
Decision: Project Designation Methodology

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We published our¹ *Minded-to Decision*² to approve the Project Designation Methodology on 14 February 2025 and invited responses to questions on the TMO4+ reform package a whole, as well as our conclusions relating to Connections Methodologies.

NESO's new licence condition E17.9 requires the production of the Project Designation Methodology and its submission to Ofgem for approval. Licence condition E17.10 sets out the objectives for the Project Designation Methodology as the basis for our approval.

We have decided to approve the Project Designation Methodology published on NESO's website on 21 March 2025 and appended to this Decision. This Decision includes our assessment of the Project Designation Methodology against the policy intent and objectives we set for this Methodology in the approved NESO licence conditions (now approved in parallel with this Decision).

We have also taken into account our principal objective, wider statutory duties, the legal text in CMP434 and CMP435, and stakeholder feedback received during NESO's consultation on Methodologies in November 2024 and our statutory consultation held between February and March 2025.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² [Minded-to Decision Project Designation Methodology](#)

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0.Summary

- 0.1 The Project Designation Methodology is an important part of the NESO’s³ connections process design known as the TMO4+ reform package.⁴ TMO4+ requires changes to industry codes (CMP434, CMP435 and CM095), licences (NESO, Transmission and Distribution) and the introduction of new Methodology documents (Gate 2 Criteria Methodology, Connections Network Design Methodology (CNDM) and Project Designation Methodology). The Connections Methodologies are approved as part of the entire TMO4+ reform package. Ofgem’s decisions on the TMO4+ code modification proposals and the statutory consultation on licence changes have been published simultaneously with our decisions on the Connections Methodologies.

³ On 1 October 2024, National Grid Electricity System Operator (NGESO) was transitioned to the publicly owned National Energy System Operator (NESO). We refer to NESO in these documents for consistency but references to actions taken before 1 October 2024 should be read as NGESO.

⁴ This is referred to as the TMO4+ / TMO4+ reform package interchangeably throughout this document and refers to the entire package, including the code modifications CMP434, CMP435, CM095, and the three Connections Methodologies: Gate 2 Criteria Methodology, Connections Network Design Methodology, and Project Designation Methodology.

- 0.2 The Project Designation Methodology sets out the processes that NESO will follow to 'designate'⁵ projects under the reformed connections process. Readers should refer to the Project Designation Methodology in the Appendix to this Decision, for details of the specific criteria and processes.
- 0.3 The Project Designation Methodology provides a basis for connecting projects that can deliver significant net zero, system or consumer benefits. In particular, the Project Designation Methodology enables connection of projects that:
- A. are critical to security of supply
 - B. are critical to system operation
 - C. materially reduce system/network constraints
 - D. are highly innovative / emerging technologies not anticipated in the Clean Power 2030 Action Plan ("**CP2030 Action Plan**")
 - E. have particularly long lead times and may be needed beyond 2035 but are not reflected in the CP2030 Action Plan.
- 0.4 Projects that are designated will meet the Gate 2 Strategic Alignment Criteria and will therefore be made a Gate 2 offer (providing they meet the Gate 2 Readiness Criteria). The CNDM contains the process for how these designated projects would be prioritised for queue position.
- 0.5 In this Decision, we have assessed the Project Designation Methodology against:
- our principal objective to protect the interests of existing and future consumers as well as our wider statutory duties
 - the objectives for this Methodology in NESO licence condition E17.10
 - compatibility with CMP434 and CMP435
- 0.6 The above assessment has been informed by stakeholder feedback to NESO's consultation on Methodologies in November 2024 as well as feedback received to our consultation held between February and March 2025.

⁵ 'Designate', in the context of the Project Designation Methodology, means to elect specific projects for inclusion in the reformed connections queue or for potential prioritisation within that queue based on predefined criteria.

- 0.7 We have decided to approve the Project Designation Methodology coming into force (following the expiry of the standstill period for the relevant licence conditions). Our view is that the Project Designation Methodology delivers the policy objectives for this Methodology as set out in the approved NESO licence conditions and accords with our principal objective and wider statutory duties (see section 3).
- 0.8 Our view in our Minded-to Decision was that NESO had appropriately considered and responded to stakeholder feedback on its connections design proposal as a whole, and on the Project Designation Methodology in particular. We have considered the further feedback received in response to our consultation in February 2025. This feedback has further augmented our assessment and rationale in section 3.

1. Policy context and intent

The role of Project Designation Methodology

NESO's Connections Methodologies (Gate 2 Criteria Methodology, Project Designation Methodology and CNDM) collectively deliver connection policy reform objectives in line with code modification proposals, as required and enabled by the new licence conditions.

This section sets out the role of the Connections Methodologies, the policy objectives specific to the Project Designation Methodology and relevant licence objectives. This context underpins the rationale for the Decision in section 3.

Context and policy objectives relevant to the Project Designation Methodology

- 1.1 The Connections Methodologies allow NESO to discharge its new enhanced role in coordinating a whole system approach to energy and network system planning, including through the connections process.
- 1.2 NESO is responsible for the planning and operation of the energy system, taking into account whole system needs and ensuring that the network can be designed and built accordingly by network companies. With its enhanced responsibilities, it is appropriate for NESO, through its licence, to be charged with having greater control over the connections process to support the delivery of the CP2030 Action Plan and future strategic plans. Accordingly, the Connections Methodologies contain the transparent processes that NESO and network companies would adhere to within the new proposed connections process, alongside appropriate safeguards.
- 1.3 The Code Modifications and Licence Changes, published and approved alongside this Decision, include new licence requirements that give rise to three Connections Methodologies.
- 1.4 This section does not repeat the policy context contained in our overarching decision document 'Summary Decision Document: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment'. This section highlights the key points relevant to Project Designation Methodology only.

