

31th Oct 2025

Enso Energy

Head of Policy: Connections Reform and Governance
Ofgem

Dear Neal

Response to Ofgem Impact Assessment on CUSC Modification Proposal CMP448

Enso Energy welcomes the opportunity to respond to the Ofgem Impact Assessment on CUSC modification CMP448. As a significant developer of Solar, Battery and co-located Tx and Dx projects, including the first transmission connected co-located PV and BESS project, and a substantial pipeline of clause 1 and clause 2a protected G2 projects, we hope Ofgem will find our feedback on the CMP488 CUSC proposal of benefit in aiding their final determination.

Q1. Do you agree with our minded-to position to approve the Original Proposal of CMP448? Please provide reasons for your answer.

We do not believe the issue raised in CMP448 has been adequately demonstrated nor the detrimental impacts on barriers to entry, developer cost risks nor investor confidence been adequately assessed. As such we do not support the Ofgem minded to position.

The proposal purports that there is a gap in the current framework and that this gap will lead to a detrimental impact on the connection queue and, although implicitly rather than explicitly stated, the remedy to this perceived effect and associated benefits to the industry, outweighs any detrimental impacts to generation development or risks to achieving CP2030. It assumes that the introduction of the PCF will change developer behaviour from pausing unviable projects to cancelling unviable projects, because the PCF cost will be greater value than the than the developer receives by being able to pause their progression decision by 6 months.

We have several concerns with this theory.

1. Developers do not tend to evaluate projects in this way, this early in the process. The binary risk around securing planning permission, uncertainty around forward curve prediction, raw material and construction costs and funding costs means it is very unlikely that providers will evaluate project viability this way. This early in the process scale developers would take a project returns/percentage success type ratio as a more

important project indicator and assess whether the Devex of unsuccessful projects could be absorbed by those that successfully completed through to commissioning.

2. There is no assessment of barriers to entry that this modification will place on new developers, especially those of relatively small size. If the value of Devex becomes too significant then parties may not be willing to invest that amount at the binary risk phase of the development. This will lead to a dearth of new projects coming forward and drive up prices in tenders such as the CfD and CM as liquidity is reduced. This lack of any assessment about the detrimental impacts of CMP448 is of some concern. Page 5 of the impact assessment lists several possible adverse consequences with the introduction of this modification. However, none of these issues have really been assessed, either via quantitative analysis or sound economic theory. The assessment simply states that this proposal is aligned with Ofgem's Strategic Objectives and is expected to deliver benefits because it addresses a perceived gap in the current framework. The assessment must inherently be of net benefit and as such we are unclear how this statement can be made without at least some evaluation of the impacts on barriers to entry, market liquidity and investment costs or impact on reaching CP2030 associated with this change. Without at least some assessment of these impacts it does not seem that a fair and balanced impact assessment has been completed.
3. For projects that must secure M1 within two years (or three years for DCO etc) from Gate 2 offer award, it is not clear to us that a developer has the option to pause a project for 6 months or more (the assumed re-evaluation period within the proposal) and still recover in time to meet its M1 date. As presented in support of its CMP434/435 proposals, NESO commissioned a consultancy to undertake an assessment of the average credible time it takes a developer to prepare a planning submission. This is not a trivial exercise and often includes archaeology investigations and potentially multi season surveys. The consultant report, that was endorsed by NESO in its CMP434/5 proposal, suggested that for a Town and Country planning application, a two-year lead time was required to adequately prepare an application and as such the M1 queue management milestone for a T&C project was set at 2 years from the point the project receives a G2 offer. Given this analysis, NESO seems to be contradicting itself by suggesting that an applicant can effectively pause its preparation for planning submission for 6 months or more (a loss of 25% of average required time) and still have confidence that it could recover the delay and present an application by the queue management M1 deadline. It is not possible for both those positions to be correct. As an experienced developer we would argue that given the finite planning submission timeframe introduced by the CUSC Queue Management milestones, if a developer pauses pre planning development for 6 months, they have effectively conceded that the project is cancelled. So, the CMP448 proposal is trying to solve the wrong issue. It is not how do you incentivise a developer to cancel a project rather than pause it. It is what is the minimum financial value to incentivise a developer, that has implicitly taken the decision that the project is cancelled, to signal the NESO of this fact rather than sitting on that decision until the M1 milestone date.

The most economically efficient solution would be for this value to be the minimum required to effectively incentivise this behaviour. This places the minimum necessary commercial burden on other projects diligently progressing through their planning submission preparation activity. We should be looking to

minimise the opportunity cost of unproductive capital it creates, the detrimental impact it has on investor confidence and ultimately the reduced appetite to bring forward projects to meet the Clean Power 2030 targets.

