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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@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	
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<b>Which best describes your organisation?</b>	<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:

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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?	Mark the Objectives which you believe the Original Solution better facilitates than the current baseline:
		Original <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D
		<p>Innova does not support the Original Proposal or any of the alternative proposals. Innova would prefer to keep the Baseline i.e. existing code.</p> <p>CMP435 will remove a significant number of projects from the connections queue, and it will be aligned with the Clean Power 2030 Action Plan. Innova believe new projects will need to be developed over the next decade to allow the UK to meet the Clean Power 2030 plan and Net Zero. At a time when an increase in new projects will be required to replace stalled or unviable projects within the Clean Power 2030 plan, the Progression Commitment Fee (PCF) will create a significant barrier to entry and be a deterrent to new projects entering the connections queue. This will make it more difficult to deliver the Clean Power Plan 2030 and Net Zero and would, therefore, be negative against Objective a.</p> <p>Fewer renewable energy projects will be developed, and it increases barriers to entry for new entrants, particularly Small and Medium Enterprises (SMEs), to the market. It will reduce competition in the supply of</p>

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		<p>electricity and would, therefore, be negative against objective b.</p> <p>CMP448 does not have an impact on the compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency, and is therefore neutral against Objective c.</p> <p>PCF partially duplicates User Commitment and Final Sums and will add a significant administrative burden to NESO and the connecting projects. Therefore, it is negative against objective d.</p> <p>Although CMP448 is not a charging modification, Innova believe the charges are not cost-reflective of the cost of failed projects to the electricity networks.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Innova supports using a Trigger Threshold instead of immediately implementing the PCF.</p> <p>Innova do not believe a decision should be made on CMP448 before the Gate 2 offers are issued by NESO, DNOs or iDNOs. If the modification is approved, there will still be significant uncertainty as customers will not know when the PCF will be triggered; it could be within a few months of a decision, or it could never be implemented. Therefore, unless the PCF is rejected by the Authority, there is no certainty provided by bringing forward a decision.</p>

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3	Do you have any other comments?	<p>Innova strongly urge NESO to remove proposals for a Progression Commitment Fee (PCF) of £20k/MW (or any value) and instead rely on the recently introduced Queue Management process (CMP376) and Original Red Line Boundary requirements (CMP427 and CMP434), which already set clear milestones for developers.</p> <p>The PCF disproportionately increases financial risk at an early stage of development, outweighing any benefits. While Innova understand and welcomes the need to reduce the queue, this proposal risks eliminating many high-quality projects alongside "zombie" projects and poses a severe risk to the functioning of the development market in the UK.</p> <p>Innova believe the problem CMP448 is trying to solve will no longer exist once Grid Reform is implemented, and CMP448 should be withdrawn.</p> <p>Much of the queue growth in recent years has been due to applications for energy storage systems, with capacity in the queue at around 200GW-300GW. Innova believe the Gate 2 to Whole Queue process (CMP435) will reduce this to ~40GW of protected storage projects, and only projects that have planning and are protected under clause 2a will be given a Gate 2 connection offer. Therefore, all storage projects in the new queue will have passed milestone M1.</p> <p>CMP435 will remove a significant number of projects from the connections queue, and it will be aligned with the Clean Power 2030 Action Plan. Innova believe new projects will need to be developed over the next decade to allow the UK to</p>
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		meet the Clean Power 2030 plan and Net Zero. At a time when an increase in new projects will be required to replace stalled or unviable projects within the Clean Power 2030 plan, the PCF will create a significant barrier to entry and be a deterrent to new projects entering the connections queue.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input checked="" type="checkbox"/> Yes (the request form can be found in the <u>Workgroup Consultation</u> Section) <input type="checkbox"/> No  Innova would like to raise an alternative request to reduce the magnitude of the PCF by a factor of 10. A completed alternative form will be sent to the chair in the next few days.
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  No further comment.

## 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.	<div data-bbox="580 418 670 450"><input type="checkbox"/> Yes</div> <div data-bbox="580 495 657 526"><input checked="" type="checkbox"/> No</div> <div data-bbox="580 618 1390 712">Innova do not think a PCF should be introduced for any duration of a project's lifecycle.</div>
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="580 1133 670 1164"><input checked="" type="checkbox"/> Yes</div> <div data-bbox="580 1209 652 1240"><input type="checkbox"/> No</div> <div data-bbox="580 1332 1382 1538">If a PCF was introduced, Innova would support the increasing of the PCF gradually over 24 months. Innova believe the magnitude of the PCF is far too high.</div>



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8	<p>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>?</p> <p>Please provide the rationale for your views.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>If the PCF is introduced, Innova would support the use of a trigger metric based on the number of projects that are terminated if they are unable to meet milestone M1.</p> <p>Innova strongly support the concept of projects not counting towards the trigger threshold if they can be replaced with another similar project with a connection date within 12 months of the original project.</p>
9	<p>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>?</p> <p>Please provide the</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Innova believe the trigger threshold is too low and should be more than 6GW.</p> <p>The proposer has not provided a clear rationale for 6GW. Some offshore wind projects can be 2-3GW, and therefore, this threshold could be met with just 2-3 projects being terminated.</p>

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	rationale for your views.	Innova believe 5% of the connections queue would be a reasonable threshold. The Clean Power 2030 action plan includes 289GW of connections and therefore, Innova believe 15GW would be a more reasonable threshold.
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> ? Please provide the rationale for your views.	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  Innova agree with the Trigger Activation Governance and believe Ofgem should have the overall power to trigger the PCF or not, once the threshold is met.

