

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

Workgroup Meeting 2, 05 March 2025

Online Meeting via Teams

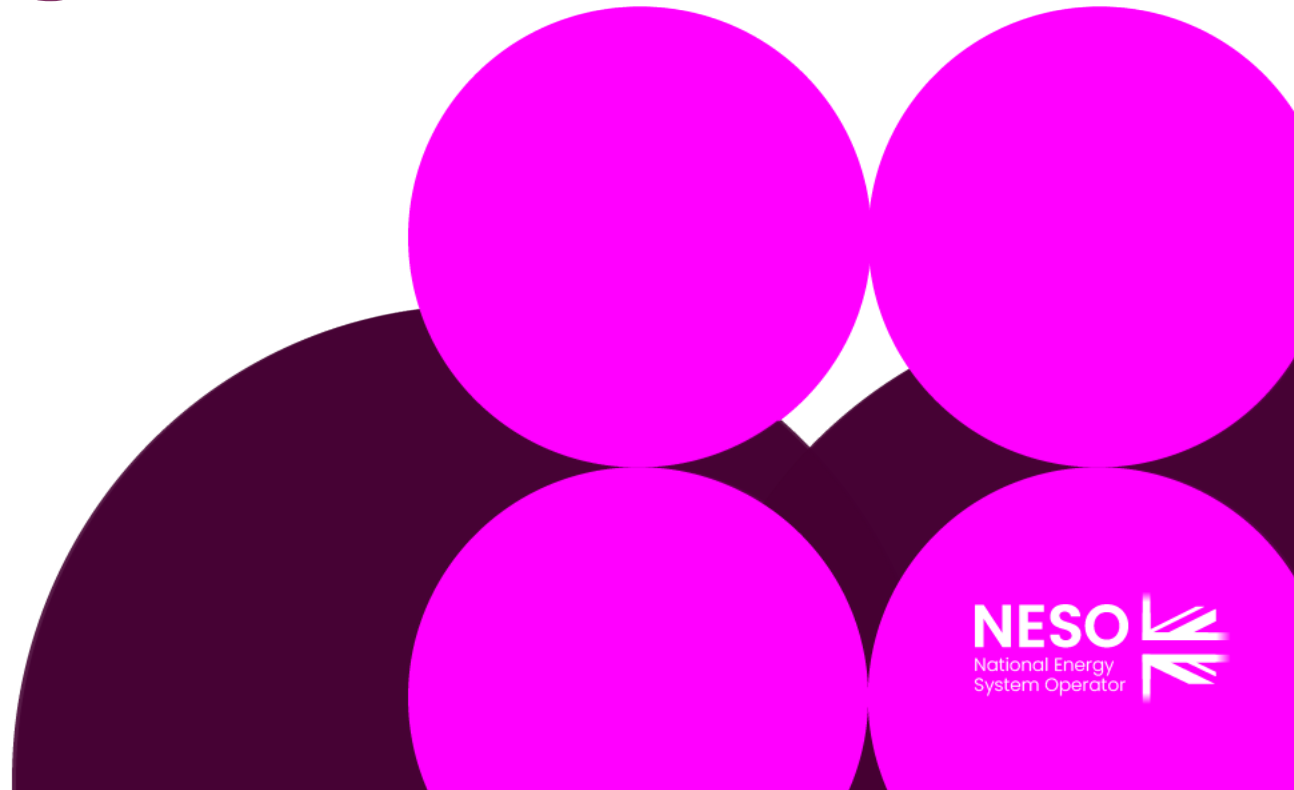
WELCOME

Public Agenda

Topics to be discussed	Lead
Welcome	Chair
Query and Action Log Review	Chair
PCF Design <ul style="list-style-type: none"> Key design elements that were reconsidered using CFI feedback 	Proposer
Scope of PCF <ul style="list-style-type: none"> Projects in scope for PCF 	Proposer
Additional Scenarios <ul style="list-style-type: none"> Where timeline for gate 2 to M1 is greater than 24 months If a project gets removed from the queue for failure to meet M1 under QM 	Proposer
BREAK	
Terms of Reference <ul style="list-style-type: none"> Discussion of what we mean by queue health Consider TOR : Consider if not applying the fee to all users will be duly or unduly discriminatory Consider TOR : Consider if the period that the Progression Commitment Fee applies to, Gate 2 entry to Milestone 1, is appropriate 	All
DNO Interface <ul style="list-style-type: none"> Engagement with DNOs /Embedded Generation going forward 	Proposer
Any Other Business	Chair
Next Steps	Chair