- 1.5 In its recommendations report published on 5 December 2023,⁶ NESO (then NGESO) proposed developing criteria for accelerating ‘priority’ projects as part of the reformed connections process. At that stage it was envisaged that projects could achieve designation by government or prioritisation by NESO if they were able to “demonstrate significant additional consumer, net zero and/or wider economic and societal benefits.” This prioritisation was proposed to be subject to a process for identifying any such project that was “clearly defined, consistent and transparent.”
- 1.6 We shared our intention to give NESO “greater control over the connections process” alongside appropriate safeguards in our Open Letter published on 16 September 2024.⁷ This was part of the context and intention for the proposed regulatory framework, including the creation of Connections Methodologies. We also set out our view that a specific Designation Methodology should be established, and that it would apply to projects that are “critical to security of supply or system operability, which would materially reduce system/network constraints (and therefore balancing costs on consumers), are innovative / emerging technologies, or that have particularly long lead times”.
- 1.7 In a further DESNZ and Ofgem joint Open Letter of 5 November 2024,⁸ we stressed the need for the new connections process to balance certainty with flexibility. In practice, this would mean that as well as aligning to energy system plans (a policy intent facilitated by the Gate 2 and Connections Network Design Methodologies), the reformed connections process should remain open and responsive to the “emergence of new or improved technologies, unforeseen changes in system needs, and risks to system stability or security of supply”. The concept and the creation of the Project Designation Methodology responds to this need.
- 1.8 The Government’s CP2030 Action Plan,⁹ published on 13 December 2024, set explicit policy intent for the connections process “to prioritise projects needed for 2030” while maintaining “a robust pipeline beyond 2030”. The CP2030 Action Plan emphasised the need to accelerate connection timescales for projects that reduce

⁶ [Connections Reform Final Recommendations Report](#)

⁷ [Open letter on the reformed regulatory framework on connections | Ofgem](#)

⁸ [Open letter from DESNZ and Ofgem: Aligning grid connections with strategic plans - GOV.UK](#)

⁹ [Clean Power 2030 Action Plan](#)

network constraints and are critical to achieving net zero and Clean Power by 2030 goals. The Project Designation Methodology responds to this need.

Alignment with licence conditions, our principal objective and wider statutory duties

- 1.9 We consulted on proposals to introduce new licence conditions that place a responsibility on NESO to develop and maintain Connections Methodologies in November 2024 and February 2025.¹⁰
- 1.10 The objectives of the Project Designation Methodology are in the new licence condition E17.10 of the NESO Licence, which was subject to statutory consultation in February 2025, and following assessment of consultation responses, has been approved alongside this Decision. According to E17.10 the Project Designation Methodology should:
- i. be clear, transparent, and objective
 - ii. provide a basis to effectively assesses applicants and CUSC Users against the Designation Criteria
 - iii. facilitate safe and secure electricity supply
 - iv. consider the impact on consumers
 - v. facilitate innovation and competition in electricity markets
 - vi. take into consideration the Strategic Plans
- 1.11 These objectives provide the focus for the Authority's review and approval of the Project Designation Methodology. Section 3 also assesses whether and how Project Designation meets those objectives as well as our principal objective and our relevant wider statutory duties.
- 1.12 Section 3 also affirms our view on the compatibility of this Methodology with CMP434 and CMP435, in particular the relevant legal text relating to the Project Designation Methodology.

¹⁰ [Proposed licence changes to enable TMO4+ Connections Reform | Ofgem](#)

2. Rationale for our Decision

An assessment of the Project Designation Methodology against licence objectives, our principal objective and wider statutory duties

This section provides the rationale for our Decision. It assesses key themes of feedback received in response to our Minded-to consultation held between February and March 2025.

It also assesses whether the Project Designation Methodology meets the objectives set for this Methodology in the relevant licence condition E17, as well as assessing whether approval is in line with Ofgem's principal objective and wider statutory duties. This assessment is informed by stakeholder feedback.

Key themes relating to the Project Designation Methodology in consultation responses

- 2.1 In our Minded-to Decision consultation we asked, "Do you agree with our assessment, conclusions, and Minded-to Decision to approve the three Connections Methodologies?" We asked respondents to consider in their assessment the proposed objectives for each Methodology.
- 2.2 About half of respondents took no position on our assessment that the Methodologies met the objectives we set for them in licence conditions. Of those that did engage with our assessment, more than 60% agreed with our overall conclusions.
- 2.3 Respondents who disagreed with our assessment (around 20% overall) primarily disagreed with our assessment of the Gate 2 Criteria Methodology and CNDM as against licence objectives 1 and 4. Stakeholders who raised concerns about our Project Designation assessment referred to:
 - **Licence objective 1** (clear, transparent, and objective): there were concerns that this objective was not met because there could be opaque decision-making by NESO or undue influence exerted on NESO. For example, there were concerns about whether designation would be neutral and based solely on the merits of the projects. There were concerns that political pressure or industry lobbying could play a role in decision-making. However, there was also support in the context for Ofgem's ability to scrutinise and veto NESO designation decisions.

