# Annex II: additional assessment of CMP448 Decision

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## Annex Overview

The purpose of this annex is to provide a contextual analysis, supporting the Authority's final decision to approve the Original Proposal of CMP448. The document sets out the Authority's detailed analysis of all options considered including the Original Proposal, Workgroup Alternative CUSC Modification 1 (hereafter "WACM1") and Workgroup Alternative CUSC Modification 2 (hereafter "WACM2"), alongside a summary of views expressed by the Workgroup, CUSC Panel and Code Administrator Consultation respondents. Such analysis and views were initially captured in our minded-to decision, published on 20 October 2025, and reproposed as part of this annex because these constitute part of our decision.

The rationale presented under 'Our View' mirrors the analysis outlined in the minded-to decision and remains unchanged unless otherwise specified.

The final decision, published in tandem but separate from this Annex, includes a summary of feedback received during the consultation window from 20 October to 3 November 2025 and how we considered them in our final decision.

The Authority values the engagement from all stakeholders throughout the consultation process and acknowledges the contributions made.

# Contents

Annex II: additional assessment of CMP448 Decision

# 1. Connections reform and CMP448 Proposal

This document provides contextual information related to connections reform and CMP448. It includes a brief overview of TMO4+ and describes CMP448. It also includes a summary of stakeholder views and our rationale, to approve the Original Proposal, that has not changed from when we published our minded-to decision.

## Workgroup Views

1.1 On 5 November 2024, NESO held a 'Call for Input' (CFI) on the proposed Progression Commitment Fee (PCF) and asked for further stakeholder views prior to raising modification CMP448. The Workgroup met 14 times to evaluate the proposal, in relation to the applicable CUSC objectives (hereafter "ACOs"), with the final Workgroup vote being carried out on 30 May 2025. The Workgroup was comprised of a broad range of interested parties from across the industry including generators, developers, Distribution Network Operators (DNOs) and Transmission Owners (TOs). A range of topics and concerns were duly considered and analysed by the Workgroup.[1]

1.2 The Workgroup did not reach a majority consensus on which option was best. Eight members concluded that the Original Proposal better facilitated the ACOs than the baseline. Three members concluded that WACM1 better facilitated the ACOs than the baseline. Four members concluded that WACM2 better facilitated the ACOs than the baseline. Eight members concluded that the baseline better facilitated the applicable objectives.[2]

## CMP448 CUSC Panel recommendation[3]

1.3 At the CUSC Panel meeting on 4 July 2025, the Panel recommended that the Original Proposal and WACM1 better facilitated the ACOs than the baseline. To summarise the votes cast: five members noted the Original Proposal better facilitated the ACOs, five members noted WACM1 better facilitated the ACOs and four members noted WACM2 better facilitated the ACOs.

[1] See NESO's Final Modification Report (FMR) CMP448 and Workgroup Consultation CMP448 for a full copy of responses
[2] See NESO's FMR CMP448, pages 81-82
[3] The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC

1.4 A second vote was conducted where Panel members elected for their preferred option. Three elected for the baseline, one elected for the Original Proposal, one elected for WACM1 and three elected for WACM2.

1.5 The outcome of these votes allowed the Panel to recommend to Ofgem, by majority, that CMP448 be accepted for inclusion in the Final Modification Report (FMR).

### Code Administrator Consultation Views

1.6 The Code Administrator Consultation was issued on 10 June 2025 and closed on 24 June 2025. 27 non-confidential responses were received, along with two confidential responses. A diverse range of views were obtained, recognising the overall need for reform but requesting thoughtful and effective implementation. The feedback and concerns received through the consultation mirrored, for the most part, the feedback received from the Workgroup.

1.7 Considering the 29 responses received; 13 favoured the baseline, seven favoured the Original Proposal, five favoured WACM1, three favoured WACM2 and two expressed no preference.[4] Moreover, 14 of the responses were of the view that neither the Original Proposal, WACM1 or WACM2 better facilitated the ACOs. Fifteen of the responses acknowledged that the code modification was best implemented ahead of Gate 2 offers being issued.[5]

## 2. Reasons for our decision

2.1 We have set out below our assessment of the components of the Original Proposal, WACM1 and WACM2, against each of the relevant ACOs. We have structured our assessment within three broader categories. These categories are:

- PCF Design: Activation process and rationale
- Activation metric, threshold and governance
- PCF Value (including increments and cap)

[4] One respondent provided two vote preferences, hence why the total vote count is 30
[5] See NESO's FMR CMP448, pages 82-83

## (i) the efficient discharge by the licensee of the obligations imposed upon it under the Electricity Act 1989 and by this licence[6]

### Workgroup and Panel view

2.2 Six of the Workgroup members who chose the Original Proposal as their preferred option noted the proposal better facilitated ACO (i).[7] Two Workgroup members who elected for WACM1 noted the proposal better facilitated ACO (i). Three Workgroup members who elected for WACM2 noted the proposal better facilitated ACO (i).

2.3 Regarding the views of the Panel, members noted which objectives their 'best option' better facilitated. One respondent, who elected for the Original Proposal, believed ACO (i) was better facilitated. One respondent, who elected for WACM1, believed ACO (i) was better facilitated. Three respondents, who elected for WACM2, believed ACO (i) was better facilitated.[8]

2.4 Feedback relating to the duties imposed by section 9 of the Electricity Act 1989, to develop and maintain an efficient, economic and co-ordinated electricity transmission system, was provided by the Workgroup and Panel. A small collection of Workgroup and Panel responses agreed that the introduction of CMP448 would accelerate the connection of both 'ready' and 'needed' projects, meaning committed developers would avoid waiting an unnecessary extended time for connection and be able to effectively contribute to the achievement of Clean Power 2030 (CP2030) targets.[9]

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[6] We note that ACO(i) refers to "obligations imposed upon [the licensee] by the Electricity Act 1989 and by this licence." Previously, NESO held a transmission licence under s6(b) Electricity Act 1989 ("EA89"); as such, the EA89 imposed certain general obligations on it via s9(2). Now, NESO holds an Electricity System Operator Licence under s6(da) of EA89. NESO, as the designated ISOP, has a set of "general duties" under s163 of the EA23, which it must meet pursuant also to its licence obligations: A2.20; C1.2(d); E12.7. Further, general obligations on NESO can be found in Condition C1 of the NESO Licence including in C1 regarding whole systems: see Parts, A, D and E. These include obligations that are substantively similar to those contained in s.9 EA89. We therefore consider it appropriate to assess CMP448, in respect of ACO(i), through the lens of the obligations on NESO contained in both s163 and Condition C1. It is expected that ACO(i) will be updated in early course to make specific reference to the EA23 rather than the EA89, albeit the former comes into play in any event through the general provision of Condition A2.20

[7] For vote preferences against each proposal and ACO, see NESO's Workgroup Consultation Annex 9

[8] For vote preferences against each proposal and ACO, see NESO's FMR, page 84-91

[9] Please note the wording of paragraph 2.4 has changed from our Minded-to decision, published 20 October 2025

2.5 There were minority concerns within the Workgroup that the five-year period for the cumulative MW total of the PCF to reset was overly generous and could lead to projects not reassessing viability regularly. One Workgroup member took the view that the cumulative MW total should be evaluated annually, to avoid projects failing to reappraise. These concerns were addressed by the Proposer confirming once the PCF has been activated, it will remain activated. The Workgroup also discussed the potential of projects being perversely incentivised to self-terminate to avoid becoming subject to the fee and to prevent PCF activation.

2.6 The main concerns relating to the design of the activation threshold centred around replacement projects and the Original Proposal, WACM1 or WACM2 containing no technology specific or regional specific metrics. The Proposer originally suggested a replacement project could be found for the queue, in place of a terminated project, within a six-month period. After feedback from the Workgroup was received that the six-month timeframe to source a replacement project was unrealistic, the framework for replacement projects was removed from the original solution. The amendment received positive feedback from the Workgroup.