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11	<p>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></p> <p>Please provide the rationale for your views.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Innova believe that the proposed £10k/MW fee is disproportionate, noting the following key concerns:</p> <ol style="list-style-type: none"> <li>1) Developers already bear all grid costs and development expenditure at risk, and the forecast PCF costs could make large-scale projects unviable from inception.</li> <li>2) Where the PCF costs can be borne by projects, these will be passed on through the asset values and eventually onto the UK consumer.</li> <li>3) The proposed fee structure will lead to a less diverse developer market, with reduced competition, less innovation and overall fewer projects being developed that may not align to CP30 ambitions, Net Zero, and wider system needs.</li> </ol> <p>Further detail on the points raised above has been included below.</p> <p><b>Development Risk</b></p> <p>Developers, who already bear all grid application costs, typically spend up to £1m on a transmission-connected battery development, but for a 400 MW project, the proposed financial commitment would</p>

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	<p>be £4m – 400% more than typical development costs and potentially exceeding the project’s value to the developer. Financing this fee at 15% interest cost over 2 years could add £1.2m in project costs, raising total costs to £2.8m and escalating financial risks that threaten project viability and add huge operational costs to small and medium-sized businesses' development.</p> <p><b>Project Costs.</b></p> <p>Furthermore, the PCF development ‘carry’ cost increase for each project, noted above, will need to be borne within the future increase in asset values. This cost not only includes the PCF financing cost for successfully developed projects but also the costs to developers for financing the PCF for failed projects. These costs are likely to be borne eventually by the UK consumer through the increased risk premium faced by UK developers.</p> <p><b>Developer Market and Model</b></p> <p>The UK energy development market operates as a funnel, with numerous small, medium, and large developers successfully taking and mitigating technical, commercial and financial risk in advancing projects through the early stages of development. Typically, larger, more risk-averse firms later acquire these “project rights” to build and operate them.</p> <p>The development model in the UK and Europe is a high-risk endeavour, and a developer must look at probabilistic returns or risk: reward to proceed with a development.</p>
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		<p>As an example, on a transmission connected BESS, a developer would seek, on a successful consented project, in the region of 10x return against its development costs (in terms of a premium to be received for the sale of project rights).</p> <p>The reason 10x is required is because of the failure rate of projects, which is very high at the beginning of the development cycle and reduces as projects progress and the risk of failure due to planning, grid costs, and archaeology, etc, are removed.</p> <p>The 10x valuation is due to the operational costs of running a development business, as well as the risks of pricing being lower upon selling the project (due to the myriad factors already outlined). In short, if a developer didn't make this kind of return on successful projects, once you net off the other operational costs and the costs of projects that have failed, the development company would not make a profit.</p> <p>Typically, a developer will spend £1m on developing a 400MW BESS. Therefore, it would like to sell that project for £10m of project rights.</p> <p>If you use the same metrics but now simply only include the financing costs or 'carrying cost' of the PCF, then assuming just 2 years of interest on £4m of debt (£10k/MW), that would make the total DEVEX £2.2m, meaning the required project rights sales price increases to £22m.</p> <p>This proposed material change in costs simply turns the risk: reward profile on its head, as a developer has no route to increasing the value of</p>
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		<p>its projects by almost 150%. This results in many future projects being unviable or, in the best case, financing costs being passed onto the total project value and eventually borne by the UK consumer.</p> <p><b>Conclusion</b></p> <p>The proposed PCF exposes customers to significant upfront liabilities that may not reflect the project's final scale or probability of success. This extraordinary financial cost proposal risks reducing market competition and innovation and halting or severely delaying renewable energy deployment in the UK up to and beyond 2030.</p>
12	<p>Do you agree or disagree with the methodology presented to the Workgroup by NESO regarding <b>safeguarding considerations</b>?</p> <p>Please provide the rationale for your views.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Innova believe the cost of financing is materially higher than the proposed 8%, supported by current funding costs and asset values</p> <p>The PCF is an unsecured liability as the project without planning will not have an asset value greater than £2,500k/MW. As an example a fully consented, ready to build, merchant solar project in the UK will currently transact using a cost of capital in excess of 10% Therefore, the cost of financing an unsecured liability on an early-stage development project, does not reflect the current financing environment (i.e. unlikely to be able to</p>

