

CMP448 Introducing a Progression Commitment Fee to the Gate 2 Connections Queue

Workgroup Meeting 7, 30 March 2025

Online Meeting via Teams

Welcome and Agenda

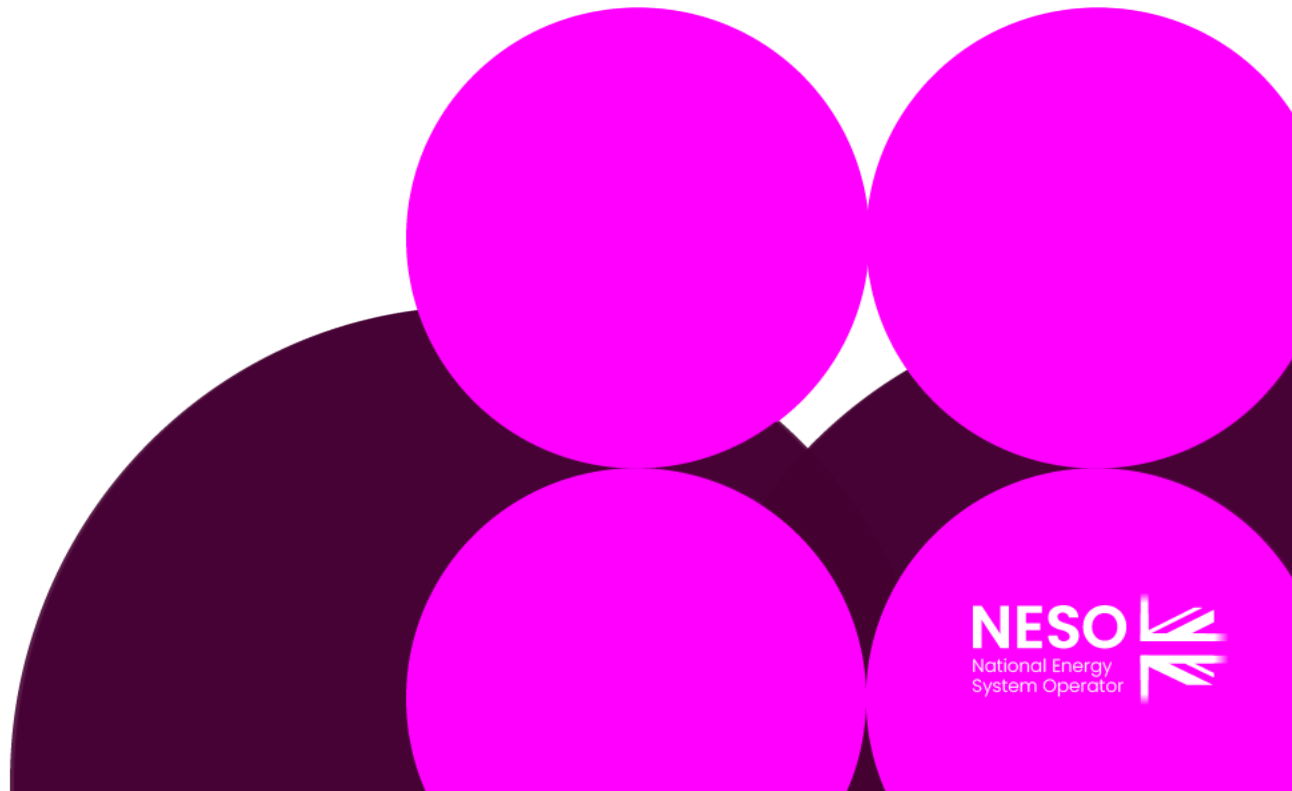
Agenda

WG7

Topics to be discussed	
Welcome and Agenda	Chair
Action and Query Logs	Chair
Securities	Proposer
- User Commitment & PCF securities timeline overview	
Updated position on replacements in the trigger metric	Proposer
Additional topics	
• Hybrid & staged projects and capacity reduction	
• M1 dates Proposer	
Alternatives Discussion	Chair
- New Alternatives	
- Combining Alternatives	
- Plans for WG Vote	
Plan for next workgroups	
Any Other Business	Chair
Close	Chair