2.7 The respondents of both the Workgroup and Panel were keen for the idea of an activation metric by technology type to be considered, as they felt this would be of aid to projects that had long lead build times such as offshore wind. However, some respondents noted introducing an additional element of eligibility to the activation metric could be disproportionately impactful.

2.8 There were concerns surrounding the overfocus CMP448 brought to planning applications, leading to developers being more likely to submit planning applications that may be of substandard quality to avoid activating the PCF.

2.9 Regarding the Authority's power to override an activation decision taken by NESO, most respondents noted they were accepting of the proposed timetable of activation governance. Both the Workgroup and Panel highlighted the importance of NESO acting transparently when the activation threshold was met and were reassured by the Authority's power to veto if required.

## Code Administrator Consultation

2.10 12 respondents considered the Original Proposal better facilitated ACO (i). Seven respondents considered the WACM1 better facilitated ACO (i). Eight respondents considered that WACM2 better facilitated ACO (i).

2.11 There was endorsement within the consultation to allow the reforms implemented by TMO4+ a period to embed and raise a code modification later, relating to a PCF, if the defect relating to 'queue health' came to fruition.[10] Seven of the respondents held this view and believed the problem that this code modification looked to resolve, had not sufficiently materialised.

2.12 Regarding the WACMs, there were concerns neither design provided a strong enough incentive for projects that were not readily progressing to exit the queue given both WACMs were designed around a reduction to the PCF, hence both WACMs did not facilitate ACO (i) as well as Original Proposal.

## Our view

2.13 Overall, we consider that the Original Proposal better facilitates ACO (i) than the status quo. WACM1 and WACM2 also facilitate ACO (i) better than the baseline, but less effectively than the Original Proposal which provides the strongest incentive to regularly assess project viability post receipt of a Gate 2 offer.

2.14 On balance, we therefore anticipate the Original Proposal is likely to better facilitate achievement of ACO (i) than WACM1, WACM 2 and the status quo. The reasons for our evaluation are provided in the subsections below.

## Original Proposal

### PCF Design: Activation process and rationale

2.15 The defect outlined by the Proposer is that the current connections process does not offer a financial incentive for developers to reflect on their project viability and potentially allow them to exit the queue in a timely manner. The Proposer has also identified that the highest risk for this to occur is in the period between any relevant project's Gate 2 offer acceptance and hitting their first milestone, Milestone 1 (M1) (initiated statutory consents and planning permission). We acknowledge that some stakeholders believed that this defect has not materialised, however we disagree with this view. Our analysis of the impacts of the proposal shows that there is a significant proportion of network capacity in the estimated Gate 2 queue within the scope of the PCF (between 54%

[10] 'Queue health' is a concept used by NESO as part of CMP448 to indicate the prevalence of less viable or stalled projects in the connections queue. A queue in 'poor health' would contain a high amount of less viable or stalled projects and a queue in 'good health' would contain a low amount of less viable or stalled projects

and 88%).[11] The Authority considers that CMP448 has been raised at the correct time, as in the event that activation of the PCF becomes necessary, having the PCF mechanism in place already will allow for swifter activation and the benefits to be felt more quickly, thereby improving the efficiency of the reformed connections process. The reasons for this are argued in the subsequent paragraphs.

2.16 Considering sections 15 and 16 of CUSC,[12] the Authority agrees with the Proposer that the status quo does not provide an adequate financial incentive to encourage a timely project termination or discourage capacity reduction between offer acceptance and M1. As clarified above in response to stakeholder feedback received, under section 15 of CUSC (User Commitment Methodology), the amount and start of security payments will depend on specific aspects of the project, taking into consideration attributable works and how much Transmission Owners have spent on the specific project. If Transmission Owners have already incurred a financial spend as part of attributable works and works triggered by the projects shortly after the acceptance of their Gate 2 offer, the developers could be required to secure an additional amount 30 days after they sign their agreement. In addition, existing securities could be paid as early as 30 days after developers signed their agreement. Therefore, in the event securities are required prior to a project achieving M1, during the time between PCF activation and the project achieving M1, securities and the PCF can overlap.[13]

2.17 There is a risk that there could in future be some Gate 2 projects that subsequently become less committed but may not be removed from the queue (for example, through failing to meet M1) for a significant period of time, due to when the milestone is due to be met. This risk of the presence of projects in the connections queue that are no longer viable, and for these projects to remain in the queue for longer than necessary, could cause a detrimental effect on the creation and allocation of network capacity. This is the case as TOs will spend resources to design the connection of projects that eventually will not be able to connect. Furthermore, those projects could delay the connections of viable ones. Therefore, a timely removal of projects that become unable to connect, as is incentivised by the Original Proposal, will better facilitate ACO (i), as it can ensure NESO fulfils its obligations under SLC C1.6 (a) and (g) of the ESO Licence more effectively, by contributing to an efficient and

[11] As set out in Ofgem CMP448 Impact Assessment, page 27
[12] Respectively User Commitment Methodology and Queue Management Process
[13] The Authority has provided further clarity as to this statement above, as set out in Ofgem CMP448 Final Decision, page 9

economical transmission system and supporting solutions that alleviate the need to upgrade or replace network capacity.

2.18 Reflecting on the decision by the Proposer to apply the PCF between offer acceptance and M1, we consider that whether a project meets M1 is largely within the developer's control, therefore it is reasonable for the PCF to fall between these events in a project's life cycle which is neither too early (eg Milestone 3 (M3) Land rights ), nor is it too late or out of the control of the individual project (eg Milestone 2 (M2) Secure Consent). We consider it will be overly punitive and/or disproportionate to apply the PCF and charge developers for processes that affect project termination that are beyond their control, such as will be the case if the PCF were applied between M1 and M2 (ie where a developer fails to meet M2 because the planning authority does not grant consent). The same rationale applies to the Proposer's decision to use project terminations up to M1 as the activation metric to evaluate 'queue health', because we believe that terminations represent a strong indication that the pipeline of Gate 2 projects may be becoming saturated with projects unlikely to ultimately connect.[14]

2.19 Furthermore, considering the duration of Queue Management ('QM') milestones in CUSC section 16, those milestones become more frequent after M2, and as stated in the Impact Assessment, accompanying this decision, having six monthly incentives after M2 could bring a marginal benefit.[15] The Original Proposal considered these factors, which have contributed to the design of a proposal that supports a more efficient process over the status quo, in the event the PCF is required to be activated (eg because there are concerns about the likelihood of Gate 2 projects in the connections queue to ultimately connect).

2.20 We also consider that an incremental fee will incentivise projects to regularly assess their viability, therefore this design is fit for purpose and facilitates ACO (i) as it makes the connections system more efficient overall compared to the baseline, if the PCF is activated (otherwise it will be neutral). This is because developers will be incentivised to assess the viability of their projects prior to PCF being due to increase. If this behaviour leads to projects self-terminating earlier than they would have in the absence of CMP448's PCF (and because of their self-assessment of their viability), network companies will have more certainty on planning for network build, and projects that are committed can connect sooner by

[14] The rationale that considers project termination as part of the activation metric is reported here to avoid further repetition in the section below

[15] As set out in Ofgem CMP448 Impact Assessment, page 10. For User progression milestones timelines see CUSC section 16.3

taking advantage of the capacity that may be freed up by any projects that exit the queue in response to an upcoming PCF increase.

2.21 Furthermore, the Original Proposal set out a maximum value for the PCF and the requirement to securitise will fall away when projects meet M1. This design ensures that the financial incentive for projects stays in place only for a limited period during the development stage and do not unreasonably overlap with other securities longer than it should be.

2.22 Therefore, we consider that the PCF Design (including the activation process and rationale) in the Original Proposal better facilitates achievement of ACO (i).

