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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:	Ash Adams	
Company name:	NESO	
Email address:	Ashley.Adams2@nationalenergyso.com	
Phone number:	n/a	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input checked="" 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?	As Proposer of the CUSC modification we believe that both the original proposal and potential alternative 2 would better facilitate the applicable objectives.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No We believe that implementation approach (via an Urgent timeline) is required for the solution to be implemented prior to Gate 2 offers being issued and for developers to be provided with full visibility of their financial obligations at the time they sign those offers.
3	Do you have any other comments?	Click or tap here to enter text.
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 <u>Workgroup Consultation</u> 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

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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.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>As proposer, we agree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original proposal regarding the duration of the fee.</p> <p>The period between Gate 2 to Milestone 1 is the period that we believe carries the highest risk of unviable projects failing to progress appropriately and persisting in the queue for longer than necessary. Applying the PCF during this period serves as an incentive for these projects to leave the queue proactively. After Milestone 2, queue progression milestones are more frequent and the 6 monthly incentive to assess viability would only provide marginal benefit.</p> <p>We don't believe that it would be appropriate to apply the PCF while a project is awaiting a decision on its planning application (Milestone 2) because progression at that stage is, to a certain extent, out of the developer's control. Prior to Milestone 1, a developer has more control over the progression of their project.</p>
7	Do you agree or disagree with the current design of the PCF (Progression	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>

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	<p>Commitment Fee) in the CMP448 Original Proposal regarding the profile and timing of the fee? Please provide the rationale for your views.</p>	<p>As proposer, we agree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original proposal regarding the profile and timing of the fee.</p> <p>We believe that a profiled fee would best incentivise developers to regularly assess the viability of their projects. Each time this fee increases, it should drive developers to make a decision to remain or leave the queue based on their confidence that their project will progress past M1. A fee which increases at 6 monthly intervals balances the need for these increases to happen on a frequent enough basis to incentivise this regular review of project viability without being unnecessarily onerous for developers, NESO and DNOs. Further, 6 monthly increases should align with the 6-monthly cadence of other existing security arrangements that developers are currently required to provide which minimises additional processes and effort in this regard.</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 checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>As proposer, we agree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original proposal regarding the trigger metric.</p> <p>We believe that a form of trigger metric is required to provide an indication of the prevalence of unviable projects in the Gate 2 to Milestone 1 queue. Having a trigger metric that can be measured and published on a regular basis provides transparency to industry in relation to when the trigger threshold is likely to be met and therefore when the PCF may be activated.</p>

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		<p>We believe that a Trigger Metric based on MW capacity termination at Milestone 1 provides the strongest indication that there are unviable projects in the connections queue, and that the issue that this proposal aims to address is prevalent. If projects are terminated from the Gate 2 queue as a result of failing to meet Milestone 1, these projects may have been able to leave the Gate 2 queue sooner, which is the behaviour the proposal seeks to encourage by providing a financial incentive to do so.</p>
9	<p>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>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>As proposer, we agree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original proposal regarding the Trigger Threshold.</p> <p>We believe that a trigger threshold of 6GW strikes the appropriate balance between being sensitive enough to be triggered quickly if the defect is prevalent, and not being so sensitive that it is triggered prematurely if the defect is not as prevalent as we fear it could be. We have provided analysis to the workgroup based on a set of assumptions on when the trigger threshold may be met under some example scenarios. We believe that this analysis supports our view that 6GW strikes the correct balance.</p> <p>Furthermore, a trigger threshold based on a 5-year cumulative total (rather than a yearly threshold) allows for greater in-year variation, while also ensuring that cumulative impacts of attrition over time are accounted for, further ensuring that the trigger threshold is not met prematurely.</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 Trigger Activation Governance ? Please provide the rationale for your views.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>As proposer, we agree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original proposal regarding the trigger activation governance.</p> <p>Before the PCF can be activated, the trigger threshold must first be met. We believe that publishing the measured values of the trigger metric on a 6 monthly basis provides transparency to industry, as well as providing an early indication on when the trigger threshold is likely to be met. Following the trigger threshold being met, both NESO and Ofgem should have discretion on whether the PCF is activated. This will ensure that any unforeseen events can be accounted for. If a decision is then made to activate the PCF, a notice period of at least three months provides an appropriate amount of time for developers to decide if they wish to securitise against the PCF and remain in the queue and arrange the appropriate securitisation.</p>