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		<p>secure debt financing) or the underlying risk of the funding requirement.</p> <p>As such, Innova strongly believe that the NESO proposal that the cost should be based on a cost of debt and the total quantum (8%) are simply not reflective of the capital structures of development projects (equity funded) and current project funding costs. Innova believe the PCF should be calculated using an assumed cost of financing of 15%.</p> <p>Innova agrees that only applying the PCF to milestone M1 does reduce the impact compared to applying it until M7.</p>
13	<p>Do you agree or disagree with the current outline for <b>projects that would be within scope of the PCF</b> (Progression Commitment Fee)?</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Please see the answer to Q17. Innova does not believe it is possible to include Relevant Small and Medium Embedded Projects within the scope of CMP448 because they are not contractually</p>

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	Please provide your rationale.	required to meet queue management milestones as defined in the CUSC.
14	Do you agree with the Proposer's approach to <b>demand projects</b> ? Please provide your rationale.	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  <p>Innova agree demand should not be in scope. Demand users are already subject to high liabilities via the Final Demand methodology. If CMP417 is introduced NESO could consider raising another modification to apply a PCF to demand connections.</p>
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  <input type="checkbox"/> No  <p>The scenarios are helpful to understand the proposal.</p>



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16	Do you agree with <b>definition of Queue Health</b> put forward by the Proposer? Please provide your rationale.	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  <p>Innova agrees that a queue in poor health would have a high amount of unviable or stalled projects. Innova disagrees with the proposer that the PCF is a good tool to improve queue health. The PCF does not incentivise appropriate decision making and has a discriminatory impact on early-stage projects that are the lifeblood of the renewable industry.</p>
17	Do you agree that the Proposal adequately takes	<input type="checkbox"/> Yes  <input checked="" type="checkbox"/> No

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<p>into consideration the <b>interface with embedded and distribution connected projects</b>? Please provide your rationale.</p>	<p>Innova does not believe it is possible to apply the PCF to relevant small and medium embedded projects because they do not have appendix queue milestones, and the queue management milestones outlined in the CUSC do not apply to small and medium relevant embedded projects.</p> <p>Relevant Small and Medium embedded projects are subject to distribution queue management milestones as per the <a href="#">ENA Queue Management Guidance</a>. It is not possible to terminate a relevant small and medium embedded project due to them missing a milestone which does not exist in their contract. They can only be terminated for missing a queue management milestone that is in the distribution offer between the customer and the DNO, these milestones are not governed by the CUSC.</p> <p>The connection contract is between the DNO and Small and Medium embedded projects, not NESO and Small and Medium Embedded Projects. Innova believes it should be the responsibility of Distribution Networks to manage their queue and manage the impact of the distribution network, including the embedded projects, on the transmission network. If distribution owners are concerned about the connection queue health in their network, then they can raise a DCUSA</p>
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		modification or change the queue management guidance that is published.
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.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Innova would support Alternative 1 which proposes PCF is not applied to any embedded generators.</p> <p>Innova does not support Alternative 2. Suppose projects are replaced with another project that has a connection date within 12 months of the replacement project. In that case, it is reasonable to assume the connections process is working well and projects are leaving the queue in a timely manner and not delaying other projects significantly. Therefore, there would be no need for the PCF.</p> <p>Innova does not support Alternative 3, where the PCF trigger is applied on a zonal basis. The alternative suggests proportionally sharing the 6GW trigger threshold across 18 zones, this means the average trigger threshold in a zone is 333MW. Due to the size of transmission projects it means one project being terminated in a zone could trigger the PCF, even though the queue is healthy.</p>

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		<p>Innova would support Alternative 4, which proposes a discount for projects which terminate before the M1 milestone has passed. This would help incentivise projects to leave the queue as early as possible.</p> <p>Innova would not support Alternative 5. Although the proposal is trying to mitigate the risk of the PCF being introduced when it is not needed, the proposal creates a lot of additional complexity and appears to try to replicate many of the attributes that already exist in the User Commitment methodology, and therefore, there is a risk of duplication.</p> <p>Innova could support Alternative 6, which proposes to apply a separate PCF trigger to each technology. Assuming there are nine technologies (as per the Clean Power 2030 plan), then each technology would have an average threshold of 666MW. Innova would support this Alternative if each technology had a significantly higher threshold than 666MW.</p> <p>Innova would support Alternative 7, as this provides a good compromise. It allows projects time, potentially up to a year, to derisk the planning aspect of a project before the PCF is required to be paid. This would incentivise projects to be developed quickly but they will not be punished if they then terminate their project early.</p>
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		<p>Innova would support Alternative 8. Innova agree that the compounding effect of the PCF and User Commitments is a serious concern and unfairly discriminates against certain projects. If the PCF has been calculated as the value at which projects will delay or terminate their projects, then the addition of PCF and User Commitments creates a negative Net Present Value (NPV), which means viable projects may be delayed or cancelled. As per Innova's answer to Q11, the financing cost of the PCF is closer to 15%.</p>
		<p>Click or tap here to enter text.</p>