## Activation metric, threshold and governance

2.23 Workgroup, stakeholders and some Panel members expressed the view that the defect has not materialised and that TMO4+ and QM milestones should be enough to ensure projects that receive a connection offer and subsequently become unlikely to connect exit the queue. We consider that these processes alone are unlikely to encourage regular assessment of project viability, and that these initiatives on their own will not achieve this outcome efficiently enough.

2.24 For reasons outlined in our Impact Assessment, relating to the status quo under the User Commitment Methodology in CUSC section 15, we do not find the current trigger date for payment of existing cancellation charges sufficient.[16] Furthermore, making the PCF dormant from the outset so that active monitoring of the queue can take place will ensure that the financial incentive is activated only after there is sufficient evidence that it is needed and, most importantly, only if NESO and Ofgem concur that this is needed to ensure that the connections pipeline remains adequate to meet our net zero objectives, including CP2030.[17] This facilitates the achievement of ACO (i) better than the status quo since it is anticipated to ensure that, in the event the PCF is activated, the connections process becomes more efficient, and NESO more effectively fulfils its obligation under SLC C1.6 (a) of the ESO Licence.

2.25 The Activation Threshold[18] proposed represents 5% of the additional network capacity (capacity that is not already installed) that needs to be

[16] As set out in Ofgem CMP448 Impact Assessment, page 10

[17] Relevant objectives are set out in Clean Power 2030 Action Plan: A new era of clean electricity – main report

[18] The methodology followed by NESO to forecast the PCF activation, is described in Ofgem CMP448 Impact Assessment, pages 25-26

connected before 2030 to reach the CP2030 target.[19] We agree with the Proposer's view to express the activation threshold as a volumetric value based on network capacity termination instead of a percentage. Some Workgroup members questioned why the metric figure was not a percentage, noting that a fixed volumetric figure would be subject to change over time. The Proposer's approach supports the achievement of this ACO for the following reasons.

2.26 First, calculating the activation metric as a percentage or fixed volumetric figure will not make a practical difference to when the activation threshold will be met as it will first need to be converted to a volumetric figure for measurement purposes, although in the FMR NESO states it does not have the data to support a percentage threshold value at the time of writing. Also, the legal text of CMP448 obliges NESO to review if the activation threshold is still appropriate, providing that the PCF has not been activated during the first metric period.

2.27 Secondly, basing the threshold on a percentage could create confusion, especially in future years where the additional capacity required to meet CP2030 targets will decrease (and NESO did not propose a metric that gradually decreases over time). This is because such a percentage will be influenced by the additional capacity required to meet CP2030 targets that is expected to decrease over time. Therefore, it is reasonable to expect that this percentage reduces closer to the end of the metric period and NESO should explain how this has changed from the previous measurement period (but this is not in the legal text and NESO's obligations are only to publish the activation metric). Therefore, having a volumetric value that does not change for the whole metric period and measuring the capacity terminated in each of the measurement intervals seems an effective solution allowing to assess the status of the queue.

2.28 Furthermore, the achievement of CP2030 considers permitted technology capacities (a volumetric value expressed in GW), which makes the measurement easier to track, making the solution more efficient over having a percentage.

2.29 Considering the activation governance, the discretional choice of whether to activate the PCF once the threshold is met allows for unforeseen events to be accounted for (eg a hypothetical economic downturn discouraging overall investments, or changes in the planning regime that makes it harder to submit planning applications, etc.). This fact makes the Original Proposal more efficient as even once the threshold has been

[19] NESO has estimated this capacity using the DESNZ 2030 Capacity Range compared to installed capacity in 2024, as listed in Clean Power 2030 Action Plan: Connections reform annex pages 9 and 10

met, there exists discretion on whether to activate it, which ultimately positively affects achievement of ACO (i) because NESO can decide whether activation in those circumstances best allows it to efficiently discharge its obligations (meaning it is not compelled to activate it just because threshold is met, therefore this discretionary ability could help avoid unintended consequences).

2.30 The proposed activation metric based on capacity termination and reduction should ensure a consistent measure of 'queue health' assessed against the progression to M1. This is evaluated against the counterfactual that not having a metric would make the PCF activation subject to arbitrary decisions of NESO or the Authority. The Original Proposal, with an activation threshold based on the termination metric, will provide a clear signal of when the PCF can be activated. Those aspects ensure the reliability and efficiency of the overall proposal, making a positive impact against ACO (i). Furthermore, the regular publication of the metric improves transparency.

2.31 Lastly, the proposed solution does not consider self-terminations as contributing to activation of the metric. We consider this is sensible, as the objective of the proposal is to ensure timely exit or discourage capacity reduction. Therefore, if projects self-terminate and the PCF is never activated, this will be a positive outcome, as projects will be incentivised to exit the queue (as intended). However, as Workgroup members pointed out, some projects could be incentivised to self-terminate to prevent the PCF activation. We recognise this could be a possible outcome, but considered that this is a strong indication that the queue may be saturated with unviable projects.[20] Furthermore, we consider that viable projects will not be disproportionately impacted by the PCF.[21] Therefore we consider that the possibility that viable projects self-terminate to avoid the PCF activation is unlikely, also because the PCF will be returned after projects meet M1. That being said, NESO and Ofgem will monitor the situation and take appropriate measures to mitigate potential unintended consequences to ensure the proposal meets its objectives.[22]

## PCF Value (including increments and cap)

2.32 To estimate the PCF value NESO used the "real option" analysis. This concept is explained in the FMR and our Impact Assessment, along with

[20] As set out in Ofgem CMP448 Impact Assessment, page 54
[21] As set out in Ofgem CMP448 Impact Assessment, page 54
[22] As set out in Ofgem CMP448 Impact Assessment, section 4 'Monitoring and Evaluation'

the methodology assumptions undertaken by NESO.[23] It is suggested that because the PCF value (set at £2,500/MW) is slightly above the monetary value of the "real option" to delay a decision to continue or stop the project development it incentivises the exit of less viable projects. As argued in our Impact Assessment, we consider this value being set to this level ought to ensure the intended effect, sufficiently incentivising less viable projects to exit the queue (before being subject to the PCF).[24] This aspect will facilitate the achievement of ACO (i) as it ensures the proposal works as intended by making the connection process and transmission system more efficient, allowing SLC 1.16 (a) and (g) to be discharged, through the exiting of these projects that would otherwise be occupying capacity they no longer require.

2.33 Furthermore, a value that gradually increases at six monthly intervals should also encourage a timely exit from the queue, as projects will be required to regularly assess their project viability considering the value of the PCF as it increases over time. This ought to make this assessment slightly more onerous on developers in the aftermath of the PCF activation, whilst facilitating the objectives of the proposal. Therefore, the ability of the Original Proposal to incrementally increase the PCF value over time has a positive impact against this ACO, as it supports a more efficient process and transmission system through individual projects regularly reassessing their likelihood to connect even after receiving a Gate 2 offer. This is in the event the PCF is activated, otherwise this feature is neutral compared to the status quo.

2.34 As set out in the FMR and proposed legal text[25], in the event the PCF and existing securities overlap, they will not be netted off each other to ensure there is still a strong incentive for developers to actively assess the viability of their projects.[26] We acknowledge that the PCF and existing securities overlapping could impact projects, but we consider this dual overlap maintains the intended effect of the proposal to incentivise regular project prospect re-evaluation, thereby maintaining positive impact on ACO (i) over the status quo. Furthermore, if the PCF is activated, the PCF security will be returned by NESO after the project has met M1.

