

Ofgem: Open letter on future reform to the electricity connections process (16th May 2023)

Introduction and Overview

1. Low Carbon is a global renewable energy company that has been at the forefront of clean energy investments for over a decade. We invest in and operate large scale renewable energy projects including solar, onshore and offshore wind, energy storage and waste to energy.
2. Since 2011 we have developed more than 1GW of renewable power capacity through solar, wind, and waste to energy. We have more than 10GW of renewables in development right now across the UK, Ireland, North America, and mainland Europe. We are a specialist, international team with significant collective experience in the development, construction and operation of renewable energy projects.
3. In the UK, we currently have 320MW of solar under construction and we expect around 500MW of further projects to begin construction next year. We also hold several grid connection agreements for transmission-connected solar and battery storage projects. We are also actively developing substantial pipelines of UK onshore wind and battery storage projects.
4. Like many solar and onshore wind developers, we are facing grid connection delays for both distribution- and transmission-connected projects. We currently have five projects totalling around 200MW of solar capacity that are ready to build but cannot be connected due to grid delays. Across the UK, it is likely that several thousand Megawatts (Gigawatts) of ready-to-build projects are being held back by grid delays. Together, these projects could make a material contribution to UK energy security, decarbonisation and cutting bills.
5. In some cases, our projects are facing connection delays until the mid-late-2030s. If connection dates cannot be brought forward, then the Government is certain to miss its decarbonisation targets. Bringing forward connection dates for low carbon energy projects must be a key strategic priority for the UK Government if we are serious about meeting our climate change targets. We are glad to see that the Ofgem, the Government, the ENA and National Grid ESO are increasingly working together on these issues.
6. We are pleased to have the opportunity to respond to this Ofgem open letter, which is of great interest and relevance to Low Carbon, and which will make an important contribution to highlighting these issues and driving action. The following submission is structured in four sections, as suggested in Ofgem's open letter.

The nature and priority of connection issues (Section 1 – *The challenge*)

7. We believe that Ofgem has correctly identified the issues causing the long increase in grid connection delays, specifically the increase in applications and the first-come-first-served queue.
8. On the increase of applications to NGESO, we believe that NGESO should make changes to reduce the number of connection applications and to increase the quality of those applications.

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Specifically, NGESO should adopt an approach used by the DNOs, which requires developers to fix the land for their project before applying (with minor changes allowed), as well as requiring Letters of Authority (LoA) from landowners. This has worked on the distribution network to reduce the number of speculative applications, which is clearly a major issue on the transmission network. This approach should also be applied to offshore applications such as offshore wind, which should require a Letter of Authority from the relevant seabed owner.

9. In addition to requiring LoAs at transmission, both NGESO and the DNOs should periodically verify with customers that they still have the relevant land rights. For example, checking that any land options have not expired. This could be done every 12-24 months.
10. On the first-come-first-served queue, we agree that this approach is under severe pressure.
11. In the short-term, we support Ofgem, the Government and the DNOs introducing milestones for customers who accepted connection offers many years ago – these older offers often do not have milestones. We support whatever action is needed to free up capacity from these old offers that have not progressed, up to and including the introduction of legislation to amend those grid offers.
12. While milestones are useful to kick projects that are not progressing out of the queue, they are not a silver bullet. For example, milestone dates are calculated working backwards from a project's connection date. If the connection date is in the mid-2030s, then the first milestone may not be until 2030. This significantly reduces the ability of NGESO and the DNOs to kick slow-moving and/or speculative projects out of the queue.
13. One solution to this would be to have some early milestones based on date of offer acceptance rather than working backwards from the connection date. This could work well for the "securing land rights" milestone. This approach would not work for the planning permission milestone, because planning permissions typically expire after three years (i.e. the planning permission could expire before the connection date).
14. We note that NGESO's current review of connection dates is expected to bring forward connection dates by 2-10 years. Once these connection dates have been brought forward, milestones will also be brought forward. Once the milestones are brought forward, NGESO and the DNOs should strictly enforce the amended milestones to kick slow-moving and/or speculative projects out of the queue.
15. Depending on the success of the current reforms, it may or may not be necessary to move away from the first-come-first-served queue. If the current reforms are successful, then the queue will be much shorter and of much higher quality, reducing the need for more radical reform.

