

2025 Connections Reform - response to Ofgem Open Letter

Dear Ofgem connections team,

Thank you for the opportunity to share views in response to your Open Letter. The upcoming reforms are a major change to the connections process, making industry consultation vital to ensure the new process is fit for purpose over the long term.

Octopus Energy is a leading renewable energy investor, developer and operator and the largest electricity supplier in Britain. We support development of a renewable-led electricity system to reduce costs for customers and it is on this basis that we are engaging to help shape the GB connection reform process.

Overall, we broadly support ESO's proposed TMO4+ reforms as a much needed step up in ambition to tackle the connections crisis, in line with the CAP priorities set out in Annex A to the Open Letter. In particular, applying the 'Gate 2' criteria to the full connections queue (as set out in CMP435) is an opportunity to efficiently clear out 'zombie' projects and allow viable projects to accelerate quickly. The expected speed of impact of TMO4+ would not be achieved by the previous CMP376 reforms alone, which currently only require 50% of projects in the queue to meet a readiness milestone before 2028, too slow to have the impact needed to stay on track for Net Zero.

Given the early stage of the proposals, there are several areas which require more detail to deliver TMO4+ effectively from day 1 and ensure reforms are 'future proof' to align with for broader policy reforms across the sector. These areas include defining the DNO/ESO interface more clearly and ensuring that connection capacity can be allocated efficiently if transmission constraints continue to cause delays post-TMO4+ initial implementation. We set these areas out in more detail below. We also highlight priorities for the parallel reforms required to ensure the ESO proposals have the desired impact, as Ofgem notes in the Open Letter.

We also agree with Ofgem's view on next steps as set out in Annex B. In particular, coordination between government, Ofgem, (N)ESO and industry will be needed to minimise legal risks whilst ensuring TMO4+ implementation can progress at pace.

The timescales proposed to reach a conclusion on these code modifications and implement the new regime are highly ambitious by conventional industry standards. It is crucial now that industry does not water down or undermine the potential value in TMO4+ just to meet these timescales. It is critical to meet the timescales proposed, given the importance of this issue to Net Zero and

economic growth, meaning reforms should be prioritised with strong oversight from Ofgem and DESNZ. That being said, in our view, should the current timelines become clearly unachievable, it would be more pragmatic to extend the 1st Jan 2025 deadline and design a future proof connections process that can align effectively with Net Zero, rather than weakening proposals.

Key uncertainties to be addressed in TMO4+ proposals

1. Transmission / Distribution interface

There is a lack of clarity in current proposals in how the new connection process will work for distribution level connections. Developing proposals to resolve this will be crucial for the 'minimum viable product' of TMO4+ to operate effectively from 1 Jan 2025.

Requiring both transmission and distribution connections to meet Gate 2 criteria is a sensible approach in theory to avoid creating perverse incentives in favour of connecting at either level. However, in practice there is a risk that distribution level projects face additional delays or complexity in having to demonstrate Gate 2 criteria to ESO with the DNOs acting as intermediaries. This risk will realise if issues in the current connection process persist under TMO4+, namely inconsistent DNO processes, slow DNO/ESO communication and lack of data transparency on network capacity and transmission/distribution interactions.

We recommend Ofgem work closely with ENA SCG and code working groups to drive alignment between transmission and distribution level processes and set clear expectations on consistency in approach between DNOs. Ofgem should also push for an increased pace of communication between DNOs and ESO under the TMO4+ process. Coordination will be crucial if, as expected, DCUSA, CUSC, STC and network licences need to be modified in parallel and at pace.

DNOs must also be accountable and incentivised to deliver against the new process, ensuring distribution projects are not disadvantaged. Ofgem should intervene to ensure this happens as part of the ongoing review of connections incentives, as well as the detailed design of the TMO4+ process itself. For example, the process should give projects as much certainty as possible on Gate 1 offers allocated under DFTC. It must also ensure that data is transferred to ESO in a timely manner such that distribution projects do not miss Gate 2 tranche assessment deadlines. We note that resourcing issues within DNOs are likely to remain a constraint within TMO4+, with DNOs having a much larger volume of connection applications and contracts to process compared to ESO. Coordination between industry, Ofgem and government will be needed to address this, with interventions required in the short term (improved efficiency through open-source data and technology) and long term (investment in skills and training).

2. Enduring Gate 2 criteria

Front-loading planning and land exclusivity to secure Gate 2 in the TMO4+ process is expected to significantly reduce the connection queue (with ESO expecting a 50% reduction). If the initial

reduction in queue length is significantly less than anticipated, we agree that tougher Gate 2 criteria may be necessary to discourage speculative capacity reservations.

However, persistent transmission infrastructure constraints mean that developers are likely to progress projects through Gate 2 at a quicker rate than connection capacity can be made available. This means that the queue is likely to begin to grow again after TMO4+ and decisions will need to be made on how to allocate scarce network capacity. Relying on more stringent readiness criteria alone to drive this allocation will simply mean that viable projects must progress further in the development process before securing the certainty of a grid connection. This will risk pushing up the cost of development or undermining project business cases entirely.