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[23] As set out in Ofgem CMP448 Impact Assessment, Appendix 1 and in NESO's FMR, page 35. The Authority considers the methodology assumptions to be reasonable assumptions

[24] As set out in Ofgem CMP448 Impact Assessment page 14

[25] As set out in NESO's FMR, page 30. Legal text of the Original Proposal throughout parts 1, 2, 3 and 5

[26] Existing securities could be paid as early as 30 days after developers signed their agreement. Therefore, in the event securities are required prior to a project Achieving M1, during the time between PCF activation and the project achieving M1 securities and PCF will overlap

2.35 Finally, considering the value of the PCF, the Proposer believes that the Original Proposal could offer an incentive to any projects that doubt their prospects to sell their project to a more committed developer, creating the possibility that if the capacity and project itself can be novated to a developer that can see the project through to energisation, that outcome can still be achieved (to the benefit of achievement of CP2030). This is a valid point, however we acknowledge that for the Original Proposal, regardless of when the PCF is activated, each project will have an additional liability (in the PCF) that could make it harder to sell on. That being said, where any new project buyer will take over the existing connection project in contractual terms, any new developer that takes on board the project is likely to be more committed/able to see it progress to connection. Therefore, in either case, the positive outcome of having more viable and committed projects in the connections queue will be preserved, either if less viable projects self-terminate earlier or sell their project to more committed developers, thereby positively impacting ACO (i).

2.36 Lastly, the analysis used in our Impact Assessment shows that the impact on financing the PCF as a percentage of development expenditure across solar, battery, onshore and offshore wind project archetypes, ranges between 0.4% and 15.5% for the Original Proposal, which we do not consider an unreasonable burden for viable projects, especially because the amount will be returned after the project has passed M1.[27]

## WACM1

### PCF Design: Activation process and rationale

2.37 WACM1 sets the PCF value at £0/MW for the first six months after the PCF is activated. As highlighted in our Impact Assessment, we acknowledge that this aspect of WACM1 could still provide an incentive to self-assess project viability, but not as proactively as the Original Proposal because the PCF would be £0/MW for the first six months post PCF activation, therefore delaying a more onerous self-assessment of viability by six months, when compared to the Original Proposal.[28]

### Activation metric/threshold and governance

2.38 In general, the same evaluation made in the section of the Original Proposal (covering activation and governance) applies to WACM1. This means we consider that aspects related to activation threshold and

[27] As set out in Ofgem CMP448 Impact Assessment, table 7
[28] As set out in Ofgem CMP448 Impact Assessment, page 15

governance of the PCF, with respect to WACM1, overall have a positive impact on this ACO compared to the baseline, equally to the Original Proposal. However, the overall impact of WACM1 is significantly reduced compared to the Original Proposal. This is because the value of the PCF is significantly lower than in the Original Proposal and the first PCF Period is set to £0/MW, which would likely fail to incentivise a timely exit from the queue, which would dilute the impact of WACM1.

## PCF Value (including increments and cap)

2.39 We anticipate that because WACM1 sets the PCF value at £0/MW for the first six months post activation and afterwards reduces the PCF value of the Original Proposal by 90% (that is, after the grace period, the PCF starts at £250/MW, following an increase of £250/MW every six months with a maximum value of £1,000/MW), this alternative would provide a weak incentive to proactively assess project viability compared to the Original Proposal, despite WACM1 still facilitating ACO (i) better than the baseline.

2.40 The Proposer of WACM1 (Innova) considered that the Original Proposal would create significant upfront liabilities for projects that are disproportionate and could reduce competition. In the Proposer of WACM1's view, the maximum rate of the PCF alone (£10k/MW) could cost four times more than the typical development costs of a battery project, therefore the WACM proposes to significantly reduce the PCF value. However, our Impact Assessment, as argued in the subsequent paragraphs, provides different assumptions and the impact of the PCF points to a less onerous scenario for battery projects.[29]

2.41 We anticipate only projects with long development stages or large-scale projects, such as offshore wind, would be subject to the maximum value of the PCF as the planning process could take more time for these projects to achieve. The upper bound scenario of our Impact Assessment assumes a financing period of two years for battery projects and five years for offshore wind projects.[30] Therefore, based on our Impact Assessment, we anticipate that an average battery project is unlikely to wait to submit planning application for more than two years. Furthermore, M1 dates can be also calculated forward from the signature of the Gate 2 offer if earlier than the connection date and the time period to meet M1

[29] As set out in Ofgem CMP448 Impact Assessment, tables 4 and 11
[30] As set out in Ofgem CMP448 Impact Assessment, tables 4 and 6

for Town and Country Planning (England, Scotland and Wales) projects, typical for the average battery project, is set out in two years.[31]

2.42 Lastly, assuming the PCF is activated, we consider that any project would expect to bear the costs that are feasible for their business, and in so doing would not attempt to expedite their submission for planning consents/permission to avoid any additional cost of the PCF. The Proposer of the Original Proposal (NESO) has provided analysis to evaluate the impact of the proposal. This analysis is based on CFI information voluntarily submitted by 130 respondents, the majority of which were developers.[32] This analysis, used in our Impact Assessment, shows that for a battery project, the impact of financing the PCF as a percentage of development expenditure ranges between 1.56% and 12.2% for the Original Proposal, which we do not consider would be an unreasonable burden for viable projects, especially because the amount will be returned after the project has passed M1.[33]

2.43 As for WACM1, the impact becomes even lower, ranging between 0.05% and 0.7% for a battery project, which could be too low to incentivise the expected behaviour to self-terminate in a timely manner.[34] As highlighted in the Impact Assessment, therefore, if the PCF value is not sufficiently high to incentivise reassessment of project viability, then the intended impact of the proposal itself is undermined and stunted, as projects may not decide to self-terminate as efficiently as they otherwise would (eg under the Original Proposal). Given that WACM1 reduces the PCF by 90%, we consider this value would likely be too low to achieve the intended objective, thereby rendering it less effective than the Original Proposal at positively impacting ACO (i), albeit still having a more positive impact than the baseline.

2.44 Considering the business model of certain developers, the Proposer of WACM1 argues that a PCF value as intended in the Original Proposal would make a project harder to sell, therefore becoming less likely to connect. The Proposer of WACM1 also considers that the additional costs required would be passed onto GB consumers. We do not have data to ascertain with reasonable accuracy what the monetary impact of the PCF on end-consumers is. Our Impact Assessment concludes that there would be minimal impact on consumers, in a scenario where the PCF had not been activated.[35] However, our Impact Assessment assumes that for

[31] See CUSC section 16.3 and Ofgem CMP448 Impact Assessment, page 15
[32] Among this category, the majority were either battery or solar developers
[33] As set out in Ofgem CMP448 Impact Assessment, table 7
[34] As set out in Ofgem CMP448 Impact Assessment, table 8
[35] As set out in Ofgem CMP448 Impact Assessment, page 51

consumers to benefit overall, the benefit created by developers spending on projects (only occurring if the PCF is activated), must be more than the cost of financing the PCF .[36] Since the PCF is expected to drive earlier connection dates on average relative to an 'unhealthy queue', this enables projects to spend less time in the queue on average and therefore reduces the total average expenditure developers will likely face on financing costs – which we consider to be a benefit. Therefore, we believe that the proposal would provide benefits for consumers.

## WACM2

### PCF Design, Activation metric/threshold and governance

2.45 We anticipate that WACM2 would facilitate the achievement of ACO (i) better than the baseline for the reasons expressed in the analysis for the above, however slightly less effectively when compared to the Original Proposal. This is because WACM2 has the same value of the PCF as the Original Proposal and it does not alter the activation process and the metric threshold, nor the governance around the decision to whether activate the PCF. However, because Users that have initiated a self-termination or reduced capacity at least 90 days before M1 is due would have a significant discount on the PCF amount owned to NESO/DNOs, those projects could be more inclined to delay their decision until their milestone M1 is almost 90 days away. This has the potential to weaken the intended effect when compared to the Original Proposal, if many projects would choose to not self-terminate until the last possible moment (ie the last possible moment at which they can benefit from the discount provided by WACM2, being 90 days before M1).[37] This being said, we acknowledge that only projects that choose to self-terminate receive the discount, therefore in effect the same totality of projects would be expected to exit under the Original Proposal vs under WACM2; however the critical difference being when those projects are incentivised to exit, with the Original Proposal being more effective in this regard as it can allow the benefits articulated above (under the Original Proposal on ACO (i), critically on release of capacity) to occur sooner, for the benefit of other projects.

