Zenobē Response to ESO Consultation on Connection Reform
July 2023

We are responding to this consultation from the perspective of a battery storage operator with c. 450MW of contracted assets in operation or construction, with a further c. 1.4GW of contracted future projects in development out to 2031. However, our future growth plans face significant barriers resulting from the issues currently affecting the connection queue and process.

We have been engaging actively in ESO's design sprints. We support the ESO's preferred model for future connection process, TMO4.

It is our view that many of the current connection issues are caused by it being too easy to enter the connections queue and to then remain in possession of a connection agreement despite providing no evidence of project viability or progress.

This low barrier to entry has, in our view, been a significant driver behind the unprecedented volumes of connection application currently being submitted.

We would therefore also support further strengthening the TMO 4 proposals through the use of other adds that ensure only projects that are truly viable are able to obtain and hold connection capacity. These measures could include:

- Higher initial application fees
- Earlier and higher requirement to place securities
- An assessment of the financial viability of a developer
- A limit on the number of connection agreements a developer can hold
- A robust queue management process that acts quickly to remove stalled projects

1. Do you generally agree with our overall initial positions on each of the foundational design options and key variations? Are there any foundational design options or key variations that we should have also considered?

We agree with overall initial position of including principals of the Status Quo and Gated Process foundational options in the TMOs. We also agree with the position of not including options that assume or mandate a centrally planned approach.

We agree that Variation 1 (Application to TO rather than ESO) should no longer be considered as this aspect of the current process is not a cause of the issues. However, we note that the process of information exchange between the TO and NGESO (particularly during the technical competency assessment) is inefficient and can be a point of frustration in the current process so should be reviewed as part of the future detailed design of the new connections process.

Variation 2 (ESO responsibility for connections design) should be kept under review outside the scope of the consultation.

We agree that Variation 3 is not included as a focus for the TMOs as it is not a direct factor in the current issues seen with the connections process and queue. However, we note that increased flexibility for Users to deliver their own

connections works could reduce connection timescales and costs and therefore it should continue to be considered through the existing code modifications.

We agree that application windows (Variation 4) should be considered but not as a stand-alone FDO given that timing of application is not solely responsible for the issues with the connection queue and dates.

We agree with Variation 5 not being considered further. This option would create significant challenges for developers due to uncertainty over actual project viability and future revenues.

2. **Do you agree with our initial view that the current issues with the connections process could potentially be addressed on an enduring basis through other, less radical, and lower risk means than the introduction of capacity auctions?**

We agree with this view. A connections process that includes stringent conditions for entry, a well defined queue management process (that is robustly implemented), fair consideration of different technology types, and where TOs are held to their delivery timescales should be sufficient to prevent future queue issues arising. However, we note that this approach does little to address the short-term issues being faced by developers.

Capacity auctions would introduce significant risks and challenges for developers, potentially restricting innovation and competition and hence we would not support their introduction.

3. **Do you agree with our initial view that the reformed connections process should facilitate and enable efficient connection under either a market-based (i.e. locational signals) or 'centralised' deployment approach (or an approach somewhere between the two), but not mandate which approach to follow?**

We agree with this initial view. However, we support a market-based approach to generation / demand development and hence believe that any proposals that would be effective under a market-based scenario should not be compromised in order to also accommodate a potential centralised future model.

We think that clean energy projects already respond to locational signals such as wind / sun, planning, and transmission charges. As such, there is little need for a more centrally-planned approach to connections. The most important changes required are to speed up the queue by removing 'zombie' projects, and to introduce new eligibility criteria for entering the queue whilst also providing sufficient confidence and certainty to developers and investors to undertake early stage development works.

4. **Do you agree with our initial recommendation that TMA A to TMA C should all be progressed, irrespective of the preferred TMO?**

We agree that TMAs A, B and C should all be implemented.

TMA A: we agree there is an urgent need for up to date and accurate data to inform grid connection applications. However, we note that the nature of this data is not necessarily clear nor universal for all developers and that what data is released should be clearly defined.

TMA B: introducing a Pre-Application Meeting with the ESO and Transmission Owner (TO). We agree that the information to be provided at pre-application meetings should be defined to ensure all developers receive a consistent service from TOs and NGESO.

TMA C: Appropriate use of feasibility studies. We believe this process should remain as an option for developers who wish to use it.

5. **Do you agree with our initial recommendation on the introduction of a nominal Pre-Application Stage fee, discounted from the application fee for customers which go on to submit an application within a reasonable time period?**

We agree that ESO should introduce a Pre-Application Stage Fee and that this fee should then be discounted from any subsequent application. We believe these paid for pre-application sessions should be used for in depth discussion of site specific conditions (e.g. location of bays, feasibility of cable routes etc.). More generally information about connection opportunities should be provided free of charge (e.g. similar to the regional pre-application webinars currently being held by NGET).