Priority areas of focus for Ofgem (Section 4 – *What you can expect from us*)

16. We broadly agree with Ofgem's assessment of its own role in the connections reform process.

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17. When developing these proposals, we encourage Ofgem to think about how it will monitor connection queues going forwards, as well as ensuring that the new processes are implemented consistently across the DNOs.
 18. Going forward, Ofgem should take a more hands-on role in monitoring connections queues and processes. The issues with ballooning queues have been allowed to run for several years, and Ofgem and its partners should have identified this as a key issue sooner.
 19. Ofgem should also exercise more direct regulatory oversight of how the DNOs are enforcing milestones. In our experience, different DNOs take very different approaches to enforcing milestones. For example, Ofgem could require DNOs to report what proportion of projects do not have milestones, how many are out of date, and how many projects they have taken enforcement action against. This feeds into Ofgem's proposals to consider changes to the obligations and incentives for DNOs, TOs and the ESO.
 20. We support Ofgem's proposals to focus on strategic and longer-term options for reform, leaving NGESO and the Strategic Connections Group to focus on shorter-term options, including those that are already underway.

Our proposed objective, outcomes and guiding principles (Annex A)

21. We broadly agree with Ofgem's proposed objective and outcomes.
22. However, one danger with these reforms is that they could introduce major uncertainty for project developers over the timeline, cost and curtailment associated with their grid connection. For example, if the connection queue was based solely on the date of securing planning permission (as in Ireland), then developers would have to spend (in many cases) millions of pounds securing planning permission, without any certainty on their grid connection. This is likely to deter investment, particularly from smaller developers.
23. We therefore suggest adding the following as an additional objective: *"The connections process produces predictable and investible outcomes for project developers – to give project developers the confidence to invest significant time and money developing the large-scale infrastructure projects that are required for net zero, to cut bills and to boost energy security"*.
24. This proposed objective aligns with NGESO's proposed reform "get on, get back or get out of the energy queue".¹ Projects that are "getting on" would retain their connection date and costs

¹ <https://www.nationalgrideso.com/news/get-get-back-or-get-out-energy-queue-eso-announces-urgent-action-speed-electricity-grid-0>

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or see improvements, whereas those that move slowly would risk having a delayed connection date and/or increased costs. In our view, these proposals strike a reasonable balance of risk, enabling projects to remain investible for developers while ensuring that the queue is well managed.

25. We agree with Ofgem's proposed outcome for greater coordination and consistency across system boundaries (i.e. between DNOs and TOs). We are concerned that, under the current process, distribution-connected projects risk being disadvantaged compared to transmission-connected projects. This is due to how the Statement of Works (SoW) process works. The SoW process relies on DNOs to submit distribution-connected projects to NGESO for evaluation. We are aware of cases where the DNOs have not submitted projects to NGESO for a number of months, allowing new transmission-connected projects to jump ahead of distribution-connected projects, leading to long connection delays for distribution-connected projects.
26. We also agree with Ofgem's proposed overarching principles. Consistent with our comments above, we recommend including sentence on ensuring that grid offers remain investible for developers – this could be added to the description of Principle 1 – *Reforms deliver benefits to current and future consumers*.

The illustrative reform stages and options for consideration (Annex B)

27. We agree with Ofgem's proposed Stage 1 and Stage 2 improvements, and that these are the right reforms to bring forward first.
28. Ofgem's proposed Stage 1 reforms are largely already in flight, and we believe they are sensible. These Stage 1 reforms could be expanded to include Low Carbon's proposed changes to milestones, plus requiring developers to secure Letters of Authority for transmission-connected projects.
29. As part of Stage 2, we think it will be necessary for DNOs to have more visibility and controllability over distribution-connected assets – this will give DNOs the tools to control assets on their network, a key enabler for self-managing GSP capacity limits and allowing more generators to connect. This level of control and visibility available for DNOs should be similar to the control that NGESO has over transmission-connected assets through the Balancing Mechanism (which applies to generators over 50MW). This could be achieved in a number of ways, for example by reducing the threshold for a Generator Licence (e.g. to 1 MW), or by requiring distribution-connection generators to enter a "light" version of the Balancing Mechanism ("BM-lite").
30. We do not currently have enough information to support Ofgem's proposed Stage 3 and Stage 4 proposals. We are concerned that these changes could increase uncertainty for project developers, who may have very little certainty over the costs, timelines and curtailment associated with their connection until they have spent millions of pounds developing their projects.

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31. Depending on the success of Stages 1 and 2, it be may that the Stage 3 and Stage 4 reforms are not needed. However, we think it is prudent for Ofgem to develop these proposals now in case they are needed.

32. We look forward to engaging with Ofgem as part of its connections reform process.

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