

CMP448 Introducing a Progression Commitment Fee to the Gate 2 Connections Queue

Workgroup Meeting 1, 26 February
2025

Online Meeting via Teams

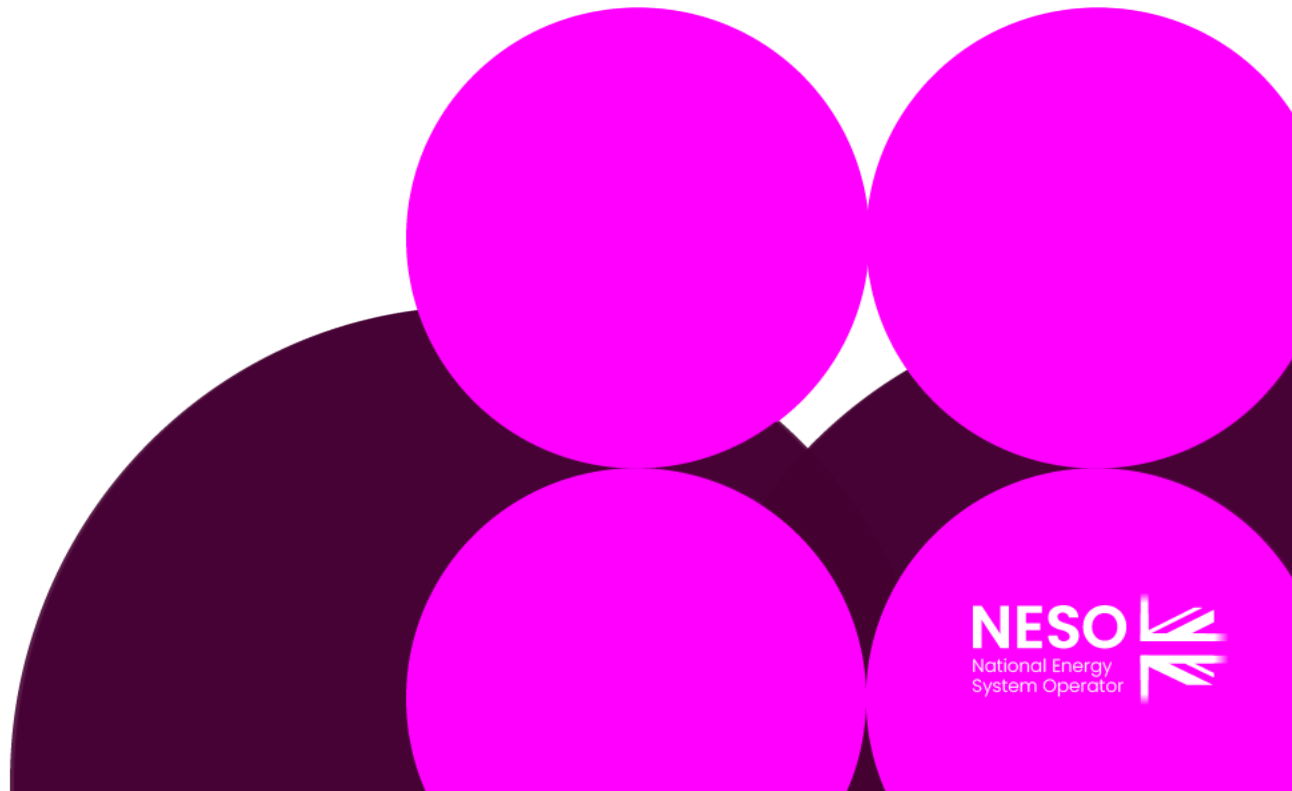
WELCOME

Agenda

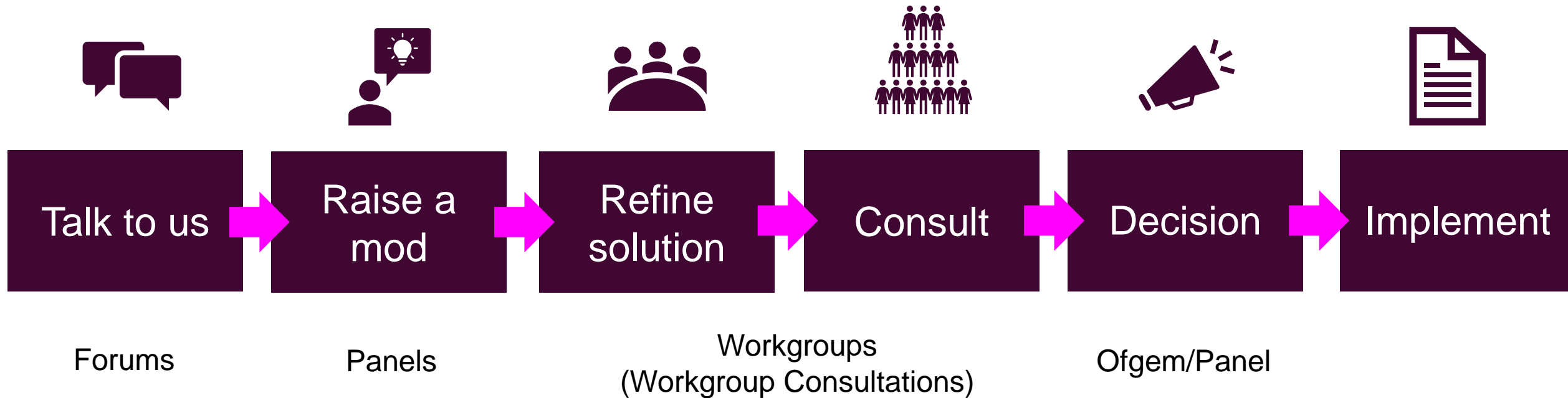
Topics to be discussed	Lead
Introductions	Chair
Code Modification Process Overview <ul style="list-style-type: none">• Workgroup Responsibilities• Workgroup Alternatives and Workgroup Vote	Chair
Objectives and Timeline <ul style="list-style-type: none">• Walk-through of the timeline for the modification	Chair
Review Terms of Reference	All
Proposer presentation	Proposer
Questions from Workgroup Members	All
Agree Terms of Reference	All
Cross Code Impacts	All
Any Other Business	Chair
Next Steps	Chair

Modification Process

Workgroup Chair – NESO



Code Modification Process Overview



Refine Solution Workgroups



- If the proposed solution requires further input from industry in order to develop the solution, a Workgroup will be set up.
- The Workgroup will:
 - further refine the solution, in their discussions and by holding a **Workgroup Consultation**
 - Consider other solutions, and may raise **Alternative Modifications** to be considered alongside the Original Modification
 - Have a **Workgroup Vote** so views of the Workgroup members can be expressed in the Workgroup Report which is presented to Panel

Consult Code Administrator Consultation

- The Code Administrator runs a consultation on the **final solution(s)**, to gather final views from industry before a decision is made on the modification.
- After this, the modification report is voted on by Panel who also give their views on the solution.



