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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:	Grahame Neale	
Company name:	Lightsource bp	
Email address:	Grahame.Neale@lightsourcebp.com	
Phone number:	07741 158820	
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 checked="" 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*)

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☐ **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:

- a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and by this licence*;
- b) 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;
- 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

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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 any potential alternatives better	Mark the Objectives which you believe the Original Solution better facilitates than the current baseline:	
		Original	<input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> D

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	facilitate the Applicable Objectives versus the current baseline?	We mostly agree with the proposer on the potential impact on the CUSC objectives, however we believe the solution is sub-optimal and so the Original is not as positive as it could be.
2	Do you support the proposed implementation approach?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Ideally, we believe a decision on this modification needs should be made before Gate 2 applications are submitted so that it is clear what applicants can expect as the output of the Gate 2 process, including any supporting guidance notes and proformas. We agree that formal implementation into the CUSC can be after this if it is before Gate 2 offers are provided and the proposal is enacted.</p> <p>We also have concerns regarding the trigger (see responses to questions 8 & 9) which may limit its practical implementation.</p>
3	Do you have any other comments?	Whilst we support the principle of the PCF, we have some reservations on its design (as noted in the answer to other questions in this consultation response) which, we believe, will result in the need to undertake another CUSC modification in 18-24 months to modify the solution. This iterative approach to a methodology which potentially places a significant financial burden on developers is not conducive to a stable investment environment.
4	Do you wish to raise a Workgroup Consultation Alternative Request	<input checked="" type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section) <input type="checkbox"/> No

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	for the Workgroup to consider?	Please see supporting alternative request form.
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 We agree with the workgroup in this regard.

Specific Workgroup Consultation questions

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.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Whilst we agree that the period of time between Gate 2 acceptance and planning submission is a high risk period of project development, we believe the duration of the PCF should encompass a longer period of the development cycle and more queue management milestones. Without doing this, we believe there could be numerous instances after planning submission (and so not affected by the PCF) where stalled projects may hold network capacity until they are possibly removed by queue management, such instances include.
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		<ol style="list-style-type: none"> 1. Projects not obtaining planning initially or after multiple appeals. 2. Projects waiting for better market conditions 3. Collapse of key project backers who are not the developer (e.g. financiers, contractors, OEMs). <p>To mitigate this, we believe the duration of the PCF should be from gate 2 entry to confirmation of FID (queue management milestone M7) as this is when projects are mostly derisked.</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 checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Yes, we support the incremental 'stepping' of the PCF in £2,500 increments and believe revision every 6 months is appropriate.</p> <p>We also believe that there needs to be an additional method to 'step back' the PCF if it is evidenced to be having a negative effect on an area. This should be included in the current proposal so that an urgent CUSC mod is not needed in future to design and implement this feature.</p>
8	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	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>We do not believe the trigger metric is suitable as it is complicated yet does not measure queue health adequately. We believe the proposal has the following issues.</p>

