

Market Update on Grid Connections Reform

Curate, Plan and Connect

On 16 June 2026, Ofgem published a *Connect Update* setting out its current policy direction to enable more paths to grid connection, alongside a summary of responses to its *Call for Input on demand connections reform*. In this market update, we briefly summarise the salient points of these publications, which large demand customers, and in particular data centre developers and operators, should carefully consider.

1. Background

As we outlined earlier this year, Ofgem, NESO and DESNZ have been pursuing a three-pillar approach to address the unsustainable growth in the demand-side grid connection queue. These pillars are:

- **Curate:** to remove non-viable projects from the queue.
- **Plan:** to prioritise connections for strategically important projects.
- **Connect:** to provide more viable pathways to grid connection.

Ofgem is leading on the Curate and Connect pillars, with DESNZ leading on the Plan pillar. As such, Ofgem's updates are primarily on the Curate and Connect workstreams.

2. Curate

Ofgem has stated that it will consult on the Curate pillar in the coming weeks. This consultation will be a critical one for demand-side users to input into, as its outcome will result in new rules and regulations impacting the cost and commitment profile of entering and remaining in the demand queue.

Ofgem has already indicated its likely direction of travel (subject to consultation):

- A new financial filtering mechanism seems clearly on the cards, narrowed to one of two milestone-linked options: an incremental refundable deposit (Option 1b) or an escalating, PCF-style model (Option 2). Option 3 (for a non-refundable fee) is no longer being explored.

- Ofgem's current view is that any new financial mechanism would apply alongside existing securities (without offset), although it is continuing to work through the interaction with CMP417 (which is nearing its final stages).
- Ofgem has moved away from prior suggestions that Gate 2 entry criteria might be revisited and tightened. This is welcome news: any such change would likely have introduced a further layer of complexity into an already intricate process, whilst creating significant new uncertainty and delay for developers navigating the queue.
- Instead, Ofgem is proposing to introduce milestone-based progression checks to projects with Gate 2 offers, applied consistently across both transmission and distribution. In particular, Ofgem has indicated it is likely to seek (at the appropriate time):
 - evidence of financial capability (such as a credit rating or letter of credit); and
 - evidence of progress being made on long-lead procurement.
- Evidence of secured commercial offtake will not be pursued at the outset, but Ofgem will consult on a staged approach requiring evidence earlier in the process. Outline and full planning consent have both been ruled out as formal readiness requirements, given concerns around circularity and the risk of permissions lapsing before connection offers are issued.

3. Connect: Accelerate and Operate

Ofgem has formally divided the Connect pillar into two separate workstreams: Accelerate, and Operate.

- **Accelerate** aims to make it easier for people to self-build and own high-voltage assets, in order to increase physical grid connections for demand projects, increase customer choice and enable projects to benefit from quicker and/or cheaper connections.
- **Operate** aims to ensure that the increased number of large demand loads on the system does not jeopardise the stability and integrity of the wider network.

3.1 Accelerate: self-build and ownership

The Accelerate measures being considered by Ofgem will be especially important for developers looking to self-build and own high-voltage assets. Ofgem is expecting to consult on these in Autumn 2026. Ofgem has highlighted it is prioritising the development of an independent transmission owner (iTO) licence.

The iTO licence would create a standardised route for third parties to own high-voltage transmission assets. It received support from Call for Input respondents, with many suggesting Ofgem draw on the iDNO model at distribution level. Work is now underway with the Connect Task and Finish Group to determine scope, consider interactions with the Competitively Appointed Transmission Owner (CATO) regime, and examine relevant precedent models.

Ofgem has also highlighted that:

- it considers that clarifying its interpretation of the Electricity Act 1989 would not resolve the longstanding uncertainty around high-voltage asset ownership, and will not explore this avenue further; and
- the introduction of a class exemption to the requirement for a transmission licence could supplement the iTO licencing regime, but this is a matter for DESNZ (and Ofgem is supporting DESNZ in identifying what scope such an exemption might have).

3.2 Operate: Flexibility and bridging the gap

Ofgem also expects to consult on several Operate measures in Autumn 2026, with a focus on flexibility requirements and operational control. Underpinning these

is a trilemma that Ofgem has identified, which will need balancing of:

- system needs (balancing supply and demand across the system, with risk ultimately borne by consumers);
- data centre operational needs (site and business model specific and technology dependent); and
- investability needs (where additional regulatory requirements may create additional bankability and finance risk).

How Ofgem navigates this trilemma will determine the limits of what it can require in terms of flexibility and operational control without deterring the very projects it is seeking to connect. Developers are encouraged to engage with forthcoming consultations to ensure their investability concerns are properly reflected (and to ensure Ofgem understands developers' business models and why flexibility may in some cases be very difficult to accommodate).

Three categories of flexibility measure are under consideration:

- **Alternative connection agreements:** Ofgem is working with network operators and developers to articulate the "menu" of standard and alternative connection agreements available, and to explore new types. It is also examining the uptake of phased connection agreements, where capacity ramps up over time in line with typical data centre build-out. Call for Input feedback indicates that non-firm connections should remain voluntary, with a clear path to firm connection as their use remains project specific.
- **Voluntary flex services:** a Flex Technical Taskforce is working to identify flexibility solutions appropriate for specific development types, with findings expected to be reported to the AI Energy Council in Autumn 2026. The rationale is that greater voluntary uptake of flexible operation would reduce the need for mandatory backstop measures. Developers may be willing to build-in flexible capability if doing so enables earlier connection.
- **Operational control measures:** Ofgem is additionally considering whether introducing an additional backstop operational control measure, such as mandatory curtailment, may be required for NESO to retain confidence the system can handle stress events. The theory is that such measures would enable the system operator to adopt less conservative

assumptions in long-term security of supply analysis, thereby permitting greater volumes of demand to connect at pace. However, as Ofgem acknowledges, the introduction of mandatory curtailment measures would raise very significant investability concerns and may not suit all data centre business models, so this is likely to cause very significant debate.

Ofgem is also exploring the standardisation of infrastructure design and engineering principles for self-build assets.

4. Plan: Awaited

As noted above, DESNZ leads on the Plan pillar and its consultation on accelerating strategic demand connections closed on 15 April 2026. We await DESNZ's response, which

will hopefully provide further clarity on the proposed prioritisation framework for strategically important projects, its selection criteria, and its timescales.

5. Concluding thoughts

We have already seen that input from large demand customers and data centre developers and operators has been very helpful to Ofgem, DESNZ and NESO in refining down proposals for further grid connection reforms. We would strongly encourage the developer community to continue to make their voices heard, and avoid policy developing along pathways which would be dead-ends for investment. The next consultations will be key to avoid this.

Whether necessary reforms can be delivered at the pace the market demands remains the central question.

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