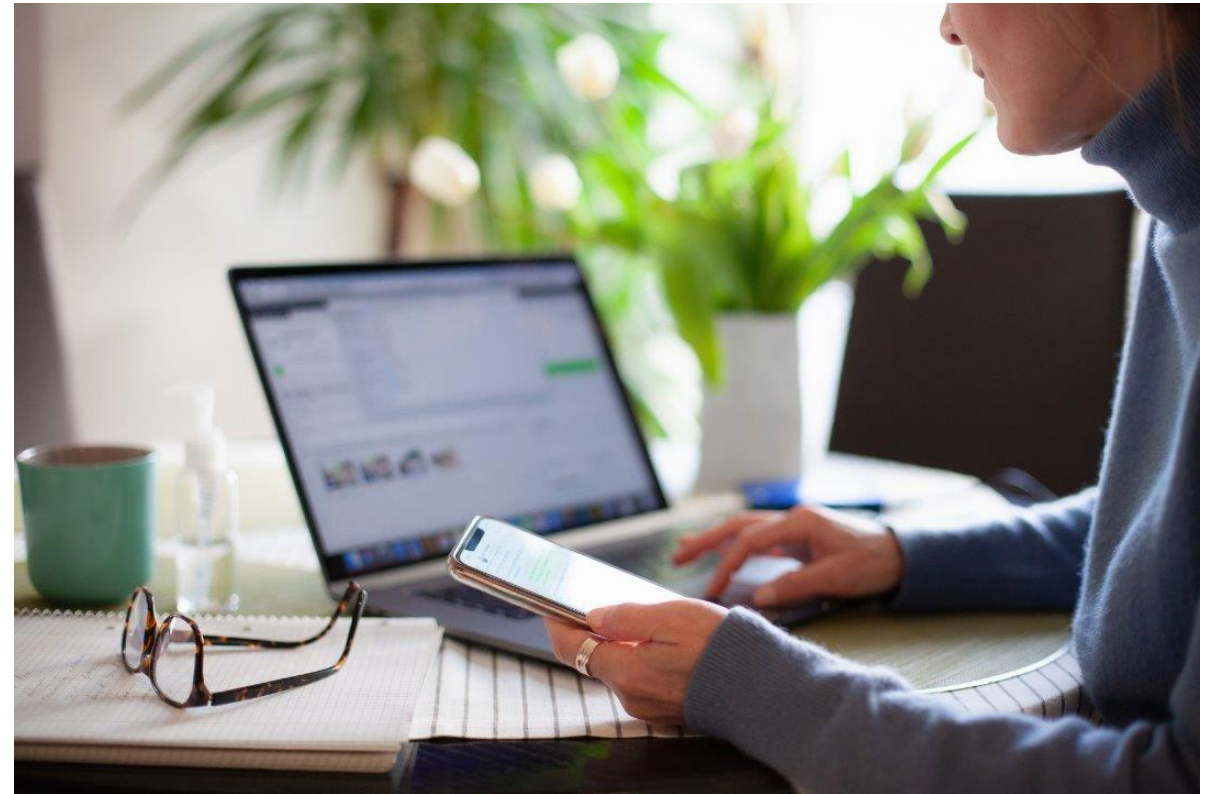
Decision



- Dependent on the Governance Route that was decided by Panel when the modification was raised
- **Standard Governance:** Ofgem makes the decision on whether or not the modification is implemented
- **Self-Governance:** Panel makes the decision on whether or not the modification is implemented
 - an appeals window is opened for 15 days following the Final Self Governance Modification Report being published

Implement

- The Code Administrator implements the final change which was decided by the Panel / Ofgem on the agreed date.



Workgroup Responsibilities and Membership

Workgroup Chair – NESO



Public Expectations of a Workgroup Member

Contribute to the discussion

Be respectful of each other's opinions

Language and Conduct to be consistent with the values of equality and diversity

Do not share commercially sensitive information

Be prepared - Review Papers and Reports ahead of meetings

Complete actions in a timely manner

Keep to agreed scope

Email communications to/cc'ing the .box email

Your Roles

Help refine/develop the solution(s)

Bring forward alternatives as early as possible

Vote on whether or not to proceed with requests for Alternatives

Vote on whether the solution(s) better facilitate the Code Objectives

Workgroup Membership

Workgroup Membership for CMP448 is still being confirmed.

Workgroup Alternatives and Workgroup Vote

Workgroup Chair – NESO



What is the Alternative Request?

What is an Alternative Request? The formal starting point for a Workgroup Alternative Modification to be developed which can be raised up until the Workgroup Vote.

What do I need to include in my Alternative Request form? The requirements are the same for a Modification Proposal you need to articulate in writing:

- a description (in reasonable but not excessive detail) of the issue or defect which the proposal seeks to address compared to the current proposed solution(s);
- the reasons why you believe that the proposed alternative request would better facilitate the Applicable Objectives compared with the current proposed solution(s) together with background information;
- where possible, an indication of those parts of the Code which would need amending in order to give effect to (and/or would otherwise be affected by) the proposed alternative request and an indication of the impacts of those amendments or effects; and
- where possible, an indication of the impact of the proposed alternative request on relevant computer systems and processes.

How do Alternative Requests become formal Workgroup Alternative Modifications? The Workgroup will carry out a Vote on Alternatives Requests. If the majority of the Workgroup members or the Workgroup Chair believe the Alternative Request will better facilitate the Applicable Objectives than the current proposed solution(s), the Workgroup will develop it as a Workgroup Alternative Modification.

Who develops the legal text for Workgroup Alternative Modifications? ESO will assist Proposers and Workgroups with the production of draft legal text once a clear solution has been developed to support discussion and understanding of the Workgroup Alternative Modifications.

Can I vote? And What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference)

Stage 1 – Alternative Vote

- Vote on whether Workgroup Alternative Requests should become Workgroup Alternative CUSC Modifications.
- The Alternative vote is carried out to identify the level of Workgroup support there is for any potential alternative options that have been brought forward by either any member of the Workgroup OR an Industry Participant as part of the Workgroup Consultation.
- **Should the majority of the Workgroup OR the Chair believe that the potential alternative solution may better facilitate the CUSC objectives than the Original then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative CUSC modification (WACM) and submitted to the Panel and Authority alongside the Original solution for the Panel Recommendation vote and the Authority decision.**

Can I vote? And What is the Alternative Vote?