We believe that the specific information that would be provided in any paid for pre-application engagement should be clearly defined to ensure transparency and equality of service for all developers.

We also think ESO should seek to update the User Commitment methodology to cover not only investments made by the TO but also some form of additional fee (paid by all Users regardless of capacity or connection works required) as a deposit on a connection bay. This fee would be payable on acceptance of an offer and would prevent developers being able to hold agreements without having to pay any form of security.

6. **Do you agree with the importance of the TMA A 'Key Data'? Please provide suggestions for any other key data that you suggest we consider publishing at Pre-Application Stage.**

We agree it is important for networks and NGESO to release "key data" to inform pre-application decisions.

However, we acknowledge that the fast moving nature of connection applications mean much data carries a risk of quickly being out of date.

We would support networks and NGESO providing regular information regarding major network upgrades and the status of substations (i.e. similar to the regional pre-application webinars currently being held by NGET). However, we believe that detailed data and information regarding connection opportunities should be

reserved for 1-2-1 pre-application meetings between developers and networks to avoid creating speculative markets that being created off the back of networks making public large amounts of information.

We note that data points such as "Capacity Information" would need to be clearly defined to be of use to developers.

In addition to the key data described, we believe that the following information should also be provided by networks:

- Availability of spare connection bays
- Feasibility of existing substations to be extended to accommodate more connections

7. Do you agree with our initial recommendation with regard to TMA D (requirements to apply)?

We agree that there should be minimum criteria for the ESO to accept a grid connection application. We support the requirement to provide a Letter of Authority alongside an application and that NGESO carry out a "duplication check" against the LoA and other aspects of an application.

We agree with the decision not to introduce more restrictive conditions such as having achieved planning consent as these would create severe barriers to developers seeking to raise investment to undertake development activities.

With respect to the standardisation and simplification of terms and conditions in the connection offer (TMA D5 & D6). It is not clear how these proposals would reduce speculative applications. Therefore, we neither support nor oppose these proposals.

We would support further conditions, such as an assessment of a company's financial position compared to number of connection agreements or MWs they have signed to limit the number of connection agreements or MWs owned by a non-creditworthy single entity (linked back to the parent company) as a further measure to reduce the volume of speculative and "bay banking" applications that are currently seen.

8. Do you agree with our initial recommendation with regard to TMA E (determination of enabling works), including that it is right to wait until the impact of the 5-Point Plan is known before forming a view on whether further changes to TMA E are required?

We do not agree with the proposal to wait until the outcome of the 5-point plan is observed before further investigating the options set out in TMO E1-E4. These options have to the potential to further accelerate new connections, and hence should not be discounted at this stage.

However, we acknowledge the risk of operational costs increasing and being passed on to consumers and would therefore support TMO E2 and E3 as options that may accelerate connections whilst minimising risk to consumers.

9. Do you agree with our initial recommendation with regard to TMA F (criteria for accelerating 'priority' projects)?

We agree with the initial recommendation that criteria TMA F3 should be the main factor in identifying which projects should be accelerated.

We also support TMA F1 and F2 (government designation and consumer value) being used as criteria for accelerating projects, subject to development of a clear methodology to determine how a project would obtain government designation and how consumer value would be assessed and compared between projects.

10. Do you agree with our initial recommendation with regard to TMA G (queue management)?

We agree with the initial recommendation regarding queue management, and we support the preference for a RQM+ approach in which priority projects, that can also demonstrate readiness, would move forward in the queue in the event of a connection termination ahead in the queue. This would better support national net zero and energy security goals.

We agree that PQM is not recommended at this time.

11. Do you agree these four TMOs present a reasonable range of options to consider for a reformed connections process?

We agree the four TMOs represent a reasonable range of options.

12. Do you think any of the four TMOs could be materially improved e.g. by adding, removing or changing a specific aspect of the TMO? If so, what and why?

We do not consider that the four proposed TMOs would be materially improved through the removal or addition of specific aspects. However, we believe that the requirement to pass Gate 2 in TMO 2 and 4 could be modified to further prioritise "ready" projects. This would involve adding a requirement to have secured options rights for land as well as having submitted a planning consent application.

13. Are there any important TMOs we have missed?

We do not believe there are any other important TMOs that have not been considered.

14. Do you think 'Submit Consent' is too early for Gate 2 in TMO2 to TMO4? If so, what milestone should be used instead and why?

No, we do not believe "Submit Consent" is too early for Gate 2.

In addition, we believe the requirements to pass gate 2 should be further strengthened to require a project to demonstrate that it has secured an option on land rights as well as having submitted a planning consent application and can provide a letter of intent from a funder to evidence the financial viability of the project and developer.