Action and Query Logs

Workgroup Chair - NESO



Securities User Commitment & PCF securities timeline overview

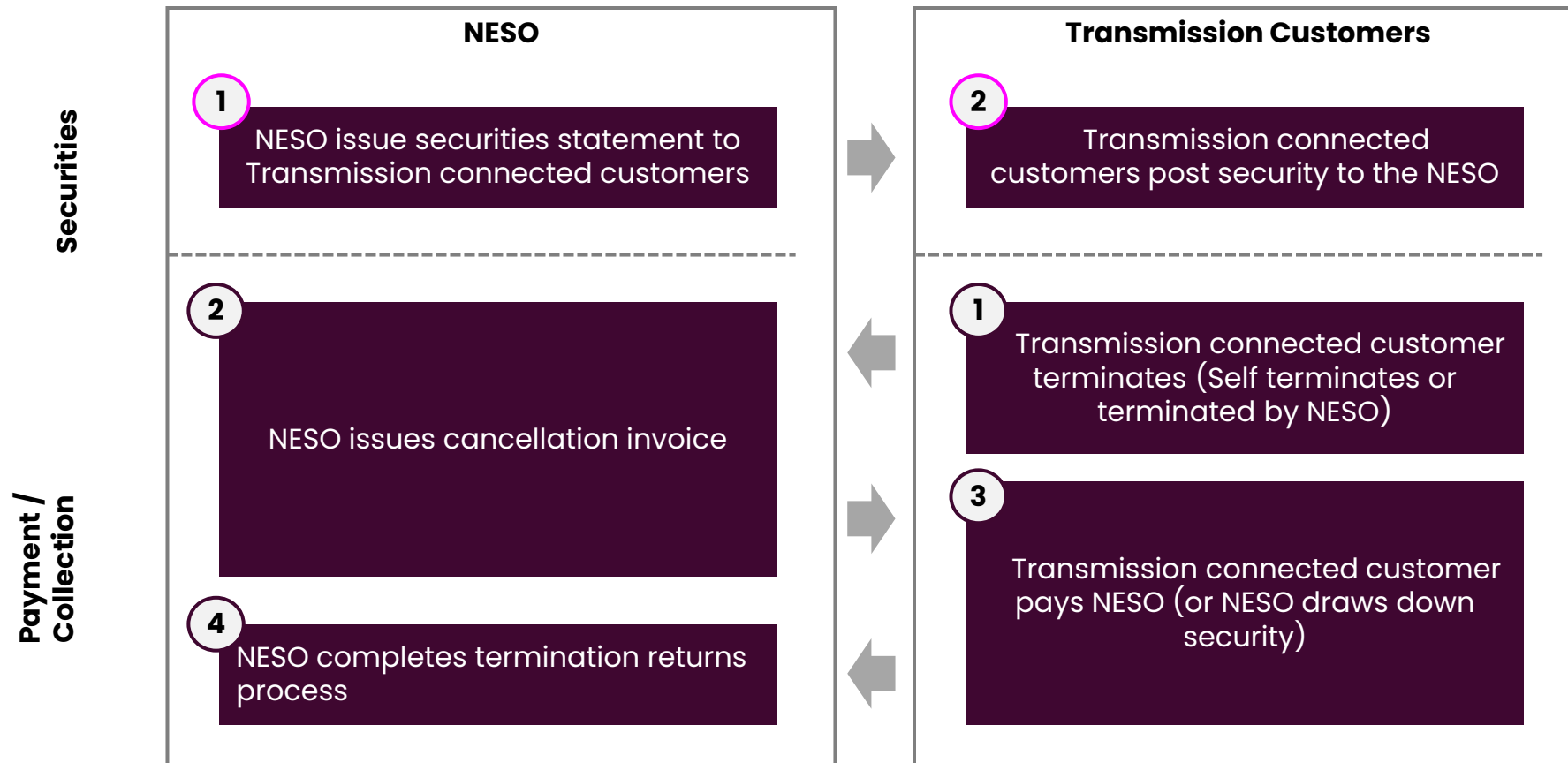
Securities: High-level PCF Approach

Update on treatment of securities:

1. NESO finance believe that the best approach is to embed the PCF securities process within the existing User Commitment process
2. PCF would be regarded as a cancellation charge and therefore sit within the MM statement

Securities: Current Transmission Interfaces¹

Below outlines the high-level interfaces between NESO, and Transmission connected customers for existing User Commitment securities. The PCF securities process will embed within these processes as much as possible.