### PCF Value (including increments and cap)

2.46 WACM2 does not alter the impact on financing costs of the PCF as the value is the same as that of the Original Proposal.[38] However, this WACM

[36] As set out in Ofgem CMP448 Impact Assessment, page 50
[37] As set out in Ofgem CMP448 Impact Assessment, page 25
[38] As set out in Ofgem CMP448 Impact Assessment, tables 7 and 9

does lower the liability of the PCF upon self-termination or capacity reduction prior to meeting M1. This means that even though the 75% discount of WACM2 still incentivises projects to self-terminate, it may not result in those self-terminations as efficiently as the Original Proposal.[39] This is because the discount could incentivise self-terminations only when M1 is approaching, as opposed to the Original Proposal that does not offer any discount and incentivises termination as soon as the PCF value rises to a level that would need a self-assessment of project viability.

## (ii) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity

### Workgroup and Panel view

2.47 Eight members of the Workgroup who voted for the Original Proposal as their preferred option noted the proposal better facilitated ACO (ii).[40] Three members who had voted for WACM1 as their preferred option noted the proposal better facilitated ACO (ii). Three members who had voted for WACM2 as their preferred option noted the proposal better facilitated ACO (ii).

2.48 Regarding the views of the Panel, members noted which objectives their 'best option' better facilitated. One respondent who elected for the Original Proposal, believed ACO (ii) was better facilitated. Two respondents in favour of WACM2, believed ACO (ii) was better facilitated. No respondents, in favour of WACM1, believed ACO (ii) was better facilitated.

2.49 There was some support in both the Workgroup and Panel that the Original Proposal would promote an increased level of competition, given the PCF looked to increase queue efficiency and the connection of an increased number of net zero projects. There was a partial consensus that the PCF had the ability to facilitate a more diverse connections queue in the long run, by enticing a more comprehensive mix of projects that would not be discouraged by 'poor queue health'. However,

[39] As set out in Ofgem CMP448 Impact Assessment, page 25

[40] For vote preferences against each proposal and ACO, see NESO's Workgroup Consultation Annex 9

concerns surrounding the potential negative impact the PCF may bring to facilitating effective competition were raised.[41]

2.50 The PCF applies between Gate 2 queue entry and achieving milestone M1. Most Workgroup respondents supported the duration of the fee outlined in the Original Proposal. However, there were a group of respondents who disagreed with this view and believed the planned length of time the fee was to be active for was too long and could lead to a disproportionate impact on projects that held longer lead times.

2.51 In relation to the value of the PCF, a majority of workgroup members responded negatively to the proposed value citing the ability the PCF had to disproportionately impact certain developers. There were concerns smaller projects could be negatively impacted as the PCF did not consider all the fixed overheads a business was already liable to pay. In contrast, three respondents noted the fee was not high enough to act as a sufficient incentive for a less viable project to exit the queue.

2.52 The impact on effective competition that both the WACMs could have was also explored. There were concerns WACM1 would not lead to behavioural change, given it was designed around a significant reduction. The discount carried the potential for operationally challenged projects to remain in the queue for longer, leading to congestion for projects ready to progress and the competitive nature of the queue diminishing. Similarly in relation to WACM2, it was discussed there was a risk of projects taking advantage of the self-determination discount leading to a similar trend of overcrowding that could hamper competition.

## Code Administrator Consultation

2.53 Ten respondents considered the Original Proposal better facilitated ACO (ii). Seven respondents considered WACM1 better facilitated ACO (ii) and six respondents considered WACM2 better facilitated ACO (ii).

2.54 There was discussion in responses that the Original Proposal had the ability to increase effective competition, but some held the view that WACM1 and WACM2 also had the capacity to create a queue framework that incentivised smaller projects to apply by reducing the value of the PCF, whilst increasing queue competition and introducing an aspect of control surrounding self-termination.[42] However, concerns were raised that the increased responsibilities surrounding self-termination could

[41] Please note the wording of paragraph 2.49 has changed from our Minded-to decision, published 20 October 2025

[42] Please note the wording of paragraph 2.54 has changed from our Minded-to decision, published 20 October 2025

lead to a delay in exit decisions. Consistent with the views expressed by the Workgroup and Panel, several responses cited issues with the design of trigger metric of the PCF as a concern, with several responses specifically highlighting the detrimental impact the PCF design would have for offshore wind projects.[43]

2.55 Seven of the responses cited the increased costs to developers, that the PCF would lead to, as a concern. Themes surrounding damaging investor confidence, consequently putting CP2030 goals at risk were highlighted in tandem.

## Our view

2.56 Overall, we consider that the Original Proposal more effectively facilitates ACO (ii) than the status quo. This is mainly because: the PCF could mean that the most viable projects can connect faster, the burden on developers will be reasonable to endure if the project itself is truly viable, and the activation governance of the PCF allows NESO and Ofgem to make opportune decisions based on the prevalent market conditions.

2.57 WACM1 and WACM2 also more effectively facilitate ACO (ii) than the baseline because both WACMs still introduce the PCF, which is an improvement on the status quo. However, these positive impacts on competition from WACM1 and WACM2 should be weighed against the fact that the reduced PCF value and PCF liability upon termination may weaken the incentive to self-assess project viability or delay a decision to exit the queue. Consequently, competition would likely be less beneficially impacted under WACM1 and WACM2 than the Original Proposal since either fewer projects would exit the queue under these options (WACM1) or projects may exit the queue later than they would under the Original Proposal (WACM2), which would limit the potential upscale benefit of these WACMs. For these reasons, on balance, we consider that the Original Proposal is likely to better facilitate achievement of ACO (ii) than WACM1, WACM2 and the status quo. The reasons for our evaluation are provided in the subsections below.

## Original Proposal

### PCF Activation process/rationale

2.58 At a glance, an additional liability on project developers could appear to have a slightly negative effect on competition in the generation of

[43] Please note the wording and positioning of paragraph 2.54 has changed from our Minded-to decision, published 20 October 2025

electricity compared to the status quo, on the assumption that an additional fee could put off some developers that would have otherwise competed in the absence of the fee (if they considered there was a risk that they could find themselves subject to it). However, on balance we consider that the PCF introduces a net positive impact on competition for two reasons. The first being, if any prospective future applicants are dissuaded from applying for a connection offer solely due to the PCF, we expect these may be the specific types of less viable projects that we are concerned could occupy scare capacity in the connections queue in the first place. Moreover, a more viable connections queue allows projects to connect faster as not committed projects being removed will free up network capacity that can be replaced faster by new projects applying for connection; and a faster connection rate leads to a more diverse project mix and better facilitates competition in the generation, distribution and supply of electricity than the status quo in the long term.

2.59 We acknowledge that some Workgroup members suggested to consider an Activation Metric based on technology type, as it could be more beneficial for projects and technologies which have longer timelines to meet M1 or follow a specific consenting regime/process (such as a Development Consent Order and section 36 of the Electricity Act 1989).[44] We disagree with that view as we consider that this would be more complex to manage and have a worse impact on competition because an Activation Metric based on technology type would have to consider the capacity limits for specific technologies. This could result in a situation where some technologies are subject to the PCF and others are not, which could penalise some technologies and inhibit competition. Furthermore, if the PCF has been activated for some technologies, it could encourage some developers to pursue development of projects with technologies where the PCF has not reached the activation threshold, potentially distorting competition in the generation of electricity (which could be problematic if it does so to a significant extent and/or in a pattern which is inconsistent with CP2030 targets). This choice risks to increase the administrative burden on NESO affecting negatively also ACO (iv).

