

## **Alert** | Energy & Natural Resources



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### **UK Grid Connection Reforms: Breaking the Bottleneck**

#### **Go-To Guide**

- The UK is transforming its grid connection system to address a backlog of over 739 GW of projects, aiming to streamline access and reduce delays.
- New reforms focus on prioritizing projects that are ready for development and essential for grid stability, eliminating the speculative applications.
- A structured gate-based queue process would be implemented, requiring projects to meet specific criteria to secure grid connection.
- NESO has temporarily paused new grid connection applications pending reform implementation, with certain exceptions.
- Investors and lenders may prioritize projects with secured grid access, potentially impacting valuations and project economics.

The UK's grid connection system is undergoing its most significant transformation in decades. With 739 GW of projects stuck in the queue and over 1,700 new applications in 2023 and 2024 alone, the system has hit a breaking point, clogging the project pipeline and causing years-long delays.

Recognising the urgency, the National Energy System Operator (NESO) introduced reforms to cut through the backlog and bring order to the chaos. These changes, now under review by the Office of Gas and Electricity Markets (Ofgem), are designed to prioritise viable projects, eliminate speculative applications, and fast-track grid access.

In February 2025, Ofgem gave in-principle approval to the reforms, launching a consultation that closed on 14 March 2025. A final decision is expected by the end of Q1 2025. These reforms would reshape the UK’s energy landscape if implemented, aligning with the government’s Clean Power 2030 Action Plan (CP30 Plan).

What might this mean for businesses? Let’s break it down.

**I. Key Reforms**

*A. Application of Reforms*

- Transmission-connected projects, including large-scale renewable generation, battery storage, and other projects seeking direct transmission grid access; and
- Distribution-connected projects requiring a Transmission Impact Assessment or modification applications (ModApps) affecting transmission capacity are subject to ongoing reforms.

The only projects not impacted would be demand projects seeking a connection to the distribution system or very small generation projects seeking a connection to the distribution system where they have no significant impact on the transmission system. The small, embedded generation projects that would not be required to apply for a Gate 2 offer are projects under the lower limit Transmission Impact Assessment thresholds—the current lower limit is 1MW in England and Wales and 200kW in Scotland.

*B. Transition to a ‘First Ready, First Needed, First Connected’ Model*

NESO has proposed a shift from the existing ‘first-come, first-served’ model to a ‘first ready, first needed, first connected’ system, emphasising project readiness and necessity over application order. This approach prioritises projects prepared for immediate development and critical for grid stability, potentially reducing delays that unprepared or speculative proposals cause.

<i>Old System</i>	<i>New System</i>
First-come, first-served	First-ready, first needed, first-connected
No prioritisation	Prioritisation based on viability
Long waiting times	Streamlined queue
Speculative projects included	Only viable projects progress

*C. Gate-Based Queue System*

The reforms introduce a structured gate-based process for processing grid connection applications:

- **Gate 1:** Projects receive an indicative connection date and capacity allocation.
- **Gate 2:** To secure a place in the queue, applicants must meet specific Gate 2 criteria on readiness and strategic alignment.

- **Gate 2 to Whole Queue:** Existing queued projects (i.e., those already given a place in the queue before the introduction of Gate 2), subject to certain exceptions, would be reassessed under the new criteria to remove speculative applications from the queue.