To participate in any votes, Workgroup members need to have attended at least 50% of meetings. The vote shall be decided by simple majority of those present at the meeting at which the vote takes place (whether in person or by teleconference)

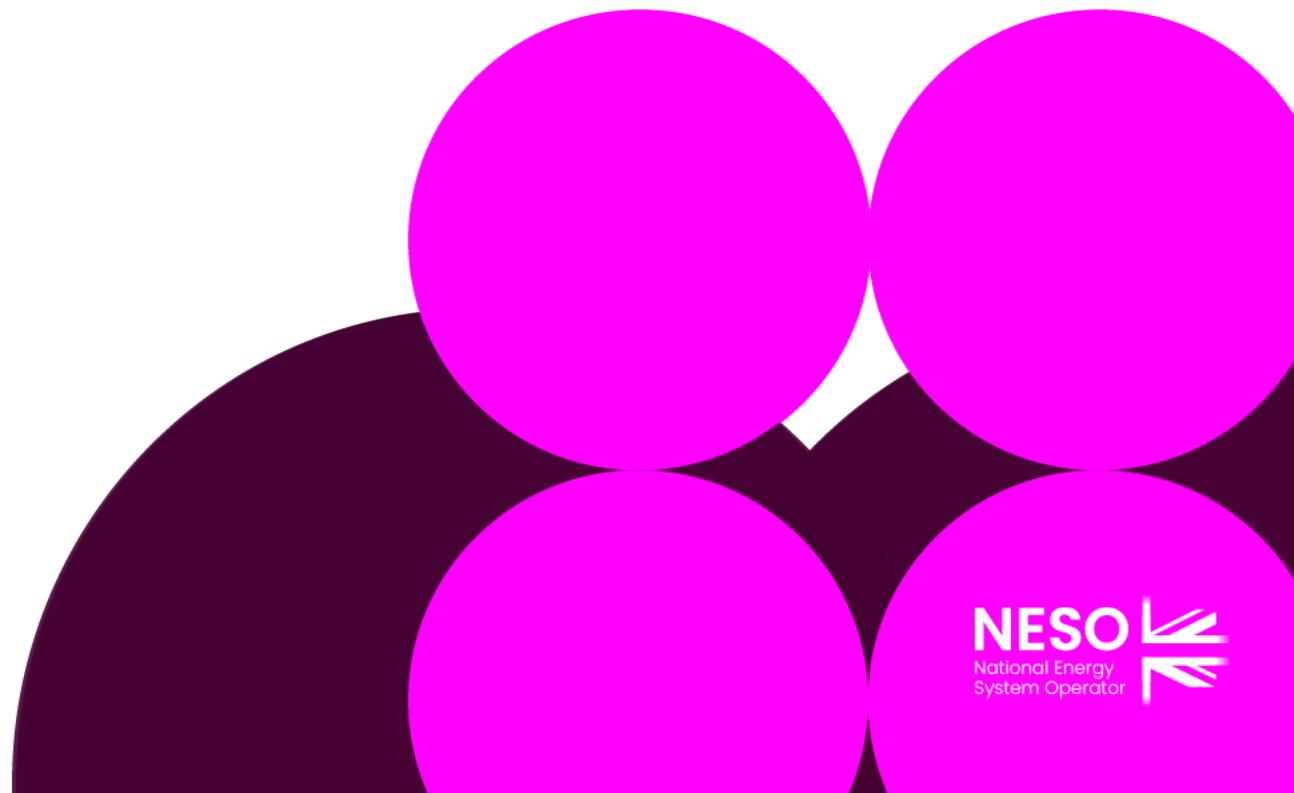
Stage 2 – Workgroup Vote

- 2a) Assess the original and Workgroup Alternative (if there are any) against the relevant Applicable Objectives compared to the baseline (the current code)
- 2b) Vote on which of the options is best.

Alternate Requests cannot be raised after the Stage 2 – Workgroup Vote

Objectives and Timeline

Workgroup Chair – NESO



CMP448 Timeline

Milestone	Date	Milestone	Date
Modification presented to Panel	14 February 2025	Code Administrator Consultation (10 Business Days)	10 June – 24 June 2025
Workgroup Nominations (3 Business Days)	14 February – 19 February 2025	Draft Final Modification Report (DFMR) issued to Panel (3 Business Days)	30 June 2025
Ofgem grant Urgency	18 February 2025 (5pm)	Panel undertake Recommendation Vote	04 July 2025
Workgroup 1 – 6 (assuming Ofgem have granted Urgency)	24 February 26 February 05 March 12 March 17 March 20 March	Final Modification Report issued to Panel to check votes recorded correctly	04 July 2025
Workgroup Consultation (10 Business Days)	24 March – 08 April 2025	Final Modification Report issued to Ofgem	04 July 2025
Workgroup 7 – 13 - Assess Workgroup Consultation Responses and Workgroup Vote	16 April 23 April 30 April 07 May 14 May 19 May 27 May	Ofgem decision	Q3 2025
Workgroup report issued to Panel (3 Business Days)	03 June 2025	Implementation Date	Q1 2026
Panel sign off that Workgroup Report has met its Terms of Reference	09 June 2025		

Review Terms of Reference

Workgroup Chair – NESO



Terms of Reference

Workgroup Terms of Reference

- A Consider the metric that will best reflect queue health.
- B Consider the trigger threshold that will best reflect queue health.
- C Consider the expected impact on connection timelines.
- D Consider if the period that the Progression Commitment Fee applies to, Gate 2 entry to Milestone 1, is appropriate.
- E Consider if not applying the fee to all users will be duly or unduly discriminatory.

Proposer's Solution: Background; Proposed Solution & Scope

Ash Adams – NESO



Case for Change

What is the context?

- To support the progress towards Clean Power 2030 and other decarbonisation plans, it is important to be able to facilitate the timely and efficient connection of viable projects to the grid.
- Currently there are in-flight modifications (CMP434 and CMP435) which aim to improve the connections process. If the modifications are approved, the concept of Gate 2 connections queue will be introduced.
- A project with a place in the Gate 2 connections queue is provided connection capacity, but at present it is unclear how many projects in the future Gate 2 queue will ultimately connect.
- The Queue Management process will ensure that projects will be terminated if they do not progress quickly enough and fail to meet milestones.

Case for Change

What is the defect?

- A project in the Gate 2 connections queue may become less viable over time and the existing Queue Management framework may not provide a sufficient financial incentive for developers to regularly review the viability of their projects.
- Developers may not be sufficiently incentivised to either exit the connections queue or sell their project to another developer in a timely manner if they do not intend to progress the project themselves.
- Such behaviour could cause connection delays and other detrimental impacts to developers of more viable projects with later connection dates and hinder progress towards CP30 and other decarbonisation plans.

Case for Change

Why is this change needed?

- The period between Gate 2 queue entry and User Progression Milestone 1: Initiated Statutory Consents and Planning Permission (Milestone 1) is the longest in the User Progression milestones and carries the highest risk of projects failing to progress and persisting in the queue longer than necessary.
- Without further change, the current defect may not be addressed appropriately even after the wider suite of proposed connections reforms are implemented.
- In our view, an additional arrangement (which can be activated if required) that complements the existing arrangements and in-flight modifications (CMP434 and CMP435) is needed to ensure we are able to act at pace to address the defect should it materialise.