- **Licence objective 4** (consider the impact on consumers): some respondents considered that more categories should be included for potential designation, with suggestions including 'community projects', large demand projects, and projects with socio-economic benefits.
- 2.4 Beyond these arguments in relation to meeting licence objectives 1 and 4, respondents broadly agreed with our assessment of the Project Designation Methodology.
- 2.5 However, respondents also raised points in relation to the Methodologies that overlap with, but also extend beyond, our analysis and conclusions on whether or not the Methodology meets the licence objectives we set. Our assessment of, and response to, the most prominent two key themes raised in relation to the Project Designation Methodology follows below and before our assessment against licence objectives.

Theme 1: calls to expand designation categories

- 2.6 The Project Designation Methodology currently only allows for designation of projects that fall within one or more of the below categories:
- A. critical to security of supply
 - B. critical to system operation
 - C. materially reduce system/network constraints
 - D. highly innovative technologies not included within the scope of the CP2030 Action Plan
 - E. projects with particularly long lead times
- 2.7 There was feedback in response to our Minded-to Decisions on the Methodologies setting out the case for additional designation categories. There were a variety of suggestions for the additional categories including large demand projects, projects that enable significant greenhouse gas savings, are community owned, or provide socioeconomic benefits.
- 2.8 A small minority of stakeholders also suggested that projects that are designated should have access to special dispensations and flexibilities on the Readiness requirements set out in the Gate 2 Criteria Methodology.

Our response

- 2.9 In our view, project designation should only be used in exceptional circumstances, and the tightly defined list of categories in the Project

Designation Methodology should reflect the specific and targeted role of designation in the new connections process.

- 2.10 Licence condition E17.3 provides scope for NESO to expand the list of categories that can benefit from designation in the future subject to agreement with the Authority. It would be appropriate to consult on such a significant change to the Project Designation Methodology.
- 2.11 This means that there is scope, for example, to explore policy options for designating demand projects that support economic growth or community projects in future, subject to definition of those areas and full exploration of the benefits and risks of expanding the scope of designation.
- 2.12 For the first iteration of the Project Designation Methodology, the primary focus of the categories is on generation technologies (albeit transmission-connected demand projects could also be designated). In our view this is the right starting point. We expect that the NESO and the Government will further consider, for example, the treatment of large strategic demand and whether future designation categories should be considered with regards to transmission-connected demand and its potential benefits for economic growth, especially as further government strategic plans are developed (for example, Industrial Strategy). It is worth underlining that such projects are already in scope of, and benefit from, the TMO4+ reform package, so long as they meet Readiness Criteria.
- 2.13 While designation is an important tool to meet future system needs and prioritise projects where there is clear consumer benefit, it is not as fundamental to the Gate 2 to Whole Queue exercise as the Gate 2 Criteria Methodology or CNDM due to its role in delivering specific policy intent; namely, for the connections process to remain open and responsive to the emergence of new or improved technologies, unforeseen changes in system needs, and risks to system stability or security of supply. This intent can be delivered through the enduring process reform and is less central to the one-off 'Gate 2 to Whole Queue' exercise. In our view, the case for expanding designation categories requires strong rationale and can be explored when the Project Designation Methodology is reviewed in the future.
- 2.14 As set out in our *Minded-to Decision* published on 14 February 2025, feedback to NESO's consultation in November cited the need to *tighten* and further

specify the categories and criteria of projects that can benefit from designation. In response to that feedback, categories A to C (ie projects that are critical to security of supply, projects that are critical to system operation and projects that materially reduce system and/or network constraints) will be subject to a Notice inviting applications against well-defined system needs. In our view it would not be appropriate to run counter to that broad feedback theme, at this point, by widening the list without careful consideration and consultation.

- 2.15 Turning to the feedback specific to community projects and projects with socioeconomic benefit, as set out in 'Summary Decision Document: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment', we acknowledge and agree that community-led solutions can help deliver energy benefits to current and future consumers while also delivering on broader social, economic, and net zero goals. However, extending designation categories to include community energy projects would require further policy direction and consultation on how they meet system needs and/or benefit consumers.
- 2.16 At this point, the Project Designation Methodology is primarily tied to well-defined system needs and consumer benefits. In our open letter in September 2024, we set out the importance of the Project Designation Methodology, allowing NESO to prioritise projects that are "critical to security of supply or system operability, which would materially reduce system/network constraints (and therefore balancing costs on consumers), are innovative / emerging technologies, or that have particularly long lead times". NESO, as the system operator, has specific expertise in managing the energy system and, in our view, it is appropriate for the first iteration of the Project Designation to focus on these categories which orientate towards system needs. The case for policy-driven categories and rationale to designate projects can be explored in future.
- 2.17 Overall, designation should be reserved for exceptional circumstances, either to address specific network issues or to enable connection of new technologies or projects that are highly innovative or have very long lead times and can deliver significant consumer, net zero or other benefits to the energy system. In our view, the existing designation categories are adequate to meet these needs.

