

18th September 2025

Dear Electricity Connections team,

Re: Statutory Consultation on Connections Reform Costs and Related Modifications to Electricity Distribution Licence Special Conditions

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc (collectively "NGED").

NGED welcomes the opportunity to provide its views on the Statutory Consultation on Connections Reform Costs (the "Consultation"), published by Ofgem on 21 August 2025.

TMO4+ ("Connections Reform") fundamentally changes how our customers connect to our networks. Accepting this, NGED supports the policy and recognises its importance for delivering Clean Power 2030 and Net Zero by 2050. Electricity distribution ("ED") will support more than half of all renewable generation by 2030; meaning DNOs have a significant role to play in Connections Reform.

NGED welcomes Ofgem's pragmatic approach to recovery for Connections Reform Costs, including the acknowledgement that DNOs are likely to incur costs that are not currently funded by our existing allowances under RIIO-ED2. We do not believe existing allowances are apt to recover any proportion of DNOs' expenditure for implementing Connections Reform, and therefore what is being consulted on is of vital importance to its success.

Our responses to the questions raised by the Consultation are set out below.

Yours sincerely,



Vanessa Buxton
Regulatory Compliance Manager
National Grid Electricity Distribution

NGED RESPONSE TO CONSULTATION

Q1. Do you agree with our proposed modifications to Chapter 1 of the Special Conditions of the Electricity Distribution Licence? Please provide reasons for your answer and any alternative suggestions if you disagree.

NGED agrees with Ofgem's proposed modifications to Chapter 1 of the Special Conditions of the Electricity Distribution Licence ("SpC Licence") since it provides the necessary mechanism to recover reasonable costs incurred in implementing the Gate 2 to Whole Queue exercise.

Q2. Do you consider any further modifications to Chapter 1 of the Special Conditions of the Electricity Distribution Licence are necessary? Please provide reasons for your answer and identify any changes you consider to be needed, if applicable.

NGED does not consider that any further modifications to Chapter 1 are necessary to give effect to Ofgem's policy regarding Connection Reform Costs for RIIO-ED2.

Q3. Do you agree with our proposed amendments to Chapter 6 of the Special Conditions of the Electricity Distribution Licence? Please provide reasons for your answer.

Save for one concern about the proposed element "CRT" in SpC 6.1.4 (see Q4. below), NGED agrees with Ofgem's proposed modifications to Chapter 6 of the SpC Licence.

Q4. Do you consider any further modifications to Chapter 6 of the Special Conditions of the Electricity Distribution Licence are necessary? Please provide reasons for your answer.

The additional element "CRT" Ofgem is proposing to add to the pass through formula in SpC 6.1.4 is currently defined as *"the value of the Connections Reform Costs incurred by the licensee (provided that value has not been recovered in previous years)"*.

NGED is concerned that this reference to "previous years" is misleading. The definition should, we think, instead refer to when costs exceed the "Materiality Threshold" defined in SpC 1.

The reason this could be misleading as drafted is DNOs would incur the costs in the relevant year, and if it exceeds the materiality threshold on aggregate at that point in the price control, would receive pass-through funding, but anything not recovered in previous years would remain unrecoverable.

We recognised Ofgem's intention to ensure that there is no unintended double recovery for costs but believe this can be ensured, including through the application of our Data Assurance Principles.

Q5. Do you agree with our proposed drafting of the Connections Reform Cost Governance Document? Please provide reasons for your answer.

Whilst we broadly agree with the proposed drafting of the Connections Reform Cost Governance Document, we consider that there are some areas which require further refinement prior to final publication. Any proposed amendments are set out under Q6., below.

Paragraph 2.1

NGED considers that repeating the definition of “Connection Reform Costs” in the Governance Document, rather than signposting to the definition within the licence, risks future inconsistencies should one be updated without the other.

Paragraph 2.5

This paragraph states *“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”*.

Although arguably implicit, as drafted, it is not clear if “normal regulatory treatment” means treatment through Totex and the Totex Incentive Mechanism.

Paragraph 2.7(a)

This paragraph states that when assessing Connections Reform Costs Ofgem *“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”*.

Whilst we agree with this approach in principle, it is important to state that any forecasts provided to date were limited by the information known at the time. Although prepared in good faith, the financial impact of Connections Reform on DNOs could not be predicted with precision due to the ongoing evolution of processes related to implementation.

For all future forecasts (per the reporting requirements in Section 3) NGED will continue to undertake comprehensive and robust assessments, ensuring precision to the fullest extent possible.

Paragraph 2.7(c)

This paragraph states that in assessing Connections Reform Costs Ofgem will consider the *“conduct of the Licensee”*. Footnote 10 goes on to set out examples, which include when a DNO is *“at fault”*.

This reference, although cited as an example, is potentially problematic given the nature of the risks DNOs face as a consequence of implementing Connections Reform. Any claim by a customer whose agreement is varied by a DNO without an explicit contractual basis will allege fault by that DNO.

But the “conduct of the Licensee” in this scenario is solely a consequence of implementing a change in law, as codified by CMP435, which should not be a basis for disallowing costs claimed by DNOs.

Paragraph 2.7(d)

This paragraph states that in assessing whether Connection Reform Costs have been “*reasonably incurred*” Ofgem will consider, amongst other things, if costs have been “*proportionately*” incurred. In principle we agree that this guardrail is appropriate.