Journey so Far

Date	Action	Description
October 2022	NESO launched Connections Reform	<ul style="list-style-type: none"> Many projects are currently waiting too long to connect to the transmission network which is hindering progress towards CP30 and ultimately net zero. There are also projects that are holding capacity and not progressing which significantly impacts the timely connection of more viable projects. To address these challenges, NESO initiated the Connections Reform programme, to enable more timely connections for projects in the best position to connect and establish a more, coordinated and efficient network design.
November 2023	DESNZ and Ofgem launched Connections Action Plan	<ul style="list-style-type: none"> DESNZ/Ofgem launched the Connections Action Plan to speed up connection queue timescales and highlighted 6 key actions to release more network capacity and improve the connections process. DESNZ/Ofgem suggested 'increasing financial commitments to attain a connection or holding capacity to deter speculative projects' as a potential action to further raise entry requirement. They stated that increasing financial requirements as a condition to attain or hold capacity agreement would create an added incentive for developers to submit highly credible projects that are likely to be advanced.
August 2024 – October 2024	NESO developed the initial "Financial Instrument" (FI) proposal and presented to TCMF	<ul style="list-style-type: none"> NESO developed a proposal for a "financial instrument" for project developers seeking to connect: a security of £20k/MW applicable upon entry into Gate 2 queue until completion of Queue Management Milestone 7: Project Commitment, which would be drawn upon if the developer left the queue. NESO presented the proposal to TCMF and received valuable feedback from industry.
November 2024	NESO put out a Call for Input (CFI) on the "Financial Instrument"	<ul style="list-style-type: none"> NESO issued a 'Call for Input' to invite further feedback on the proposal, and received 132 responses from industry representatives, including developers, TOs, DNOs, and community energy-related organisations.
December 2024 – February 2025	NESO developed a new proposal	<ul style="list-style-type: none"> Using feedback from the CFI responses, NESO significantly changed the proposal with the aim of creating a more targeted solution that addresses industry and stakeholder concerns.
February 2025	NESO raised a mod request for a Progression Commitment Fee	<ul style="list-style-type: none"> NESO raised a mod to introduce a Progression Commitment Fee to the Gate 2 queue that can be activated if required, to incentivise the timely self-removal of unviable projects from the queue.

Summary of feedback from the Call for Input

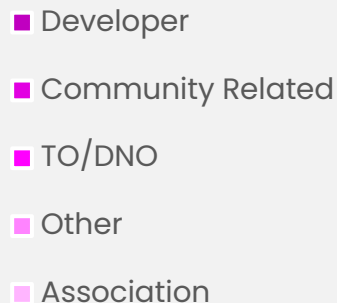
A Call for Input was issued in Nov. 2024 requesting feedback on the initial proposal of a £20K/MW “financial instrument”

Key Takeaways from CFI Responses

Responses Received

Total responses received: **132**

Breakdown of respondents by type
(% of total responses)



Level of support for the initial proposal

- **5.6%** of respondents were **broadly supportive**
- **49.6%** of respondents were **supportive in principle of a “financial instrument,”** but disagreed with some aspect of the initial proposal
- **44.8%** of respondents believed that a “financial instrument” in any form was the **wrong solution**

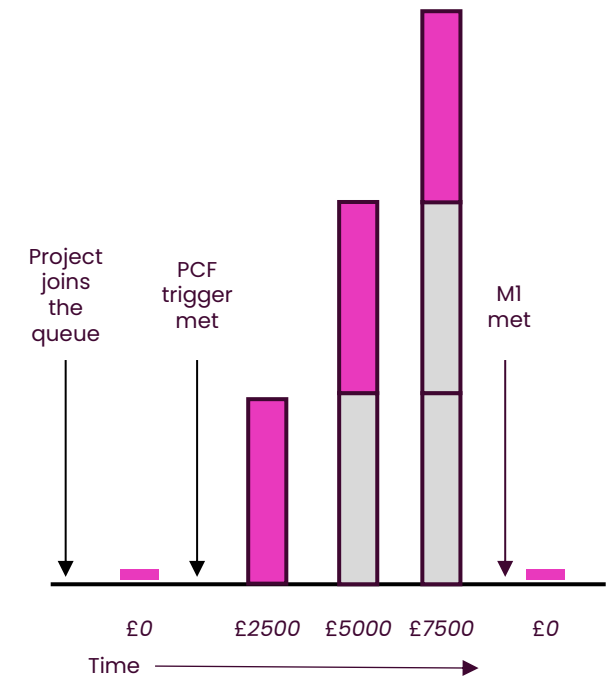
Key points of concern about the initial proposal

- Sense that existing reforms such as TM04+, CP30 and existing security arrangements should mitigate the need for new financial requirements
- Concern that the value of the fee (£20K/MW) might impact project viability and profitability, especially of small developers
- Concern that developers could be subject to the fee for reasons outside of their control, for example not receiving planning permission
- Concern that a flat fee could create a perverse incentive for a project in the queue to remain rather than proactively exit

Progression Commitment Fee: Solution Overview

Intent	<p>The Progression Commitment Fee (PCF) is intended to provide an incentive for:</p> <ul style="list-style-type: none"> • Developers of projects that have become unviable to proactively exit the queue in a timely manner. • Developers who are no longer committed to progressing viable projects to sell them to a committed developer, in a timely manner.
Activation	<ul style="list-style-type: none"> • Once implemented, the PCF will initially be dormant. It will remain dormant unless a “trigger metric” which is indicative of the health of the connections queue exceeds a defined threshold (a “trigger threshold”). • At this point, the PCF may be activated, subject to decisions to proceed by NESO and Ofgem (see the following slides for further detail on the trigger metric and threshold for activation).
Value	<ul style="list-style-type: none"> • Once activated, the PCF applicable to a project will have an initial value of £2,500/MW. A project’s PCF will then increase at a rate of £2,500/MW at 6 monthly intervals up to a maximum cap of £10,000/MW for any individual project. • Projects will be liable for the full value of their PCF upon termination of the project (or the appropriate portion of the PCF upon reduction of capacity) prior to successfully demonstrating achievement of Milestone 1.
Scope	<ul style="list-style-type: none"> • If the PCF is activated, it will be applicable to all generation projects that hold Transmission Entry Capacity, Developer Capacity or Interconnector Capacity (including small, medium and large distribution connecting generation) and have accepted a Gate 2 contract offer and not passed Queue Management Milestone 1.
Collection	<ul style="list-style-type: none"> • If the PCF is activated, developers of projects between Gate 2 and Milestone 1 will be required to post a security against the PCF, the “Progression Commitment Fee Security” (“PCFS”). The intention is for the PCFS to be securitised as per CUSC Section 15 and must remain in place until developers successfully demonstrate that the project has achieved Milestone 1. • After achieving Milestone 1, developers will no longer be subject to the PCF if they terminate and there will no longer be a requirement to secure against the PCF.