Gate 2 readiness for designated projects

- 2.18 Our Decision on the Gate 2 Criteria Methodology sets out our view that the Readiness Criteria, ie demonstrating land rights as the readiness threshold for most projects to be eligible for Gate 2 terms, is appropriate.
- 2.19 Options for alternative Readiness Criteria have been extensively explored by NESO and industry and, ultimately, while we accept that a project's attainment of land rights is an imperfect measure of progress, it is an objective milestone with broad applicability in the connections process. In our view, it is important for projects seeking designation to demonstrate their commitment and readiness to connect through reaching this milestone in the same way as other projects.
- 2.20 Furthermore, the CNDM sets out how designated projects would be prioritised within the ordering process. Prioritising designated projects that cannot demonstrate readiness would risk further queue reordering and associated network design changes, should such projects fail to progress towards connection, and would undermine some of the benefits of the Gate 2 Criteria Methodology and CNDM. Overall, our view is that it is right for designated project to meet the Readiness Criteria.

Theme 2: objections to designation and calls for increased transparency

- 2.21 Some respondents objected to NESO's ability to designate projects on the basis of objectivity. For example, there was a concern that NESO's decisions could be swayed by political pressures or industry lobbying rather than being based solely on the merits of the projects.
- 2.22 Some respondents raised a related concern by asking for increased transparency, including advocating for more quantifiable and measurable designation criteria. Some suggestions were specific. For example, there were specific calls for:
- Category A designated projects (critical to the security of supply) to demonstrate an ability to prevent more than three hours of Loss of Load Expectation.
 - Category C designated projects (materially reduce system and/or network constraints) to set out what constitutes a material reduction.
- 2.23 Some stakeholders also voiced concerns that the designation process would be unfair due to its "invite-only" nature.

Our response

- 2.24 As set out in the policy context in section 2, our view is that designation is an important tool for NESO to use in its role as the system operator, alongside safeguards that ensure that the designation process is transparent, fair, and subject to scrutiny.
- 2.25 Turning to the question of lobbying, other parties, including the Government, can notify NESO of projects they consider appropriate candidates for designation. However, ultimately, the customer seeking designation must apply and provide evidence of how the project meets the relevant criteria. As set out in our *Minded-to Decision on the Project Designation Methodology*, in our view, the criteria themselves are sufficiently specific and clear to enable objective and verifiable decision-making by NESO, no matter the source of any initial recommendation.
- 2.26 Turning to transparency, NESO will be required to publicly consult on its decisions to designate, unless otherwise agreed with the Authority. As set out in our *Minded-to Decision*, some respondents to NESO's consultation in November 2024 highlighted the perceived need to remove or expedite the consultation element of the designation process to better align with the 'Gate 2 to Whole Queue' exercise timelines. NESO consulting will be the default, and we would require a satisfactory rationale to allow for the consultation stage to be either truncated or bypassed. However, it may be appropriate ahead of the 'Gate 2 to Whole Queue' process to avoid delay to overall timelines.
- 2.27 We will also have a veto over NESO's designation decisions, which was welcomed in some consultation responses. In accordance with NESO licence conditions E17.6 and E17.7, if Ofgem does not agree with NESO's designation decision on specific projects, it would have 28 days to exercise such a veto.
- 2.28 As a further transparency requirement, NESO is required to publish an impact assessment in respect of designation decisions, demonstrating how projects have been assessed against the relevant designation criteria. We note calls for designation decisions to include a whole system cost-benefit analysis and recognise system needs originating on the distribution network. We expect NESO to consider this both as part of the issuance of the A to C Notice and in its consideration of the impact of designation decisions.

- 2.29 Turning to the specific calls arguing for more specificity for designation categories A to C (projects that are critical to security of supply, critical to system operation and materially reduce system and/or network constraints), in our view, NESO issuing a Notice for categories A to C would meet this objective because the Notice would set out the specific system need NESO is seeking to address. As part of issuing any Notice, NESO will describe the nature of the security of supply issues, system operation issues, or system constraints, and the characteristics and services NESO seeks from projects. NESO will then invite projects to apply in response to that Notice, detailing how they meet the specified characteristics and can provide the required services to address the identified issues or constraints. Introducing more prescriptive criteria, such as hours of Loss of Load Expectation or specific material reductions in system/network constraints, is not necessary ahead of NESO issuing a Notice for categories A to C.
- 2.30 Turning to the concern about designation being 'invite only', we do not agree that this is the case. For innovative and long lead time categories, applicants may apply at any time following the Project Designation Methodology coming into force. We note that the process for issuing the Notice for projects A to C (projects critical to security of supply, critical to system operation and materially reduce system and/or network constraints) uses the term 'invite'. However, this will be an open call for all those who believe they meet the requirements set out in the Notice.
- 2.31 Overall, we consider that the designation categories, the designation criteria, and the overall decision-making process are sufficiently transparent and will be subject to appropriate governance and scrutiny as to meet the requirements of fairness and prevent undue influence.

Assessment of the Project Designation Methodology against licence

Licence objective 1: be clear, transparent, and objective

- 2.32 Our view is that the Project Designation Methodology is sufficiently clear, transparent and objective.
- 2.33 Regarding clarity, the Methodology clearly outlines which projects will be eligible for designation, what information and evidence those projects will be required to

submit to NESO in order to be considered for designation, and how they would be assessed against the criteria in each designation category.

