

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

Areas of support for the decision:

1. Intent of the modification and performance against ACOs

We support the intention of the modification – as an additional tool to support the quicker removal of unviable projects from the connections queue, enabling the faster connection of viable projects. We agree that if the PCF is designed correctly, then it will bring the benefits against the ACOs that the decision outlines: i.e. a queue which contains less unviable projects will lead to a more efficient process for all stakeholders and create more effective competition by enabling viable projects to connect sooner.

2. Key elements of design of the PCF

We agree with key elements of the design of the PCF, which are common across the Original Proposal and each of the WACMs. These are:

- The staged increases in the PCF value as this incentivises regular assessment and limits the PCF at the earlier stages of the project, when uncertainty is highest.
- The lower value of the PCF relative to the ‘Financial Instrument’ that was proposed previously and which was prohibitively high.
- We support the activation metric being used to trigger the potential implementation of the PCF as it is an appropriate measure of queue health and of a reasonable magnitude

3. The delay to full implementation pending trigger being activated and the opportunity for NESO and OFGEM to review prior to implementation

These are both key elements to the Original Proposal and WACMs which are necessary to ensure the PCF is only introduced under the right circumstances. The outcome of the GT2WQ process is as yet unknown and could sufficiently reduce to queue, such that the PCF would be unnecessary or even counter-productive to the CP30 plans. Similarly, the economic and industry – specific conditions are fluid and could result in situations where the PCF is not needed or is not beneficial. The activation trigger metric allows time for the outcome of the G2TWQ process to be understood and mitigate this risk. There were valid concerns that the inclusion of all technologies within the trigger metric calculation, particularly very large capacity offshore wind projects, could lead the threshold to be breached by a small number of projects being terminated. It is in situations like this, amongst others, that NESO and OFGEM can use the review process to assess the situation and reject the implementation of the PCF under the relevant circumstances.

Areas of challenge/concern with the decision:

1. Decision to elect for the Original Proposal

We believe that WACM2 is the better option than the Original Proposal and WACM1 as it strikes a more effective balance between the opposing benefits of those options. We believe the Original Proposal will result in less unviable projects being in the queue, but without the potential for a self-termination discount, could deter competition by unnecessarily deterring potentially viable projects from joining the Gate 2 queue. We believe that WACM1 is less likely to deter potentially viable projects from joining the queue but may not sufficiently deter unviable projects from joining the queue. WACM2 better strikes the balance by maintaining the full security requirements but giving projects confidence that they can avoid the potentially very large cancellation fee if they take the decision to self-terminate at an appropriate point.

2. Reasons given for selecting the Original Proposal

Throughout the consultation document, the decision to elect for the Original Proposal over WACM2 is the concern that under WACM2, projects may not leave the queue as early as they would under the Original Proposal. This is because they would wait until the latest possible moment (i.e. until shortly prior to 90 days before the M1 date) before terminating, thus resulting in more capacity being retained by unviable projects for longer. We believe this comes from a misunderstanding of the benefits of WACM2 because:

- The staged increases in the cancellation charge is retained in WACM2. Allowing for the discount, the discounted cancellation charge will still increase every 6 months. Therefore, Users will still pay less cancellation fee if they terminate at the earliest appropriate point and so are incentivised to regularly assess viability in the same way as with the Original Proposal. Therefore, we disagree with the fundamental reasoning for electing for the Original Proposal which runs throughout the decision.
- Under the Original Proposal, there is no incentive for User's to assess viability and self-terminate early once the PCF reaches its maximum value. Under the Original Proposal, the cancellation fee would be if terminated at M1 would be the same as the cancellation fee if a project self-terminates at any point after hitting the maximum PCF – therefore, there would be no reason to assess viability and terminate before hitting M1. However with WACM2, projects would receive the discount if terminating at least 90 days prior to hitting the M1 date and would therefore be incentivised to regularly assess project viability and terminate early if appropriate, even when the PCF was reached its maximum.

3. Original Proposal Vs WACM1

If WACM2 is not chosen as the preferred option, then it is essential that OFGEM give careful consideration to the responses from developers to this consultation when opting for either the Original or WACM1. The paper acknowledges that there is a need to strike an effective balance which deters the right projects – i.e. deters unviable projects without being too high and deterring potentially viable projects. NESO presented their analysis during the workgroup meetings and documentation and while the methodology was logical and coherent, this was a singular approach to the analysis and there was significant challenge to the methodology from the developer base on the calls. If there is a consensus that the PCF profile with the Original Proposal would be prohibitively high, then OFGEM should implement WACM1 as the chosen option.

Relating to his point, we were not comfortable with the following wording found on Page 29 of the consultation document: *‘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 unviable projects that we do not want in the connections queue in the first place.’*

We are keen to stress that there are many ‘good’ projects that could be dissuaded from joining the connections queue by an overly burdensome PCF. These could be innovative projects from smaller parties, or very large projects reliant on immature or high-risk technologies, such as floating offshore wind. In each case, these projects could be extremely valuable to the industry and would introduce new elements of competition to the market. However, they could have difficulty in facing up to the risk of a too-high PCF and may choose not to proceed under those conditions. NESO and OFGEM must understand that risk and not believe that the only projects that may be put of by the PCF are unviable or ‘not good’ projects.

4. NESO & OFGEM review when trigger is breached

As a point of note, it is essential that NESO and OFGEM seriously consider queue and market conditions when choosing whether to implement the PCF if/when the trigger metric threshold is breached. It is possible that the impact of CMP435 and/or general market conditions could be significant and adversely impacting investment in renewables. OFGEM & NESO must be aware of these elements when considering their decision as the PCF could exasperate a situation where the market does not look like it is capable or providing the generation required to meet the CP30 plans.

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?

There are two comments within the paper which refer to CMP192 securities & cancellation charges which we believed could be misunderstood or are inaccurate.

From page 17 *'This is because securities become applicable at a later development stage, typically from Milestone M7 (Project Commitment).'*

From page 19 *'we do not find the current trigger date for payment of existing cancellation charges sufficient.'*

CMP192 cancellation charges are implemented from the signing of the initial Gate 2 contract and there is no relevance of M7 with regard to the cancellation charges or security required. Similarly, the trigger date associated with CMP192 securities is not the start of cancellation charges being paid, it is only a point at which the cancellation charge tends to increase significantly. OFGEM should consider whether these points were considered correctly when evaluating the decision.