Total Liability Over Time (Illustrative)



How we have changed the solution

	Previous Solution	Proposed Solution	How this addresses CFI feedback
Fee Value	£20k/MW	Up to £10k/MW, in increments of £2.5k/MW	Respondents were concerned that the level of the fee (£20k/MW) might impact project viability and profitability, especially for small developers. The value of the proposed fee has now been capped at £10k/MW
Profile and Timing of Fee	Flat rate fee	Fee increasing with time	Respondents suggested that a flat fee could create a perverse incentive for a project in the queue to remain rather than proactively exit. The fee has been changed from a flat rate, to one that is initially set at a lower amount and then increases every six months thereafter.
Duration of fee application	Gate 2 entry to Milestone 7	Gate 2 entry to Milestone 1	To address the concern that developers could be subject to the fee for reasons outside of their control, the PCF only applies to the pre-planning stage (until Milestone 1)
Activation of the fee	Immediate	If the trigger threshold is met at any measurement point	Respondents suggested that existing in-flight reforms may address issues with the queue. The PCF will therefore only be activated if and when the trigger metric indicates that it is required.
Netting off other securities	Netted off the User Commitment Secured Amount from the required security	No netting off against the User Commitment Secured Amount	<p>The value of the PCF is lower, and netting securities is no longer required to avoid potentially excessive security requirements</p> <p><i>Note: Projects are less likely to be exposed to significant User Commitment sums during the period between Gate 2 and Milestone 1</i></p>

Duration of PCF application

The PCF applies to in-scope projects that have accepted a Gate 2 contract offer and not passed Queue Management Milestone 1.

The PCF has been designed to apply only to projects between Gate 2 and Milestone 1 because:

- The longest period between User Progression Milestones is between Gate 2 entry and Milestone 1. During this period, projects are less likely to be exposed to significant User Commitment sums. Consequently, this is the stage where a project can occupy the queue for the longest duration, while also facing the least incentive for proactive and timely withdrawal.
- NESO views the period between Gate 2 entry and Milestone 1 as the period that carries the highest risk of projects failing to progress and persisting in the queue for longer than necessary. The defect that the modification seeks to address is limited to this period of time.
- Project progression towards submission of a planning application (the activity between gate 2 and Milestone 1) is largely within the control of the developer.

Scope of the PCF

If the PCF is activated, it will be applicable to:

- All generation projects (including small, medium and large distribution connecting generation) that:
 - Hold either Transmission Entry Capacity, Developer Capacity or Interconnector Capacity
 - Have accepted a Gate 2 contract offer, and
 - Have not passed Queue Management Milestone 1

Out of Scope:

For avoidance of doubt, Distribution Connected Demand connections triggered by Distribution Network Operators (“DNOs”) and Directly Connected Demand are out of scope

Trigger Rationale

Challenge: We can't be certain how prevalent the problem of project non-progression will be in the future gate 2 queue. Therefore, we propose that we should only activate the Progression Commitment Fee if non-progression is prevalent.

We therefore need two things:

- 1) Trigger Metric:** a reliable measure of queue health with respect to project progression to Milestone 1 (measured on a continual basis)
- 2) Trigger Threshold:** a pre-defined threshold value above which the measure would signal that the PCF should be triggered

If [metric value] > [threshold], then the PCF will apply¹

Note: We intend to use a future workgroup to discuss the trigger metric and threshold value in detail. For today, the aim is to explain the purpose and why they are needed as part of the solution.

Notes:

1. PCF activation is subject to NESO and Ofgem decisions

Trigger Metric

Upon implementation of the modification, the PCF will initially be dormant. It will remain dormant unless a metric, which is indicative of the health of the connections queue, exceeds a defined threshold.

- **The metric** will measure the cumulative project MWs that are “terminated” from the Gate 2 connections queue including but failing to meet Milestone 1. Any project MWs that are subsequently replaced by another project (or projects) with a connection date within 12 months of the connection date of the original project will be excluded from the metric. This metric will be referred to as the “trigger metric”.
- **Trigger measurement:** The trigger metric will be measured from the date of implementation to 31 December 2030 inclusive, the “initial metric period” and then for each five-year period thereafter. NESO will measure the trigger metric at six monthly intervals, the “measurement point” and publish this data.
- **Following termination,** what qualifies as replacement capacity for the purposes of the trigger metric will be assessed by NESO based on a number of factors including but not limited to the location and technology type of the replacement connection in relation to the original. If no replacement capacity can be identified within six months, the terminated capacity will be regarded as not having been replaced by another project (or projects) for the purposes of the trigger metric.

Progression Commitment Fee Activation

- **The “trigger threshold”** will be set at a cumulative total of 6000MW for the initial metric period, which is the approximate equivalent of 5% of the additional capacity (capacity that is not already installed) that is required to be connected before the end of 2030 in order to meet CP30 targets. If the PCF is not activated by the end of the initial metric period, the intention of NESO is to review the trigger threshold ahead of each subsequent 5-year period. Any changes would go through the usual code modification process.
- **If, at any measurement point, the published trigger metric, is greater than 6000MW**, the trigger threshold will have been deemed to be met. The trigger threshold is based on a cumulative total.
- **If the trigger threshold is deemed to have been met** at any measurement point, NESO will have the option to activate or not activate the PCF and will notify Ofgem of its decision within 1 month of the trigger threshold being met. We propose that (subject to Ofgem agreement) Ofgem should then have power to override NESO’s decision within 2 months of being notified. For the avoidance of doubt, there will be no ability of any party to activate the PCF unless the trigger threshold is first met.
- **If the trigger threshold is met and the PCF is activated**, users will be provided a **notice period of at least 3 months** from the date of Ofgem’s decision. If a User decides to remove the project from the connections queue within this period, they will not be liable for the PCF upon termination¹.

Notes: 1. They will still be liable for the applicable cancellation charge as per the current arrangements

Profiled Commitment

What amount of security is required?

- The PCF is initially dormant. If it is subsequently activated, project developers in the Gate 2 queue who have not passed Milestone 1 will need to provide security against an initial amount of £2,500/MW
- A project entering the Gate 2 queue post activation of the PCF will be liable for a PCF equal to £2,500/MW at the time of entering the Gate 2 queue.
- The required security will increase at a rate of an additional £2,500/MW every six months¹ up to a maximum of £10,000/MW.
- The security will no longer be required when the project successfully passes Milestone 1.

Why does the required amount of security increase over time?

- The responses to the 'Call for Input' highlighted that an upfront security requirement could create a perverse incentive for projects to remain in the queue. A developer may prefer to postpone the decision to leave rather than face an immediate obligation to pay the PCF.
- The ramping of the liability over time creates an incentive for project developers to periodically reassess the viability of their project and exit the queue sooner than later if they believe the project is becoming less viable.
- Potentially adds an incentive for projects to submit planning applications and meet Milestone 1 sooner if they can

Notes: 1. The PCF for a project entering the Gate 2 queue post activation of the PCF may rise to £5,000/MW at a point in time between zero and six months after entry to Gate 2 depending on the time they enter the queue

Level Rationale

The level of PCF should be:

- ✓ **Low enough so as not to unduly or disproportionately impact a project's viability**, both in terms of overall NPV, and in terms of risk and devex required at early stages, including for small developers.
- ✓ **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.