- 2.34 The Methodology is objective as it relies on clear and measurable criteria for assessment. In our view, NESO has set out objective assessment criteria for categories A (critical to security of supply), B (critical to system operation), C (reduce system/network constraints) and E (have long lead times) as clearly and objectively as possible. Furthermore, the publication of the Notice for designation categories A to C ensures that the criteria used to assess projects critical to security of supply, system operation or reduce system/network constraints, are as prescriptive as possible.
- 2.35 As set out in our Minded-to Decision on the Project Designation Methodology, we recognise that there are some limitations in setting prescriptive criteria for category D when compared to other designation categories, as this category covers innovative projects and technologies that were not known or anticipated in the CP2030 Action Plan (in addition to highly innovative projects that align with the Action Plan) and that could bring significant additional consumer or system benefits. We noted some feedback to our consultation that while the Methodology includes “a secure and innovative approach to connecting critical projects, greater clarity is needed on what constitutes innovative technology”. This broadly reflects our view; however, we also acknowledge that the assessment of innovation and the consumer or system benefits necessarily, and appropriately, involves the exercise of some judgement and discretion. Accordingly, our view is that NESO has set objective criteria for designation category D insofar as it is reasonable to do so at this point. However, NESO should continue to consider how it can further enhance the clarity of this designation category in the next iteration of the Project Designation Methodology.
- 2.36 As noted in the ‘Theme 2’ above, some stakeholders raised concerns about undue influence and lobbying over designation decisions. In our view the specificity of the criteria allows for objective judgement and the Methodology contains the safeguards necessary to ensure that the designation process is sufficiently transparent and subject to scrutiny, so as to avoid undue influence. As stated above, this includes the requirement for NESO to consult on designation decisions and the Authority’s right of veto on decisions.

- 2.37 As set out in our Minded-to Decision, some responses to NESO's consultation in November 2024 indicated that aspects of the draft Project Designation Methodology lacked clarity and transparency, particularly regarding the designation assessment criteria, payment of fees, and the dispute process. Broadly, this view was not reflected in responses to our consultation held in February and March 2025, reflecting the improvements to the clarity of the Project Designation Methodology draft published in December 2024, and republished in March 2025 with very minor changes (see section 4 below).
- 2.38 Overall, we have decided that NESO has established a clear, transparent and objective process for project designation and hence that the Project Designation Methodology meets this licence objective.

Licence objective 2: provide a basis to effectively assess applicants and CUSC Users against the Designation Criteria

- 2.39 Our view is that the Project Designation Methodology provides a basis for effective assessment of designation applications by presenting a structured and transparent framework for evaluating designation requests, as well as requiring an appropriate level of detail from applicants and ensuring that interested parties are appropriately consulted on designation decisions.
- 2.40 The Methodology contains specific and detailed criteria that projects must meet if they are to be considered for designation under each of the categories. NESO only envisages designating projects in 'exceptional circumstances'.¹¹ This statement and approach meets our policy intent and expectation that designation would be highly selective and based on specific needs.
- 2.41 Clear assessment criteria are essential for the effective evaluation of designation requests to ensure that applications are assessed consistently and fairly. We consider that the criteria set out in the Project Designation Methodology are sufficiently clear, transparent and objective to enable NESO to effectively assess potential designation requests.
- 2.42 The level of detail included in the assessment criteria (enhanced by the Notice for categories A to C (projects that are critical to security of supply, critical to system operation and materially reduce system and/or network constraints)

¹¹ Project Designation Methodology 2.2.5

provides a basis for NESO to: (a) reject frivolous applications outright where the application clearly does not meet the high bar for designation; and (b) effectively assess applications that may meet the high bar.

- 2.43 In addition to detailing the processes that NESO must follow when assessing designation requests, the Project Designation Methodology includes the necessary safeguards to ensure that NESO's designation decisions are transparent and aligned with strategic plans and needs. In particular, the requirement to consult, unless otherwise agreed with the Authority, enhances NESO's ability to effectively assess designation requests as it ensures that NESO appropriately considers the impacts on interested parties of potential designation decisions.
- 2.44 Accordingly, we have concluded that the Project Designation Methodology meets this licence objective.

Licence objective 3: facilitates a safe and secure electricity supply

- 2.45 The introduction of the Project Designation Methodology into the new connections process provides an additional tool to maintain security of supply in an increasingly decarbonised power system.
- 2.46 Specifically, the Project Designation Methodology provides a tool for NESO to proactively mitigate and effectively deal with network operability and security of supply issues by designating, and then prioritising, projects that can demonstrate that they are critical to safe and secure electricity supply.
- 2.47 If NESO identifies a network issue that could affect security of supply, it will publish a Notice stating the nature of the issue, the services that NESO would require a project to provide and the specific criteria against which potential projects would be assessed for designation. NESO will then invite projects to apply for designation in response to the Notice. As set out in the Methodology, this includes both generation and demand projects that can demonstrate significant system benefits. Designated projects could be prioritised for queue position within a Gate 2 assessment process, as per process set out in the CNDM.
- 2.48 As we explain in the Impact Assessment published in February 2025, we expect that this new designation power would enable NESO to more effectively manage

the connections queue by providing a process for efficiently identifying and connecting projects needed to address critical system needs.

- 2.49 Accordingly, we have concluded that the Project Designation Methodology meets this licence objective.