2.60 We acknowledge the concerns raised within the Workgroup that the PCF creates an additional financial burden on developers that are already liable for standard project running costs. In addition, we acknowledge concerns raised in the Code Administrator Consultation that the cost of the PCF may bring increased cost to developers and thereby have the

[44] A Development Consent Order is a statutory approval process under the Planning Act 2008 for nationally significant infrastructure projects in the UK

potential to impact investor confidence. To avoid the negative effect of the PCF being overly punitive, negatively impacting investor confidence and affecting project viability, the PCF will be subject to increases of £2,500/MW every six months, and this will be capped at £10,000/MW. The cap is a sensible approach that, coupled with the six-monthly increases of the PCF that contain an element of financial predictability, will ensure that the impact on competition in electricity generation is a positive one (by ensuring it is gradual and proportionate). In tandem, certain projects will be incentivised to make a timely exit from the queue to the benefit of future applicants from that newly freed up capacity.

## Activation metric/threshold and governance

2.61 Considering the proposed activation metric, threshold and governance, we consider that the Original Proposal will have a positive impact against ACO (ii) for the reasons discussed in the following subsection.

2.62 The Original Proposal considers a volumetric value (expressed in GW of capacity) of project terminations to establish the activation metric, which is project agnostic. Projects counting towards this metric are terminated based on the current QM milestones regime introduced by CMP376.[45] These aspects of the activation threshold do not affect competition in the generation, distribution or supply of electricity and are neutral compared to the status quo.

2.63 The activation design and governance mechanism creates reasonable safeguards for competition. First, the PCF activation metric and threshold follow an objective principle applicable to all projects requesting a Gate 2 offer. This ensures that it can be activated only when there is indication that the queue is not progressing efficiently (as the number of terminations have increased over time, such that delivery of CP2030 could be put at risk). Secondly, the activation governance allows NESO and Ofgem to assess the information available and determine if the activation is the most appropriate decision to meet CP2030 targets. This protects competition in the generation, distribution and supply of electricity as it can allow NESO and Ofgem to understand if the terminations are influenced by external factors beyond the developer's control, including economic shocks or supply chain issues. If those were to occur and the PCF were to be automatically activated after the threshold is met, only developers with enough or greater financial resources may be able to continue to apply for a connection offer. This is because smaller developers are generally less resilient to external

[45] See Ofgem CMP376: Inclusion of Queue Management process within the CUSC

economic shocks, and the additional liability of the PCF could contribute to make such a project less viable, considering the different market conditions. Therefore, the PCF activation governance can act as a safeguard to prevent this perverse outcome against smaller developers from occurring.

## PCF Value (including increments and cap)

2.64 The PCF is expected to incentivise a timely exit from the queue if the project is less viable. A Panel member noted that the PCF value is too high and could therefore negatively affect the viability of some projects or become punitive, particularly for smaller developers or projects with long lead times. We disagree with this view. Our Impact Assessment finds that the PCF value is unlikely to be burdensome for most developers as the PCF security financing costs range from <1% to 15% of project developer expenditure.[46] However, as argued in our Impact Assessment, evaluating the impact on smaller developers with regard to competition can be achieved by assessing the size of its project or the developer's revenue and access to finance. Based on the data available, we have concluded that there could be a minimal impact on smaller developers. However, the Authority accepts regardless of a PCF value there will be a small number of projects in the margins that could be impacted by the PCF value. That being said, we consider that small developers that have viable projects will not face a barrier to entry due to the PCF because the PCF does not discriminate against the size of the project – it instead tests its viability.[47] Nonetheless, we consider that the impact on small developers needs to be monitored, especially in the period following the PCF activation; under its power to veto, Ofgem discretion may be exercised on whether to activate the PCF if the data available at the time indicates a risk of disproportionate adverse impact on small developers.[48]

2.65 The PCF will be set at £0/MW when the construction agreement is entered into force and there is six months or less to meet M1, or in cases where M1 has not been established. We consider that this will not harm the viability of projects that have no M1 in place or are close to meeting M1 in relation to when the PCF is activated. It will not be punitive if projects do not have a M1 in place. Furthermore, once M1 has been met, the PCF liability will fall away for any affected project and any securitised amount will be returned. These factors will minimise any detrimental impact for any viable project.

[46] As set out in Ofgem CMP448 Impact Assessment, table 7
[47] As set out in Ofgem CMP448 Impact Assessment, pages 53-54
[48] As set out in Ofgem CMP448 Impact Assessment, section 4 'Monitoring and Evaluation'

# WACM1

## PCF Activation process, and Activation metric, threshold and governance

2.66 Considering the PCF design and the governance of its activation, the same considerations made in the section of the Original Proposal apply to the design of this WACM. This is mainly because WACM1 does not change the activation metric, threshold and governance. However, because the PCF value and its liability upon project termination is lower than the Original Proposal, WACM1 has a less favourable impact on competition overall compared to the Original Proposal and status quo.

## PCF Value (including increments and cap)

2.67 A PCF value 90% lower than the one selected for the Original Proposal (as is the case with WACM1) would make the impact on competition less burdensome for projects with long time builds and smaller developers (compared to the Original Proposal). We acknowledge that a collection of responses from the Code Administrator Consultation noted WACM1 had the ability to create a framework that incentivised smaller projects to apply by reducing the value of the PCF and facilitating the potential of queue progression for a broader spectrum of projects. However, this reduced impact on competition should be weighed against the negative effects of a PCF value that is too low against ACOs (i) and (iv). This is because there is the risk that the majority of projects could easily finance the PCF, which would largely negate the benefits of the PCF, including: timely exit from the queue of less viable projects, other/new projects benefitting from that otherwise freed up capacity, and improving efficiency and decreasing the administrative burden in the CUSC arrangements. We agree with the views expressed in the Workgroup that WACM1 is unlikely to lead to a behavioural change in efficient self-assessment of viability in the same way Original Proposal does, given it is centred around a financial discount. We accept WACM1 more effectively facilitates ACO (ii) than the baseline as WACM1 introduces a PCF however, the design centred around a financial discount would hamper any positive impact on competition, when compared to Original Proposal, for the reasons outlined above.

# WACM2

## PCF Activation process/rationale and Activation metric/threshold and governance

2.68 The same considerations made in the section of the Original Proposal apply to the design of this WACM. This is because this WACM does not

change the PCF profile and value nor the activation metric, threshold and governance. We acknowledge the views raised in the Code Administrator Consultation that note WACM2 introduces an increased aspect of self-control around self-termination, which may encourage a wider range of projects to apply given the increased level of reassurance surrounding the ability to exit. However, we agree with the views expressed in the Workgroup that the increased aspect of self-control around self-termination could be taken advantage of. Since the PCF would be discounted if the project self-terminates or reduces capacity, projects could be incentivised to exit from the queue later than they would do under the Original Proposal. Therefore, we anticipate this would inhibit the positive impacts this WACM could have on ACO (ii), rendering this less effective on this ACO than the Original Proposal.

### PCF Value (including increments and cap)

2.69 A discounted PCF value introduced by this WACM would make the impact on competition for projects with long time builds and smaller developers less burdensome. However, this effect on competition should be weighed against the negative effects of a lower benefit against ACOs (i) and (iv). This is because there is the risk that the majority of less viable projects are not incentivised to make a timely exit from the queue, making the impacts on system efficiency and the administrative burden in CUSC arrangements less positive when compared to the Original Proposal.

## (iii) compliance with the Electricity Regulation and any Relevant Legally Binding Decisions of the European Commission and/or the Agency

### Workgroup and Panel View

2.70 By majority, the Workgroup and Panel both found CMP448 not to have an impact on the compliance with the Electricity Balancing Regulation (EBR) and any relevant legally binding decision of the European Commission and/or the Agency.[49]

[49] The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017. The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the NESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.' Definition taken from NESO's CMP448 Code Administrator Consultation Response Proforma

### Code Administrator Consultation

2.71 Regarding the Code Administrator Consultation, two respondents in favour of the Original Proposal believed that ACO (iii) would be better facilitated. No other detailed preferences were expressed.

