
Annex B: Connections Reform Costs Governance Document

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Following Ofgem’s decision to approve TMO4+ in April 2025, Distribution Network Operators (DNOs, or Licensees) are required to play a role in implementation and, in particular, in relation to the Gate 2 to Whole Queue (G2tWQ) exercise. As recognised in our TMO4+ Decision, there are costs associated with this implementation. This may result in Licensees incurring costs that are not currently funded in their existing allowances of the current price control. We have inserted a new cost recovery mechanism to the Distribution Licence to allow Licensees to pass-through reasonable costs associated with this one-off exercise. This governance document more fully describes the costs that may be recovered through this new mechanism as well as the associated reporting requirements, which Licensees must comply with under the terms of their licence.

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1. Introduction

Purpose of the Connections Reform Costs recovery mechanism

- 1.1 Ofgem issued its decisions to approve the TMO4+ package of reforms on 15 April 2025.¹
- 1.2 Licensees have a role to play in implementing these decisions, in particular in relation to the Gate 2 to Whole Queue ('G2tWQ') exercise, where Licensees will be required to vary existing connection contracts to reflect the outcomes of that exercise.² As recognised in our TMO4+ Decision, there will be implementation costs associated with doing so. For Licensees in particular, it is likely that they will incur costs in implementation that are not currently funded in their existing allowances of the current RIIO-ED2 price control.
- 1.3 An additional pass-through term, Connections Reform Costs, has been added to the formula in Special Condition 6.1 of the Distribution Licence. In summary, this provides that Licensees will be able to recover reasonable costs associated with G2tWQ, where those costs exceed the Connections Reform Costs Materiality Threshold (ie only costs above the threshold are recoverable). Cost will also only be recoverable if they are not funded by another mechanism in the Price Control, Connection Charges, or through any other means.
- 1.4 For the avoidance of doubt, references to implementation of TMO4+ in this document mean only the reasonable costs associated with the one-off G2tWQ exercise (ie from CMP435³). Future connection application windows (ie from CMP434⁴) are not within scope of this cost recovery mechanism.

Purpose of this document

- 1.5 This governance document further describes Connections Reform Costs, to provide further clarity on which costs can be recovered through the pass-through mechanism. The Authority will review and may disallow or reduce costs that are outside the scope described in this document.

¹ [Decision on Connections Reform Package \(TMO4+\) | Ofgem](#).

² The G2tWQ exercise will entail network operators reviewing existing connection offers and amending them as necessary to align these with the reformed gated process.

³ [Connection and Use of System Code \(CUSC\) CMP435: Application of Gate 2 Criteria to existing contracted background](#).

⁴ [Connection and Use of System Code \(CUSC\) CMP434: Implementing Connections Reform](#).

- 1.6 This governance document also sets out the associated reporting requirements on Licensees in relation to Connections Reform Costs, which is separate from and additional to the RIGs.⁵

Compliance

- 1.7 Licensees are required to comply with this document, in accordance with Special Condition 6.1.12 of the Distribution Licence.

⁵ The latest version of the RIGs available at the time of publishing this document is available here: [Modifications to electricity distribution Regulatory Instructions and Guidance and Regulatory Reporting Packs for RIIO-2 Year 2 | Ofgem](#).

2. What is recoverable through the mechanism?

“Connections Reform Costs” as defined in licence

2.1 Special Condition 6.1 allows the pass-through of Connections Reform Costs.

Connections Reform Costs are defined in the Distribution Licence as:

“the reasonable costs associated with implementation of the Gate 2 to Whole Queue Exercise of the TMO4+ Decision incurred on or after 27 November 2024, as more fully described in the Connections Reform Costs Governance Document, provided such costs would not have been incurred but for the TMO4+ Decision, and only to the extent that they:

- (a) Exceed the Connections Reform Costs Materiality Threshold;
- (b) Are not funded by another mechanism in the special conditions;
- (c) Are not funded by Connection Charges; and
- (d) Are not funded by any other means.”

2.2 As defined in the Distribution Licence, each Licensee has a single, aggregate (ie applying over multiple years) £[X]m Connections Reform Costs Materiality Threshold that applies to all Connections Reform Costs.⁶ Once a Licensee has incurred costs above the materiality threshold, eligible costs above the threshold will be recoverable as a pass-through cost on an annual basis. For example, where a Licensee incurs Connections Reform Costs of £1.5million and the relevant Materiality Threshold is £1million, £500K will meet the definition of Connections Reform Costs and be recoverable as pass-through costs.

Scope

2.3 We appreciate that Licensees are likely to incur costs in relation to a variety of activities in implementing G2tWQ. In recognition of this, we do not provide an exhaustive list of categories of costs that are in scope. However, as noted below, for costs to be considered reasonable, they must be clearly attributable to the Licensee’s role in the implementation of G2tWQ.