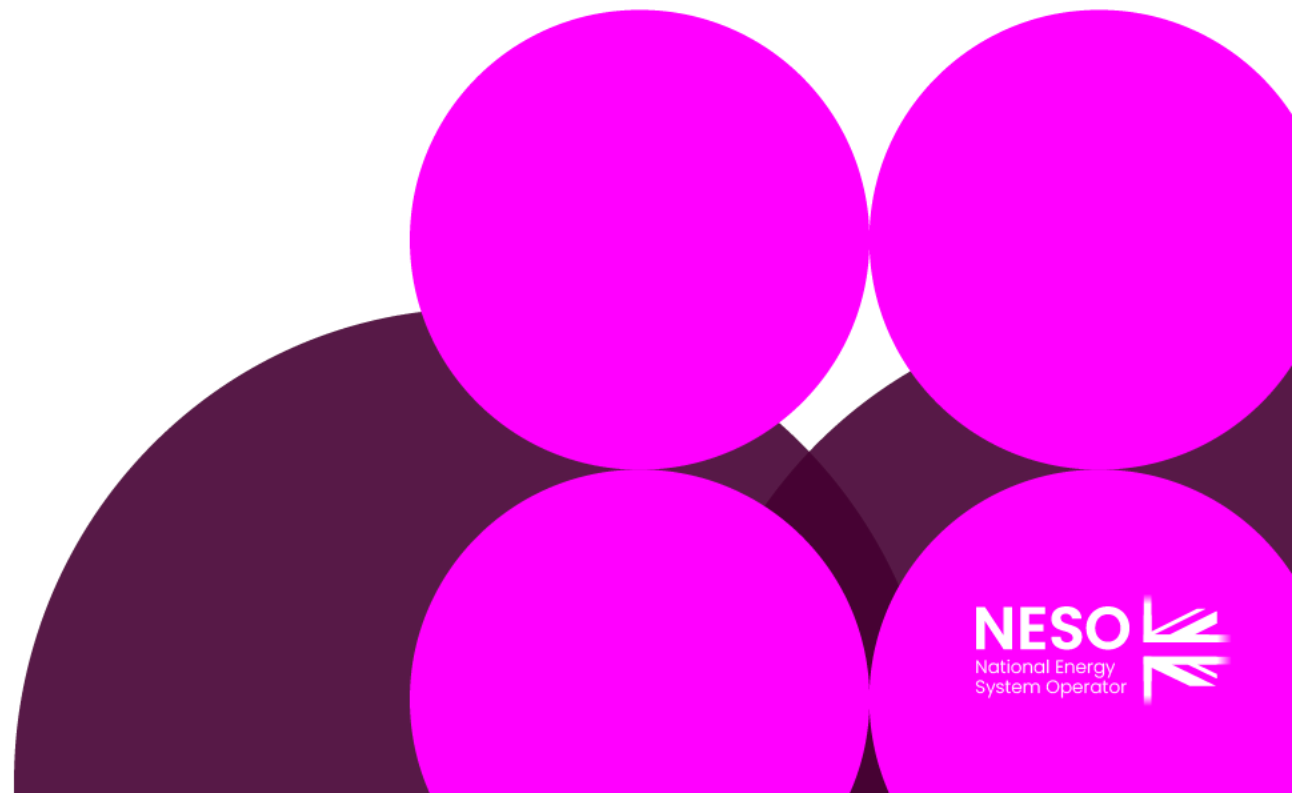
Query and Action Log Review

Workgroup Chair – NESO



PCF Design

Ash Adams, NESO



Key design elements were reconsidered using CFI feedback

The CFI feedback on our initial proposal provided suggestions and concerns regarding specific aspects of the design. Based on the feedback, we identified **four** key elements of the design that we felt needed to be reconsidered.

Design elements we reconsidered	How we used the feedback to help us reconsider the design
Profile and Timing of Fee	As respondents suggested that a flat fee may incentivise projects to stay in the queue rather than leave, we reconsidered the flat fee structure
Duration of fee application	As respondents were concerned that developers could be subject to the fee for reasons outside of their control, we sought to identify a duration which is largely under the developer’s control
Fee Value	As respondents were concerned that the level of the fee (£20K/MW) might impact project viability and profitability, we looked to optimise the fee, to ensure that it is high enough to incentivise developers to proactively exit the queue but low enough to avoid unduly impacting their viability
Activation of the fee	As respondents suggested that existing in-flight reforms may address issues with the queue, we aimed to amend the design so that the fee remains dormant and is only considered if there is compelling evidence that it is required

Key options considered for refining the design

For the duration of fee application, we considered 3 options

Design elements	Design options considered	Description	Rationale
Duration of fee application	Gate 2 to Milestone 7	Fee applies until Milestone 7 (Project Commitment)	<ul style="list-style-type: none">• The period between Gate 2 to Milestone 1 is the longest duration during which unviable projects can persist in the queue without progressing. Applying a fee 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 NESO believes that a 6 monthly incentive to assess viability would provide a marginal benefit after Milestone 2.• NESO doesn't believe that it would be appropriate to apply an incentive to assess project viability while a project is awaiting a decision on its planning application (a key outcome that determines of viability) because progression at that stage is largely out of the developer's control• Prior to Milestone 1, a developer has control over their progression. Submitting a planning application is an action that is within their control• NESO understands that after Milestone 2, a project is likely to be liable to an increasing cancellation charge under the existing User Commitment Framework.
	Gate 2 to Milestone 2	Fee only applies until Milestone 2 (Secured Statutory Consents and Planning Permission)	
	Gate 2 to Milestone 1	Fee only applies until Milestone 1 (Initiated Statutory Consents and Planning Permission)	

Design Options Key:

Selected option

Alternative option

Key options considered for refining the design

For the profile and timing of the fee, we considered 4 options

Design elements	Design options considered	Description	Rationale
Profile and Timing of Fee	No increases	Fee is a flat fee and does not increase over time	<ul style="list-style-type: none">CFI feedback suggested that an increasing fee would better incentivise projects regularly assess their viability, and if necessary, leave the queue at the earliest opportunity.To provide an additional benefit over the queue milestones, the fee should increase at a greater frequency than a project reaches a queue management milestone.A 6 monthly increase aligns with 6-monthly cadence of other existing security arrangements that developers are currently required to provide. This should reduce the admin burden to both developers and NESO.A 6 monthly incentive to assess a project's viability should provide a synergy with the timing of the Gate 2 application windows. This will allow replacement projects to enter the queue as unviable projects are incentivised to leave.Only increasing the fee when a milestone is met would not be appropriate for our defined scope, and would not provide an incentive to proactively terminate prior to a milestone being hit.Further, NESO believes that a 12 monthly increase may only provide for one increase within our defined scope – providing limited additional incentive to consider project viability.
	6 monthly increases	Fee increases by a set amount (£/MW) every 6 months	
	12 monthly increases	Fee increases by a set amount (£/MW) every 12 months	
	Increases as milestones are met	Fee increases by a set amount (£/MW) each time projects complete a milestone	

Design Options Key:

Selected option

Alternative option

Key options considered for refining the design

For the governance for activation of the fee, we considered 3 options

Design elements	Design options considered	Description	Rationale
Governance for activation of the fee	Immediate Activation	The fee is activated immediately upon implementation and would apply as soon as a project enters the Gate 2 queue. i.e. no initial dormant period	<ul style="list-style-type: none">• We have carefully considered industry concerns and understand that some stakeholders believe that the PCF may not be a necessary additional measure on top of other in-flight reforms.• We have balanced those concerns by proposing a solution that is initially dormant but capable of acting quickly if the defect that we have identified remains prevalent.• NESO believe that defining a metric and threshold that activates the PCF will offer industry clarity and we believe that both NESO and Ofgem should have discretion on whether the PCF is activated once the threshold has been met. This will allow us to account for any unforeseen events.
	Trigger threshold (activated immediately)	Using a pre-defined trigger threshold to measure queue health and activate the fee as soon as it is met, without further decision required from NESO and/or Ofgem	
	Trigger threshold (activated subject to NESO and Ofgem decision)	Using a pre-defined trigger threshold to measure queue health and indicate that the fee needs to be activated (subject to NESO and Ofgem decision)	

Design Options Key:

Selected option

Alternative option

Key options considered for refining the design

For the value of the fee, we considered 2 options

Design elements	Design options considered	Description	Rationale
Value of the fee	£20k/MW	Flat £20k/MW fee applicable at Gate 2 entry	<ul style="list-style-type: none">CFI feedback suggested that a lower fee would more closely align with developer risk appetite during the earlier stages of development. In line with us amending the proposal to only cover the period G2 entry to M1, we have lowered the maximum value of the PCF.CFI responses also suggested that a termination fee of £20k/MW could disproportionately impact small developers, who may find it more challenging to secure against a £20k/MW fee at early stages of development
	Increments of £2.5k/MW up to £10k/MW	<ul style="list-style-type: none">Engagement with DNOs / Embedded Generation going forwardFee of £2.5k/MW applicable at Gate 2 entry, increases by a further £2.5k/MW at each 6 monthly interval until M1 is reached, up to a maximum of £10k/MW	

Design Options Key:

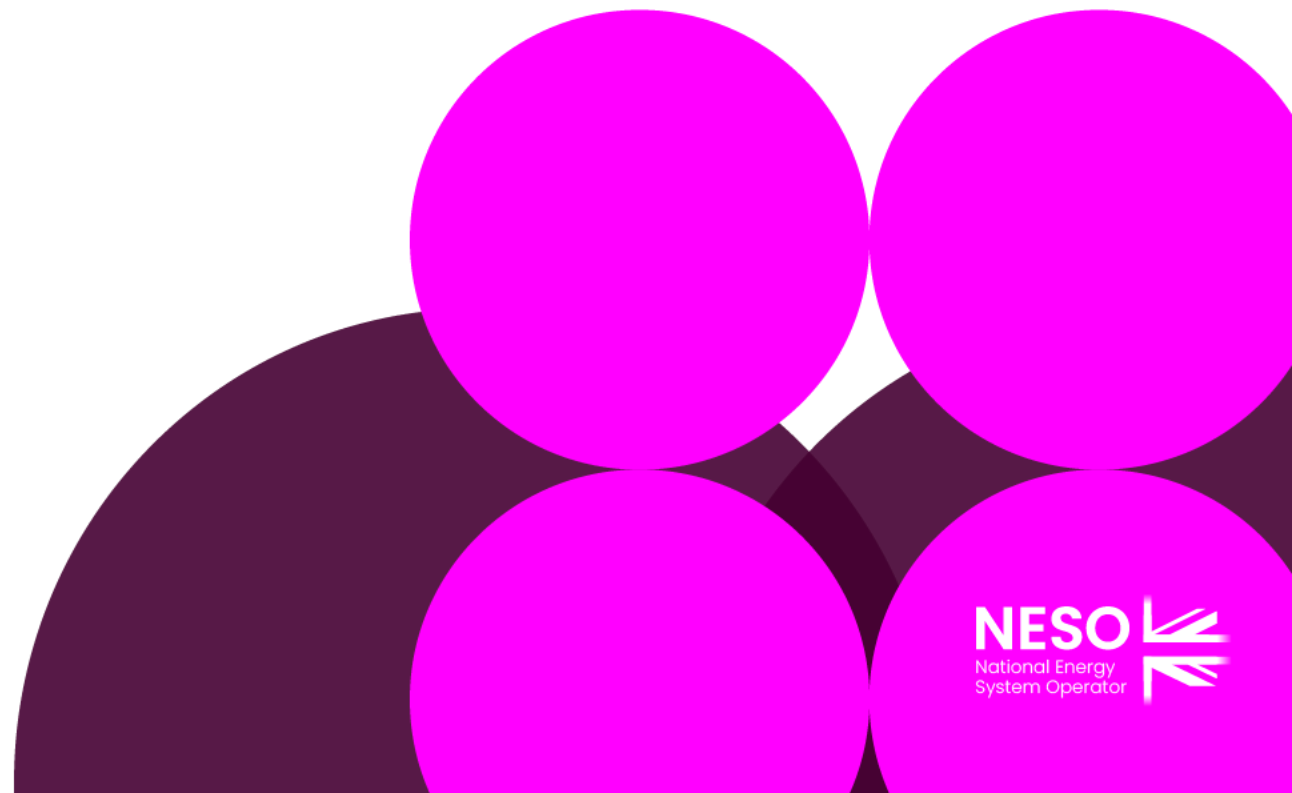
Selected option

Alternative option

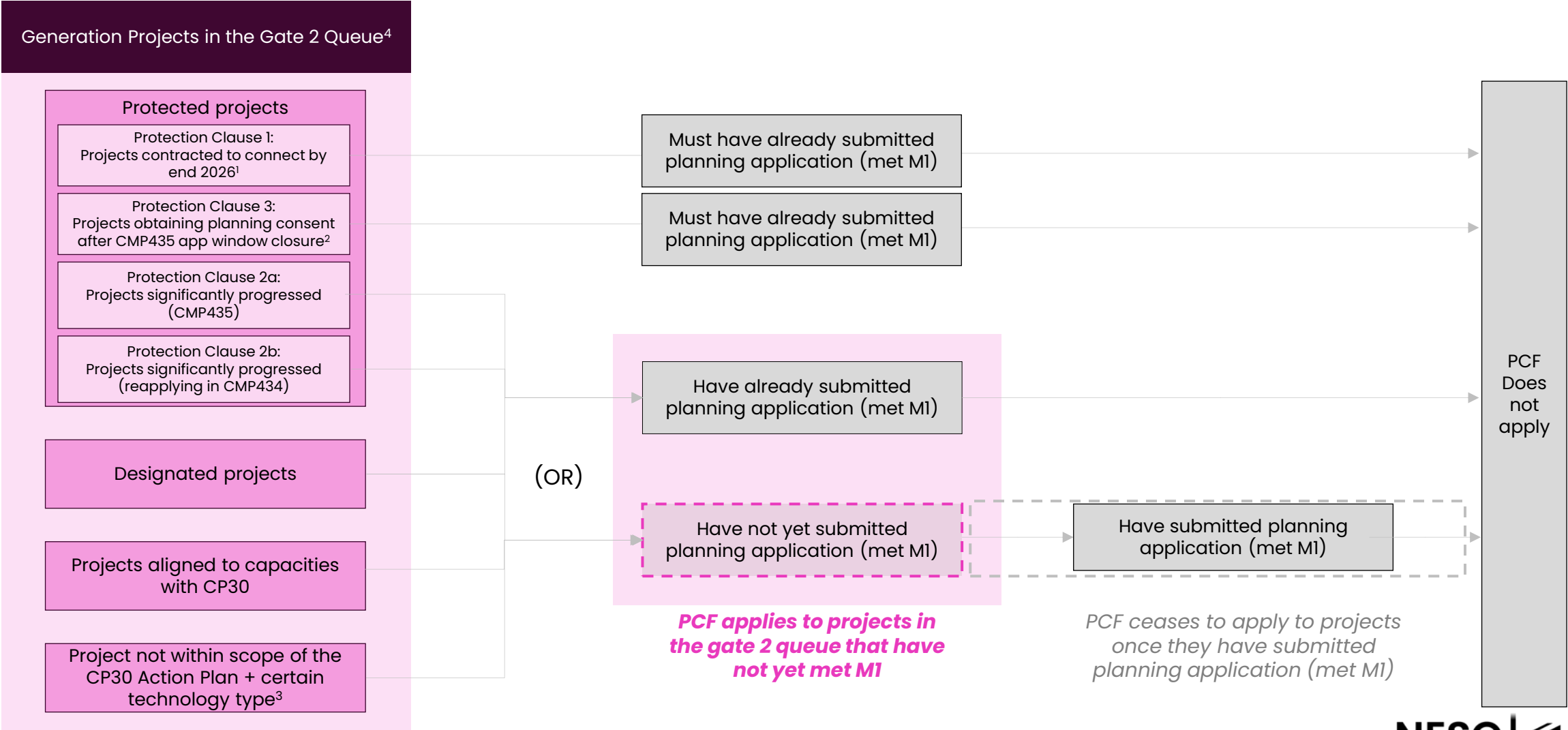
Note: We intend to discuss the value of the fee in more detail at a future WG

Scope of PCF

Ash Adams, NESO



Projects in scope for the PCF



Notes:

1. Projects which are 'contracted to connect by end 2026' must have met M2 to be classified as a protected project
2. Projects which 'obtain planning consent after closure of CMP435 gated application window' must have submitted planning consent to be classified as a protected project
3. These technology types are wave, tidal, transmission connected demand, non-GB generation
4. Note that this illustration is for Transmission-connected generation and projects with BEGA/BELA contracts. Source: [Gate 2 Criteria Methodology](#) (pg.8)

Additional Scenarios

Ash Adams, NESO

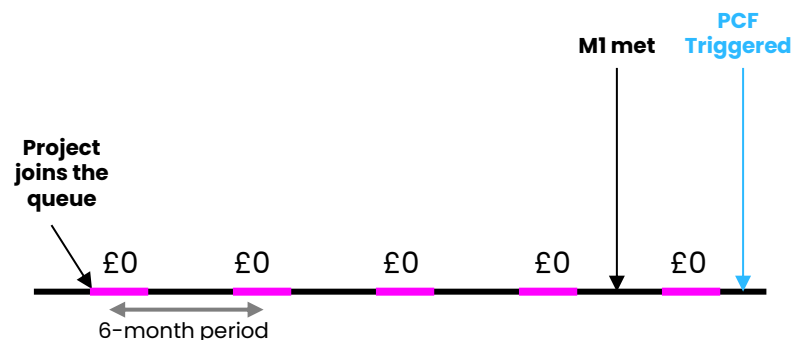
Example Scenarios: Cumulative PCF over time