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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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>As proposer, we agree with the current design of the PCF (Progression Commitment Fee) in the CMP448 Original proposal regarding the £/MW value of the fee.</p> <p>We stated in the Workgroups that we believe that the PCF value should be low enough so as not to unduly or disproportionately impact a project's viability, while also being high enough to provide a reasonable financial incentive for developers to regularly review project viability and exit the queue in a timely manner if the project becomes less viable.</p> <p>We believe that the design and value of the fee best balances these two priorities. The analysis presented to the workgroup aims to demonstrate how we have determined the fee and balanced those objectives.</p>
12	Do you agree or disagree with the methodology presented to the	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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	<p>Workgroup by NESO regarding safeguarding considerations? Please provide the rationale for your views.</p>	<p>As the presenter of the materials, we agree with the methodology presented but remain willing to expand on this at the request of the workgroup.</p>
13	<p>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.</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>As proposer, our view remains that the current outline for projects that would be within the scope of the PCF is appropriate. Our rationale for the scope of the proposal is outlined within the scope section of the proposal document.</p>
14	<p>Do you agree with the Proposer's approach to demand projects?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>

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	Please provide your rationale.	We believe that demand projects fall outside of the scope of this modification. Our reasoning for this that demand projects secure on the basis of the final sums methodology, as outlined within the modification proposal. We note that if this was to change in future, due to the approval of CMP417 (or any other modification) NESO may need to broaden the scope of the PCF. However, this would be done via a further and separate modification at the appropriate time in the future and would not fall within scope of this modification.
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 As proposer and presenter of the scenarios we agree.
16	Do you agree with definition of Queue Health put forward by	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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	the Proposer? Please provide your rationale.	As proposer and presenter of the definition we agree.
17	Do you agree that the Proposal adequately takes into consideration the interface with embedded and distribution connected projects ? Please provide your rationale.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No The proposed solution is designed to apply to both transmission connecting and relevant distribution connecting projects. We acknowledge that further engagement is required on process interfaces between NESO and DNOs to ensure that the detailed design elements of the proposal can be implemented consistently and effectively at both transmission and distribution level.
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	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Potential Alternative 1 – We understand that some DNO connecting projects may only have 2 months between gate 2 entry and Milestone 1, and that others will have longer than 6 months between gate 2 entry and M1. We believe that there is

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	<p>possible please provide your rationale.</p>	<p>value in further discussion on effect of the PCF on those with less than 2 months between gate 2 entry and Milestone 1.</p> <p>Potential Alternative 2 – We see value in further discussion on the merits of removing the replacement process from the trigger metric.</p> <p>Potential Alternatives 3, 5, 6 – We believe that any potential alternative that introduced a regional or technology-based trigger metric would create a perverse incentive that could drive investment away from or towards certain regions or technologies. Primarily for this reason, we believe that region or technology specific trigger metrics would be sub-optimal.</p> <p>Potential Alternative 4 – We are concerned that this potential alternative could create a perverse incentive for developers to self-terminate shortly before their M1 date and consequently reduce the fee that they would be required to pay.</p> <p>Potential Alternative 7 – We do not believe that the PCF would have the desired effect in addressing the defect if it was only applicable within one year of a projects M1 date. There will be projects in the gate 2 queue with M1 dates several years in the future. This alternative would not provide any incentive for developers of these projects assess project viability until one year before M1 and would therefore be less effective than the original proposal</p> <p>Potential Alternative 8 – We believe that netting of securities is not necessary. We do not believe that the PCF will lead to excessive security requirements. We also note that the PCF in the original proposal has not been calculated based on an 8% cost of financing (this was just an example scenario used within the safeguarding presentation). We published an additional slide following this which showed different financing costs in £/MW based on different financing rates and financing periods.</p>
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