15. Do you agree that TMO4 should be the preferred TMO?

We agree that TMO4 should be the preferred TMO, as it sets out the most comprehensive set of measures for preventing the congestion issues currently observed from re-occurring.

However, we note that these proposals do little or nothing to resolve the current issues with the connections queue and timescales and we urge NGESO to continue to examine all options to allow "ready" projects to advance in the short-term.

16. Do you agree with our design criteria assessment of the four TMOs? If not, what would you change any why?

We agree with the design criteria assessment.

17. What are your views on the stated benefits and key challenges in relation to TMO4?

We agree with the benefits and challenges outlined. We note that many of the key benefits outlined (reduction in speculative applications, advancement of ready projects) are required now and that NGESO should also continue to consider what steps can be taken to apply these principals to the existing queue as well as developing this future process that will prevent a re-occurrence of today's problems.

18. Do you think that there is a better TMO than TMO4? Whether that be TMO1 to TMO3, as presented, a materially different option, or a refined version of one of the four TMOs we have presented?

We support TMO4 as the preferred model. However, we would further support the inclusion of additional requirements to pass Gate 2, namely: securing an option on land rights (as well as having submitted a planning consent application), and providing a letter of intent from a funder to evidence the financial viability of the project and developer.

(Questions for specific technology types 19-26) – N/A

27. Do you agree with our initial recommendation related to each of the TMAs within this chapter? If so, why? If not, what would you change and why?

TMA H – We would not support changes to the application fee process that allowed parties to enter the process for a nominal fee. The current process of full payment followed by reconciliation (assuming a variable fee was selected) should be retained to ensure only organisations with sufficient financial credibility can apply and to limit the number of applications developers are likely to submit (we also recommend some form of cap on the number of agreements for projects in the pre-construction stage any one entity can hold).

TMA I – We would not support powers for NGESO to reject applications without very clear criteria, for only highly specific cases, being defined. The proposed strengthened application requirements and subsequent queue management power should be sufficient to remove any non-credible projects without NGESO applying a subjective assessment.

TMA J – We believe that optionality should be discussed but that this should happen between the parties during the production of the offer, with the developer then specifying which option(s) are presented in the offer. A blanket requirement to provide offers with multiple options is likely to increase the complexity of the offer process and increase the requirement for post-offer negotiations.

TMA K – We support the clarification of existing capacity products to better reflect the technology types applying and connecting to the network today.

TMA L – We agree that User Commitment Methodology would require review as part of the implementation of TMO4. However, we view the requirement to post-securities as a key lever for reducing speculative applications and hence would not support changes that allow parties to avoid securities prior to passing Gate 2.

TMA M – We agree the status quo should be maintained

TMA N – We support the continued use of existing guidance

TMA O – We agree that the list of secondary processes should be reviewed and clearly defined.

TMA P – We agree that dual-tracking of priority projects through Gate 1 is not appropriate and should not be considered.

TMA Q – It is our view that the current balance of risk between developers and networks, particularly with respect to increased costs and delays in connection works, is not appropriate and creates a material risk for the viability of our projects. At a minimum, strict requirements for TOs to communicate cost or timescale increases in a clear and timely manner should be introduced.

TMA R – We agree that NGESO should investigate more advanced methods of assessing network capacity including considering historical usage data. However, any methodology must also account for the different technology types and the services they provide to the network rather than just assessing MY output / import.

TMA S – We agree with the need for a fast-track dispute process to manage the TMO4 gate process.

28. Do you agree with our current views in respect of the implementation period?

ESO state that if they were to follow standard practices for changing industry codes and licences, the reforms would be implemented in mid to late 2025. In our experience, this is an optimistic assessment of standard code timescales. We think in light of the urgency of the proposed changes for the net zero agenda, there is a strong case for foregoing standard practices and implementing the changes in 2023.

We would also urge NGESO to investigate an opportunities for implementing elements of the proposed process sooner to address the existing connection queue issues.

29. Do you agree with our current views in respect of transitional arrangements? What are your views on how and when we should transition to TMO4?

The transition to this model should happen as soon as possible with a view to both establishing a fit for future process and addressing the issue currently affecting the connections queue.

30. What further action could Government and/or Ofgem take to support connections reform and reduce connection timescales, including in areas outside of connections process reform?

We think that in the context of the fossil gas price crisis and net zero, there is a need for a more robust process to ensure that network companies deliver strategic investments and individual connection projects on time and to cost. Network companies have a license obligation to work economically and efficiently. Grid connection delays to certain projects result in increased consumer costs. Network companies should therefore face penalties that reflect these costs if they fail to deliver projects.