

Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

By email: connections@ofgem.gov.uk

18th September 2025

Dear Electricity Connections team,

Statutory Consultation on Connections Reform Costs related Modifications to Electricity Distribution Licence Special Conditions

This response is from SP Energy Networks (SPEN) and SP Electricity North West (SP ENW). SPEN owns and operates the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution) which serves approximately two million customers and in Merseyside, North Wales, Cheshire and North Shropshire (SP Manweb), which serves approximately one and a half million customers. SP ENW owns and operates the electricity distribution networks in the North West of England, which serves approximately two and a half million customers.

We welcome the opportunity to respond to this statutory consultation to introduce a new passthrough mechanism for costs related to TMO4+ and in particular costs related to the Gate 2 to Whole Queue exercise.

We are strongly supportive of Ofgem introducing this passthrough mechanism to protect DNOs from unforeseen costs related to TMO4+ implementation. We do however have a number of comments on the current drafting of the licence condition and the governance document that we wish to share. These do not detract from the importance of implementing this mechanism.

We understand Ofgem's intention to introduce a materiality threshold for connections reform costs and welcome a lower threshold than the common Materiality Thresholds that are part of the existing licence. However, we note that for each of our licence areas the threshold continues to be significant at over £1m.

In order to implement the mechanism, we also believe Ofgem should prioritise consequential changes to the ED2 Price Control Financial Handbook and ED2 Price Control Financial Model. Changes to these documents are needed to ensure the proposed new cost passthrough term, CRt, can be used in the calculations for allowed revenue. We would urge Ofgem to address this as a priority, as we note this may require a statutory consultation, in accordance with paragraph 2.20 of the ED2 Price Control Financial Handbook. Our view is that the requisite changes may not be capable of being made pursuant to SpC 8.1, as these changes will impact allowed revenue. Introducing the new term CRt is probably more analogous to the new terms introduced as part of the Green

Recovery Scheme which required a statutory consultation.¹ We would also welcome discussion on any changes needed to the Cost and Volumes Reporting Pack and the RIGs.

We are generally supportive of the licence drafting, but have set out a number of suggested amendments, along with reasons, in the appendix to this letter.

We have a number of suggestions and requests for clarification on the governance document, particularly in relation to the scope of the costs that can be covered and costs in relation to existing allowances.

Please see the appendix for more detailed answers to the questions. If there are any aspects of our response you would like to discuss, please do not hesitate to get in touch.

Yours sincerely,

Wendy Mantle

W J Mantle

Head of Distribution
Commercial & Policy
SP Energy Networks

Brian Hoy

Brian Hoy

Digitally signed by
Brian Hoy
Date: 2025.09.18
15:50:04 +01'00'

Head of Market Regulation
SP Electricity North West

¹ [Statutory Consultation for the RIIO-ED1 Green Recovery Licence Modification | Ofgem](#)

Appendix 1

Proposed amendments to Special Licence Condition 1.2 of the Electricity Distribution Licence

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.

We fully support the cost passthrough mechanism Ofgem is proposing. A passthrough mechanism is a fair and appropriate way to deal with TMO4+ costs that are uncertain. We welcome the clarity that costs incurred on or after 27 November 2024 could be recoverable, but there is some further clarification that would be helpful.

We are concerned that that definition of “Connections Reform Costs”, in particular part (d), is ambiguous and could including any type of funding, including licensees’ shareholders funding these costs. We believe that the intention of (d) is to ensure no double recovery of costs, but we would welcome clarification of what is caught by (d) to be provided in the governance document. For example, in paragraph 2.10, which could set out that “other means” would cover the scenario where a court awards a DNO’s legal costs following the outcome of a case.

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.

We have a few specific typographical and clarification suggestions related to Special Condition 1.2:

- Special Condition 1.2, definition of “Connections Reform Costs”: The first words after each of (a) to (d) to be de-capitalised.
- Special Condition 1.2, definition of “TMO4+ Decision”: Suggest (i) addition to make it clear these are the decisions “of the Authority”, (ii) addition of “any future revisions of any of the documents listed in paragraph (a) above” to ensure changes to the codes or methodologies that are made prior to the “Gate 2 to Whole Queue Process” are not inadvertently excluded; and (iii) to introduce a lettered list of decisions. Please see draft suggestions below:

means

(a) the decisions of the Authority dated, and published on, 15 April 2025 titled “Decision on Connections Reform Package (TMO4+)”, which comprise:

- i. approval of code modifications CMP434, CMP435 and CM095;*
- ii. approval of licence modifications to the Standard Conditions of this licence, the Transmission Licence and the Electricity System Operator Licence; and*

(b) approval of the Connections Methodologies, being the Gate 2 Criteria Methodology, the Project Designation Methodology and the Connections

Network Design Methodology; and any future revisions of any of the documents listed in paragraph (a) above.