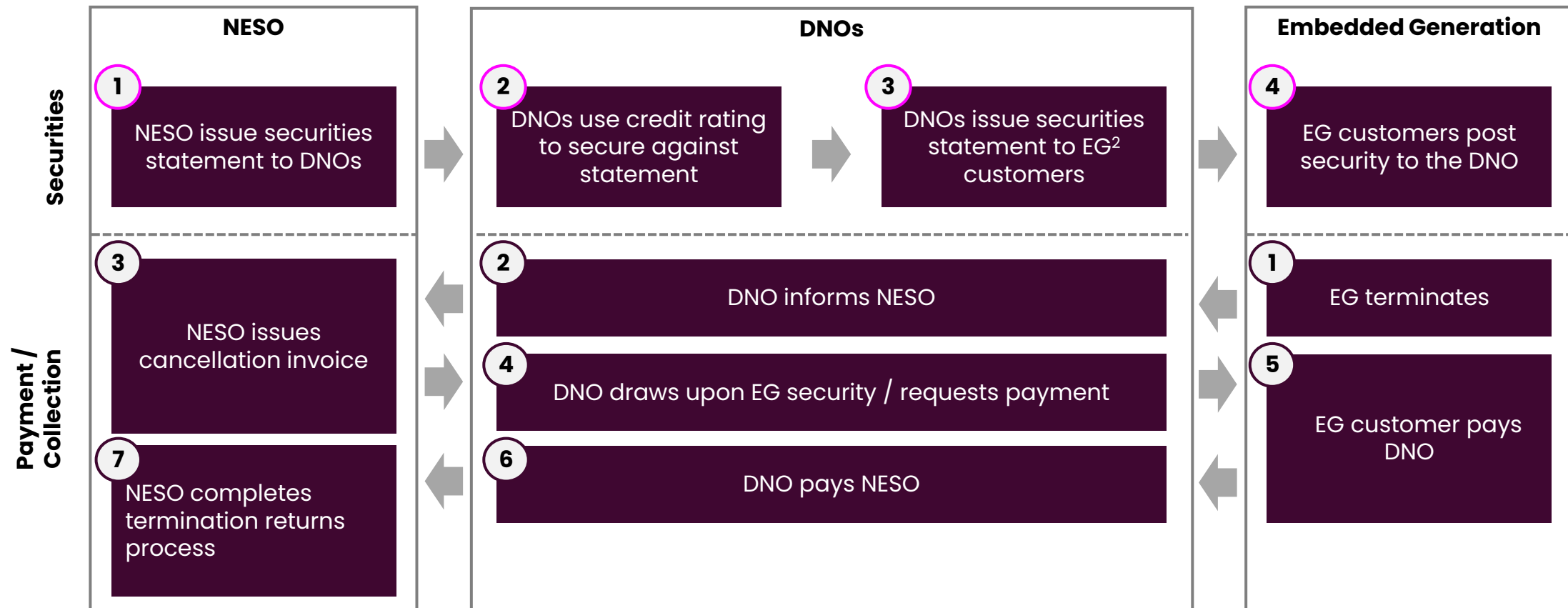


Notes:

1. Source: NESO SME input

Securities: Current Distribution Interfaces¹

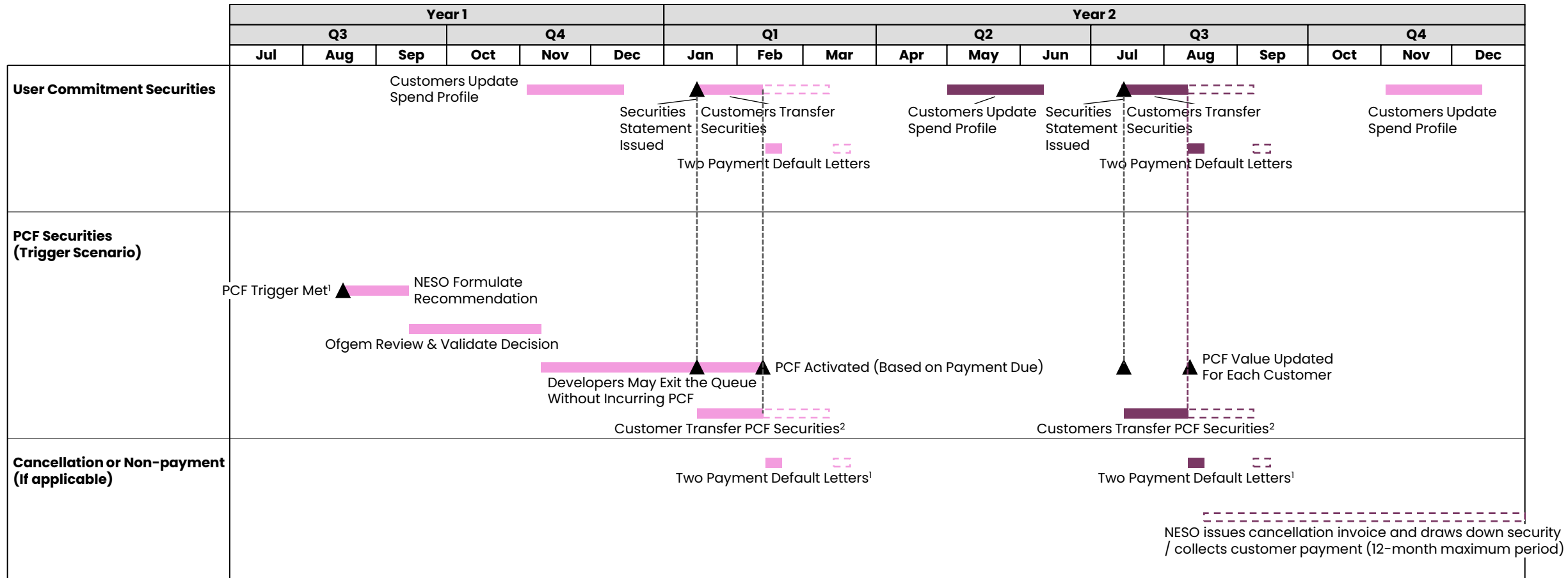
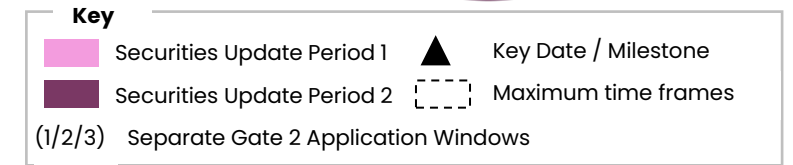
Below outlines the high-level interfaces between NESO, DNOs, and Embedded Generation customers for existing User Commitment securities. The PCF securities process will embed within these processes as much as possible.



Notes:

1. Source: NESO SME input
2. EG = Embedded Generation

Securities: Initial Timeline with PCF



Notes:

1. Latest the trigger could be met based of 1 month NESO decision, 2 months Ofgem review, and 3 months developer notice period
2. For Embedded customers, DNOS would use their credit rating to post security and therefore the 'non-cash' deadline would apply

Overview of Current Terminations Process and Rules¹

Terminations Process Overview

- 1. Cancellation Charge Statement Issued:**
 - NESO issue statement bi-annually (MMI statement)
- 2. Security Requirement Applied:**
 - Customer confirms credit rating or provides financial security for estimated charge
- 3. Notification of Key Consents (if applicable)**
 - Customer informs NESO of progress on project 'Key Consents' which affects the charges
- 4. Termination Event:**
 - Termination of agreement or reduction in capacity
 - Includes if a customer does not post the full security
- 5. Issue Cancellation Invoice Upon Termination:**
 - Invoice raised based on liability value in previously issued statements
- 6. Final Reconciliation (for 'actual securities²'):**
 - Within 12-months post termination, NESO issues final charge and adjusts for over/underpayment
- 7. Final Payment or Refund:**
 - Customer pays shortfall or NESO refunds excess