Licence objective 4: considers the impact on consumers

- 2.50 There were some suggestions in response to our consultation that expanding the categories for designation would increase consumer benefit, with suggestions including 'community projects', projects with socioeconomic benefit, and large demand projects.
- 2.51 As set out above, licence condition E17.3 provides scope for NESO to expand the list of categories that can benefit from designation in the future, subject to agreement with the Authority. So, while there is scope to explore policy options in the future, for example designating demand projects that support economic growth or community projects, this would require careful consideration to maintain objectivity and the high bar for designation.
- 2.52 The Project Designation Methodology is a targeted tool that NESO can draw on where there is clear consumer benefit and/or where there is a system need. The consumer impact assessment is a key feature in the consideration of designation under the Project Designation Methodology, and NESO has set out how it would consider consumer benefit as part of assessing all designation requests.
- 2.53 In its assessment of potential designation for projects in categories A to C (projects that are critical to security of supply, critical to system operation and materially reduce system and/or network constraints), NESO would consider a project's ability to deliver material benefits to consumers in relation to identified security of supply, system operation or network constraint risk. Projects designated under the category C (ie projects that materially reduce system and/or network constraints) would have a direct impact on consumer bills, as lower constraint costs would manifest as lower Balancing Services Use of System (BSUoS) costs paid by consumers.
- 2.54 The consumer benefit assessment is also embedded as a consideration for category E (projects with very long lead times). NESO will only designate a project under this category if that project has a long lead time and delivers clear

benefits to consumers. Similarly, projects seeking designation under the category D (projects that are new technologies and/or highly innovative) will be required to evidence how they deliver benefits to consumers, in addition to meeting other criteria relevant for this category.

- 2.55 We note that while the Methodology is clear on what constitutes consumer benefit in relation to designation categories A to C (projects that are critical to security of supply, critical to system operation and materially reduce system and/or network constraints), it does not specify how consumer benefit would be assessed in relation to categories D (projects that are new technologies and/or highly innovative) and E (projects with very long lead times). However, we acknowledge that for these categories, which involve projects with new technologies and long lead times, the specifics of their development are less predictable. Therefore, while the current level of detail on what constitutes as consumer benefits for these categories is sufficient for now, we expect NESO to consider whether and how it can provide further clarity on what would be considered consumer benefit in relation to these categories in the next iteration of the Methodology.
- 2.56 We also note that, as set out above, category D (projects that are new technologies and/or highly innovative) has attracted some feedback as the category that provides NESO with the greatest discretion. However, in our view, fostering innovation has well established benefits for consumers, and the inclusion of this less prescriptive category is necessary to make sure that innovative projects, including those not known at this point, are not precluded from attaining connections agreements.
- 2.57 We note some feedback stating that this objective should consider costs to consumers as well as benefits. NESO is required to publish an impact assessment of designation decisions, demonstrating how projects have been assessed against the relevant designation criteria. We expect this rationale on impact to include a broad assessment of any potential costs to consumers (if applicable) as well as benefits of designation decisions.
- 2.58 Accordingly, we have concluded that the Project Designation Methodology meets this licence objective.

Licence objective 5: facilitates innovation and competition in electricity markets

- 2.59 The Project Designation Methodology facilitates innovation by establishing a framework for connecting new technologies and highly innovative projects under the new connections process. The Methodology provides a route for innovative technologies to receive Gate 2 terms, irrespective of the permitted capacities in the CP2030 Action Plan. The CNDM provides an approach to queue ordering that would see projects, once designated, appropriately prioritised. We noted some feedback to our consultation that Category D and E should not be prioritised above projects that meet Strategic Alignment Criterion B. We broadly agree. While the case for prioritisation in queue ordering will be considered on a case-by-case basis in accordance with section 5.9 of the CNDM, very long lead time projects will not need to be prioritised, and we expect prioritisation will more likely apply to categories A-C.
- 2.60 As set out above, innovation benefits consumers. It is therefore important that innovative projects, including projects that are not in scope of the CP2030 Action Plan technology pathways, are not precluded from attaining a connection and delivering that benefit.
- 2.61 The Strategic Alignment Criteria in the Gate 2 Criteria Methodology establishes the technologies that can receive Gate 2 connection offers, which might prevent certain innovative business models from being developed. However, the Project Designation Methodology mitigates this risk by ensuring that emerging technologies that deliver system and consumer benefits, but that are not in scope¹² of the pathways in the CP2030 Action Plan, are appropriately considered and can be prioritised in the reformed connections queue. In addition, the processes outlined in the Methodology, specifically those in designation category E, enable NESO to provide projects with very long lead times certainty around connection timelines which can facilitate the development of complex and potentially innovative projects.
- 2.62 We also consider that the Project Designation Methodology facilitates competition in the electricity markets, including by ensuring that alignment with the CP2030 Action Plan does not constrain innovation now or in the future. It also facilitates competition by providing a structured and transparent framework

¹² Some technologies not in scope are listed as not in scope in section 6.3 of the Gate Methodology. These technologies (Transmission-Connected Demand, Wave, Tidal, Non-GB Generation) would only need to meet 'Readiness Criteria' to be eligible for a Gate 2 offer.

for issuing a Notice for specific system needs and assessing projects against those needs to determine whether they can be designated. This introduces a tool to foster competition targeted at system needs that does not exist in the existing first-come, first-served process.

