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

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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:

(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?	<p>We support the Connections Reform proposals as we agree that significant reform is required to the connections queue and the current baseline is no longer suitable.</p> <p>We support the Original Proposal as we believe that this proposal is a positive, additional tool that can help to further refine the connections queue where required and can facilitate the CP2030 plans.</p> <p>We are supportive of the amendments that have been made to the Original Proposal relative to the Financial Instrument proposals that were presented late 2024. We would not have supported the Financial Instrument in the form it was presented, and the key points that make this a more suitable proposal are:</p> <ul style="list-style-type: none"> <li>• Reduced magnitude of the fee</li> <li>• ‘Ramping’ approach so Users aren’t on the full fee from the start</li> <li>• Opportunity for the other TMO4+ proposals to be implemented and their impact assessed, before introducing the PCF to the contracts.</li> </ul> <p>We prefer some of the potential alternatives to the Original Proposal and will provide further detail in the response to question 18. We also do not support imposing a straight pro-rate PCF on TEC reductions. The period where the PCF is being imposed is a period of immature design and high uncertainty. If User’s identify issues during the period prior to submitting a consent application, which require a reduction in TEC, they should not be punished for rationalizing the TEC to an appropriate value at such an early stage.</p>
2	Do you support the proposed implementation approach?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We support the implementation approach as we agree this must be implemented prior to User’s signing gate 2 contracts. However, if possible, an OFGEM decision on this mod should be made prior to the G2TWQ window opening, as the potential introduction of the PCF could influence some User’s decision to opt for a Gate 1 or Gate 2 contract. When</p>

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		the OFGEM decision is made, it is essential that this is communicated effectively to all User's so that it can be considered in advance of implementation and well in advance of a potential introduction of the PCF to contracts.
3	Do you have any other comments?	N/A – see later questions
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input checked="" type="checkbox"/> Yes (the request form can be found in the <u>Workgroup Consultation</u> Section)</p> <p><input type="checkbox"/> No</p> <p>Pending feedback from the consultation process, we intend to raise Potential Alternative 4 as an Alternative Request.</p> <p><b>Potential Alternative 4</b></p> <p>This potential alternative would introduce a discount (of a given % of the PCF which has yet to be determined) if the customer self-terminates, as opposed to being terminated by NESO upon failing to meet Milestone 1.</p> <p><b>Rationale</b></p> <p>This potential alternative does not propose to reduce the magnitude of the PCF, so developers will still need to fund the security to the full value (that is up to £10,000/MW, if the PCF is activated). They will also be liable for the full value of the PCF if their project is terminated for failing to meet M1, so the deterrent is not diminished. However, the discount will encourage and incentivise developers to self-terminate, meaning more MW capacity within the connections queue will be made available to new, viable projects at an earlier stage. The discount will apply at all stages of the PCF fee increases, but this will be most beneficial in relation to projects which are on the maximum level of the fee, namely, £10,000/MW, as without this discount these projects would no longer have any incentive to review their viability and self-terminate earlier than the M1 milestone.</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
		N/A

## 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 checked="" type="checkbox"/> Yes  <input type="checkbox"/> No
		<p>We agree with NESO's logic and understand the rationale behind the duration of the proposed fee. We do not see a viable alternative for a shorter duration fee. Whilst a longer duration fee could be introduced at a later stage if the improvements expected from Connections Reform are not seen, we do not think should be included within the proposal at this stage.</p> <p>We also note that this is the period where the User Commitment Methodologies cancellation charge will be lower, which makes it the more appropriate period to introduce an additional cancellation charge.</p>
7	Do you agree or disagree with the current design of the PCF (Progression	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No