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

A: Project with 24 months to complete M1



Project joins the queue

£0

£0

£0

£0

M1 met

PCF Triggered

6-month period

Project joins the queue

£0

£2.5K

£5K

£7.5K

M1 met

£0

6-month period

PCF Triggered

Project joins the queue

£2.5K

£5K

£7.5K

£10K

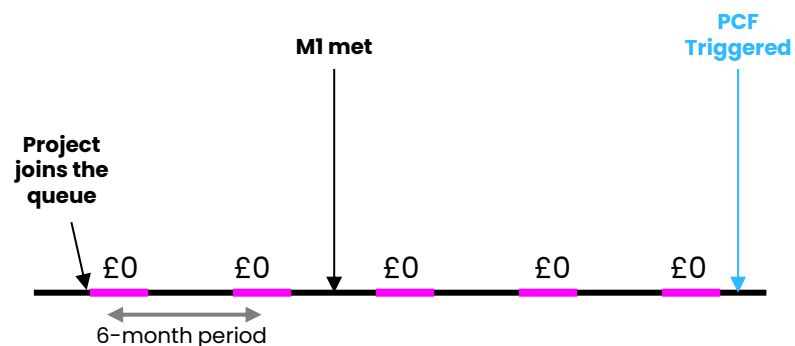
M1 met

£0

Up to a 6-month period

6-month period

B: Project with 12 months to complete M1



Project joins the queue

£0

£0

£0

£0

£0

M1 met

PCF Triggered

6-month period

Project joins the queue

£0

£2.5K

£0K

£0K

£0

M1 met

6-month period

PCF Triggered

Project joins the queue

£2.5K

£5K

M1 met

£0

£0

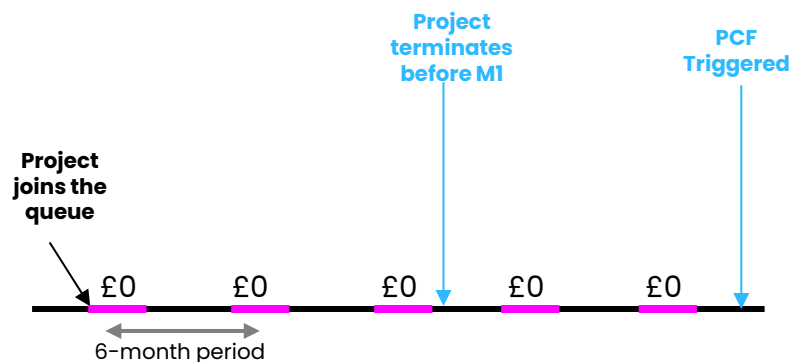
£0

Up to a 6-month period

6-month period

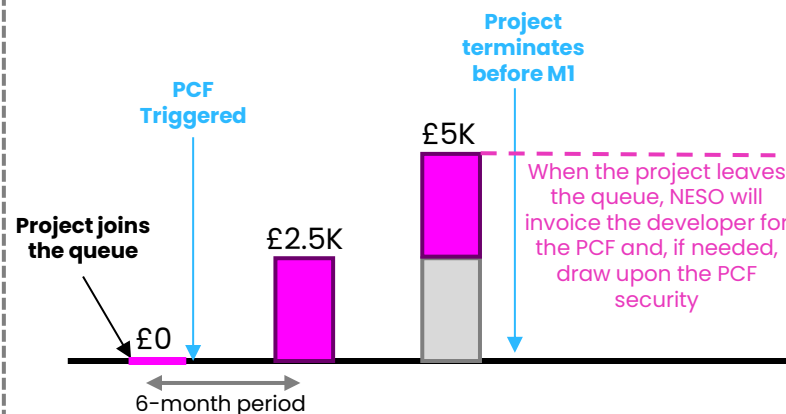
Example Scenarios: Cumulative PCF over time

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



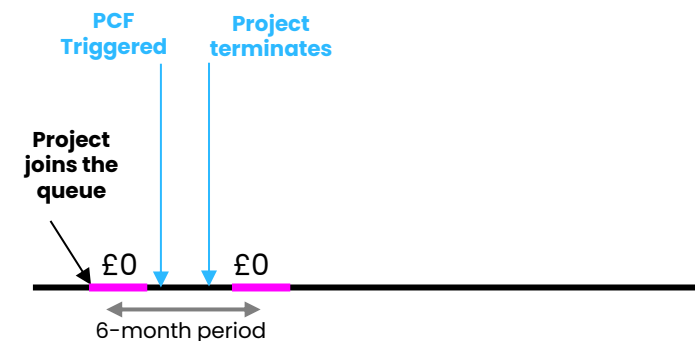
If a project leaves the queue before the PCF has been triggered, it will not face a liability

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

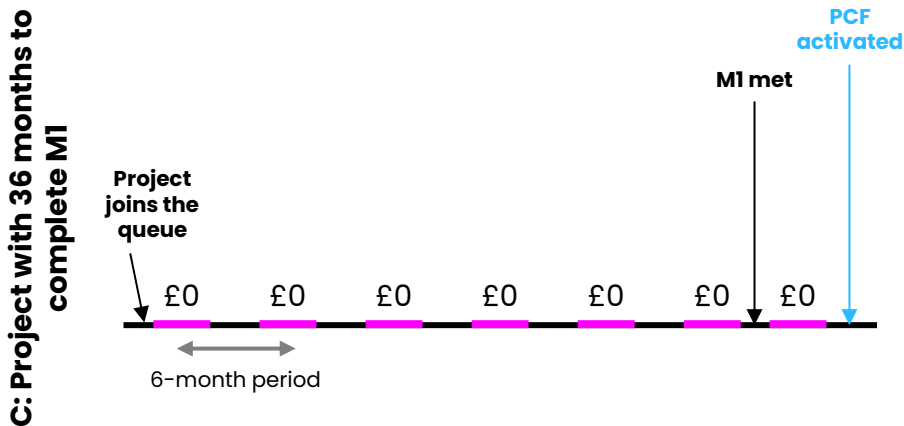
Scenario 6: If the PCF has been triggered and a project exits during the notice period



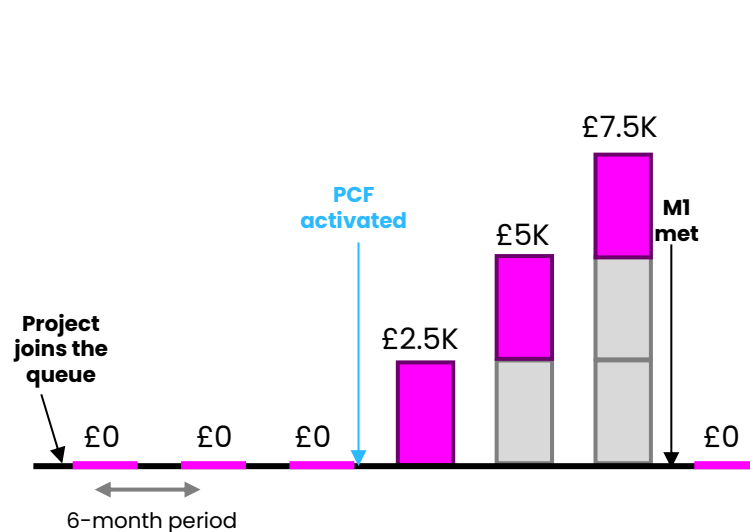
If the PCF is triggered and a project chooses to exit the queue during the notice period (at least 3 months), it will not face a liability