Overall Process Duration: 12 months

Key Terminations Rules

General:

- Cancellation charge applies to customers self-terminated, terminated by NESO, or reducing capacity early
- Disputes don't delay payment or security rights. NESO can call on security even if there's an ongoing dispute (however resolution may be pursued before exercising this right).
- Interest applies on any payment adjustments if cash security place/

Distribution and Embedded Generation:

- EG customers (excluding BEGAs) post securities to DNOs not directly to NESO. This is a separate commercial agreement
- DNOs secure with NESO utilising credit ratings, this still applies regardless of any change in EG customers liability

Notes:

- Sources: [CUSC Section 15](#): User Commitment Methodology, NESO SME Input
- Customers can either choose to fix their attributable works liability or base on actual spend profiles, final reconciliation only applies in the case the customer has chosen the 'actual' option

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Replacements

Removal of Replacements from the Trigger Metric: Rationale

We plan to simplify our proposal by removing 'replacements' from the trigger metric

Challenge:

- Currently, if a replacement for a project can be sourced within 6 months of terminating, those MW would not contribute to the trigger metric
- Workgroup feedback has indicated that this design feature is complex and risks allowing insufficient time to source replacements
- As we worked through the detailed design, in parallel with the further developments of connections network design processes, we have determined that the process to identify replacements will likely take longer than 6 months.
- Therefore, very few replacements are likely to be identified within the parameters of the metric as it is drafted in the proposal

Proposed Modification:

- We therefore propose to simplify the modification by removing the reference to replacements, as there would be minimal practical impact on the calculation of the metric.

Additional Benefits:

- Shortens the lag between termination and measurement
- Simplifies operational implementation, particularly around placing an excessive burden on DNOs to identify and report replacements

Removal of Replacements from the Trigger Metric: Proposed Change

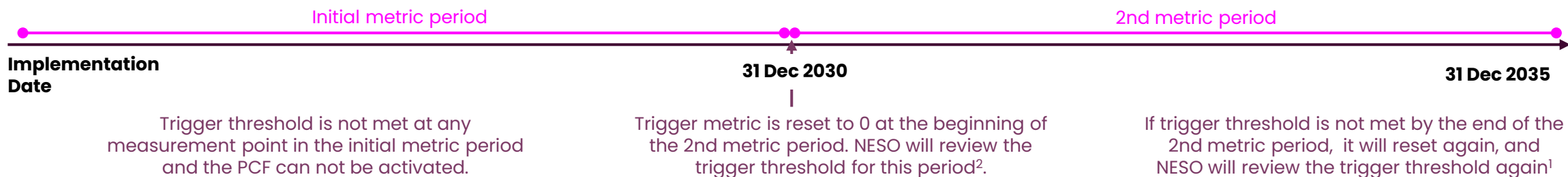
- **Previous Trigger Metric¹:** *“The metric will measure the cumulative project MWs that are “terminated” from the Gate 2 connections queue as a result of failing to meet Milestone 1. Any project MWs that are subsequently replaced by another project (or projects) with a connection date within 12 months of the connection date of the original project, within a given time period will be excluded from the metric”.....“If no replacement capacity can be identified within six months, the terminated capacity will be included in the trigger metric.”*
- **New Trigger Metric:** *“The metric will measure the cumulative project MWs that are “terminated” from the Gate 2 connections queue as a result of failing to meet Milestone 1”*
- **The trigger metric threshold remains at 6GW** because the effect on when the trigger threshold could be met is small. However, the lag time for activating the trigger would be reduced.