So, the question becomes, given the fate of the project is sealed by this point, what value is required to prompt a developer to act. That is submit the paperwork via the portal for a project cancellation. The value of work activity inertia is very low. Managers need to justify efficient spend of budgets. Once this PCR cost creeps into the £10K's (in total) all developers would be racing to submit their cancellation, especially in the current climate where investment costs are rising and margins tightening.

Give the introduction of Queue Management Milestones, the introduction of CMP434 and CMP435 and the limitations of project development driven by the introduction of the CP2030 quota's, as well as the tightening margins around generation development and the likely exposure to existing connection liabilities of projects that will receive Gate 2 offers before 20230, we do not believe the CMP448 is necessary or is tackling the correct issue.

If Ofgem are set that some form of PCF should be introduced, it should be to address the issue of slow project cancellation. If this is the case WACM1 is the appropriate, balanced and efficient solution.

Q2. Do you have any further remarks, comments or concerns with our minded-to position or the accompanying Impact Assessment, that you would like us to take into account?

Notwithstanding the fact that we believe this modification has identified the wrong issue, we have concerns over the assumptions made in the impact assessment analysis.

In section 2.3.7 of the Impact assessment Ofgem makes the statement that their expectation is that the PCF will be funded 100% by debt for the period for which this security must be posted. This assumption is wrong. In our extensive experience, lenders will not offer non-recourse debt against SPV's with no tangible assets. Even when it enters operation, post construction, when the SPV does have assets, it is highly unlikely that a project will be 100% debt funded. Therefore, PCR's will be funded almost exclusively by equity and so will contribute a higher Devex cost. Therefore they will add significantly more cost to Devex of a project than estimated in the proposal. It is a little surprising that Ofgem drew this conclusion given initial conversations with lenders would have given them a more accurate picture of financing practices.

We would also question the analysis that suggests that when the queue is reformed that there will be a significant amount of capacity with connection dates in 2026 and 2027 (and 2028 and 2029) that have not yet passed their M1 milestone. (Table 17 & Table 18 Impact assessment)

Given.....

1. Protection clause 1a only applies to projects that have secured planning permission (M2) and if they have not even secured M1 QM milestones, they will most likely be moved back in the queue.
2. Parties will not receive their gate 2 offers until Jan 2026 and so it is inconceivable that 2026/2027 projects would not have met M2, let alone M1, to meet those dates. We would go further and say projects with

connection dates in 2028 will have likely already secured M2 and projects in 2029 will have likely secured M1 if they hope to complete on time.

3. Any Tx agreement contracted to connect by 2029 will already be exposed to wider works, and agreements with connection dates out to 2030 will probably be exposed to a considerable value of attributable works within its existing liabilities. To suggest that there is no incentive for developers to cancel projects is not accurate. Given the methodology, erroneously in our view, states that a value of approx. £2500 is sufficient to impact the positive IRR of a project, any liability greater than that is an inefficient use of funding and simply increases the cost of the project with no greater benefit as the value to generate the desired behavioural change has already been achieved. We are concerned, that this idea of capping the total liabilities of the project was rejected by NESO and further that the fact that many 2026/2030 projects will already have liabilities has not been assessed in the impact assessment undertaken by Ofgem.

There is a presumption that the PCF will have no impact of projects costs and risks before it is triggered. We are concerned by this assumption as it demonstrates a lack of understanding on how developers tend to secure Devex. It is not clear at what frequency, and what granularity, NESO will publish the MW of capacity that are contributing towards the Activation metric. Developers will need to secure services against this eventuality in the period prior to securing M1. Therefore, equity will need to make provision for the PCF. This will add to development costs as equity will need to recoup the opportunity cost of not being able to put that capital to a productive use.

We would also note that all the analysis undertaken in support of PCF is in relation to the current queue. WQ2G2 is a unique situation where most projects that accept G2 offers will be relatively advanced and have made most of their Devex decisions.

We are concerned that no analysis has been undertaken for what this means for newly originated projects that will be submitting connection applications for the first time in the initial CMP434 window. They will face a very different scenario and will be evaluate development risk in a very different way.

Whilst this will not stop development in total it will increase the barriers to entry and have a detrimental impact on investment appetite.

We would be more than happy to discuss the concerns raised in the response.

Yours Faithfully


Regulation & Grid Development Manager
Enso Energy Ltd