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	<p>rationale for your views.</p>	<ol style="list-style-type: none"> 1. It does not reflect how contested a CP30 capacity allowance is (or isn't). It could act as a barrier to new projects in zones that are under-subscribed, conflicting with the purpose of the CP30 action plan. We believe the 'perverse incentive' for developers to shift investment away from regions/technologies with high PCFs is not a perverse incentive and could be used to support delivery of CP30 (rather than counter-act it) if the PCF is linked to the CP30 capacity allowances. 2. Using a GB-wide measure risks creating distributional effects between geographies and technologies (i.e. 1 area and/or technology raising the costs for all). We believe this risks creating a perverse incentive by preventing projects to develop in areas with sufficient capacity whilst encouraging projects to keep applying in oversubscribed areas. 3. The metric encourages the pre-M1 queue to 'churn' rather than ensuring that removed projects are replaced with viable alternatives. If there are sufficient projects in reserve, with the current approach it is possible for no projects to progress beyond M1 but for the trigger not to be activated. 4. In addition to point 3, there is also a risk that under-subscribed areas have insufficient projects leaving the queue to hit the Trigger threshold. Points 3 and 4 combined mean that a GB wide trigger may be 'balanced out' but opposite local drivers to project development. 5. The trigger is slow and retrospective, it only acts as an incentive after the issue has occurred. A
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		<p>mitigating measure to this is to increase the value of each 'step' (from £2,500/MW per 6 months) but we believe a more productive option is to make the trigger metric prospective.</p> <p>6. The data that NESO intend to publish is insufficient for industry to make an informed judgement as to if/when the trigger will be met. This will NESO to publish the M1 milestones for each project (by DNOs and NESO) in addition to the 'triggered MW'. The data that is proposed to be published is only retrospective and so is not effective for forecasting.</p> <p>7. The 5 year cycle may encourage viable projects to wait until the PCF resets rather than applying when ready – especially if market conditions deteriorate and the PCF doesn't reflect this. This creates a risk to CP30 delivery.</p> <p>In summary, whilst we agree with the principle of a trigger, we believe the current design is unsuitable. It is not granular or flexible enough to reflect changing local conditions yet is complicated and results in unintended consequences compared to a flat £/MW PCF as originally suggested by NESO at TCMF in October 2024.</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</p> <p><input checked="" type="checkbox"/> No</p> <p>In addition to our comments on the design of the trigger threshold in Q8, we believe the trigger threshold value is therefore inappropriate and should segmented by technology or region.</p> <p>We would also support further analysis on the impact of a 6GW Trigger Threshold on delivery of the Clean</p>

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		Power 2030 action plan – otherwise there is a risk that this value may be perceived as arbitrary.
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.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>We believe the requirement for Ofgem approval or veto to activate the PCF is as a result of a poor design of the PCF. Ideally, we believe this PCF should be more mechanistic so that there is predictability and transparency in when the PCF will be applicable in future.</p> <p>However, given the current design of the PCF we believe having Ofgem’s involvement to “sense check” the PCF is welcome, even if it does introduce additional regulatory uncertainty into the PCF.</p> <p>Finally, we would also like some clarity of what would happen to the PCF should Ofgem intervene to not apply it.</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.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Building on from our response in Q7, whilst we agree with the “stepping” of the PCF, we believe a higher cap of £20k/MW would be more effective at ensuring developers evaluate the viability of their project if it is combined with the ability to pause or reduce the PCF should it be demonstrated that queue health has changed.</p>

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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.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>We agree with the principles presented in the safeguarding considerations but note that this is highly subjective between individual development companies.</p> <p>In our experience, a DEVEX of £10k/MW is low for the UK market and typically ranges from £20k/MW to £50k/MW. We would also note that recent clearing prices of the Capacity Market are roughly £20k/MW; this combined with optimism bias from developers would suggest that a higher cap may be needed.</p>
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.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Noting our response to Q6, we believe applying this to projects who currently liable for User Commitment is suitable in the short term – as noted in our response to Q14. This broadly aligns with the proposal but extends beyond M1.</p>
14	Do you agree with the Proposer's approach to demand projects ?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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	Please provide your rationale.	<p>For an initial version of the PCF, we agree with this approach however we believe in the longer term, a demand equivalent of the PCF will be needed.</p> <p>The current proposal makes an assumption that the number of demand connections is not adversely affecting the network and delivery of reinforcement. Given the large increase in demand connections (especially data centres) this assumption may not hold in the longer-term.</p> <p>In addition, how the Final Sums methodology is applied to demand connections (i.e. as Transmission Owners incur cost) means there is a potential risk for Final Sums to be ineffective in removing stalled demand projects as Transmission Owners will not incur cost connecting stalled projects, and so these costs are not reflected in Final Sums.</p>
15	Do you agree with the PCF (Progression Commitment Fee) scenarios put forward by the Proposer? Please provide your rationale.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We agree that the scenarios reflect our understanding of the proposer's solution.</p>
16	Do you agree with definition of Queue Health put forward by the Proposer? Please provide your rationale.	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>We agree with the proposer that for this proposal the definition of 'queue' can be restricted to projects who have accepted a Gate 2 contract however we believe this proposal should be all projects who have accepted</p>