## Our view

2.72 We do not think the Original Proposal or any WACM affects compliance with electricity regulation/EU commissions decisions, therefore we consider these proposals neutral against ACO (iii).

## (iv) promoting efficiency in the implementation and administration of the CUSC arrangements

### Workgroup and Panel View

2.73 Six members of the Workgroup who voted for the Original Proposal as their preferred option noted the proposal better facilitated ACO (iv). Three members of the Workgroup who voted for WACM2 as their preferred option noted it better facilitated ACO (iv). Regarding the three respondents who voted for WACM1 as their preferred option, neutral views were recorded against the enhanced facilitation of ACO (iv).

2.74 Regarding the views of the Panel, respondents noted which objectives their 'best option' facilitated. One respondent, in favour of the Original Proposal, believed ACO (iv) was better facilitated. One respondent, in favour of WACM1, believed ACO (iv) was better facilitated. Three respondents in favour of WACM2, believed ACO (iv) was better facilitated.

2.75 The main concerns relating to ACO (iv) centred around the increased administrative burden that the Original Proposal and WACMs may bring to the connections process. Specifically, within the WACMs, concerns centred around the idea that a developer was able to decrease their liability, but in the process, create an increased administrative burden.

2.76 A group of Workgroup members expressed support for the idea of an industry consultation being conducted by NESO, before the PCF was activated, so the satisfaction of the activation criteria could be validated. Workgroup members emphasised the results of such a consultation would aid the Authority in determining whether to veto, if this request was later made to them.

2.77 There was also considerable discussion within the Workgroup regarding unintended consequences of the PCF, particularly compared to the aims of connections reform overall. It was suggested by some Workgroup

members that the dropout rate, initiated by the implementation of PCF, could lead to a smaller overall connections pipeline and there were concerns consumers would be impacted by increased costs.

### Code Administrator Consultation

2.78 Ten respondents considered the Original Proposal better facilitated ACO (iv). Four respondents considered WACM1 better facilitated ACO (iv) and five respondents considered WACM2 better facilitated ACO (iv).

2.79 For those in favour of WACM1, feedback was received that the alternative proposal allowed the financial burden of the PCF to be reduced to a more manageable level. Those who supported WACM2 noted they felt it provided an increased degree of self-control for a developer and considered any increased administrative burden would eventually be offset.

2.80 A group of respondents circled back to the view that the reforms brought by TMO4+ had not had sufficient time to embed, meaning it was difficult to gauge an accurate portrayal of what 'queue health' would look like. Some felt this meant now was not the appropriate time to consider changes that may implement the ACOs and a remedy to resolve the proposed problem was not yet required.

## Our view

2.81 Overall, we consider that the Original Proposal facilitates ACO (iv) better than the status quo. We anticipate that with the PCF in place, the efficiency in the implementation and administration of the CUSC arrangements will have a negligible impact at the outset. However, in the longer term the PCF implementation will improve the connections process and the greater system benefits that a PCF will create outweigh the initial minor burden to set up the PCF and run it on an ongoing basis. The Original Proposal will ensure the CUSC arrangements are more efficient to implement. This will occur because the PCF will ensure that the most viable and committed projects remain in the connections pipeline, whilst those that are less committed to connect are incentivised to exit. WACM1 and WACM2 also facilitate ACO (iv) better than the baseline, but less effectively than the Original Proposal, which provides the strongest incentive for projects to frequently reassess their project's viability. On balance, we therefore anticipate the Original Proposal is likely to better facilitate achievement of ACO (iv) than WACM1, WACM2 and the status quo. The reasons for our evaluation are provided in the subsections below.

# Original Proposal

## PCF Activation process/rationale

2.82 Considering the administration of the PCF, and acknowledging many stakeholders shared the same view, we consider that this fee – as with the implementation of any new mechanism – could add a minor additional burden to the CUSC arrangements at the outset, both for Users and NESO. This is because parties need to regularly reassess their project's prospects, which will become a habitual aspect for Gate 2 connection offer holders moving forward. Further, in the event the PCF were to be activated, NESO will need to calculate the PCF and issue a cancellation charge statement to any affected party. Those parties in turn will then need to plan to securitise the amount owned to NESO. However, the PCF design proposes regular increases for the PCF value every six months, because it aligns with other CUSC security provisions that Users are typically required to provide. Furthermore, the legal text of CMP448 ensures that the requirement to securitise the PCF follows the exact timeframe as any other security.

2.83 The six-monthly cadence intends to incentivise the assessment of projects' viability, which should provide a synergy with the timing of the Gate 2 application windows, potentially allowing replacement projects to enter the queue as less viable projects are incentivised to leave. This approach reduces the burden of the PCF's administration for both developers and NESO, hence creating a net positive impact on the CUSC arrangements.

2.84 This small burden is also outweighed by the greater benefit that the PCF will bring to the transmission system and CUSC arrangements in the longer term (notably with respect to ACO (i) over the baseline). This is because the PCF will ensure more viable projects in the connections pipeline, with more certain levels of capacity needed by projects (as projects will be liable to pay for the reduced capacity once the PCF is activated), which increases certainty in the network planning activities of TOs. Therefore, we disagree with the Workgroup view that the PCF could lead to a smaller connections pipeline as the connections drop rate will increase because of the PCF. We anticipate that a more streamlined connections queue made of more committed projects will improve the efficiency of the connections process working in synergy with TMO4+ and proving faster connections rates compared to the status quo.

2.85 Considering the design of the PCF, we anticipate that the Original Proposal will create another burden for NESO, though we consider this to be negligible. This is because NESO will be required to publish the

amount of capacity terminations of projects failing to meet M1 and evaluate whether it has reached a point that warrants activation metric and issue a notice containing the decision and date of PCF activation. Furthermore, the activation metric will also be recorded over a five-year period and will stop being monitored whenever the threshold has been met or the PCF is activated, making this burden less onerous once those criteria have been met. We consider this small burden is still outweighed by the greater benefit that the PCF will bring to the transmission system/CUSC overall (as mentioned in the previous paragraph).

## Activation metric, threshold and governance

2.86 Considering the design of the PCF activation metric and governance, we believe that the Original Proposal will create a small additional burden for NESO as it requires NESO to publish the status of the Activation metric at regular intervals. We consider this process to be a negligible burden because NESO will already possess this information as part of QM monitoring and will simply need to collate and publish the relevant data.

2.87 The governance around PCF activation creates another additional burden for NESO and Ofgem to assess whether to activate the PCF and then communicate that decision (in the event the activation threshold is met, NESO will determine to whether activate the PCF and communicate its decision to Ofgem). We also consider this a negligible burden that will not adversely impact NESO's duties with regards to CUSC arrangements. Further, efficiency in the implementation and administration of the CUSC arrangements will improve in the longer term, due to the benefits of a more viable queue and potential for faster connections, which can replace any terminated projects.

2.88 Some Workgroup members suggested that NESO should do a consultation before any Activation Threshold has been met, to understand if the threshold established is correct. We disagree with this view because an additional consultation will add a greater administrative burden and delay the implementation of activation if needed, especially if that needs to happen quickly – this would risk undermining the effectiveness of the PCF. Furthermore, regardless of NESO's decision on whether to activate the PCF, we expect NESO to work closely with the Authority when the activation threshold is met, exchanging the appropriate level of data and information as the Authority deems necessary, to establish if the PCF should be activated and to consider any unintended consequences.[50]

[50] As set out in Ofgem CMP448 Impact Assessment, section 4 'Monitoring and Evaluation'

2.89 Some Workgroup members were also concerned that connections reform has not had sufficient time to embed, such that issues related to 'queue health' are difficult to gauge. We acknowledge these concerns and consider the PCF design and its governance are sufficient to allow the PCF to be activated only when there is evidence that the status of the connections queue could pose risks to the achievement of CP2030, as shown in our Impact Assessment.[51] Furthermore, the decision for NESO and Ofgem on whether to activate the PCF can act as an additional backstop that considers changes to wider market conditions influencing electricity generation (unforeseen events at the time of TMO4+), ultimately facilitating the administration of the CUSC better than the status quo.