- 2.63 In addition, the requirement to review the Connections Methodologies annually, as well as Ofgem's ability to trigger a review at any point, mitigates the risk to competition and innovation by allowing quick interventions to be made in the event that significant risk to competition emerges from the implementation of Connections Methodologies.
- 2.64 Accordingly, we have concluded that the Project Designation Methodology meets this licence objective in full.

Licence objective 6: takes into consideration the Strategic Plans

- 2.65 The Project Designation Methodology works in conjunction with the CP2030 Action Plan by providing a route to connection for projects that deliver significant additional consumer or system benefits, including projects that are highly innovative or introduce new technologies, irrespective of whether they are aligned with the CP2030 Action Plan. This ensures that the CP2030 Action Plan, and any subsequent strategic plans, can be delivered via the reformed connections process, while also accommodating new technologies and innovative projects, including those not foreseen by the Action Plan.
- 2.66 The Project Designation Methodology, specifically the designation category E (projects with very long lead times), ensures that the 10-year time horizon in the CP2030 Action Plan can be delivered while allowing projects with verifiably longer design, consenting and/or construction periods, some certainty around connection timelines.¹³
- 2.67 The Project Designation Methodology also considers strategic plans by working in conjunction with the CNDM to appropriately prioritise designated projects in the reformed connections queue alongside projects in scope of the CP2030 Action Plan pathways.

¹³ The designation category E applies to projects with very long lead times (i.e. long design, consenting and construction periods) that may be needed beyond the 2035 capacities within the CP30 Action Plan.

- 2.68 Accordingly, we have concluded that the Project Designation Methodology meets this licence objective in full.

Compatibility with CMP434 and CMP435 and relevant legal text

- 2.69 The Methodologies will put in place the connections process required under CMP434 and CMP435.
- 2.70 CMP434 is forward-looking: it establishes processes for all new applications for connection through putting in place the framework for a first ready and needed, first connected process. This process is enabled by NESO's Methodologies. The processes in the Gate 2 Criteria Methodology, Project Designation Methodology, and CNDM that will allow NESO to implement the enduring connections process are compatible with CMP434.
- 2.71 CMP435 will set the rules for the 'Gate 2 to Whole Queue' exercise, during which the new Methodologies will be used to filter and reorganise the existing queue. The processes in the Gate 2 Criteria Methodology and CNDM that will allow NESO to implement the 'Gate 2 to Whole Queue' exercise are compatible with the Gated Process for Projects with 'Existing Agreements,' which establishes the requirement for projects in the current queue to meet Connections Criteria.
- 2.72 While the Gate 2 Criteria Methodology contains Connections Criteria, Strategic Alignment Criterion B (alignment with the capacities in the CP2030 Action Plan) can only be applied with reference to the process contained in the CNDM. Similarly, Criterion C (designation) can only be applied with reference to the Project Designation Methodology.
- 2.73 We note that the legal text for CMP435 states that existing agreements "will be processed in accordance with the Connections Network Design Methodology and the Designation Methodology". The legal text for CMP435 does not expressly refer to the potential role of the CNDM or the Project Designation Methodology in determining whether existing projects have met the Gate 2 Criteria in the first instance, but does not preclude the CNDM or the Project Designation Methodology being used to determine whether a project has met the Gate 2 Criteria.
- 2.74 We are satisfied that the legal text of the CUSC amendment mandated by CMP435 and as approved by Ofgem enables the NESO to use the CNDM or the Project Designation Methodology to determine and process applications by existing agreements for Gate 2 connection offers.

Assessment of the Project Designation Methodology against the Authority's principal objective and wider statutory duties

- 2.75 Having reached the conclusion that the Project Designation Methodology facilitates achievement of the objectives in our assessment above, we have also assessed whether its approval is in line with our principal objective and wider statutory duties. A summary of Ofgem's statutory duties can be found in 'Summary Decision Document: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment'.
- 2.76 We consider approval of the Project Designation Methodology to be consistent with our principal objective of protecting the interests of consumers (both current and future) which includes, but is not limited to, their interests in achieving net zero by 2050 and the five-year carbon budgets, as well as their interests in the security and supply of electricity to them. The Project Designation Methodology provides a route to ensure that projects critical to maintaining security of supply and operating the system can be appropriately prioritised. It ensures that projects with long lead times are provided with clarity around connection timelines, which provides longer-term investment certainty, thereby increasing investors' confidence and supporting economic growth. It will also be an important part of ensuring that the energy system remains open to innovation.
- 2.77 While there is currently no designation category specific to economic growth, projects designated under existing categories, for example demand projects located to reduce constraints, could also contribute to economic growth.
- 2.78 We are exploring with the Government and NESO whether any further future changes to the connections process would be required to better facilitate demand, this will include consideration of whether any specific designation categories could be introduced in the future with a focus on economic growth, especially in the context of strategic demand projects.
- 2.79 Accordingly, we have concluded that the approval of the Project Designation Methodology is in accordance with our principal objective and wider statutory duties.