2.4 In particular, Connection Reform Costs may include certain legal costs attributable to the Licensee’s role in the implementation of G2tWQ. While we consider that the existing statutory and regulatory framework enables the

⁶ See paragraph 2.5 below for more information.

reforms to be adopted and implemented lawfully and effectively, we cannot exclude the risk of legal challenge, which could involve the Licensees.

Connections Reform Costs therefore includes costs of, or incidental to, litigation arising directly from the implementation of G2tWQ, to which the Licensee is a party (should such legal disputes arise).⁷ This is restricted to costs incurred in relation to defence and/or forms of Alternative Dispute Resolution, which arise from litigation or the formal threat of litigation. Other legal costs not related to litigation are not in scope, such as: costs of obtaining general legal advice as regards implementation and the legal costs associated with complaints processes operated by the Licensees or references for determination by the Authority.⁸

- 2.5 Connections Reform Costs may be recovered on or after 27 November 2024 through to the end of the RIIO-ED2 price control period, ie 31 March 2028.⁹ If costs are incurred within this period, they will be capable of being passed-through under this mechanism, provided they are reasonable (as explained in more detail below). Costs out of scope of Connections Reform Costs are covered under existing price control arrangements. Costs that are incurred to implement TMO4+, but fall below the Materiality Threshold, will not be recoverable as a pass-through cost. They will instead receive their normal regulatory treatment under the terms of the RIIO-ED2 price control.

Requirement for Costs to be Reasonable

- 2.6 Connections Reform Costs must be “reasonable”. Costs will be reasonable where they are:
- a) reasonably and efficiently incurred;
 - b) reasonable in amount;
 - c) new (not duplicative of costs already incurred);
 - d) clearly attributable to the Licensee’s role in the implementation of G2tWQ;
- and

⁷ Being costs that are incurred during or prior to formal litigation proceedings taking place. This includes engaging in pre-action correspondence and attempts made by the Licensee to avoid specific threats of challenge being formally raised. This also includes the costs of any financial orders made against the Licensee by a court, and/or sums made in settlement. In all cases, the recoverability of such costs is subject to the requirement for costs to be reasonable as set out below.

⁸ Requests for Determination may be made to the Authority in certain circumstances: [Ofgem guidance on the determination of disputes for use of system or connection to energy networks | Ofgem](#).

⁹ We expect an equivalent cost recovery mechanism for the same purpose will be needed in the RIIO-ED3 price control, to reflect the lifespan of this mechanism needing to extend beyond 31 March 2028. This will be addressed in the ED3 price control decision and associated licence modification. The scheme will continue on substantially the same terms.

- e) consistent with the overarching objective of protecting the interests of consumers through the timely delivery of G2tWQ at reasonable and proportionate cost ('the Overarching Objective').
- 2.7 In determining whether Connections Reform Costs have been reasonably incurred, relevant factors include, but are not limited to:
- a) Justification: costs must be clearly attributable and relevant to the implementation of G2tWQ, having regard to the wider implementation context. In this regard, the Authority will specifically have regard to the extent to which costs incurred deviate from forecasts provided and where relevant, the justification provided for any such deviations.
 - b) Necessity: the costs must be necessary for the implementation of G2tWQ.
 - c) Conduct of the Licensee: the behaviour and conduct of the Licensee in relation to the implementation of G2tWQ and the effective and efficient management of costs, including the extent to which possible cost mitigations have been explored (eg whether services have been procured as a result of a competitive process where practicable).¹⁰
 - d) Proportionality: whether costs incurred are commensurate with the nature and complexity of the work¹¹ (assessed by reference to the nature of the work itself, and where relevant, to the Connection Reform Costs incurred by other Licensees for similar work).

Operation

- 2.8 The current RIIO-ED2 price control, running from 1 April 2023 to 31 March 2028, was settled prior to TMO4+ reforms being introduced. Accordingly, there are no separate and identifiable allowances set out in the RIIO-ED2 Final Determinations specifically for TMO4+ implementation costs, nor are they accessible via any currently specified RIIO-ED2 uncertainty mechanism. We do, however, anticipate that some costs may be covered under existing price control allowances. This reflects that Licensees have existing allowances in RIIO-ED2 set broadly for the same purposes as Connections Reform Costs, where these costs are alike. Accordingly, where possible, Licensees must recover implementation costs associated with G2tWQ through existing allowances of the

¹⁰ If, for example, a Licensee was at fault or caused unnecessary delays or complications, which increased costs, this may affect the level of costs that can be reasonably recovered.

¹¹ In respect of legal costs arising from litigation, this may include (but not necessarily limited to) an assessment of the costs as compared the value of any claim.

RIIO-ED2 price control period Connections Reform Costs may only be recovered where those implementation costs cannot be recovered through existing allowances. Licensees must be able to evidence why it is appropriate for any implementation costs to be recovered through the Connections Reform Costs pass-through mechanism through regular reporting (in accordance with Section 3 of this document), as well as in their annual regulatory submissions and accompanying commentaries.

