

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@nationalenergygyso.com](mailto:cusc.team@nationalenergygyso.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@nationalenergygyso.com](mailto:Joseph.henry2@nationalenergygyso.com) or [cusc.team@nationalenergygyso.com](mailto:cusc.team@nationalenergygyso.com)

| Respondent details                             | Please enter your details   |  |
|--|---|--|
| <b>Respondent name:</b>                        | Rob Smith   |  |
| <b>Company name:</b>                           | Enso Energy   |  |
| <b>Email address:</b>                          | Rob.smith@ensoenergy.co.uk  |  |
| <b>Phone number:</b>                           | Click or tap here to enter text.  |  |
| <b>Which best describes your organisation?</b> | <input type="checkbox"/> Consumer body<br><input type="checkbox"/> Demand<br><input type="checkbox"/> Distribution Network Operator<br><input checked="" type="checkbox"/> Generator<br><input type="checkbox"/> Industry body<br><input type="checkbox"/> Interconnector | <input checked="" type="checkbox"/> Storage<br><input type="checkbox"/> Supplier<br><input type="checkbox"/> System Operator<br><input type="checkbox"/> Transmission Owner<br><input type="checkbox"/> Virtual Lead Party<br><input type="checkbox"/> Other |

I wish my response to be:

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(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:

- 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;*

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- 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

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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 facilitate the Applicable Objectives versus the current baseline? | <p>Mark the Objectives which you believe the Original Solution better facilitates than the current baseline:</p> <table border="1"> <tr> <td>Original</td> <td><input type="checkbox"/>A <input type="checkbox"/>B <input type="checkbox"/>C <input type="checkbox"/>D</td> </tr> </table> <p>No, we do not believe this proposal better meets any of the applicable objectives.</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?   | <p><input type="checkbox"/>Yes</p> <p><input checked="" type="checkbox"/>No</p> <p>Click or tap here to enter text.</p>  |          |   |
| 3   | Do you have any other comments?  | <p>The proposal suggests changes need to be put in place to mitigate a risk or issue that it cannot demonstrate will materialise. The argument being that, by setting it as dormant until a trigger activates it, means there is no impact on market participants until the issue does materialise. However, what seems to have been overlooked is that, by allocating a non-controllable external cost risk to a developer's project, the developer</p> |          |   |

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|   |  | <p>must make provision for that risk and so in effect they will, to a certain extent, be forced to behave as if the PCR had been/will be triggered. Therefore, they are imposing a degree of cost onto developers regardless of whether the issue materialises or not.</p> <p>There is also a level of perversity in this proposal in that the material consequences of this proposal will not be borne by those projects who have failed to act in a timely manner but on those that have viable projects that they are diligently taking projects through to completion.</p> <p>Preparing to submit a planning application is not a trivial exercise and it requires considerable time and expert resource. The larger or more complex a project, the greater the time and resource required to present a credible application. Few projects will have the luxury of pausing in their pursuit of this activity due to the time bound QM milestones they need to work to.</p> <p>This change would add to investment uncertainty and further diminish the attractiveness of investing in the GB Electricity Market.</p> <p>Whilst we do not agree with the need for this modification, we believe that potential alternative 8 is better than the original.</p> |
| 4 | Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider? | <p><input type="checkbox"/> Yes (the request form can be found in the <u>Workgroup Consultation</u> Section)</p> <p><input checked="" type="checkbox"/> No</p> <p>Click or tap here to enter text.</p>   |

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| 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             |
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## Specific Workgroup Consultation questions

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| 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 |
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| 7 | Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the <b>profile and timing of the fee</b> ? Please provide the rationale for your views. | <div data-bbox="579 416 665 448"><input type="checkbox"/> Yes</div> <div data-bbox="579 492 655 524"><input checked="" type="checkbox"/> No</div> <div data-bbox="579 613 1051 651">Click or tap here to enter text.</div>  |
| 8 | Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding to <b>the Trigger Metric</b> ? Please provide the rationale for your views.             | <div data-bbox="579 1135 665 1167"><input type="checkbox"/> Yes</div> <div data-bbox="579 1211 655 1243"><input checked="" type="checkbox"/> No</div> <div data-bbox="579 1332 1407 1989"> <p>The proposed trigger metric could be a useful mechanism to ensure that the PCF is only triggered when it can be determined that the impacts of failed projects will detrimentally impact Net Zero targets. It would be beneficial to understand how NESO would propose to bring forward existing projects to fill these gaps. If the only way to bring forward projects is via the next G2 submission window where existing applicants would propose for their projects to be advanced, then this process might be doomed to fail through a timing issue. The detail on how this would work is currently quite</p> </div> |