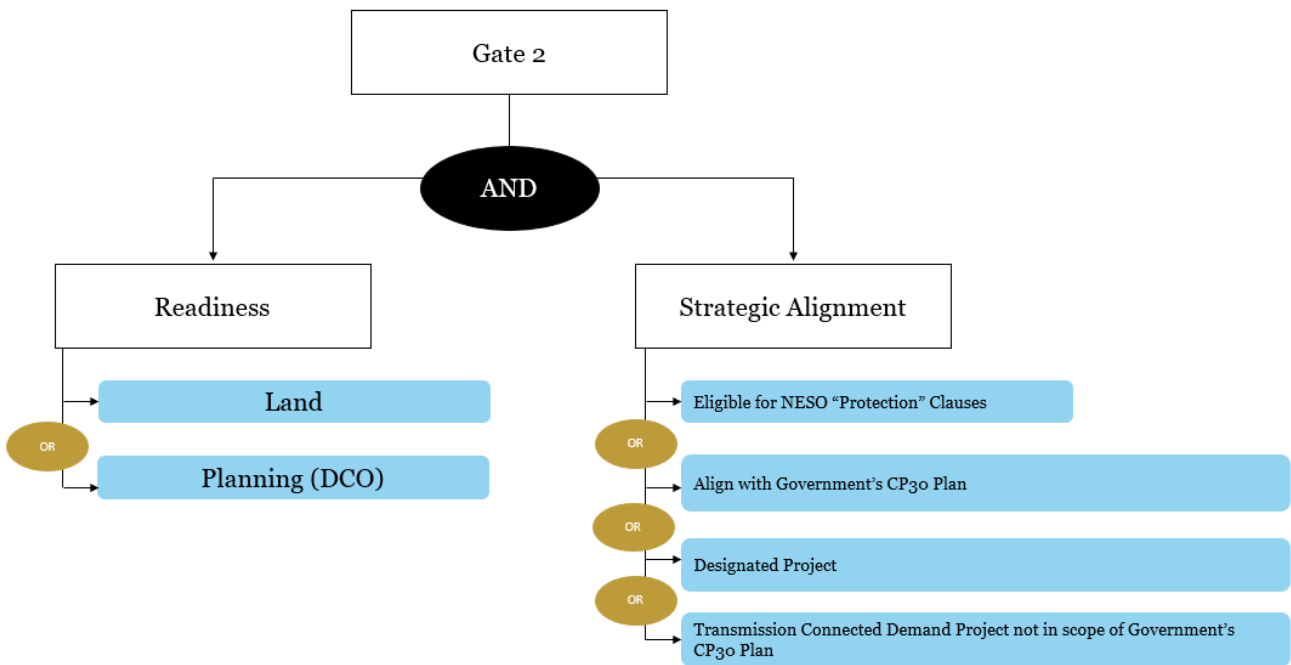
**Gate 1**

Applicants at this stage would not receive a firm connection offer or a connection date. The Gate 1 offer would include only an indicative connection date and an indicative connection location (unless the project is selected for connection point and capacity reservation). The indicative connection date could be moved forward or backwards at Gate 2. Gate 1 would have an annual application window in which projects must pass a competency assessment.

A Gate 1 offer is not a prerequisite for an application for a Gate 2 offer; projects may bypass Gate 1 and apply directly for Gate 2, provided they meet the readiness and strategic alignment conditions as outlined below.

**Gate 2**

To progress through Gate 2, a project must satisfy both the readiness criteria and strategic alignment criteria, as summarised below. Applicants would be required to accept a Gate 2 offer within three years of accepting the Gate 1 offer.



**Readiness Criteria**

Projects must meet either the land requirements or the planning requirements.

Land Route

- Meet the minimum acreage requirements (or offshore equivalent).
- Provide the original Red Line Boundary for the site on which the project is located.
- Secure land rights for the project site.

Planning Route

- Submit and validate an application for planning consent under the **Development Consent Order (DCO)** process.
  - While NESO expects most projects to meet the readiness criteria via the land route, this planning route provides an alternative for projects seeking compulsory purchase order (CPO) powers.
- Projects following the planning route must still provide evidence of minimum acreage and the original red line boundary.

**Strategic Alignment Criteria**

Projects must also align with at least one of the following criteria:

(a) **Eligibility for NESO ‘Protection’ Clauses:** A project must qualify under one of the following protections:

- *Protection Clause 1:*
  - Projects contracted to connect by the end of 2026; and
  - Must have met queue management milestones M2 and M7 (as outlined below).
- *Protection Clause 2:*
  - Projects demonstrating significant progress, evidenced by:
    - Planning consent (submitted on or before 20 December 2024), OR
    - A valid contract for difference (CfD), OR
    - A capacity market (CM) contract, OR
    - For interconnector or offshore hybrid asset projects only: regulatory approval from Ofgem (either a cap and floor agreement or merchant interconnector approval).
- *Protection Clause 3:*
  - Projects obtaining planning consent after the CMP435 gated application window closes; and
  - Must have met queue management milestone M1.

**OR**

(b) **Alignment with the CP30 Action Plan**

- The project must align with the capacities set out in the **CP30 Action Plan**, as described in the connections network design methodology.

**OR**

(c) **Project Designation**

- The project must be designated in accordance with the project designation methodology.

**OR**

(d) **Exemption from CP30 Scope**

- If a project is outside the scope of the **CP30 Action Plan**, it must fall within a NESO-recognised technology type, including:
  - transmission-connected demand
  - wave energy
  - tidal energy
  - non-GB generation

Gate 2 offers would be issued in batches by NESO. Successful projects would need to comply with the offer's conditions, including any milestone requirements, to avoid termination. Projects that have not successfully received a Gate 2 offer may be issued a Gate 1 offer (if eligible).

### **Ongoing Compliance**

Once a project has met the Gate 2 criteria and signed the Gate 2 offer, it must comply with NESO's land and planning requirements. These ongoing obligations are outlined in NESO's [Queue Management Guidance](#), specifically [Section 16 – Queue Management Process](#), which includes the following milestones:

- Milestone 1: initiated statutory consents and planning permission
- Milestone 2: secured statutory consents and planning permission
- Milestone 3: secure land rights
- Milestone 4: N/A for transmission connected projects
- Milestone 5: contestable design works submission
- Milestone 6: provisional agreement of construction plan
- Milestone 7: project commitment, demonstrating that the project has the necessary commitment or backing for it to proceed
- Milestone 8: project construction

### **One-Off Exercise: Gate 2 to Whole Queue (G2WQ)**

Before the new framework takes effect, NESO will conduct a one-time reassessment—the G2WQ process—to evaluate whether existing projects with connection offers meet the Gate 2 criteria. Given that this process applies retrospectively, projects that already hold a connection offer and meet specific exceptions will be deemed to comply with the strategic alignment criteria. Projects may also submit a modification application and request that their project be expedited as part of the G2WQ process and changes to their point of connection.