Notes:

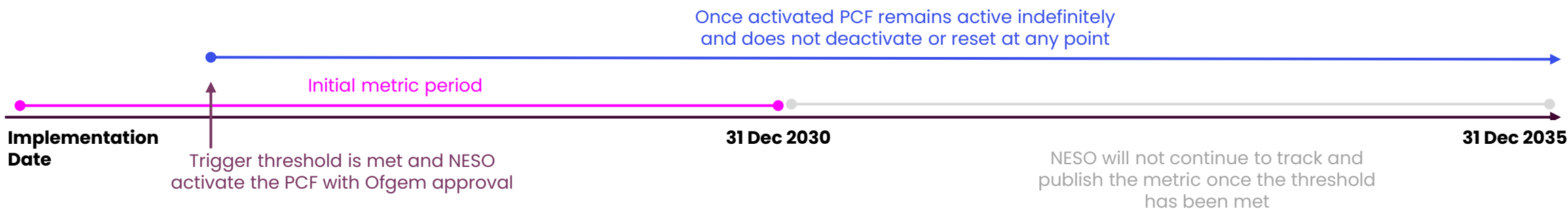
1. Sources: [CMP448: Modification Proposal Form](#)

Metric Measurement Scenarios

Scenario 1: If the PCF is not activated within initial metric period, then the metric will reset for the following metric period.



Scenario 2: If the PCF is activated, it remains in place indefinitely

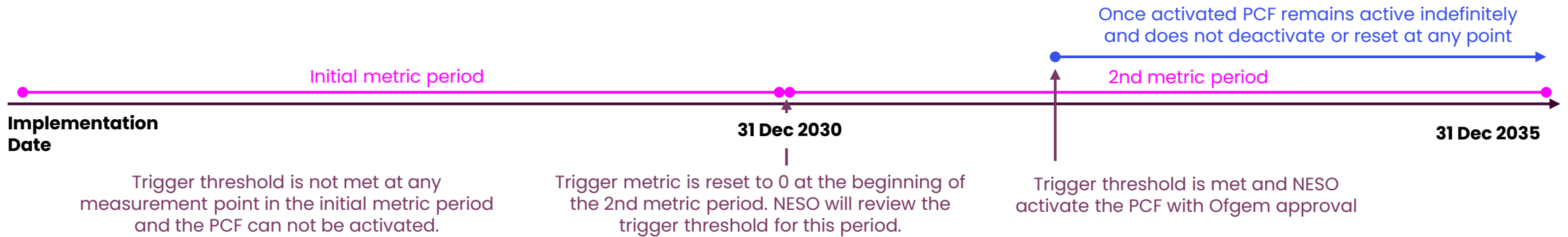


Notes:

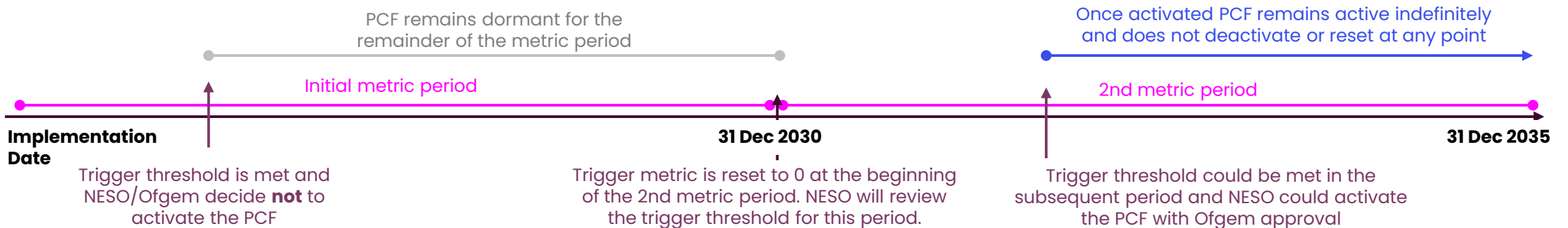
1. Trigger metric will continue to reset at the end of each metric period if the threshold is not met (unless the above process is changed by a further CUSC modification)
2. And make changes via a CUSC Modification if required

Metric Measurement Scenarios

Scenario 3: If the PCF is activated in a later period



Scenario 4: If the trigger threshold is met but the PCF is not activated in the first metric period



Notes:

1. Trigger metric will continue to reset at the end of each metric period if the threshold is not met. (unless the above process is changed by a further CUSC modification)

Hybrid & Staged Project Overview

Staged Project¹

- Definition of a staged project: A project where the capacity will be connected at different times is referred to as a staged project. Different stages of the same project are assigned separate connection dates, M1 dates, and TEC.
- Principle: Individual stages are treated separately with respect to queue management. The PCF applies to each individual stage, based on TEC.