Additional Scenarios: Cumulative PCF over time for a project with >2 years before M1

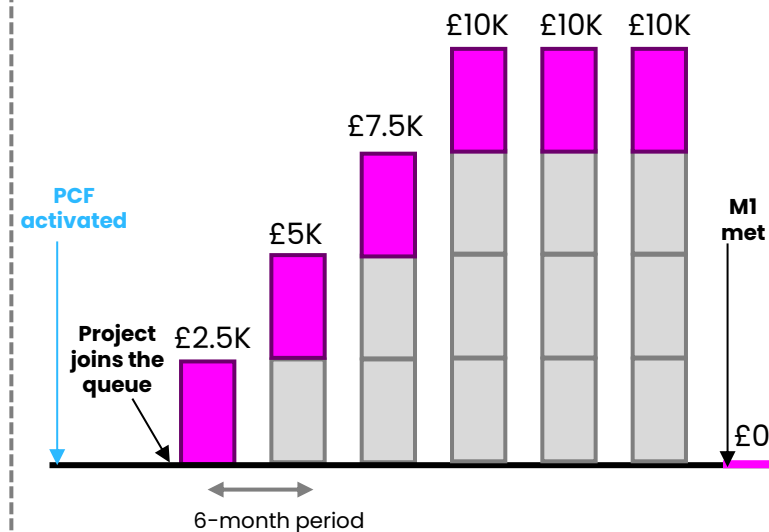
Scenario 1c: If PCF is never activated (or activated after completion of Milestone 1)



Scenario 2c: If PCF is activated before project completes Milestone 1

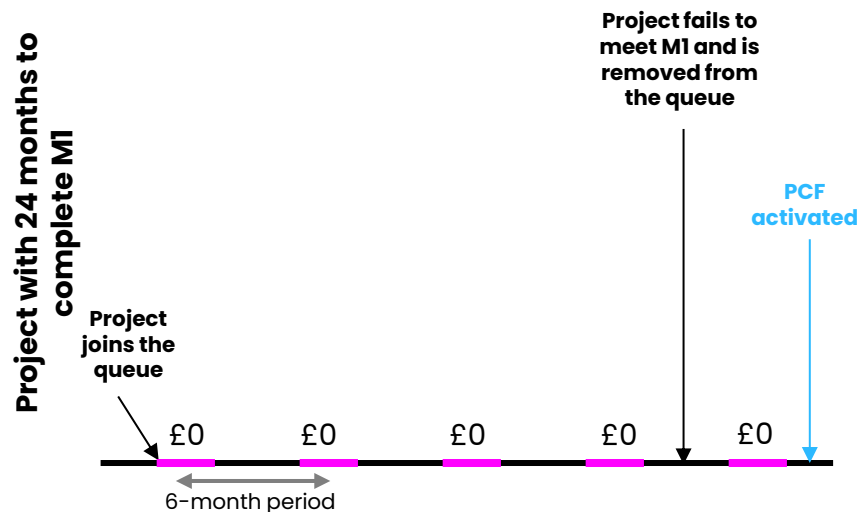


Scenario 3c: If PCF is activated before project enters gate 2



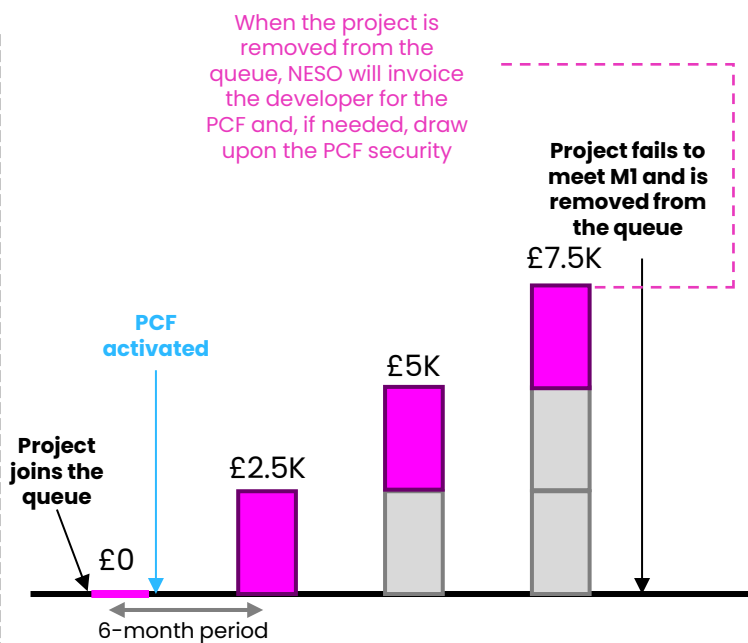
Additional Scenarios: Cumulative PCF over time for projects removed for not completing M1

Scenario 7: If PCF is never activated (or triggered after the project is removed from the queue)



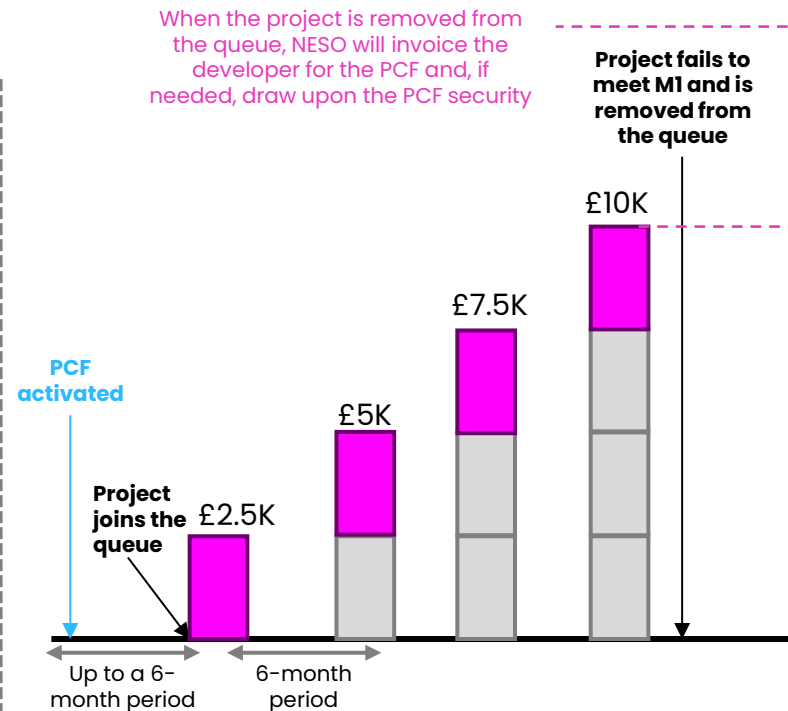
If a project fails to meet M1 and is removed from the queue before the PCF is activated, it will not face a liability.

