

STC Modification Proposal Form

**CM096:
Application of Gate 2 Criteria
to existing contracted
background**

Overview: The related “Implementing Connection Reform” Modification introduces new processes and definitions that will update the existing processes and enable new applicants with more ready projects to progress more rapidly to connection. Gate 2 is a key component of the update; however, the size and rate of growth of the connections queue means that significant action is required as soon as possible to reduce the current queue so that viable projects can be connected more quickly and so that the benefits of our proposed Connections Reform model can be delivered earlier. This Modification seeks to address this by applying a project milestone / criterion (‘Gate 2’) to all existing contracted parties before they are provided with confirmed connection dates and locations.

Modification process & timetable



Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact

Transmission Owners, Interconnectors, Generators, Demand, Distribution Network Operators, Independent Distribution Network Operators, Electricity System Operator and Consumers

Proposer’s recommendation of governance route	Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)
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Who can I talk to about the change?	<p>Proposer: Steve Baker Stephen.Baker@nationalgrideso.com 07929 724347</p>	<p>Code Administrator Contact: TBC stcteam@nationalgrideso.com</p>
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What is the issue?

The current connections process is not enabling the timely connection of projects to meet net zero. A wholesale revision is needed to the connections process to meet those targets and the needs of project developers. This proposal introduces new processes and definitions that will update the existing processes and enable more ready projects to progress more rapidly to connection.

In December 2022, we published our [Case for Change](#), to conclude Phase 1 of our GB Connections Reform project, in respect of longer term reform of the connections process i.e. the process by which projects apply to connect to or use the electricity transmission system in Great Britain. We subsequently worked with stakeholders during early 2023 to develop and explore options in relation to a longer-term reformed process for connections and we set out our initial recommendations for reform in a [consultation](#) in June 2023. We have continued to engage and develop our thinking based on the ~80 responses to our consultation, and we set out our [final recommendations](#) for longer-term connections reform on 5 December 2023, which identified policy areas that we needed to finalise before raising changes to the codes. This concluded Phase 2 of our GB Connections Reform project. Just before this, DESNZ/Ofgem published their [Connections Action Plan](#), which stated the following in relation to Connections Reform:

“Desired Outcome: Connections reforms delivered with a high degree of confidence in quality, pace, ambition and coordination of reform delivery, ensuring greater and faster impact of connection reform in reducing connection times as well as lower system and/or connection costs.

In selecting the most appropriate implementation approach for the Connections Action Plan, we were guided by a range of factors and principles. We want an implementation approach that ensures sufficient industry engagement and efficient and coordinated delivery of changes, taking into account the interests of all stakeholders, as well as wider strategic objectives related to achieving net zero goals and enabling reforms to be substantially delivered by 2025 to ensure energy security and investability across the network”¹

Since publication of our final recommendations and noting the asks on us within the Connections Action Plan, we have continued to engage across industry on key policy decisions and how to incorporate these changes within the codes. As a result of this further policy development and industry engagement we have published [an update to our final recommendations](#) setting out what has changed and why, and to inform code changes.

Since ESO started its connections reform programme in October 2022 the transmission connections queue has grown by more than 275GW and has been growing steadily at an average of over 20GW a month for the last 12 months. This is despite the tactical actions that have been introduced as part of the ESO’s 5 Point Plan and the ENA’s 3 Point Plan. Those tactical actions have delivered/will deliver benefits for ~100GW of projects; however, they have had limited impact on reducing the size of the current queue or slowing down the rate at which new projects are added to the queue. At the current rate of growth, the total connections queue (across transmission and distribution) is likely to exceed 800GW by the end of 2024, over 4 times the installed capacity we will need by 2050.

Queue management milestones, once inserted into all connection’s contracts, will allow for the termination of projects that are not progressing. This will then create opportunity to

¹ Page 83 and 84

bring forward ready projects, or prevent on-track projects from delay; however, this will take a considerable amount of time to start delivering material benefits and will take even longer than this (given the number of parties with connection agreements and the lengthy connection dates) to start terminating projects in the middle or towards the back of the current queue. In the ESO’s view, the size and rate of growth of the connections queue means that significant action is required as soon as possible to better manage the current queue as well as improve processes for new applications so that projects that are ready to progress can be connected more quickly. This will mean that the benefits of our proposed Connections Reform model can be delivered earlier. Not taking action to address the current queue will mean that new applications under our proposed Connections Reform model will initially be at the back of what could be ~800GW queue, with initial connection dates into the 2040s, and with at least several years before those connection dates are improved as a consequence of Queue Management.