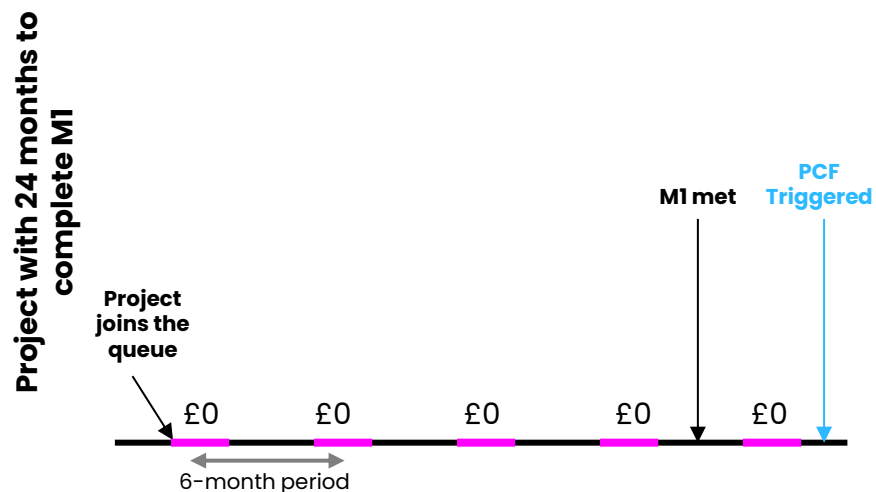
Approach to PCF Value Determination:

- A project with a negative NPV at a point in time can either: commit to development, exit the queue, or “delay” the decision to exit by minimising DEVEX spend and re-evaluating the project after 6 months.
- The option to delay will be the optimal action if there is a low cost to remain in the connections queue.
- The PCF will make room in the queue for developers with more viable projects by changing the optimal action from “delay” to “exit”.
- The burden that financing the PFC would place on viable projects was also considered.

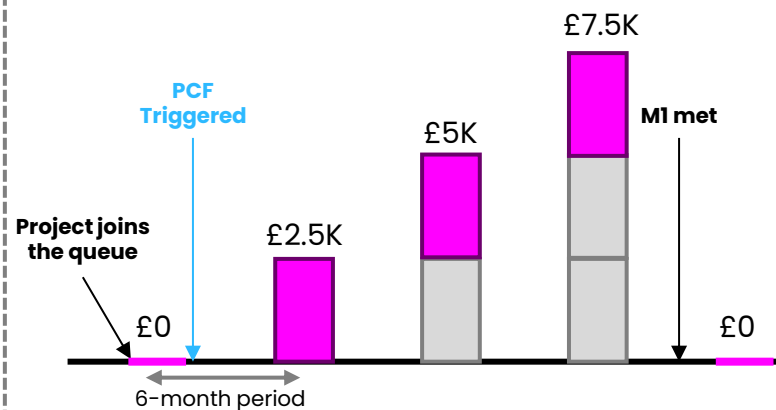
Note: We intend to use a future workgroup to discuss the PCF value in detail. For today, the aim is to explain the rationale and the approach used at a high level.

Example Scenarios: Cumulative PCF over time

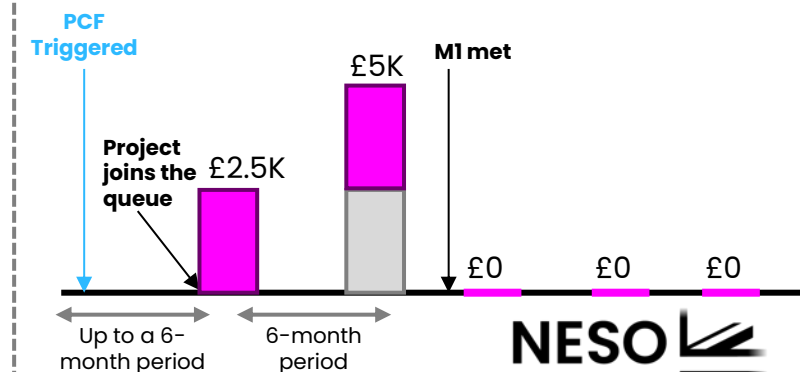
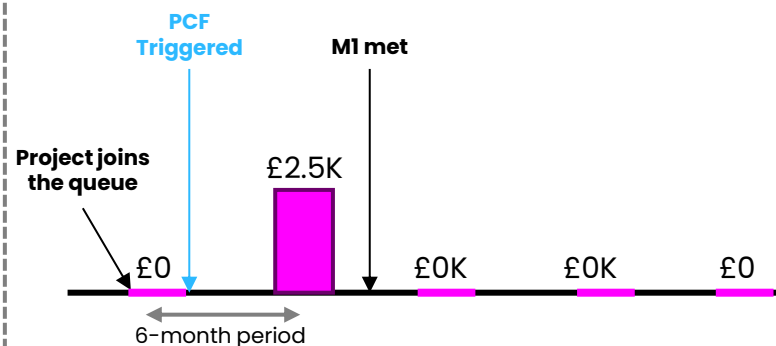
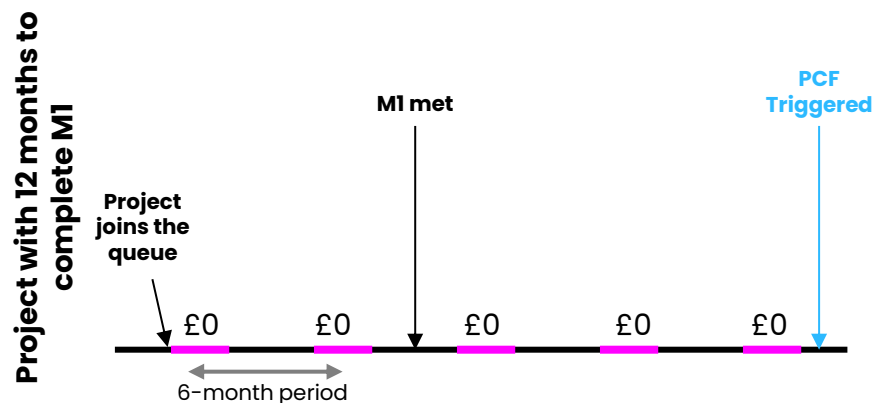
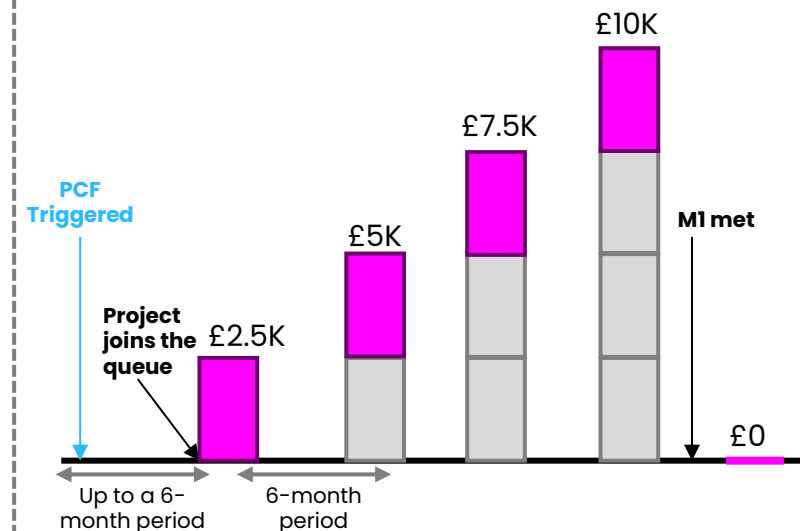
Scenario 1: If PCF is never triggered (or triggered after completion of Milestone 1)