Scenario 8: If PCF is activated before the project is removed from the queue



If a project is removed from the queue for failure to meet M1 and the PCF has been activated, it will be subject to the liability accumulated until that point.

Scenario 9: If PCF is activated before project enters gate 2



If a project is removed from the queue for failure to meet M1 and the PCF has been activated, it will be subject to the liability accumulated until that point.

Terms of Reference

Our starting point on queue health

In the previous workgroup there was some discussion around what is meant by the term queue health in relation to the Terms of Reference

What is the **Defect**:

- Developers are not sufficiently incentivised to proactively assess the viability of their projects on a regular basis and proactively leave the “queue” before Milestone 1 if necessary.

What is the **consequence**:

- This leads to an inefficiency where unviable or stalled projects block other viable projects from connecting at the earliest opportunity.

What is the **queue**:

- In the proposal when we refer to the “queue” in relation to the defect, we are referring to the generation Gate 2 connections queue between Gate 2 entry and User Progression Milestone 1.

What is **“queue health”**:

- In the proposal when we refer to the trigger metric being an indicative measure of queue health. We are colloquially referring to the relative prevalence of unviable or stalled projects in the “queue”. i.e. a queue in poor health would contain a high amount of unviable or stalled projects

NESO Interpretation of TOR A: we would expect to consider the metric that best indicates that the defect that we have identified is occurring in queue.

NESO Interpretation of TOR B: we would expect to consider the trigger threshold that best indicates that the defect identified is prevalent enough in the queue to warrant action via the activation of the PCF.

Duration of PCF application

Wording of the Defect in the Mod Proposal:

'...For the reasons outlined above, NESO views the period between Gate 2 entry and Milestone 1 as the period that carries the highest risk of projects failing to progress appropriately and persisting in the queue for longer than necessary. The defect that this modification seeks to address is limited to that period of time.'

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.

Discussion: Is it relevant to include the below prompt in the TOR?

Consider if the period that the Progression Commitment Fee applies to, Gate 2 entry to Milestone 1, is appropriate.

Scope of PCF: exclusion of demand projects

Demand projects are out of scope for this modification and the PCF does not apply to them.

- Historically, the defect has been observed more among generation customers.
- Demand projects are already subject to the Final Sums Methodology which provides a material financial commitment to development.
- We believe that introducing additional commitments for demand projects at this stage may not be appropriate
- However, we have noted in the Mod proposal that CUSC modification CMP417 seeks to extend “User Commitment Methodology” to Users currently on Final Sums Methodology. Depending on the outcome of this modification, NESO may consider raising a further and separate modification in the future to consider broadening the application of the PCF (if approved) in order to ensure appropriate financial incentives for all Users between Gate 2 entry and User Progression Milestone 1.

Discussion of TOR E: Consider if not applying the fee to all users will be duly or unduly discriminatory

DNO Interface

Ash Adams, NESO



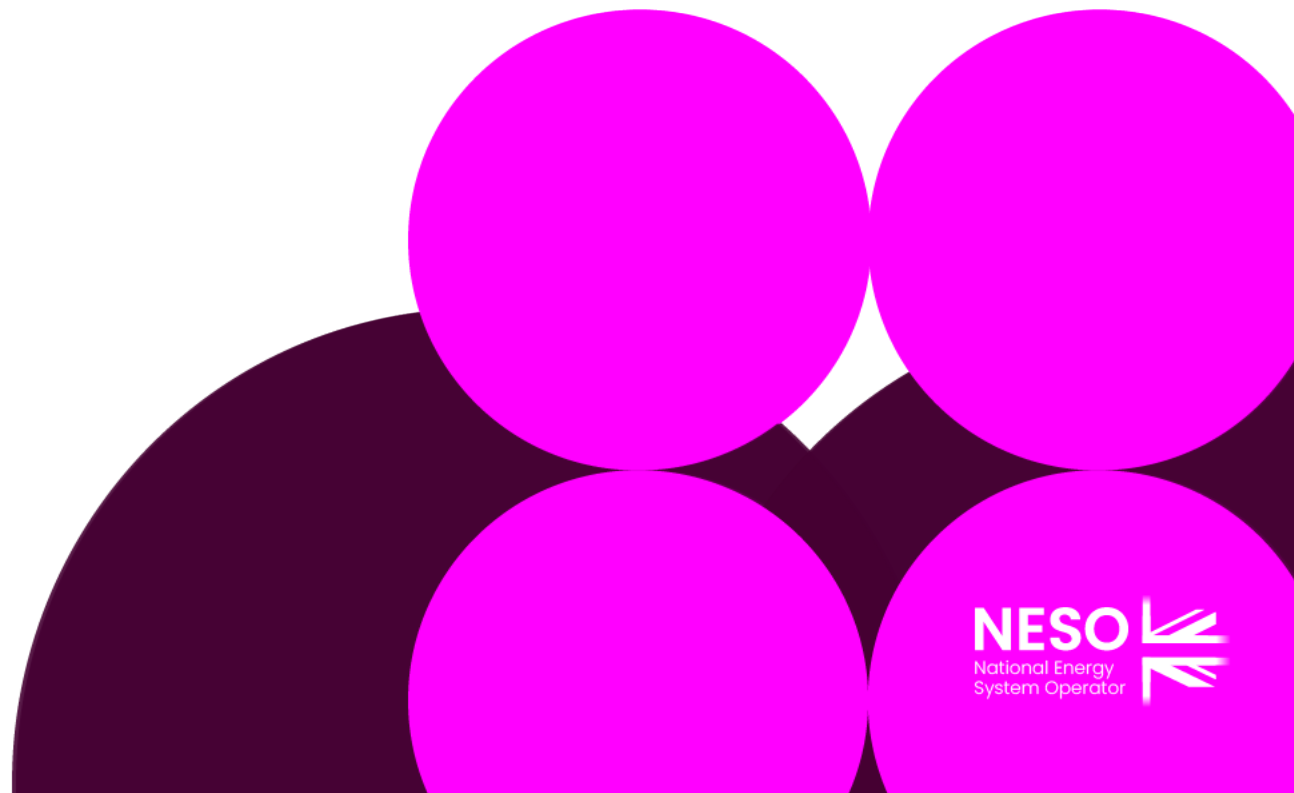
How we will engage with DNOs and Embedded Generation going forward