Scope

Scope of the change for the related CUSC “Application of Gate 2 Criteria to existing contracted background” Modification is:

- Extending the Gate 2 concept to apply to existing connection contracts (from planned for Go-Live Date of 1 January 2025).
- Changes to the contractual arrangements for those existing contracted parties that have not met the Gate 2 criteria by the Go-Live Date of 1 January 2025.
 - For example, disapplying User Commitment and Queue Management Milestones from projects which have not yet met the Gate 2 criteria, and also removing queue position, connection date and connection site.
- The transitional arrangements in relation to the above i.e. how and when evidence is provided in relation to Gate 2 in the Modification implementation period i.e. the implementation approach.

As a result of this, there will be impacts on STC and STCPs and in the “Proposer’s Solution” section of this document, we have set out the proposed CUSC changes and then added the related STC and STCPs solutions.

Summary of Code Changes related to Connections Reform

The table below summarises the changes, which are in summary:

Modification Grouping	Codes Impacted
Implementing Connections Reform Modification	CUSC, STC and DCUSA
Application of Gate 2 Criteria to existing contracted background	CUSC, STC and DCUSA

This proposal relates to the “Application of Gate 2 Criteria to existing contracted background” change for the STC, which will apply the Gate 2 Criteria (agreed in the “Implementing Connections Reform” Modifications) to the existing contracted background. We will need to determine early in the Workgroup phase if there are any changes to the STCPs for this change.

We are at the same time raising a “Application of Gate 2 Criteria to existing contracted background” change for the CUSC. There may be a need for consequential changes to the DCUSA as a result of this “Application of Gate 2 Criteria to existing contracted background” Modification, noting that the concept of Gate 2 will apply to Relevant Embedded Small and Relevant Embedded Medium Power Stations that apply for connection through the DNO.

Note that we are at the same time raising “Implementing Connections Reform” Modification for the CUSC and STC as well as (shortly thereafter) changes to the necessary STCPs to reflect the ESO/Transmission Owner obligations and interactions. We have also identified the need for a potential DCUSA consequential Modification (e.g. to include reference to DFTC).

We have decided to separate out the “Application of Gate 2 Criteria to existing contracted background” from the rest of the “Implementing Connections Reform” Modification as this proposes applying the Gate 2 Criteria to the existing contracted queue and this may impact stakeholders that are not necessarily impacted by the rest of the scope of the “Implementing Connections Reform” Modification.

Why change?

Note that in our [consultation](#) (pages 73 to 78), we set out the benefits in more detail but in summary:

Overall, our connection reform proposals have three main benefits as follows:

- Quicker connections for projects that are best in a position to progress to connection.
- A more coordinated and efficient network design for connections that delivers benefits for customers and consumers, since allocating capacity more efficiently to projects that are most ready to proceed and studying connection applications in batches should lead to lower overall costs².
- A process which helps to efficiently deliver Net Zero as currently, developers are waiting too long to connect and this is hindering progress to deliver Net Zero.

Of the options we considered prior to making final recommendations, our approach has:

- The opportunity for a first-ready, first-connected connection process; and the overall opportunity for earlier/more efficient connection dates.
- More efficient and coordinated future planning of the network, with the benefits further enhanced with the proposed future introduction of the Strategic Spatial Energy Plan (SSEP) and Centralised Strategic Network Plan (CSNP). We believe our proposed solutions are materially aligned with the plans for CSNP and SSEP and as such will deliver increased benefits for customers and consumers.
- An ability to build network more efficiently in anticipation of need as the early batched assessment of connection applications under our proposed approach would also allow efficient inclusion of anticipatory investment in network design.
- Better facilitation of competition, innovation and introduction of non-build solutions e.g. a coordinated design helps introduce innovation into network

² Note in our [consultation](#) (page 73), we note that the Holistic Network Design (HND) process is expected to lead to overall net consumer savings of approximately £5.5 billion when compared to an optimised radial design and expect similar benefit (although difficult to quantify) for our proposed reformed connections process

designs by facilitating competition in the design and delivery of infrastructure related to connections - as planning in advance should provide clear scope and time for competitive tenders.

- Future-proofed design to align with other programmes e.g. we believe proposed solutions are future proof for the likely development and use of the SSEP, most specifically with regards the use of application windows and the introduction of strategic coordinated network designs for connections.

Specifically for this Modification:

- Queue growth has accelerated significantly beyond expectations when designing and considering our reformed process, even considering recent reforms.
- As part of the ESO's 5 Point Plan and the ENA's 3 Point Plan, the electricity networks have been undertaking multiple initiatives to address the connections queue. These actions are in line to deliver benefits for ~ 100GW of projects by removing stalled projects from the queue, releasing additional network capacity and providing projects with accelerated connection dates. However, the size of the queue has continued to rise at a much higher rate.
- The ESO is recommending that aspects of the reformed connections process specifically Gate 2 and queue position allocation at Gate 2, need to be extended to the contracted background in order to deliver meaningful impact.
- Reform needs to be implemented as quickly as possible, and this will need to be supported with accelerated code change via the urgency process.

What is the proposer's solution?