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|   |  | vague and appears subject to unspecified qualitative criteria. More clarity on this element is required to evaluate its relative merits.   |
| 9 | Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding <b>the Trigger Threshold</b> ? Please provide the rationale for your views. | <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>The proposal does not seem to provide any effective argument as to why the trigger Threshold should be 6000MW. It appears this represents approx. 5% of the capacity that is likely to be deemed strategically required under the Gate 2 regime. But what is not articulated in the proposal is why 5% is a relevant measure or how this relates to the health of the queue. The proposal does not seem able to differentiate the additional benefits of a trigger metric of 6000MW over 3000MW or 10,000MW. This is, in part, because there is no analysis to show at what point the project failure rate will have an impact on the queue. We have a growing concern that the justification for this proposal is based on estimation with no hard quantitative assessment to quantify the likelihood or impact of the risk or validate the benefit of the solution.</p> |



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| 10 | Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the <b>Trigger Activation Governance?</b><br>Please provide the rationale for your views. | <input checked="" type="checkbox"/> Yes<br><br><input type="checkbox"/> No  |
|    |  | Yes   |
| 11 | Do you agree or disagree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original Proposal regarding the <b>£/MW value of the fee?</b><br>Please provide the rationale for your views.         | <input type="checkbox"/> Yes<br><br><input checked="" type="checkbox"/> No  |
|    |  | <p>We have concerns with the approach for deriving the PCF value.</p> <p><b>The methodology itself.</b> The proposer has calculated the optimal PCF value utilising “Real Options Analysis”. Effectively assuming that developers are dynamically re-calculating project NPV’s based on fluctuating input data during this phase of project development. The reasoning then</p> |

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|  |  | <p>being that if the NPV turns negative, the PCF would force projects who would otherwise rationally be incentivised to pause Devex, to cancel their contracts. For this approach to be effective it requires belief that developers, whose projects still face significant external uncontrollable risks, would evaluate their projects in this way. Further it would require belief that projects have sufficient spare time to delay Devex commitment in a connection regime with time bound planning milestones that cannot be missed. (as described by Option 3 the behaviour this proposal purports to address)</p> <p>We are sceptical of either of these assumptions.</p> <ul style="list-style-type: none"> <li>• Developers, especially portfolio developers, who still face binary risk and various volatile input cost risks are unlikely to assess project viability this way. They will assess based on project multiples and the proportion of these projects that need to succeed for the portfolio to be viable.</li> <li>• The option to pause a project suggests that this time can be recovered in the future, or the project can be sold on. However, the original CUSC CMP435 proposal sought feedback of the average time it would take applicants to prepare to submit planning. These are effectively baked into the QM timeframes. It is not clear to us that these</li> </ul> |
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|  |  | <p>projects could recover that time if they paused the projects for any considerable amount of time. It is also unlikely that a party would buy a project, if the remaining time to submit planning would put that Queue milestone at risk. Therefore, if a project is being paused for any meaningful period, it is effectively failing. We do appreciate, however, that there is little cost to failing slowly.</p> <p><b>The cost of financing the investment</b> (entirely with Debt)</p> <p>The assumption that a project would be 100% geared in any phase of project development is not credible. Any cursory engagement with lenders or developers would have borne this out.</p> <p>Further, lenders are unlikely to fund the PCF security as the project and associated SPV still face binary planning permission risk. Debt is typically secured after these risks have been mitigated and even then, are generally asset backed. Therefore, PCF securities will be funded by equity and the 8 % is significant under estimation of that cost.</p> <p>We would add that in response to the initial Financial Instrument proposal that NESO sought feedback on last year, we engaged with a couple of commercial lenders to understand if this would</p> |
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|    |  | be a service they would offer. The response indicated this was not something they had offered previously and if they did consider this, they would require some form of asset backing or parent company guarantee. So effectively it would have to be underwritten by equity beyond the value of the assets in the project which at this stage of the development are negligible. |
| 12 | Do you agree or disagree with the methodology presented to the Workgroup by NESO regarding <b>safeguarding considerations</b> ? Please provide the rationale for your views. | <input type="checkbox"/> Yes<br><input checked="" type="checkbox"/> No<br><br>We agree that there needs to be a limit to the value of securities that need to be posted. Placing an open-ended liability on a project, even a commercially viable project with secure financial backing could halt investment to begin with   |
| 13 | Do you agree or disagree with the current outline for  | <input type="checkbox"/> Yes<br><input checked="" type="checkbox"/> No  |