Illustrative example of staged project data:

	Contract Date	Connection Date	M1 Date	TEC MW	Technology
Overall Project Contract	Dec 2027	Multiple	Multiple	300MW	Solar
Stage 1	-	Jan 2030	27 H1	200MW	Solar
Stage 2	-	Jan 2033	29 H1	100MW	Solar

Hybrid Project

- Definition / explanation: A project that contains multiple technologies (e.g. solar, batteries, wind)
- Principle: PCF applies to entire stage (or full project if it only has one stage), including all technologies within the stage, based on TEC.

Illustrative example of hybrid project data:

	Contract Date	Connection Date	M1 Date	TEC MW	Technology
Overall Project Contract	Dec 2027	Jan 2030	Jan 2030	300MW	Multiple
Technology 1	-	-	-	-	Solar
Technology 2	-	-	-	-	Battery

Notes:
1. Projects can also be staged and hybrid, we have separated them here for simplicity

PCF Application to Hybrid Projects

Challenge:

- Hybrid projects don't have an associated TEC MW value at the **individual technology level** but only at the stage and project level
- This raises the question of how we would apply the PCF to different technologies within the same project/ stage. Two scenarios require clarification:

#	Scenarios	Approach to Apply PCF
1	One technology drops out of the project between Gate 2 and M1, or fails M1	Customer to update TEC for the new project. PCF will be collected for the reduction and will still apply for remaining TEC MW, if pre M1
2	One technology has passed M1 <i>criteria</i> – a planning application has been submitted for one technology, but not yet for the other technology ¹	Different technologies are not treated individually because TEC is assigned at a project/stage level, and not by technology. The whole stage only passes M1 when all technologies within the stage have met the M1 criteria.

Notes:

1. This scenario is unlikely as it would imply that two technologies with the same M1 date would go through planning separately

Capacity Reduction

If the PCF has been activated and a developer reduces its capacity, then the developer will be liable to pay a portion of the applicable PCF proportionate to the reduction in capacity. The PCF will be recalculated in line with its revised capacity for the purposes of updating the PCF security required.

Example Scenario 1:

A project reduces its capacity from 100MW to 75MW:
PCF has been activated and the PCF value for the project at the time is £2,500/MW

Before reduction:

PCF for capacity held = $£2,500 \times 100\text{MW} = £250,000$

Developer is required to post PCF security of £250,000

After Reduction:

PCF for capacity held = $£2,500 \times 75\text{MW} = £187,500$

PCF for capacity terminated = $£2,500 \times 25\text{MW} = £62,500$

Developer is required to post PCF security of £187,500 and required to pay PCF of £62,500

Example Scenario 2:

A project reduces its capacity from 100MW to 90MW:
PCF has been activated and the PCF value for the project at the time is £10,000/MW

Before reduction:

PCF for capacity held = $£10,000 \times 100\text{MW} = £1,000,000$

Developer is required to post PCF security of £1,000,000

After Reduction:

PCF for capacity held = $£10,000 \times 90\text{MW} = £900,000$

PCF for capacity terminated = $£10,000 \times 10\text{MW} = £100,000$

Developer is required to post PCF security of £900,000 and required to pay PCF of £100,000

Transmission Connecting Illustrative M1 dates relative to connection dates: backward and proposed forward-calculated milestones¹

Key points

- M1 dates will be both backward and forward-calculated by NESO in future under the proposed methodology in CMP434: Implementing Connections Reform
- Under the amended methodology, M1 dates will be the earlier of either forward or backward-calculated dates, with forward dates calculated from when the offer has been issued⁴
- In the forward calculation, projects will have the following amount of time to complete M1:
 - Town & Country: 24 months
 - Section 36, DNS & DCO: 36 months
 - Offshore: 60 months
- No Queue Management Milestone can be later than the project connection date, regardless of calculation method (please see ~~strikerthrough~~ dates)

Developers will receive the earlier of the backward-calculated or the applicable forward-calculated M1 date