Scenario 2: If PCF is triggered before project completes Milestone 1

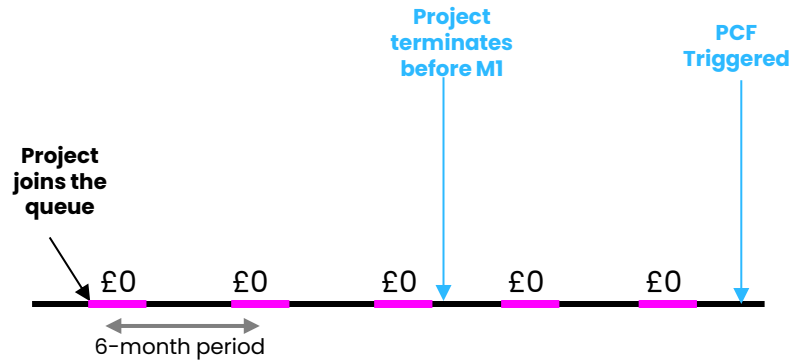


Scenario 3: If PCF is triggered before project enters gate 2



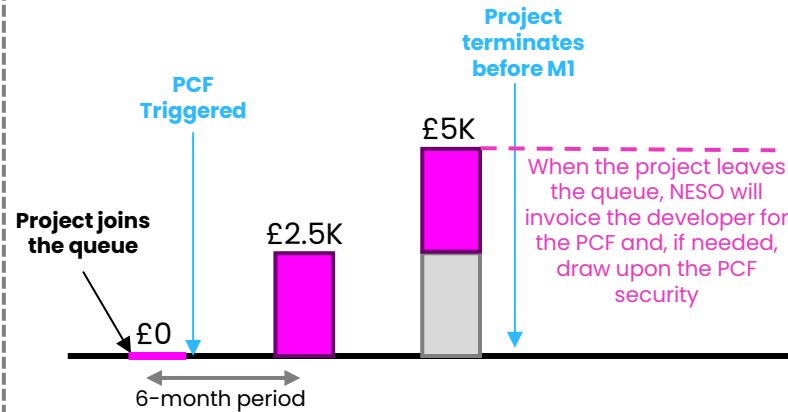
Example Scenarios: Cumulative PCF over time

Scenario 4: If a project terminates before Milestone 1 and the PCF has not been triggered yet



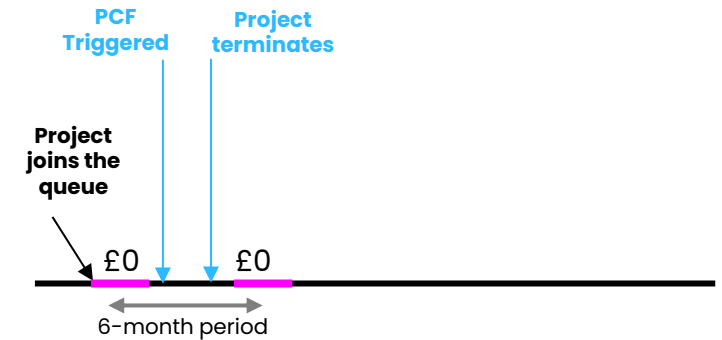
If a project leaves the queue before the PCF has been triggered, it will not face a liability

Scenario 5: If a project terminates before Milestone 1 and the PCF has been triggered



If a project leaves the queue before Milestone 1 but after the PCF has been triggered, it will face a liability

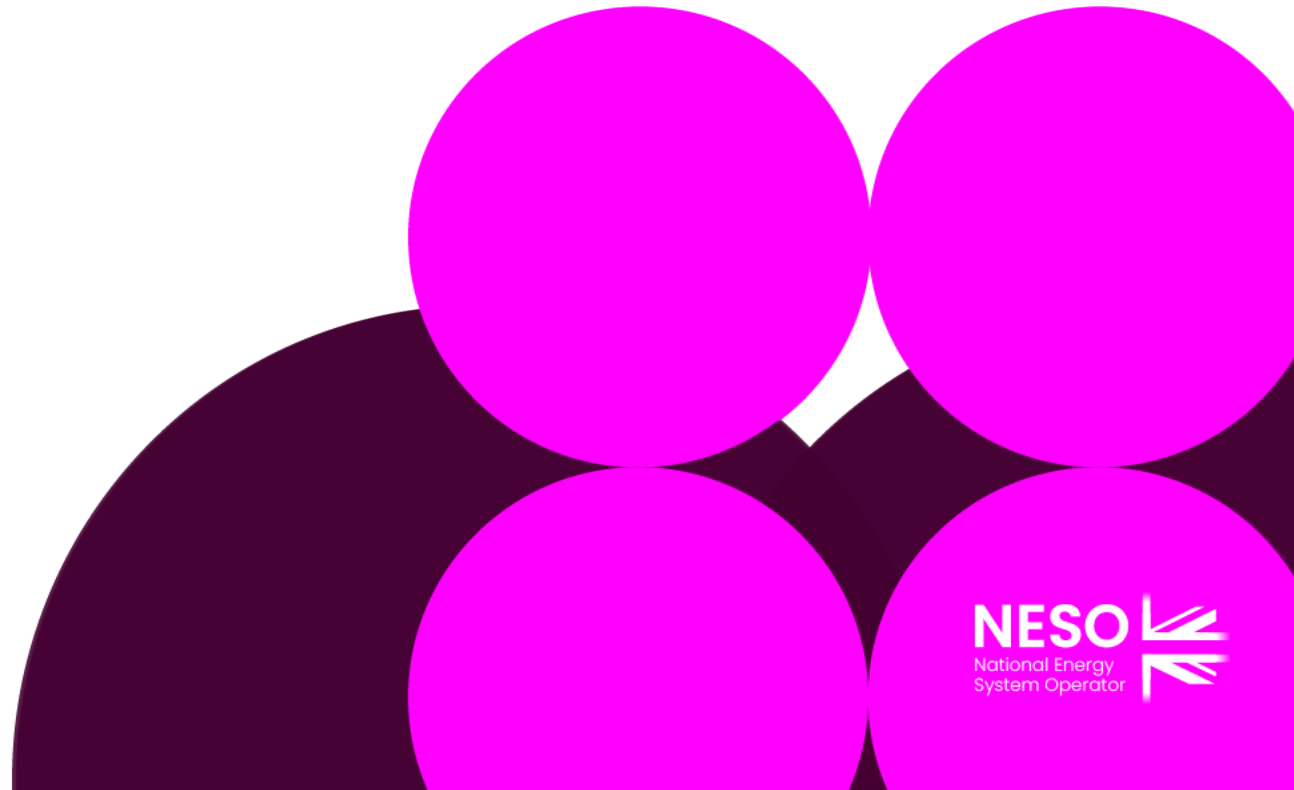
Scenario 6: If the PCF has been triggered and a project exits during the notice period



If the PCF is triggered and a project chooses to exit the queue during the notice period (at least 3 months), it will not face a liability