## PCF Value (including increments and cap)

2.90 We consider that the value of the PCF will not significantly impact ACO (iv). This is because: the PCF is included in the termination charges, the amount will be securitised, and the CUSC provisions around securities and cancellation charges do not consider the intrinsic value of the security except for its existence and possibility to be calculated. The Original Proposal establishes the PCF as part of the cancellation charges and that it will be securitised, explaining its calculation (and complementing existing formulas around the calculation of termination charges when applicable and calculated).

2.91 As noted in our Impact Assessment, the value of the PCF in the Original Proposal sits above the "real option" and can incentivise a timely exit from the queue, enabling the intended effect to have a 'healthier queue' that ultimately can improve CUSC arrangements and implementation better than the status quo.[52]

2.92 Lastly, the Original Proposal establishes that the PCF will be set at £0/MW when the construction agreement is entered into and there remains six months or fewer to meet M1, or in cases where M1 has not been established. We consider that this will reduce the administrative burden for projects that are close to the M1 dates to either post the security or pay if they meet M1, and for NESO to unreasonably collect money if projects already failing to meet M1 if the PCF had been recently activated.

2.93 In summary, we consider that the Original Proposal facilitates ACO (iv) better than the status quo. This is because the PCF security follows the

[51] As set out in Ofgem CMP448 Impact Assessment, pages 49

[52] As set out in Ofgem CMP448 Impact Assessment, Appendix 1 and as set out in NESO's FMR, page 35. The Authority considers the methodology assumptions to be reasonable assumptions

same regime applicable to securities, and the governance of the PCF provides an additional backstop to evaluate activation which does not create additional burden. Furthermore, for Users with M1 dates close to the PCF activation the PCF is £0, therefore reducing the administrative burden for Users and NESO. Lastly, despite a small initial administrative burden to set up the proposal, in the longer term the greater system benefits that the PCF can unlock outweigh the small initial burden.

## WACM1

### PCF Activation process/rationale, Activation metric and governance

2.94 The same points discussed for this ACO of the Original Proposal also apply to this WACM. Therefore, we consider that compared to the status quo, WACM1 would have a negligible negative impact on ACO (iv) at the outset for efficiency in the implementation and administration of the CUSC arrangements, but this improves with a highly positive impact on the connections process and ACO (iv) in the longer term.

2.95 However, this is not fully achieved when WACM1 is compared to the Original Proposal, as the scale of the PCF proposed by WACM1 is reduced by 90%. Comparing the facilitation of ACO (iv) of WACM 1 with Original Proposal, the minor additional administrative burden at the outset and the longer-term administration of the PCF introduced by WACM1could not be fully outweighed by the greater system benefits that the PCF will introduce. This is because WACM1 offers a weaker incentive compared to Original Proposal, hence a less efficient QM process. Therefore, the positive impact of WACM1 could be significantly reduced, which could risk achieving only a lower benefit over the status quo. This is because we anticipate that projects would be less incentivised to exit from the queue as developers may be able to better afford a PCF with as low a value as is suggested in WACM1. Alternatively, because of the low PCF value, projects could decide to exit only when the PCF value reaches its cap, as this course of action could be reasonable for projects that can afford it, to wait and see if their prospective profits (notably the NPV) will improve by the time the PCF is capped.

### PCF Value (including increments and cap)

2.96 A PCF value that is too low (sitting well below a “real option”) would likely make the WACM less effective, as it may not incentivise the intended behaviour. In the event that this situation was to have occurred, ACO (iv) would be slightly negatively affected because the additional administrative burden would not be fully outweighed by the longer-term benefits of a queue progressing efficiently.

## WACM2

### PCF Activation process/rationale, Activation metric and governance and PCF Value

2.97 The same points discussed for the Original Proposal should also apply to this section, when compared to the status quo. Therefore, we acknowledge that, compared to the status quo, WACM2 would have a negligible additional administrative burden at the outset, but in the longer term the PCF would have a net positive impact on ACO (iv). This is because Users are still subject to the PCF, but it will be discounted if they initiate self-termination prior to the M1 due date, and therefore are incentivised to assess their viability.

2.98 When comparing WACM2 to the Original Proposal, we anticipate that this WACM does not incentivise as timely an exit from the queue. This is because despite the PCF profile and value being the same, the 75% discount on the PCF value could incentivise projects to exit only when M1 is approaching, which could therefore delay the benefits of the PCF being realised. However, we do consider that under WACM2, the same number of projects would be likely to exit the queue as would under the Original Proposal, but we acknowledge any delay in achieving this (as is inherent in WACM2) would make this less effective than the Original Proposal since the benefits of activating the PCF would not be realised as efficiently. Therefore, WACM2 would be more positive than the baseline, but less effective than the Original Proposal in this regard.

2.99 Lastly, when comparing WACM2 to WACM1, we consider that WACM2 is more positive than WACM1 with respect to ACO (iv), on the basis that WACM2 will still likely see the same quantity of projects exiting the queue (although projects may terminate later in the process due to the discount applicable within 90 days prior to M1 date), whereas WACM1 could see fewer projects exit since it reduces the strength of the financial incentive of the PCF, therefore the maximum potential benefit of WACM2 is greater than WACM1, albeit both are still lesser than the Original Proposal.

### PCF Value (including increments and cap)

2.100 We consider that WACM2 would have a positive impact compared to the baseline (as Users would still be subject to the PCF but it would be discounted if they were to initiate self-termination prior to the M1 due date) but slightly less effective overall when compared to the Original Proposal due to the risk that the discount could incentivise projects to delay a decision to exit until the last possible moment. A discount on the

PCF value could therefore make WACM2 overall less effective than the Original Proposal.

# 3. Our assessment against the Authority's Principal Objective and wider statutory duties

3.1 Having reached the overall conclusion that the Original Proposal of CMP448 best facilitates the achievement of the ACOs in our assessment above, we have also assessed whether its approval is in line with our principal objective and other statutory duties. We consider approval of the Original Proposal is consistent with our principal objective of protecting the interests of consumers (both current and future) which includes their interests in the Secretary of State's compliance with the duties in sections 1 and 4(1)(b) of the Climate Change Act 2008 (net zero target for 2050 and five-year carbon budgets). It is our assessment that approval of this modification, as a key complement to connections reform (TMO4+), is consistent with our principal objective by, amongst other things, enabling work to rapidly decarbonise the energy system efficiently - in a manner that avoids an unnecessary overbuilding of the network at additional cost to consumers. The Original Proposal of CMP448 will promote efficiency and economy on the part of the licensee NESO, in ensuring the connections queue is comprised of the most viable projects so that build is aligned to what is required for CP2030. This will in turn avoid unnecessary overbuild of the network, which would entail a slower rate of connections. It will also help secure a diverse and long-term energy supply (less reliant on fossil fuels) and promote economic growth, eg through more timely connection of generation projects. We also note that this furthers the delivery of the policy outcomes in the Strategic Policy Statement as regards reform of the connections regime and accelerated delivery of electricity network to accommodate rapidly expanding and variable renewable generation capacity and demand from low carbon technologies (section 132 of Energy Act 2013).

3.2 Section 108 of the Deregulation Act 2015 requires Ofgem to have regard to the desirability of promoting economic growth. In particular, Ofgem must consider the importance for the promotion of economic growth of exercising its regulatory functions in a way that ensures that regulatory action is taken only when it is needed, and that any action taken is proportionate. The impacts on growth (for example, but not limited to, electricity generation) are considered throughout this decision and we consider this proposal, as it complements connections reform, supports economic growth.