

Public

Workgroup Consultation Response Proforma

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

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalenergyso.com by **5pm** on **07 April 2025**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Joe Henry Joseph.henry2@nationalenergyso.com or cusc.team@nationalenergyso.com

Respondent details	Please enter your details	
Respondent name:	Alex Ikonic	
Company name:	Ørsted	
Email address:	aleik@orsted.com	
Phone number:	+44 74 4 2098270	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input checked="" type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

I wish my response to be:

(Please mark the relevant box)

☒ **Non-Confidential** (this will be shared with industry and the Panel for further consideration)

☐ **Confidential** (this will be disclosed to the Authority in full but, unless specified, will not be shared with the Workgroup, Panel or the industry for further consideration)

For reference the Applicable CUSC (non-charging) Objectives are:

- The efficient discharge by the Licensee of the obligations imposed on it by the Act and by this licence*;
- Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;

Public

- c) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency **; and*
- d) *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

* See Electricity System Operator Licence

**The Electricity Regulation referred to in objective (c) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

For reference, (for consultation questions 5) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) *fostering effective competition, non-discrimination and transparency in balancing markets;*
- b) *enhancing efficiency of balancing as well as efficiency of national balancing markets;*
- c) *integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) *contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*
- e) *ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*
- f) *facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) *facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

What is the EBR?

The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the ESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions

1	Do you believe that the Original Proposal and/or	Mark the Objectives which you believe the Original Solution better facilitates than the current baseline:
---	--	---

Public

	any potential alternatives better facilitate the Applicable Objectives versus the current baseline?	<table border="1"> <tr> <td data-bbox="579 353 810 409">Original</td> <td data-bbox="818 353 1407 409"><input type="checkbox"/>A <input type="checkbox"/>B <input type="checkbox"/>C <input type="checkbox"/>D</td> </tr> </table> <p>While we believe the current design is an improvement on the Financial Instrument that was raised November 2024, Ørsted continues to retain concerns with the use of a Financial Instrument, including whether it will achieve the objectives set out by NESO – particularly in the proposed format of a Project Commitment Fee (PCF).</p> <p>As currently set out, this proposal will increase Development Expenditure (DEVEX) at risk for projects, and there is a real concern that this would ultimately lead to higher costs for consumers.</p> <p>Retrospectively applying a significant additional cost could also deter investment in critical projects if this risk is not well balanced. Existing development-stage projects – many of which will be part of the Clean Power 2030 Action Plan (CP30) and vital to security of supply – will not have been able to plan for it in business cases and may be forced to exit the queue if faced with this additional financial exposure. Ultimately, this proposal could negatively impact delivery of UK Government targets.</p> <p>Our belief is that the new requirements of TMO4+ will, to a large extent, address the historic issue of stalled / unviable projects remaining in the queue, negating the need for a PCF.</p> <p>If this option is progressed, given the potential implications, the design of the PCF needs to be carefully considered. Namely, caution needs to be exercised when determining the trigger threshold of the PCF, as setting the activation point too low would lead to detrimental outcomes.</p>	Original	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
Original	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D			
2	Do you support the proposed implementation approach?	<table border="1"> <tr> <td data-bbox="579 1529 1407 1597"> <input checked="" type="checkbox"/>Yes <input type="checkbox"/>No </td> </tr> </table> <p>In principle, we do agree with the approach, but we are mindful that the timelines associated with TMO4+ have not yet been confirmed and may be affected by the delay to Ofgem's decision.</p> <p>We believe the implementation should be aligned with TMO4+ accordingly; in particular, that the first 6-month measurement period commences only after the Gate 2 offers have been signed (i.e. that the 'new queue' has been fully formed).</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No				
3	Do you have any other comments?	<ul style="list-style-type: none"> - We believe further provisions need to be considered for projects which already face high securities and liabilities. Facing significant financial commitment from Final Sums 		

Public

		<p>is one of the justifications to not apply the PCF to demand users; we believe this same argument should apply to generation projects which face high securities / liabilities in the early stages. Although we acknowledge that the PCF and securities/liabilities have different purposes, their impacts should not be considered in silo. We believe the netting off of the PCF, which was put forward in the Financial Instruments proposal, needs to be re-introduced.</p> <ul style="list-style-type: none"> - We could see merit in introducing some exemptions or alternative treatment of the PCF in some cases – while the purpose of driving developers to regularly review their projects is well understood, NESO must be cognisant of instances where the developer cannot meaningfully undertake this assessment as they are waiting for further information from NESO / TO / DNO's – for example, cases where they are to connecting into "Connection Node" substations of unknown locations, or awaiting DNO Variations for "additional works" and costs which may not be identified for several years after the initial offer.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section) <input checked="" type="checkbox"/> No Click or tap here to enter text.
5	Do you agree with the Workgroup's assessment that the modification does not impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Specific Workgroup Consultation questions