In relation to each aspect of the proposed solution we will consider the appropriate level of codification and where appropriate we will also explore use of guidance to support the reformed process, instead of or as well as proposed solution codification.

Extending the Gate 2 concept to apply to existing connection contracts (from planned for Go-Live Date of 1 January 2025); and

Changes to the contractual arrangements for those existing contracted parties that have not met the Gate 2 criteria by the Go-Live Date of 1 January 2025.

The transitional arrangements in relation to the above i.e. how and when evidence is provided in relation to Gate 2 in the Modification implementation period i.e. the implementation approach.

The Gate 2 process and criteria would apply to relevant parties with contracts providing for connection and use of system which are not connected or haven't reached their Completion Date at the Go-Live Date. This also includes Relevant Embedded Small and Relevant Embedded Medium Power Stations that apply for connection through the DNO and Embedded Large Power Stations. The arrangements for new applications (including significant Modification Applications) submitted from go live of the new arrangements are dealt with in the "Implementing Connections Reform" Modification; the scope of this Modification only applies to existing connection contracts prior to go-live.

The effect of applying the reformed connections process to existing contracts where parties have not met the Gate 2 criteria at the Go-Live Date is that those agreements will be amended. They will (in the same manner as is provided for new applications under the "Implementing Connections Reform" Modification) become indicative only. These existing agreements will be amended to then include an indicative connection date and connection site, remove any associated Transmission Reinforcement Works, User Commitment liabilities and securities, and remove any Queue Management milestones.

The exact arrangements/approach to effect this change from the current contracted position to something akin to a Gate 1 contracted position is being developed and is discussed further in the "Implementation approach" section of this document. These agreements will therefore be updated through the implementation of the transitional arrangements considered within this Modification in the first instance, or the Gate 2 process as introduced through the "Implementing Connections Reform" Modification once the Gate 2 criteria are met. At that point, the agreements will then be updated to provide a confirmed connection date/connection site and a place in the connections queue.

Proposed STC/STCP changes:

- Set out how the ESO notify Transmission Owners as to which existing Transmission Owner Construction Agreements are related to developers who have not met the Gate 2 criteria.
- Set out how and when the Transmission Owner Construction Agreements (for developers who have not met the Gate 2 criteria) will be updated, or the approach to be taken if they are not to be updated e.g. through a blanket codified change.

- Agree impact (if any) on Transmission Reinforcement Works and Final Sums related to Transmission Owner Construction Agreements where those contracts are for developers that have not met the Gate 2 criteria.

Draft legal text

Legal Text to be agreed in the Workgroup phase but we have included our initial thoughts on which sections of STC and/or STCPs we think need to be changed and why:

STC/STCP	Summary of proposed changes
STC Other	Section within STC to set out the transitional arrangements to ensure the contractual arrangements that the ESO have with developers are reflected in (or through alternative arrangements related to) the existing Transmission Owner Construction Agreements if the “Application of Gate 2 Criteria to existing contracted background” Modification is approved

What is the impact of this change?

Proposer’s assessment against STC Objectives	
Relevant Objective	Identified impact
(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act	Positive Prioritises readier and/or more viable projects enabling us to help the government to meet its Net Zero targets.
(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission	Neutral
(c) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity	Positive Quicker connections for viable projects (by removing speculative and stalled projects from the connections queue) needed to deliver Net Zero (at the moment developers seeking to connect are now experiencing significant delays, with some

	customers being offered connection dates in the late 2030s
(d) protection of the security and quality of supply and safe operation of the national electricity transmission system insofar as it relates to interactions between transmission licensees	Neutral
(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC	Neutral
(f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system;	Positive Addresses the current queue (by reducing the size of the current queue or slowing down the rate at which new projects are added to the queue) allowing readier and/or more viable projects to access earlier connection dates.
(g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.	Neutral

When will this change take place?

Implementation date

1 January 2025

Date decision required by

30 September 2024

Implementation approach

It is imperative that there is a transition period to enable stakeholders to fully understand how this proposed change will impact them and how they can meet the Gate 2 Criteria. With this in mind, October 2024 (assuming the Modification is approved) to December 2024 will be primarily used to help stakeholders understand what this specifically means for them. We believe that a decision by 30 September 2024 provides the right balance between Modification scrutiny and enabling a suitable transition period to establish the impact on existing connection contracts who do not meet the Gate 2 Criteria (and allowing projects which do not time to take action).

In the “Application of Gate 2 Criteria to existing contracted background” CUSC Modification, we have set out our thoughts on transitional and enduring arrangements that the ESO need put in place with customers in relation to applying the Gate 2 criteria to the contracted background. This will be further debated in the Workgroup and we need to in

parallel ensure that the impacts on Transmission Owner/ESO contractual arrangements are also considered and clearly set out to facilitate such changes.

