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Abbott'.

Jack Presley Abbott
Deputy Director, Market Design