Proposed amendments to Chapter 6 of the Special Licence conditions of the Electricity Distribution Licence

Q3) 3. 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.

We are generally supportive of the suggested amendments to Special Condition 6.1.

However, we have some concerns related to SpC 6.1.11(c), as this language is too broad. We believe that as drafted, this provision would arguably enable the Authority to impose conditions which are not related to Connections Reform Costs or the pass-through mechanism, which is not the policy intent. We would suggest making the following changes to the licence condition to better reflect the policy intent.

6.1.11 The Connections Reform Costs Governance Document shall:

(a) more fully describe Connections Reform Costs;

*(b) set out the reporting requirements associated with Connections Reform Costs;
and*

(c) set out ~~any other relevant conditions the Authority deems appropriate~~ the requirement for recoverable costs to be reasonable.

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.

We believe some small typographical errors should be corrected in Special Condition 6.1:

- Special Condition 6.1.11(a): We believe “More” should be decapitalised.
- Special Condition 6.1.11(b): “and” is missing at the end of this subsection.

Proposed Connections Reform Cost Governance Document

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

Paragraphs 1.3, 2.1, and 2.10: As set out above, it is not clear what is meant by “or through any other means”. We would welcome Ofgem adding text to clarify that this language relates to scenarios where the DNO might be awarded legal costs by a court following the outcome of a case.

Paragraph 2.2: This paragraph needs to be amended as the way it is currently drafted is inconsistent with the definition of Connections Reform Costs. Connections Reform Costs are defined as costs above the threshold, not the total costs as used in this paragraph. We have suggested a specific amendment below.

For example, where a Licensee incurs ~~Connections Reform Costs~~ reasonable costs associated with implementation of the TMO4+ Gate 2 to Whole Queue Exercise 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.

Paragraph 2.4: We would welcome more explanation of why Ofgem has created such a narrow scope of recoverable legal costs. We believe costs related to seeking legal advice about implementation, legal costs associated with complaints and Ofgem determinations should also be covered by this mechanism.

We would suggest that Ofgem deletes the word “formal” in relation to the “threat of litigation”, otherwise we would welcome further clarity on what Ofgem considers a “formal threat of litigation”. Our view is that licensees should have the discretion to decide whether to seek legal advice and that the reasonableness criteria provides adequate limitation on what is recoverable through the pass-through mechanism. We would also welcome further clarity from Ofgem regarding the extent to which ADR costs are recoverable, given the need for recoverable ADR costs to “arise from litigation or the formal threat of litigation”?

As set out above, we do not believe legal costs associated with complaints or determinations that arise from TMO4+ should be excluded from this mechanism. These are likely to be the first routes to redress that customers take and therefore a robust defence by DNOs is entirely appropriate to reduce the likelihood and/or impact of legal challenge.

Paragraph 2.5: We suggest the text from footnote 9 (which relates to the intention that this mechanism will endure beyond ED2) is brought into the main body of the text to give it more prominence. This also applies to paragraph 2.9 and footnote 12.

Paragraph 2.6: We are concerned that phrase in (c) “new (not duplicative of costs already incurred)” is insufficiently clear. For example, we would consider the cost of legal advice that we have previously obtained should be eligible for consideration, but this could be regarded as not being a “new” cost. Similarly, the reference to “costs already incurred” could be interpreted as being in conflict with the fact that “costs incurred on or after 27 November 2024” are in scope, as set out in paragraph 2.5. We therefore propose that (c) is deleted as the other elements in 2.6 and 2.7 are sufficient to further define reasonableness.

Paragraph 2.9: As set out in our cover letter, we believe the governance document should be amended here to include:

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. We will also update the Price Control Financial Model and the Price Control Financial Handbook to facilitate this.

Paragraph 2.11 and 2.12: It would be helpful for Ofgem to set out timelines for the review of whether or not the submitted costs are allowable. Ofgem will need to make a decision on any disallowances by mid-November at the latest to ensure accurate inclusion in DUoS charges 15 months later. We would also welcome more clarity on the rationale DNOs will receive from Ofgem if costs are disallowed or reduced.

Paragraph 3.4: We would welcome comfort from Ofgem that if outturn costs are more than 20% higher than foreseen, this will be dealt with reasonably as such forecasts are inherently unpredictable.

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

No.