Proposer's justification for governance route

Governance route: Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)

This modification will need Workgroup scrutiny. The ESO propose joint working with CUSC on the policy and process to ensure alignment on proposed solutions and CUSC and STC Workgroups to only break off, to e.g. develop legal text, assess against the applicable Code objectives, once solutions are clear. Early workgroups will focus on the scope, who needs to follow the process (and identify any exceptions) and the policy with later workgroups focusing on the process.

This should be progressed via a separate Workgroup to the 'Application of Gate 2 Criteria to existing contracted background' Modifications as the 'Application of Gate 2 Criteria to existing contracted background' Modifications focus on impacts for existing contracted parties. The intention is for the Final Modification Report for the suite of 'Implementing Connections Reform' Modifications and the 'Application of Gate 2 Criteria to existing contracted background' Modifications to be sent to the Authority for decision at the same time.

Urgency

In seeking urgency, we are mindful of Ofgem's Urgency Criteria. In our view, this is "a current issue that if not urgently addressed" will have "a significant commercial impact on parties, consumers or other stakeholder(s)" and therefore meets Ofgem's Urgency Criteria (a). We consider that Urgent treatment of the "Application of Gate 2 Criteria to existing contracted background" Modification is also required in parallel in order to have combined significant impact from the go live date of 1 January 2025.

The [Energy Act 2023](#) gave OFGEM a statutory net zero duty to protect the interests of existing and future energy consumers, supporting the government in meeting its legal obligation to meet net zero by 2050.

The Connections Reform modifications are part of the suite of [Connections Action Plan](#) (CAP) initiatives that Ofgem and DESNZ are proposing to speed up connection queue timescales. Specifically, the CAP sets out a desired outcome of "*Connections reforms delivered with a high degree of confidence in quality, pace, ambition and coordination of reform delivery, ensuring greater and faster impact of connection reform in reducing connection times as well as lower system and/or connection costs.*" Furthermore, there is an ask for enabling reforms to be substantially delivered by 2025 to ensure energy security and investability³ across the network"⁴. As such, we consider that the Connections Reform modifications directly support the CAP ambition for "transmission connection dates offered to be on average no more than 6 months beyond the date requested by the customer." They also align directly with the Connection Action Areas in the CAP by: 1) raising entry

³ Investment would be disincentivised by the increasing connections queue and current connection dates

⁴ Page 83 and 84

requirements; (2) removing stalled projects; (3) better utilising existing network capacity; and (4) better allocating available network capacity.

Given the scrutiny that will be required for these changes, delivery by 2025 can only be achieved on an urgent timeline even though we are only progressing the changes set out in our Minimum Viable Product.

Since publication of the Connections Action Plan in November 2023, the transmission and distribution connection queue has continued to grow relentlessly and, at the current rate of growth, the total connections queue is likely to exceed 800GW by the end of 2024. Without intervention, we expect this trend to continue with a forecast average increase of ~20GW for transmission being added every month beyond end 2024, which could lead to a 1000GW+ queue by the time necessary changes are in place if an urgent timeline is not followed.

With regards to the shared ambition of ESO, DESNZ and Ofgem to deliver connection offers that are within 6 months of the connection date requested, the current average time difference between offered and requested connection date is 47 months. In 2023 that difference was ~30 months (when the transmission queue was ~350GW), and in 2022 that difference was ~20 months (when the queue was ~200GW). As such, it is a reasonable expectation that increasing the connections queue as per the figures quoted above would further widen this difference (potentially to ~60 months by end 2024 and to ~75 months by end 2025). We therefore need to take action as soon as possible to have the best chance of realising the ambition of delivering connection offers within 6 months of the connection date requested.

Our analysis of currently available data indicates that our proposed reforms could potentially more than halve the size of the queue. Therefore, urgent action in line with our proposed changes will allow us to prioritise the readier and/or more viable projects in the existing connections queue and reduce the average time difference between offered and requested connection date for these projects.

Interactions

- Grid Code
- BSC
- STC
- SQSS
- European Network Codes
- Other modifications
- Other – DCUSA, Transmission Licence Changes

We have set out above the proposed CUSC and STC changes and noted the need for potential DCUSA changes. We have also noted the potential need for changes to the Transmission Licence and we will crystallise our thinking on these during the Workgroup phase.

We do not foresee the need for Grid Code changes for our Minimum Viable Product and have verified this with industry.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CAP	Connections Action Plan
CM	Code Modification
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
DCUSA	Distribution Connection and Use of System Agreement
DESNZ	Department for Energy Security and Net Zero
DNO	Distribution Network Operator
ESO	Electricity System Operator
STC	System Operator Transmission Owner Code
STCP	System Operator Transmission Owner Code Procedures
SQSS	Security and Quality of Supply Standards
T&Cs	Terms and Conditions

Reference material

None – key links embedded within Proposal Form