Agree Terms of Reference

Workgroup Chair – NESO



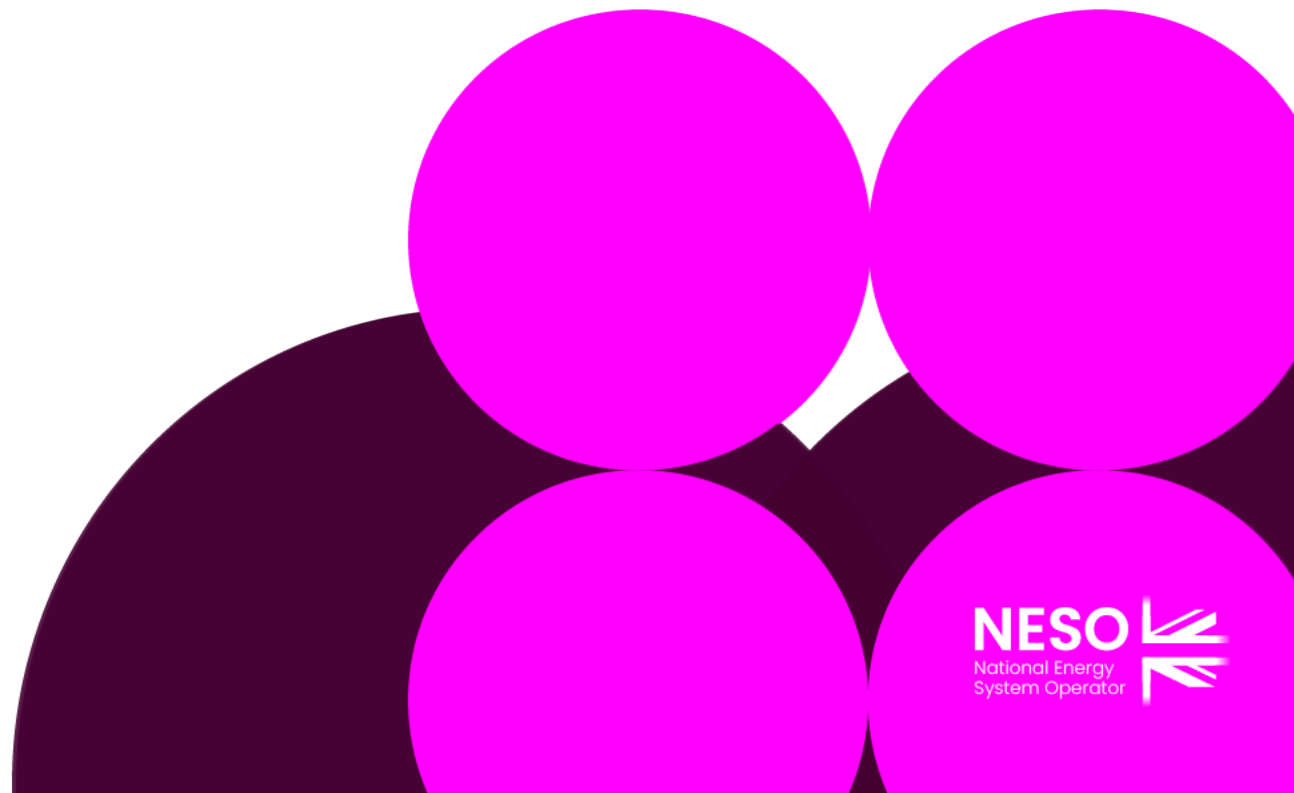
Terms of Reference

Workgroup Terms of Reference

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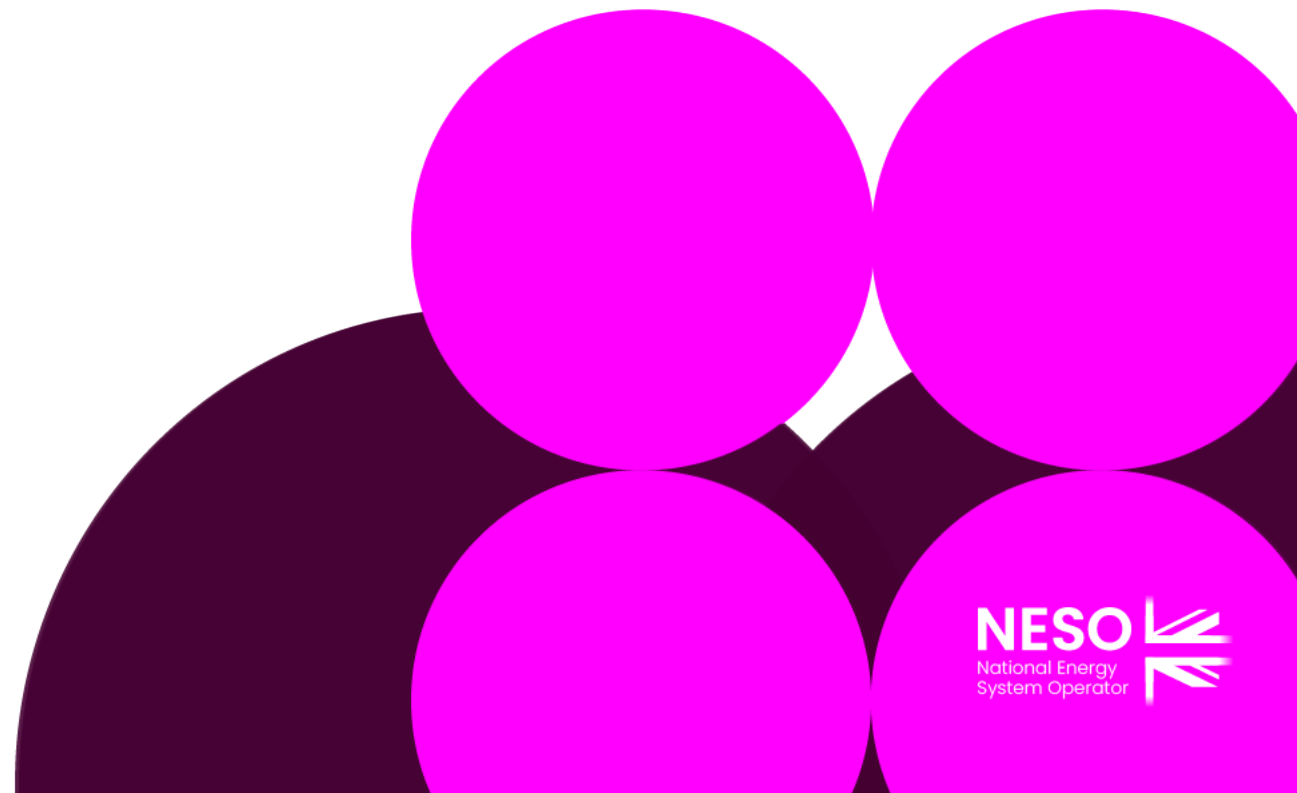
Cross Code Impacts

Workgroup Chair – NESO



Any Other Business

Workgroup Chair - NESO



Next Steps

Workgroup Chair – NESO