### **Post-G2WQ**

Following the end of the G2WQ process, NESO will hold Gate 2 application windows twice a year. Full details on timing have not yet been provided.

### **Transitional Offers**

Since September 2024, all new applications for direct transmission system connections have been issued “transitional offers” before the new regime's implementation. Applications for demand projects must be made by 21 March 2025 and “clock-started” by 4 April 2025.

These offers function similarly to the upcoming Gate 1 offers under the connection reforms. Specifically, transitional offers provide only an indicative connection date and location without a detailed application study. As a result, they do not include any planned reinforcement works or require associated securities. The transitional offers process has not been applied to bilateral embedded generation agreements (BEGAs), bilateral embedded licence exemptible large power station agreements (BELLAs), or ModApps.

## II. Pausing Grid Applications

NESO has paused accepting or processing new grid connection applications from 29 January 2025, pending the implementation of reforms or further direction from Ofgem. The pause applies to (i) transmission connection applications, (ii) distribution applications that are subject to ModApp or TIA, (iii) BEGA, (iv) BELLA applications, and (v) project progressions.

The distribution network operators (DNOs) will continue accepting applications at the distribution level and provide offers as before. However, if any application requires a transmission impact assessment process (thereby requiring a ModApp), it will not be passed to NESO during this period.

### *Exceptions to the Pause*

NESO has indicated that specific applications, including ModApps, may still be processed under exceptional circumstances, including:

- projects that are critical to grid security or public safety,
- ModApps that do not materially impact the G2WQ process, and
- delivery critical ModApps for connections before the end of 2026.

Applications are assessed on a case-by-case basis, weighing factors like possible impact on the overall project programme, committed spending, any effect on other projects, or any detrimental impact on the network's safety and operation.

## III. Investor and Lender Perspective on the Reforms – Select Issues

- **Cautious Approach to Financing** – Lenders may be hesitant to fully finance projects without a confirmed grid connection date, as revenue certainty remains a concern without an assured power connection. Since Gate 1 offers are only indicative, many lenders may be reluctant to commit large debt tranches at this stage. Instead, developers may rely on equity or bridge financing to cover early costs, with traditional lenders typically stepping in only after a project secures a Gate 2 connection offer.
- **Structured Funding and Risk Mitigation** – Facility agreements generally include covenants and other safeguards to address grid connection uncertainties. Lenders may consider conditions precedent tied to Gate 2 milestones, such as securing a firm connection date before releasing construction funds. Lenders may also structure loans in phases using staged disbursements and seeking sponsor guarantees or larger interest reserves to accommodate possible delays. If a project loses its connection slot post-Gate 2, lenders may seek restructuring or alternative solutions, including site relocation or on-site power generation.
- **Grid Connection as an Investment Driver** – Investors and lenders may prioritise projects with secured or near-term grid access, as power availability now impacts valuations and project economics. Sites with firm, near-term grid connection dates may be considered commanding premiums. Some developers may sell or transfer grid connection slots to unlock value, with secondary trading of grid positions emerging as a viable strategy.
- **Potential for Legal Challenges:** Under the new system, delayed or deprioritised projects may seek legal recourse, leading to potential disputes.
- **Regulatory Alignment:** Ensuring that projects align with the strategic alignment criteria will be crucial for prioritisation.

For stakeholders, the key question is: Are you prepared for the new grid connection reality?

## Authors

This GT Alert was prepared by:

- **Shashank Krishna** | +44 (0) 203.349.8700 | [Shashank.Krishna@gtlaw.com](mailto:Shashank.Krishna@gtlaw.com)
- **Harshita Khurana ‡** | +44 (0) 203.349.8759 | [Harshita.Khurana@gtlaw.com](mailto:Harshita.Khurana@gtlaw.com)
- **Tom Hilton ~** | +44 (0) 203.349.8700 | [Tom.Hilton@gtlaw.com](mailto:Tom.Hilton@gtlaw.com)

‡ Admitted in India. Not qualified in England and Wales.

~ Not admitted to the practice of law.

Albany. Amsterdam. Atlanta. Austin. Berlin<sup>†</sup>. Boston. Charlotte. Chicago. Dallas. Delaware. Denver. Fort Lauderdale. Houston. Kingdom of Saudi Arabia<sup>‡</sup>. Las Vegas. London<sup>\*</sup>. Long Island. Los Angeles. Mexico City<sup>‡</sup>. Miami. Milan<sup>»</sup>. Minneapolis. Munich<sup>–</sup>. New Jersey. New York. Northern Virginia. Orange County. Orlando. Philadelphia. Phoenix. Portland. Sacramento. Salt Lake City. San Diego. San Francisco. São Paulo<sup>›</sup>. Seoul<sup>∞</sup>. Shanghai. Silicon Valley. Singapore<sup>ˆ</sup>. Tallahassee. Tampa. Tel Aviv<sup>^</sup>. Tokyo<sup>»</sup>. United Arab Emirates<sup>‹</sup>. Warsaw<sup>ˆ</sup>. Washington, D.C. West Palm Beach. Westchester County.

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