Public

6	Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the duration of the fee? Please provide the rationale for your views.	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We agree in principle that the PCF duration should be linked to something largely within the developer control (M1: planning submission), rather than extend past this milestone.</p> <p>However, we are concerned that the PCF could create perverse incentives, leading to knock-on impacts to the consenting process. Most notably, this proposal would encourage developers to submit consent applications – potentially speculatively – at a sub-standard level to ensure that M1 is met. This could place further strain on – what are already – under resourced planning system / consent departments. Ultimately this could be detrimental to delivery of CP30.</p>
7	Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the profile and timing of the fee ? Please provide the rationale for your views.	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We agree that the use of a ramped profile, rather than a flat fee, is more suitable to provide an incentive for projects to regularly assess their viability.</p> <p>We would welcome further discussions on the point that the 6-month timeline would provide a synergy with Gate 2 application windows; we do not believe that a 6-month period allows enough time for replacements (in their statutory consultation on TMO4+, Ofgem noted that the time to make an offer in the gated process should be around 7.5 months – and noting developers will have a further 3 months to accept the offer).</p> <p>It is our understanding that the 6-month profiles would also not align with the securities and liabilities periods (which are well-known to be a busy period for NESO) and we have concerns that this will place an additional administrative burden for NESO, and DNO's, to manage. Despite the fact that Gate 2 offers will be issued in batches, there could be variance of 3-4 months in 'queue entry' dates for each project. Depending on when the PCF 6-month periods fall, we perceive there is a risk this could divert NESO resource from other activities, including processing and undertaking checks of Gate 2 applications.</p>

Public

		<p>We would note that setting the profile to rise every 6 months may negatively impact technologies such as offshore wind, which must spend a longer time between Gate 2 and M1. The consenting timeline often cannot be sped up as it is mandated by activities outside of project control e.g. having to undertake a certain number of years' worth of surveys or the Sectorial Marine Plan (which has been significantly delayed) – these projects would be unfairly exposed to these additional costs for a longer time period.</p>
8	<p>Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding to the Trigger Metric? Please provide the rationale for your views.</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>We do agree with the concept of a Trigger Metric and Trigger Threshold, and that the PCF should initially be dormant. We agree with certain elements of the Trigger Metric proposed – though we believe the area of replacement needs further discussion.</p> <p>However, we disagree that the Trigger Metric should be based on the cumulative value of MW only; we believe it is important it be linked to the <i>number</i> of projects contributing to the terminated MW, as otherwise the metric could be skewed significantly and does little to indicate the prevalence of unviable projects in the queue. For example, the implications on 'the queue health' are very different if the 6 GW threshold is reached by three or four large projects, vs. a hundred smaller projects.</p> <p>We believe this could be done by one of the following examples:</p> <ul style="list-style-type: none"> - Normalising the 6GW to the number of projects, with the corresponding Trigger Threshold calculated based on a limit on the number of unviable projects (e.g. if 100 'unviable' projects are deemed to be the limit, the Trigger Threshold would be $6\text{GW}/100 = 0.06$. If 4 projects were terminated, the Trigger Metric would be $6\text{GW} / 4 = 1.5$, so the Trigger Threshold would not be reached. If 150 projects were terminated, the Trigger Metric would be $6\text{GW} / 150 = 0.04$ and the Trigger Threshold <u>is</u> reached. - Establish the average (mean) capacity of projects in the cumulative connections queue – by dividing the overall capacity of the connections queue/number of projects in it. This figure would then be used to tally up to the capacity threshold trigger.

Public

		<p>For example - if mean capacity in the queue = 100MW, and trigger = 6GW, it would require 60 projects (regardless of actual capacity) to fall away to hit the trigger. We believe this would be a better metric of prevalence than the original proposal.</p> <p>We agree with the point that termination (<i>or reduction of TEC</i>) in itself is not so much of an issue as termination (<i>or reduction</i>) without timely replacement. At Gate 2, we would still expect some project attrition to take place given that the projects are still at a relatively early stage (i.e. Options secured) and may find they need to reduce capacity as a result of surveys. This is why it is important to consider the replacement process in further detail.</p> <p>We believe there could be merit in further discussing technology specific Trigger Metric's.</p> <p>We would also support publication of identified replacement projects / capacity with as much granularity as possible, as we believe this would be most useful.</p>
9	Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the Trigger Threshold ? Please provide the rationale for your views.	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>We believe the Threshold, and the Metric, should be more explicitly linked to the number or projects being terminated. Our view is that the current proposal does not reflect the prevalence of project non-progression, as the threshold could be easily reached by a small number of large-scale projects.</p>
10	Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the Trigger Activation Governance ? Please provide the rationale for your views.	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>We generally view the Trigger Activation Governance and proposed timings of the steps as sensible and are supportive of NESO and Ofgem notifying the industry at the relevant checkpoints (Trigger Threshold measurements, NESO recommendation on whether to activate if Threshold is met, and Ofgem decision).</p> <p>We do, however, disagree on there being no mechanism to de-activate the PCF once activated. A number of elements can</p>