However, we are concerned about how this might be interpreted by Ofgem in practice. Specifically, paragraph 2.7(d) of the Governance Document notes that proportionality will be assessed “*where relevant*” by reference to “*the Connection Reform Costs incurred by other Licensees for similar work*”.

Each DNO will incur different levels of costs. No two licence areas are the same and the number of customers affected by Connections Reform in each area is likely to be materially different. If costs are benchmarked, those DNOs with higher costs - including because they operate in more licence areas, strategic alignment allocations necessitate defending more legal claims, or otherwise are the subject of test litigation - are far more likely to be seen as *disproportionately* incurring costs based on the current drafting in this paragraph. This would be manifestly unreasonable.

Accordingly, proportionality should not be assessed by reference to other DNOs. Proportionality can still be adequately assessed, in our view, based on whether costs incurred are commensurate “*with the nature and complexity of the work; assessed by reference to the nature of the work itself*”, as Ofgem has otherwise proposed.

Paragraph 2.9

This paragraph states that “*the RRP will be updated to provide that the July 2026 submissions can include Connections Reform Costs from 27 November 2024*”. NGED welcomes this approach.

Our expectation is that this occurs through the annual Regulatory Instructions and Guidance (“RIGs”) review process, and that this review should commence as soon as possible, with consultation stages, ready for issue at the end of March 2026.

We highlight this as we think it could be quite an involved task; including because of the varied nature of the costs and the need to assess the level against a single aggregate Materiality Threshold, which is not on an annual basis.

Paragraph 2.10

This paragraph states if “*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”) 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*”.

We do not think this is correct based on current requirements. If a cost is incurred, it cannot simply be omitted; it should be reported in the relevant section of the annual RRP.

Paragraph 2.11

This paragraph states *“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”*.

Paragraph 2.11 does not appear to align with Section 3 of the Governance Document. Specifically, if Ofgem’s intention is for quarterly reporting to continue for the remainder of the RIIO-ED2 period, this review should be undertaken prior to 31 March 2026 (i.e. the next RRP submission).

Paragraph 3.2

In conjunction with what we have said above in relation to paragraph 2.7(a), it is important to highlight that anything that includes reliance on third parties requires appropriate disclaimers.

Separately, footnote 13 to this paragraph states that *“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”*.

NGED recognises the importance of comprehensively evidencing all costs incurred; there is implicitly a strong incentive for all DNOs to ensure this occurs. At the same time, it is important to emphasise that any additional reporting (even at quarterly intervals) has a directly related cost because it draws already stretched internal resource away from the complex process of implementation. We ask that Ofgem bears this in mind and approaches this exercise from a position of pragmatism.

Paragraph 3.6

This paragraph states that *“the first effective due date for Connections Reform Costs submissions to the Authority is 1 December 2025... [and] will recur every three months”*. The paragraph goes on to state *“unless otherwise directed by the Authority under SLC 6.1.13, this reporting requirement will lapse following the report made on 1 June 2026”*.

The latter statement is confusing as it suggests, contrary to the earlier statement, that the quarterly reporting requirement lapses in mid-2026. As we have said above, it is our understanding that Ofgem intends reporting to continue on a quarterly basis until the end of RIIO-ED2 (i.e. 31 March 2028).

Q6. Do you consider any further modifications to the Connections Reform Costs Governance Document are necessary? Please provide reasons for your answer

Paragraph 2.1

We propose the following amendments to paragraph 2.1:

*“2.1 Special Condition 6.1 allows the pass-through of Connections Reform Costs, **as defined in the Distribution Licence**”. ~~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."~~

Paragraph 2.5

For the avoidance of doubt, we propose that this paragraph states explicitly that "normal regulatory treatment" means "through Totex and the Totex Incentive Mechanism".

Paragraph 2.7(a)

Recognising that the Governance Document allows actual costs claimed to exceed forecasted costs by 20%, we do not propose further amendments to this paragraph.

However, we reiterate that forecasts are only forecasts. Although prepared in good faith and based on all information known at a given time, it has been difficult to forecast costs to date with precisions due to the ongoing evolution of processes related to implementation.

Paragraph 2.7(c)

We propose that the reference in footnote 10 of paragraph 2.7(c), citing the example of a Licensee being "at fault", is be removed as it unduly complicates a legitimate basis for seeking costs recovery.

Paragraph 2.7(d)

We propose the following amendments to paragraph 2.7(d):

"d) Proportionality: whether costs incurred are commensurate with the nature and complexity of the work (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)".

Paragraph 2.9

No amendments are proposed to this paragraph. Please see our response to Q5. above.

Paragraph 2.10

We propose the following amendments to paragraph 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 **Regulatory Reporting Pack (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".*

Paragraph 2.11

We propose that Ofgem reviews this paragraph to ensure the sequencing of quarterly reporting and RRP submission is as Ofgem intends. In our view, as currently drafted DNOs would need to restate for the year 24/25 (i.e. to report the costs incurred in period 27 November 2024 to 31 March 2025) and report the costs incurred in the current year 25/26 (i.e. 1 April 2025 to 31 March 2026).

Paragraph 3.2

No amendments are proposed to this paragraph. Please see our response to Q5. above.

Paragraph 3.6

We propose that this paragraph is reviewed by Ofgem to ensure alignment with the requirement in Section 3 of the Governance Document for quarterly reporting to continue for the remainder of RII0-ED2. If this is not the intention, alternatively Section 3 should be amended.