Instead of using readiness criteria alone, we strongly recommend that the next phase of connection reform identifies ways to accelerate connections of those projects which will provide the most value to the system. This could involve proxy measures (e.g. carbon intensity / network reinforcements required) or be driven by the SSEP/CSNP, once in place in 2026.

We recognise full alignment of Gate 2 criteria with a cost minimising Net Zero pathway is beyond the scope of the TMO4+ launch in Jan 2025. However, the initial structure and legal framework of the TMO4+ must be future-proofed to avoid the need for further fundamental reform before achieving Net Zero.

3. Acceleration options

Closely linked to the above consideration is the sequencing of projects in the connection queue once Gate 2 criteria are reached. Infrastructure constraints mean that connection dates and locations must be sequenced strategically to ensure Net Zero can be delivered in a way that minimises costs and risks to security of supply. The optimal sequence is unlikely to simply be the order in which projects applied for connection, so the move away from ‘first come first served’ in principle is welcome. However, current proposals do not fully clarify how the order of the queue will be defined post-Gate 2.

To best align the queue with system objectives, (N)ESO should be empowered to accelerate or decelerate projects at queue formation based on clear criteria such as carbon intensity, contribution to reducing grid constraints, or spatial alignment with strategic network plans. Again, we recognise methodologies to achieve this are unlikely to form part of the minimum viable product for TMO4+, given tight delivery timescales, but reforms should be future-proofed to enable this in the near future. There is a risk that TMO4+ quickly becomes unfit for purpose if it is not able to evolve in this direction without extensive further reform processes or unacceptable legal risks to governance bodies involved.

Broader reforms Ofgem must prioritise to maximise impact

We agree with Ofgem that broader reforms must continue to be progressed at pace alongside TMO4+ for the objectives of the CAP to be achieved in practice. Ongoing priorities must include:

- **Infrastructure investment:** Connection constraints and unacceptable delays will continue without faster delivery of new network capacity. Reforms in RIIO-3 to better enable anticipatory investment, actions in the TAAP to speed up deployment timescales, and the expansion of competition in transmission infrastructure delivery to crowd capital and innovation into the sector will all be needed to achieve this in practice.
- **Network incentives:** The new connection process will not operate as efficiently as possible without the right framework of licence obligations and financial incentives for the network companies that sit at the heart of it. Clear timescales should be introduced to delimit stage gates in the end to end process, with penalties imposed for networks that miss these deadlines, particularly on decisions/information transfer between transmission and distribution companies. Network incentives will also play a crucial role in incentivising timely infrastructure build for connections and reinforcement, as well as optimisation of existing network capacity. RIIO currently provides much stronger incentives for networks to reduce investment and/or refinance than it does for networks to deliver capacity at pace and meet connection demand. This imbalance must be addressed. To this end, we look forward to engaging with Ofgem proposals on the full review of connection incentives under the network price controls.
- **Data transparency:** Maximising the use of digital and data tools throughout the process will help overcome resource constraints and improve efficiency across the process. We welcome network commitments to a single digital view of connections and ESO plans for more self-serve capabilities at Gate 1. Ofgem must hold industry to account to deliver these commitments at pace. At distribution level, all networks should be publishing more granular and reliable network data to inform developer decisions. We also recommend that network companies begin to share network models with accredited parties, helping to open source the network study and analysis stages of the connections process. This could yield significant benefits in easing resource constraints on the DNOs and catalysing new innovation.
- **Alignment between market reform and strategic planning:** As discussed briefly above and referenced in ESO publications on connection reform, the new connection process will need to align with enduring power market design and network planning arrangements. Having REMA, CSNP and TMO4+ under development simultaneously is both a challenge and an opportunity to achieve this, but industry is currently facing a lack of clarity on how these packages fit together. Development of TMO4+ risks becoming a focal point for this uncertainty, given the immediate tangible impacts expected on market participants. Ofgem therefore has an important role to play in driving forward a vision of future regulatory arrangements at the intersection of these reforms (in conjunction with DESNZ). This could be achieved in practice for connection reform through Ofgem/(N)ESO defining principles on what a 'future proof' TMO4+ should look like, alongside clear working assumptions on how the post-2025 process could align with the future electricity market design changes and the introduction of strategic network planning.

To conclude, we reiterate that TMO4+ is a positive step forward in delivery of the CAP and we welcome the strong ambition across industry to deliver this change at pace. As proposals are developed further, it is crucial that this ambition is not lowered and that the first implementation TMO4+ delivers its potential as a bold step towards a long-term connection regime that is fit to deliver Net Zero power by 2035. We look forward to continued engagement with Ofgem and industry throughout this process.

Yours faithfully,

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