- 2.9 Licensees will be able to pass-through eligible costs above the materiality threshold on a rolling annual basis until the end of the price control period.¹² To support this, the RRP's will be updated to provide that the July 2026 submissions can include Connections Reform Costs from 27 November 2024.

In event of subsequent reimbursement

- 2.10 In the event a Licensee is reimbursed (through another means) for a Connections Reform Cost, the Licensee will be required to either omit this sum from their annual Regulatory Reporting Pack (RRP), report it against the relevant section of their annual RRP, or where reimbursement occurs after inclusion in the RRP, input this as a credit value in accordance with the RIGs in a subsequent RRP as a negative adjustment to reconcile this, such that any costs recovered through the pass-through mechanism which are subsequently recouped are not recovered twice.

Review and Compliance

- 2.11 In accordance with the RIGs, following submission of annual Regulatory Reporting Packs to the Authority, the Authority will review all costs the Licensee seeks to pass-through under the Connections Reform Costs recovery mechanism to verify that these meet the definition as set out in the Licence and more fully described in this document.
- 2.12 The Authority may disallow or reduce costs that it finds do not meet the definition of Connection Reform Costs as defined in the licence and further explained in this governance document.

¹² We expect an equivalent cost recovery mechanism for the same purpose will be needed in the RIIO-ED3 price control, to reflect the lifespan of this mechanism needing to extend beyond 31 March 2028. This will be addressed in the ED3 price control decision and associated licence modification. The scheme will continue on substantially the same terms.

- 2.13 If, at any time, the Authority considers that any costs are unlikely to meet the definition of Connection Reform Costs, such that they would not be recoverable as a Connections Reform Cost, the Authority may notify the Licensee of that view in advance of the Licensee reporting in the RRP.
- 2.14 In making such assessments, the Authority will have regard to all relevant factors, including but not limited to those identified above.

3. Reporting requirements

Obligation to monitor and report on Connections Reform Costs

- 3.1 In pursuit of the Overarching Objective, the Licensee will:
- a) Ensure consistent and effective communication between DNOs as regards the implementation of TMO4+, including confidential information to the extent appropriate in all the circumstances, while ensuring compliance with other relevant legal obligations including, but not limited to those arising from competition law.
 - b) Report to the Authority in accordance with the below.
- 3.2 Unless otherwise directed by the Authority¹³, on a quarterly basis, Licensees must report to the Authority on actual Connections Reform Costs incurred to date, as well as forecasted Connections Reform Costs covering the next reporting period (the next 3 months). Where third-party costs are included in forecast costs, these will be supported by third-party cost estimates as is reasonable in the circumstances.
- 3.3 This report will contain a full itemised breakdown of all individual costs being proposed to be recovered as Connections Reform Costs, with specification of the following (as described by the Licensee) as part of that statement:
- a) The category of the relevant Connections Reform Cost;
 - b) A description of the relevant Connections Reform Cost;
 - c) The amount of the relevant Connections Reform Cost;
 - d) Whether the relevant Connections Reform Cost entry is completed, or ongoing (and if ongoing, how much this is expected to rise by the time of the next quarterly report); and
 - e) Why the Licensee considers it appropriate costs to be passed-through as a Connections Reform Cost rather than other existing allowances (ie with regard to para 2.8 above).

¹³ Under 6.1.13 of the Distribution Licence, the Authority may direct the Licensee to report on a different basis. For example, more regular reporting may be appropriate in circumstances where significant costs are being incurred by the Licensee, or alternatively, less frequent reporting may be justified where costs are minimal. Where the Authority directs the Licensee to report on a different basis, this will not be subject to the change process stipulated at 6.1.14 of the Licence.

- 3.4 In the event that actual costs exceed forecast costs by a sum of 20% or more, the Authority may request an explanation of the deviation by the Licensee within such reasonable timescale as determined by the Authority.
- 3.5 This obligation is distinct from and in addition to the existing obligation to submit the Regulatory Reporting Packs annually, as well as the reporting requirements associated with the Delivery Governance Framework of TMO4+.
- 3.6 The first effective due date for Connections Reform Costs submissions to the Authority is 1 December 2025, and will cover costs incurred on or after 27 November 2024 through to 30 September 2025. Following the first submission on 1 December 2025, this reporting requirement will recur every three months, with the next subsequent submission to the Authority being due 1 March 2026, covering costs incurred from 1 October 2025 to 31 December 2025. Unless otherwise directed by the Authority under SLC 6.1.13, this reporting requirement will lapse following the report made on 1 June 2027.
- 3.7 Nothing in this document shall prevent additional reporting by the Licensee to the Authority on related matters (eg as regards implementation progress or monitoring of legal risk), insofar as agreed between them from time to time.