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	Commitment Fee) in the CMP448 Original Proposal regarding the <b>profile and timing of the fee</b> ? Please provide the rationale for your views.	<p>We agree with the profile and timing of the fee for the following key reasons:</p> <ul style="list-style-type: none"> <li>• A flat fee would create too high a burden at the earliest stages of being in contract and the increased risk could deter viable projects from progressing</li> <li>• The 'ramped' fee creates the incentive for User's to leave the queue as early as is appropriate</li> <li>• 6 months is an appropriate duration between increases and allows synergy with the User Commitment Methodology processes and gated window processes</li> </ul>
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.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We agree with having a trigger metric – i.e. allowing the opportunity for TMO4+ to positively impact on the queue before introducing the PCF. The proposed trigger metric will not give a perfect view of the viability of projects within the queue, but given the lack of data that User's are likely to willingly share, we agree the proposed trigger metric is a reasonable approach. We note workgroup member's concern that having a trigger metric of MW value rather than no projects, could create a situation where 2 or 3 large projects could be terminated and cause the threshold to be breached. However, we also agree with NESO's suggestion that NESO and/or OFGEM would pick up on this during their decision making process and factor this into the decision on whether to activate the PCF.</p>
9	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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	Commitment Fee) in the CMP448 Original Proposal regarding <b>the Trigger Threshold</b> ? Please provide the rationale for your views.	<p>We agree that the 5% value, i.e. 5% of additional capacity needed being terminated at M1, is a reasonable approach and therefor agree with the 6MW value. However, this comes with the following caveats:</p> <ul style="list-style-type: none"> <li>• We understand the logic behind not including self-terminations within the 6MW, but think this may need further discussion within the workgroup to identify whether this is the correct approach</li> <li>• We think the replacement approach has potential to be very complex and difficult to implement. We would therefor consider supporting the alternative on this point, and if approved, the 6MW value would need to be increased so that the threshold is not unduly low without the replacement process</li> <li>• We consider that it may make more sense to measure the 6MW threshold on a rolling 5 year basis, as opposed to fixed 5 year periods. The threshold could then be assessed every year or every 2 years, and this would give a more reflective and updated picture of the situation at any given time. We would consider supporting an alternative to this effect.</li> </ul>
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.	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>We agree with the approach to trigger activation governance as it gives projects the opportunity to self-terminate without being liable for the PCF, in the period between the trigger metric being met and the PCF being introduced.</p> <p>As noted in the workgroup report, we believe it is essential that NESO are fully transparent and communicate if/when the threshold is breached.</p>



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		We believe it would be worthwhile to introduce a mechanism to quickly de-activate the PCF, if it was seen to lead to a lack of investment in renewable technologies.
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> ? Please provide the rationale for your views.	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>We believe that the maximum fee of £10/MW may be too high and believe a lower value should be considered.</p> <p>We appreciate this has been reduced from flat £20k/MW value that formed the Financial Instrument proposal, we still have the below issues with the max fee of £10k/MW</p> <ul style="list-style-type: none"> <li>This introduces a significant risk for projects which are at a very early stage in development. For example, for very large projects (eg floating offshore wind, GWs) – this will be a very large liability, at an early stage of the project, using a technology that is still being fully developed. This risk could deter projects of this nature from going ahead – which could restrict innovate projects from developing, deter investment and harm competition.</li> <li>We also note that under retained EU law, under the EGBL Section 2 Article 18 on ‘Charges for access to the network, use of network and reinforcement’ it states that charges should ‘reflect actual costs’ and ‘should not include unrelated costs supporting unrelated policy objectives’. NESO has not set out what costs are being incurred that need addressing under this proposal. The intent of EGBL is to be reflective of the costs incurred by network operators, which is not the case in this proposal; it could therefore be open to legal challenge.</li> </ul>