3. Updates to the Project Designation Methodology

- 3.1 Each of the Methodologies follows an approval process for their development, iteration, and amendment as specified in the new licence conditions.
- 3.2 The introduction of the Methodologies provides the opportunity for NESO to have greater control and flexibility; in turn we expect NESO to monitor and act quickly to address emerging issues, as well as continually assessing how each Methodology can be improved in line with connections reform policy objectives, the new licence objectives relating to the Methodologies, and other relevant statutory duties/objectives.
- 3.3 Following approval, NESO are required to review the Methodologies at least annually, and to identify any changes that are necessary to ensure the objectives are met. Ofgem also has power to direct NESO to review Methodologies, if it believes that the objectives are not being met.
- 3.4 NESO licence condition E17.15 sets out an obligation for NESO to consult on changes to the Project Designation Methodology unless otherwise agreed with Ofgem. As set out in the Gate 2 Criteria Methodology Decision, we have recommended NESO makes updates to target specific concerns raised in our consultation (though not to the Project Designation Methodology). Thereafter, consultation will be a necessary part of every annual review and we expect minor updates, unless urgent and agreed with us, to wait until the annual review process. This would mean that while administrative, clarificatory and low impact additions may not require consultation, we expect this housekeeping to wait until the annual review process which would, in any case, require consultation.
- 3.5 This obligation and expectation would apply following our first approval of each Methodology (see next steps) however, we considered that it was appropriate and beneficial for all stakeholders that NESO also make transparent, non-significant changes to improve Methodologies prior to our Decision.
- 3.6 Accordingly, on 21 March 2025 NESO set out updates to the Project Designation Methodology following engagement with Ofgem to agree that these updates were necessary and would not require further consultation.

- 3.7 The Project Designation Methodology updates constitute one change to better reflect licence conditions. In particular, according to licence condition E17.4, unless otherwise agreed with the authority, NESO, when designating an application, must publicly consult for at least 28 days. A change was made to reflect Ofgem's discretion to determine whether consultation is necessary as part of the designation decision-making process.
- 3.8 There were also two minor updates:
- Update to timeline - Timeline has been updated to include where NESO may be required to ask supplementary questions to make a designation decision
 - Typographical changes
- 3.9 We have considered the draft Methodology published by NESO on 21 March 2025 in this decision. All changes from the 20 December version were marked up for transparency. Overall, we consider that these updates are necessary, provide further detail on process, and reduce ambiguity

Designation timeline

- 3.10 In our Minded-to Decision we noted that it was preferable for the Project Designation Methodology to come into force at the same time as other Methodologies.
- 3.11 Licence condition E17.8 requires NESO to maintain and have in force the Project Designation Methodology. Once in force, the licence conditions do not require NESO to make designation decisions within a set timescale. However, it is our expectation that NESO will invite applications and make decisions in line with the timescales set out in the Project Designation Methodology where there is a consumer or system benefit to doing so.
- 3.12 Project designation was primarily conceived as an important adjunct to the enduring process to appropriately prioritise projects that meet defined system needs or provide clear consumer benefit. While this decision to approve the Project Designation Methodology will allow NESO to open for and decide upon applications for designation following expiry of the standstill period for the associated licence conditions, it is possible that NESO may not be able to process designation applications ahead of the Gate 2 to Whole Queue exercise in accordance with the timeline set out for decision-making within the

Methodology,¹⁴ even with an expedited process and our agreement not to consult.¹⁵ As stated throughout this Decision, designation is a highly selective tool, and we would not expect high numbers of positive designation decisions. As set out in our Minded-to Decision, we do not expect NESO will issue a Notice for designation categories A to C (projects that are critical to security of supply, critical to system operation and materially reduce system and/or network constraints) until there is a defined system need against which to issue such a Notice. This likely will not be in advance of the Gate 2 to Whole Queue exercise.

- 3.13 While it is important for NESO to be able to make designation decisions on innovative and long lead time projects as part of the enduring process, it is not essential to do so ahead of the Gate 2 to Whole Queue Process. As set out above, this is due to the role of designation in delivering the policy intent for the connections process to remain open and responsive to the emergence of new or improved technologies. In particular, the assessment of innovative and long lead time projects is not as time sensitive and can take place ahead of the first CMP434 window and still deliver consumer benefit, as designated projects will meet Strategic Alignment criteria irrespective of whether the CP2030 Action Plan pathways have been met or exceeded for the relevant technology. We do acknowledge that this would, however, mean that benefits would take longer to be realised and projects subject to positive decisions would only be prioritised within the CMP434 queue ordering process. Overall, NESO should make reasonable endeavours to make designation decisions ahead of the 'Gate 2 to Whole Queue' exercise; however, processing and making designation decisions should not delay the CMP435 application or design window.

¹⁴ Section 4, figure 1 of the Project Designation Methodology sets out the expected timeline.

¹⁵ In our Minded-to Decision on the Project Designation Methodology we set out that we would be open to agreeing an expedited process subject to receiving satisfactory rationale.

4. Decision

Decision Notice

- 4.1 In accordance with NESO licence condition E17.20(a), the Authority approves the version of the Project Designation Methodology published by NESO on 21 March 2025 and published as an appendix to this Decision on the basis that it achieves the objectives in E17.10 of the NESO licence.
- 4.2 The Authority also directs that the Project Designation Methodology should come into force following the expiry of the standstill period for new NESO licence condition E17 on 10 June 2025.

Jack Presley Abbott

Deputy Director – Strategic Planning and Connections

Signed on behalf of the Authority and authorised for that purpose