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		<p>a Gate 2 contract, not just those who are yet to complete milestone M1.</p> <p>We also disagree on the definition of 'queue health'. We believe the proposer's definition of queue health (i.e. a queue in 'poor health' would contain a high amount of unviable or stalled projects and a queue in 'good health' would contain a low amount of unviable or stalled projects) is too narrow and there are other factors to be considered in determining a 'healthy' queue. Some of the queue key variables of queue health are;</p> <ul style="list-style-type: none"> a) Projects applying to Gate 2. b) Projects that progress to the next stage. c) Projects removed via queue management or self termination d) Projects that are deemed 'ready but not needed'. e) Projects in progress. <p>This is illustrated with the following diagram.</p> <div style="text-align: center;"> <p>A. Gate 2 Applications D. Ready, not needed</p> <pre> graph TD A[A. Gate 2 Applications] -- grey --> B[B. Successful progression] A -- orange --> E[E. In progress] E -- grey --> B E -- orange --> C[C. Terminated (self or queue management)] E -- curved orange --> A D[D. Ready, not needed] -- curved orange --> E </pre> </div>
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		<p>We believe a more holistic measure of queue health would include the following metrics.</p> <ol style="list-style-type: none"> 1. Checking that removed projects are capable of being replaced ($A \leq C$). 2. Determining if there is over demand of capacity and if viable projects are being prevented from entering in to Gate 2. ($D > C+B$). 3. Evaluating that projects can successfully progress rather than being removed (ratio of B:C). 4. Monitoring that projects are progressing in a timely manner (time from E to B or C). <p>We believe the proposal only monitors the third of these metrics. Whilst identified in the defect, it does not address the fourth metric in a targeted manner and relies on a 'brute force' approach.</p>
17	<p>Do you agree that the Proposal adequately takes into consideration the interface with embedded and distribution connected projects? Please provide your rationale.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>We believe more information needs to be shared regarding how the PCF proposals will be applied to embedded projects and the proposal will be the same or different for embedded projects. Currently the proposal is clear that the intent is to apply it equally however the practicalities of how this would be achieved by DNOs are unclear.</p>

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18	<p>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.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <hr/> <p>We have provided commentary on each of the potential alternatives identified in the</p> <p>Potential Alternative 1</p> <p>We believe the PCF should be equally applicable (and as far as possible, equal more generally) to embedded and transmission projects to avoid market distortions.</p> <p>Potential Alternative 2</p> <p>We can see the benefit of this approach to mitigate some of the concerns we have raised in Q8.</p> <p>Potential Alternative 3</p> <p>Agree with the principle of this alternative to make the trigger more reflective of local conditions however we believe using the ETYS zones as the basis of this adds more complexity and risks of unintended consequences compared to a national or CP30 regional breakdown.</p> <p>Potential Alternative 4</p> <p>Agree with the principle of encouraging projects to terminate as soon as they are unviable rather than encouraging them to wait until a deadline. This would require careful design to avoid creating adverse</p>
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	<p>consequences; we'd also note that the same effect could be achieved with an additional cost if NESO terminate the project.</p> <p>Potential Alternative 5 – our previous idea</p> <p>We support his approach and would welcome further development of this alternative.</p> <p>Potential Alternative 6 – smear 6GW across technologies and activate PCF by tech.</p> <p>We support his approach and would welcome further development of this alternative.</p> <p>Potential Alternative 7 – PCF only applies 1 year before M1 deadline</p> <p>This alternative would significantly reduce the effectiveness of the PCF and incentivises projects to remain in the queue until the PCF becomes active. This would reduce the time available for a viable project to replace the stalled project.</p> <p>Potential Alternative 8 – £10k/MW cap includes User Commitment.</p> <p>Our main concern is that the £10k/MW cap is too low. If this was increased to a suitable level then the inclusion of User Commitment would be insignificant to this value and so would have little effect overall, so could be combined with the PCF if that provides other efficiencies to industry.</p>
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