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12	<p>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.</p>	<div> <input type="checkbox"/> Yes  <input checked="" type="checkbox"/> No         </div> <p>The safeguarding considerations focus on the cost of providing the capital for projects that successfully connect. They do not focus on the risk that the PCF imposes on a project at an early stage and whether project owners can accept the magnitude of risk. Projects with the best intentions and a strong chance of being viable, may avoid requesting a Gate 2 contract if the risk introduced by the PCF at that stage is too great. This applies across the breadth of projects as projects with the smaller PCF will be smaller and likely owned by companies with less access to disposable capital, and companies with greater access to capital, could have very large projects and therefore could still have prohibitively high PCFs. Greater consideration should be given to lowering the max PCF value.</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)? Please provide your rationale.</p>	<div> <input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No         </div> <p>We generally agree that the project types listed within the diagram on figure 7 should be within the scope of the PCF. However, we have some concerns around the inclusion of small and medium embedded generation. If applied to all embedded and distribution connected projects which fall within the current scope of the PCF, the PCF will be applied to some very small projects. These projects could have very limited access to funding and it could be argued that the proposal is discriminatory, given its impact on these Users.</p>
14	<p>Do you agree with the Proposer's approach to <b>demand projects</b>?</p>	<div> <input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No         </div>

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	Please provide your rationale.	We agree with the Proposer's approach to demand projects as set out in the workgroup discussions and report. The final sums methodology creates sufficient incentives. A further modification can be raised if required following the outcome of CMP417.
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  No issues with the scenarios in Annex 4
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  Similar to the response to Q8, we believe the Proposer's definition of Queue Health does not give a perfect view of the potential defect and may not capture exactly the issue of non-viable projects and their impact on the queue. However, given the wide ranging issues that can contribute towards project and queue health, and the lack of data that Users are likely to willingly share, we agree that the Proposer's definition of queue health is a reasonable approach to assessing the forecasted success of the CP30 plans.
17	Do you agree that the Proposal adequately takes into consideration the <b>interface with embedded and distribution connected projects</b> ?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  There are too many unresolved questions to agree that the proposal has taken into consideration the interface with embedded and distribution connected projects. The workgroup discussions, and the notes in the workgroup

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	Please provide your rationale.	<p>report, refer to NESO's commitment to engagement and liaison through various forums. However, these commitments do not provide the structure or governance on how the interface would work with embedded and distribution connected projects and more outcomes/resolutions are required before this reaches an acceptable position.</p> <p>As discussed in the meetings and as outlined in the workgroup report, distribution connected projects have M1 milestones that are calculated on a different basis to transmission projects and this impacts on the duration that the PCF could be imposed for. This discrepancy has yet to be properly addressed and following further discussion and scrutiny, we would potentially support some form of Potential Alternative 1.</p> <p>As noted in the response to question 13, If applied to all embedded and distribution connected projects which fall within the current scope of the PCF, it could be argued that the proposal is discriminatory, given its impact on the smallest generators that fall within scope.</p>
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>Subject to change following further discussion and scrutiny, we would be initially minded to support:</p> <p><b>Potential Alternative 1</b> – We could support this due to the complexity of applying the PCF to all embedded projects currently in scope, the potentially unfair impact on small and medium embedded generation and the lack of alignment of queue management milestones across transmission and distribution connected projects.</p> <p><b>Potential Alternative 2</b> – We believe the replacement process could become unmanageably complex, that it is not necessary to address the defect and can be omitted from</p>

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		<p>the minimum viable project of this urgent modification. The trigger threshold would need to be amended accordingly.</p> <p><b>Potential Alternative 4</b> – raised by SPR, see response to Q4</p> <p><b>Potential Alternative 7</b> – This required further detail and scrutiny but has potential to address some concerns around the larger scale projects that may have an M1 date further into the future, and could have a very large PCF for a long duration.</p> <p><b>Potential Alternative 8</b> – we agree with the rationale as set out in the workgroup report.</p>
		<p>Subject to change following further discussion and scrutiny, we would be initially minded <i>not to</i> support:</p> <p><b>Potential Alternatives 3/5/6</b> – we believe this could introduce a significant level of complexity without better addressing the defect and we do not support extending the duration of the PCF. These alternatives could introduce challenges due to potential discrimination and could unduly influence project's geographical location.</p>