Public

		<p>affect queue health, including market conditions, and Gate 2 methodologies (queue entry criteria) which will be able to be changed relatively easily by NESO via an annual review. We would propose there be a link to review the PCF following any major changes in methodology documents.</p> <p>It is mentioned that in the 3 month window between Ofgem decision and PCF Activation, a User can remove their project from the queue or reduce their MW and would not be liable for the PCF in that instance – we are unclear on how latter would be possible if this falls outside of an application window; it seems effectively the User's only option would be to remove their project entirely from the queue.</p>
11	Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the £/MW value of the fee ? Please provide the rationale for your views.	<div> <input type="checkbox"/> Yes <input type="checkbox"/> No </div> <div>Click or tap here to enter text.</div>
12	Do you agree or disagree with the methodology presented to the Workgroup by NESO regarding safeguarding considerations ? Please provide the rationale for your views.	<div> <input type="checkbox"/> Yes <input type="checkbox"/> No </div> <div>Click or tap here to enter text.</div>
13	Do you agree or disagree with the current outline for projects that would be within scope of the PCF (Progression Commitment Fee)? Please provide your rationale.	<div> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </div> <div>While we broadly agree with the projects proposed to be in scope of the PCF, we would welcome further information on how this process is expected to work for embedded generators.</div>

Public

		We understand that NESO is engaging directly with DNOs on this issue, but we believe it is important to understand this within the scope of the workgroup also – particularly as a number of potential complexities of applying the PCF have been highlighted by DNO members of the workgroup.
14	Do you agree with the Proposer's approach to demand projects ? Please provide your rationale.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Yes, we generally agree with the reasoning for the different approach for demand projects and that if CMP 417 were to go ahead, there could be merit in raising a separate mod to address the defect separately.</p>
15	Do you agree with the PCF (Progression Commitment Fee) scenarios put forward by the Proposer? Please provide your rationale.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
16	Do you agree with definition of Queue Health put forward by the Proposer? Please provide your rationale.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>In principle, we agree with the definition of queue health and that it should be linked with the prevalence of unviable or stalled projects.</p> <p>However, we do not believe the current proposal's measurement of this (via the Trigger Metric) reflects this as it does not account for the <i>amount of</i> unviable / stalled projects contributing to the 6 GW figure.</p>

Public

17	Do you agree that the Proposal adequately takes into consideration the interface with embedded and distribution connected projects ? Please provide your rationale.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>While we understand that NESO is engaging directly with DNO's via the ENA Strategic Connections Group, and Implementation Hub, we strongly believe this element should be developed transparently and in tandem with this modification, otherwise there are serious risks of there being differing requirements, or unintended consequences for embedded customers.</p>
18	Do you have any views on any of the initial potential alternatives considered by the Workgroup? Please indicate which ones you support or do not support and where possible please provide your rationale.	<input type="checkbox"/> Yes <input type="checkbox"/> No <p>Support:</p> <ul style="list-style-type: none"> - Potential Alternative 4: we see merit in this proposal, as we believe it aligns with the behaviour NESO are trying to incentivise (timely self-termination of unviable / stalled projects). - Potential Alternative 6: we see merit in having technology specific thresholds but would welcome further discussion on how it would work in practice for hybrid sites. <p>Do not support:</p> <ul style="list-style-type: none"> - Potential Alternative 1: we view replacement as an important factor of this proposal although we acknowledge it is a complex issue. As noted in our comments above, we still expect project attrition to occur between Gate 2 Offer and M1 – and in our view, that is only a problem if projects cannot be replaced in a timely manner. If this Alternative does proceed, we believe the Threshold must be set at a much higher level than 6 GW. <p>Other comments:</p> <ul style="list-style-type: none"> - Potential Alternative 1: while we understand the rationale behind this, it is our understanding that the ENA intended to update distribution milestones ahead of TMO4+, to align with transmission milestones. Without yet having the visibility of this, it is difficult to judge the merit of this proposal. - Potential Alternative 3: we have some concerns with linking the PCF to ETYS zones, as these are subject to

Public

		<p>change (i.e. zones can be amended, removed or new zones can be created) which would add an ongoing uncertainty to projects.</p> <ul style="list-style-type: none"> - Potential Alternative 8: in principle we could support element 1 (capping the securities), or an alternative which similarly seeks to address limiting additional financial exposure for projects which already face high securities and liabilities at this stage.
		<p>Click or tap here to enter text.</p>