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|    | <p><b>projects that would be within scope of the PCF</b><br/>(Progression Commitment Fee)?<br/>Please provide your rationale.</p> | <p>For DNO projects that don't require EIA and so need to submit planning within two months of receiving their project progression update in their distribution connection offers, this proposal will not provide any greater incentive to progress the project, and we do not see any value in applying it to them. It will cause the DNO to incur greater admin costs which no doubt would be included in the project's connection costs. However, we do not believe this applies for projects that need to undertake EIA's. Our understanding is demonstration of beginning an EIA is relatively simple and incurs relatively little cost and is not an adequate measure that a project is being progressed.</p> |
| 14 | <p>Do you agree with the Proposer's approach to <b>demand projects</b>?</p>   | <p><input checked="" type="checkbox"/> Yes<br/><input type="checkbox"/> No</p>  |

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|    | Please provide your rationale.   | Click or tap here to enter text.  |
| 15 | Do you agree with the <b>PCF</b> (Progression Commitment Fee) <b>scenarios</b> put forward by the Proposer? Please provide your rationale. | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No<br><br>It is not clear what this question is asking. Yes, the scenarios do reflect outcomes that the proposed change could create.                       |
| 16 | Do you agree with <b>definition of Queue Health</b> put forward by the Proposer? Please provide your rationale.                            | <input type="checkbox"/> Yes<br><input checked="" type="checkbox"/> No<br><br>As we understand it Project Health is simply the capacity value of projects that fail to meet QM1. From this metric the proposer assumes they can |

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|    |  | <p>garner some greater insight into the state of other projects in the queue and whether they are also likely to fail to submit planning. Given the trigger value could be met by relatively few numbers of large projects and potentially a systemic issue for a specific technology class, it is not clear how relevant this measure would be in gauging the “health” of other projects left in the queue. The proposal is for the PCF to be initially dormant, and so the methodology requires some form of quantitative wake up call. This works from a mechanical perspective but it is unclear if this effectively targets the right projects remaining in the queue.</p> |
| 17 | Do you agree that the Proposal adequately takes into consideration the <b>interface with embedded and distribution connected</b> | <div> <input type="checkbox"/> Yes         <br/> <input checked="" type="checkbox"/> No       </div> <div> <p>Click or tap here to enter text.</p> </div>   |

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|    | <b>projects?</b> Please provide your rationale.   |  |
| 18 | Do you have any views on any of the <b>initial potential alternatives</b> considered by the Workgroup? Please indicate which ones you support or do not support and where possible please provide your rationale. | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No<br><br><b>Potential Alternatives 8</b><br><br><p>The Proposer of CMP448 asserts that the incremental PCF value currently (£2,500/MW step up over two years to £10,000/MW) is sufficient to incentivise parties with a negative NPV to withdraw their projects. Therefore, this £/MW value is sufficient to drive the required behaviour regardless of the source of the securities obligation. As such imposing any £/MW value of securities beyond what is required to drive the desired behaviour, is simply an inefficient allocation of cost risk on to genuinely progressing projects. It creates no further social benefit and, as carrying this risk, and securing funds to meet this securities obligation has a cost, it simply means projects incur greater costs that will be passed onto the consumer. Extensive evidence suggests that the PCF would be entirely financed by equity not debt and so the assumed cost of posting the PCF securities are under forecast with the Original. Therefore, the PCF value (£/MW) should be</p> |



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|  |  | <p>calculated based on the assumed cost of equity (not cost of debt, as per the Original).</p> <p>Potential alternative 1</p> <p>From a practical perspective we think the ideas in potential alternative 1 should be explored further. We agree that if Dx timescales means that DNO connection contracts would force these projects to be cancelled in advance of this CUSC proposal it seems unclear why we would impose such an obligation on those projects. However, we do not believe initiation of an EIA is sufficient grounds to offset the introduction of a PCF. It is a relatively small proportion of planning costs and would not significantly drive the behaviour that the proposal aims to achieve.</p> |
|  |  | <p>Click or tap here to enter text.</p>   |