1. We will engage with DNOs through our weekly meeting with the ENA Strategic Connections Group: TMO4+ Impacts & Assessments Sub-Group
2. We will also consider how best to engage the DNOs via the Connections Reform Implementation Hub
3. We will liaise with DNOs on how to engage with affected embedded generation as necessary

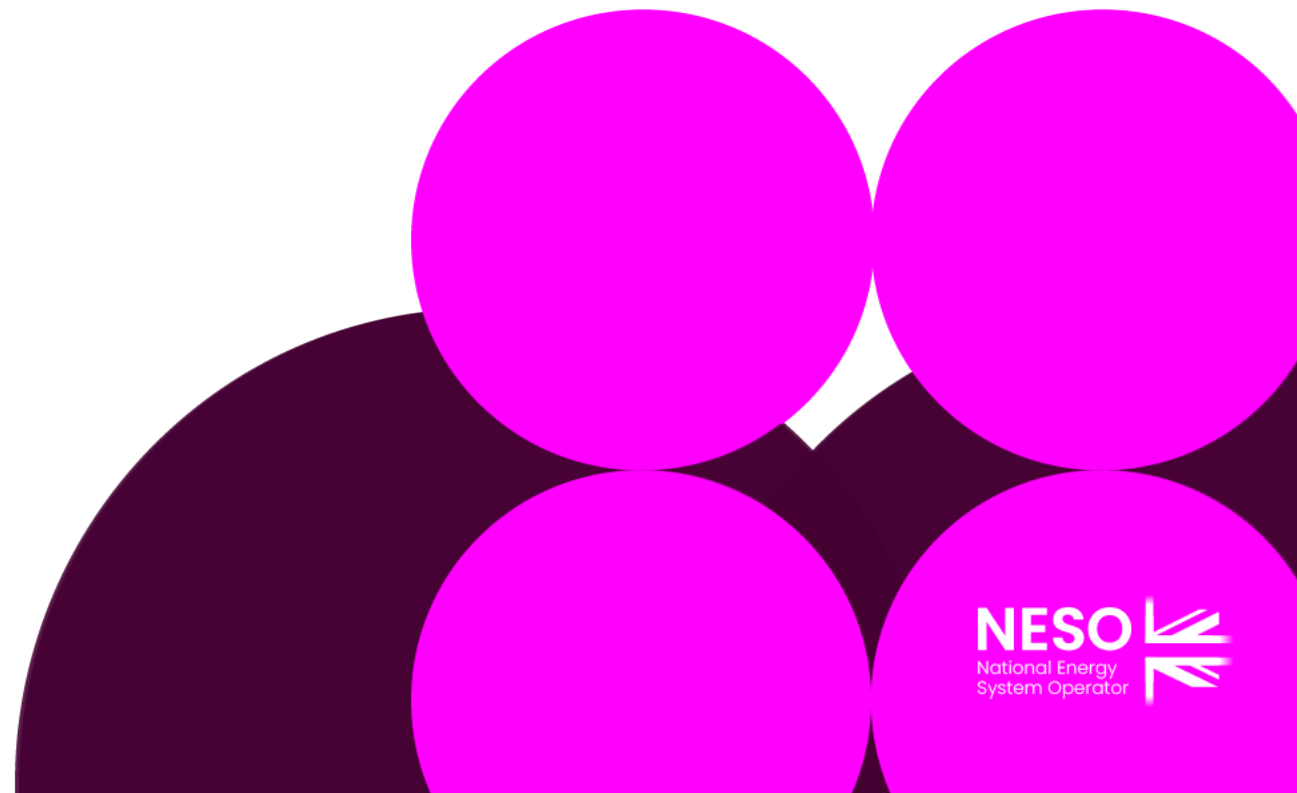
Note: We will provide a more detailed update on DNO engagement in the next workgroup

Any Other Business

Workgroup Chair - NESO



Next Steps



Plan for upcoming Workgroup sessions

Workgroup Session	Date	Session topic	Topics to cover
Workgroup 3	12 March 2025	Trigger Mechanism	<ul style="list-style-type: none">• Consider the metric that will best reflect queue health• Consider the trigger threshold that will best reflect queue health• Expectations for when threshold could be triggered
Workgroup 4	17 March 2025	Value/design of PCF & timelines	<ul style="list-style-type: none">• Discuss the value and ramping design of PCF and expected impact on developers for safeguarding• Consider expected impact on connection timelines by discussing the timelines for NESO, Ofgem, and project developer actions after the PCF is activated
Workgroup 5	20 March 2025	Final review of WG consultation	<ul style="list-style-type: none">• Additional topics raised in earlier Workgroups• Final Review of Workgroup Consultation
Workgroup Consultation	24 March – 7 April 2025	N/A	
Workgroups 6–13	16 April – 27 May	Multiple, TBC	<ul style="list-style-type: none">• Additional topics raised in the amended TOR• Additional topics raised via the Workgroup Consultation