Connection date	Backward calculation ² assuming offer date H1 2026	Forward calculation ³ assuming offer date H1 2026		
	M1 date	M1 date (Town & Country)	M1 date (Section 36, DNS, DCO)	M1 date (Offshore)
2026	Bilaterally negotiated	2028 ⁵	2029	2031
2027	Bilaterally negotiated	2028	2029	2031
2028	H2 2026- H1 2027	2028	2029	2031
2029	2027	2028	2029	2031
2030	2027	2028	2029	2031
2031	2027	2028	2029	2031
2032	2028	2028	2029	2031
2033	2029	2028	2029	2031
2034	2030	2028	2029	2031
2035	2031	2028	2029	2031

Notes:

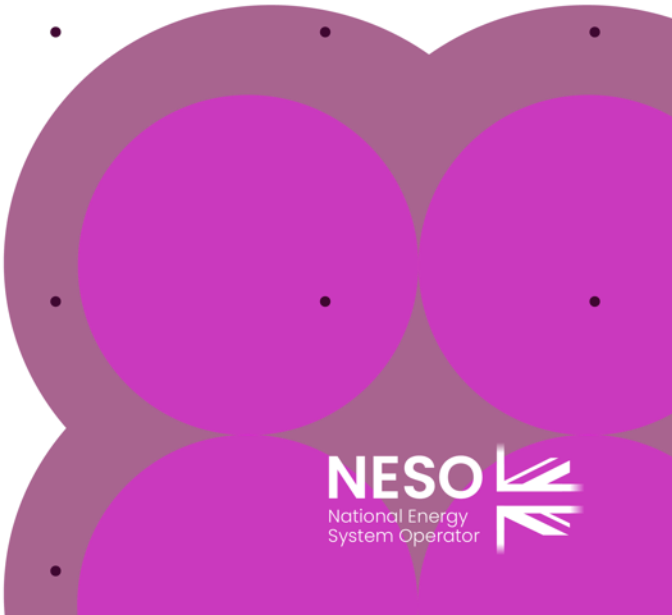
- Source: CMP434 Final Modification Report and Annexes (see Annex 5)
- M1 date is calculated back from the connection date as per CMP376 methodology; until another agreement (Gate 1 or 2) is signed, all QM dates are relevant and enforceable
- M1 date is calculated forwards from the Gate 2 offer date (based on an agreed standard time period from the date that Gate 2 offer is accepted for each planning type) per proposed CMP434 methodology; until another agreement (Gate 1 or 2) is signed, all QM dates are relevant and enforceable
- Assuming that no projects seek an adjustment to their M1 date in the Gate 2 post offer signature window
- Strikethrough dates represent that no queue management date can be later than the connection date, regardless of calculation method

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Alternatives

Current Alternatives

Alternative Proposer	How Alternative Differs from the Original
ENWL (1)	PCF without Trigger Metric
Innova	Reduces PCF value by a factor of 10
Arven	Exclusion of Offshore Projects
Lightsource BP	"Simplified" GB Wide PCF"
Scottish Power Renewables	Self Termination PCF Discount
ENWL (2)	Embedded Exemption from PCF
Qualitas Energy	Removal of Trigger Metric and PCF applies as standard in TMO4+
NGED	PCF does not apply to projects within 18 months from the acceptance of a Gate 2 Offer



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Plan for Future Workgroups

Plan for upcoming Workgroup sessions

Workgroup Session	Date	Session topic	Topics to cover
Workgroup 7	30 April 2025 (today)	Securities, replacements & alternatives	<ul style="list-style-type: none">• Overview of the PCF security will work• Updated position on replacements in the trigger metric• Discussion on alternatives
Workgroup 8	07 May 2025	Alternatives & Voting on WACMs	<ul style="list-style-type: none">• Discuss questions raised from workgroup consultation• Discuss any further updates to the Mod Proposal• Vote on WACMs
Workgroup 9	12 May 2025	Wash-up on questions	
Workgroup 10	14 May 2025	Legal text review part 1	
Workgroup 11	19 May	Workgroup report & legal text	<ul style="list-style-type: none">• Review Workgroup report• Review legal text
Workgroup 12	27 May 2025	Workgroup report & Workgroup Vote	<ul style="list-style-type: none">• Finalize Workgroup report• Workgroup vote on what option they think is best

Next Steps and AOB

Workgroup Chair – NESO

