

Response to Ofgem Minded to Decision on CMP448

VERSION 1.0

November 2025

Executive Summary

Innova strongly disagree with Ofgem's minded-to position to approve CMP448, and supports retaining the baseline. Innova believes CMP448 is unnecessary, economically flawed, and damaging to competition and innovation. The Impact Assessment by NESO lacks appreciation of the financing and inherent risks in the developer business model, and is based on an unsuitable modelling approach. Consequently, the proposed Progression Commitment Fee (PCF) introduces disproportionate financial risk, particularly for solar and energy storage developers, and will lead to a very material reduction or delay in new projects coming forward. This puts CP2030 targets at risk, particularly in the 2030-2035+ window.

Ofgem believe the PCF will:

- Encourage developers to regularly review the viability of projects.
- Improve network planning signals, as networks have more certainty and confidence in the connections queue.
- Support CP2030 delivery by removing stalled projects and allowing projects to connect earlier.

The reality is the proposed PCF will:

- Create additional unnecessary risk and cost to the development of new projects, **making them more difficult to finance and ultimately uneconomic** to develop;
- **Stop legitimate investment in new energy projects**, which will stifle the growth of the industry. This will materially reduce UK growth and reduce the number of jobs created in the renewable energy sector;
- Encourage unscrupulous developers to submit **low-quality planning applications** prematurely to avoid PCF escalation or get the PCF refunded, whilst encouraging professional risk-averse developers simply to leave the market; and
- **Increase the risk of the UK missing the CP2030 targets**, particularly in the 2030-2035+ window, as the PCF leads to artificial attrition, removing viable projects that could deliver CP2030 targets. This will increase carbon emissions and increase the likelihood that electricity prices will continue to be set by fossil fuel power stations, increasing the cost of energy in the UK.

NESO is evaluating the impact of the PCF as a proportion of the total project cost or project value and is not taking into account the financial cost and risks project developers have to bear and manage, or how their returns are calculated (which are completely unrelated to capex or enterprise value of a constructed asset). Hence, the proposed PCF and six-monthly increments are not grounded in any appropriate financial assessment.

At a time when an increase in new projects will be required to replace stalled or unviable projects within the Clean Power 2030 plan, the Progression Commitment Fee (PCF) will create a significant barrier to entry and be a deterrent to new projects entering the connections queue.

Innova urges Ofgem to reject CMP448 and allow existing grid connection reforms (CMP435, CMP376) to act as the principal tools for the management of the grid queue. Ofgem should incentivise NESO to have a more robust contract management process and undertake more rigorous audits of existing connection agreements, and deliver queue efficiency without stopping or delaying investment in new energy projects.

Ofgem's and NESO's Claimed Benefits will not Materialise; the Logic is Flawed

PCF will Stop Investment in New Energy Projects

Ofgem believe the PCF will *"Encourage developers to regularly review the viability of projects"*.

Reality: Developers already reassess viability due to existing milestones (CMP376) and market dynamics. Adding PCF does not create meaningful new incentives to assess viability – **it creates additional punitive financial risk for both viable and unviable projects** at a time when development companies are already unable to raise capital due to uncertainty caused by a suite of ongoing regulatory changes.

Funding any PCF will be problematic for all but the largest companies, who are typically the most risk-averse, and, therefore the least likely participants to make PCF payments at risk. So, developers with risk appetite won't have the cash and asset owners with the cash won't have the risk appetite. The result is clear: far fewer projects than are required for Government goals.

NESO may not understand that there can be a correlation between balance sheet and risk aversion in the sense that large asset owners do not typically take development risk, which has a high risk of failure. Rather, they buy derisked projects from developers who put their capital at risk in return for a reward upon sale to an asset owner, whereas asset owners take a return annually from operating the asset. NESO may be confusing different parts of the market and their behaviour, as it is often those with the most capital to deploy that are the least likely to put it at risk and if smaller developers are engineered out of the market, the asset owners will not pick up the slack and the result will be less projects, less growth, and many job losses.

Flaw in Ofgem's logic: Ofgem's justification for the PCF relies on a Real Option analysis using the Black-Scholes model. This approach is inappropriate for infrastructure projects competing for finite grid capacity. Project development involves binary decision points and strategic behaviour, not continuous trading.

Real Option analysis assumes rational behaviour based on NPV thresholds. The model assumes projects will continue if $NPV \geq 0$ and terminate if $NPV < 0$.

In reality, developers are not a homogeneous group of entities that source, develop, finance, build and operate a project. Instead, developers are primarily paid when they sell their project to an asset owner, based on the difference between the value that the asset owners are willing to pay for that project (based on an assumed return over 30-40 years) and the cost that was spent to develop the project.

This is a completely distinct calculation, which is not associated with the NPV methodology used. The Real Option analysis bears no relationship to any methodology used by anyone in the market; it is not an appropriate method to calculate the PCF.

Separately, although reference to it does not change the overarching point above, Innova believe the cost of capital for financing the PCF will be in excess of 30% rather than the 8% assumed (which applies to projects at FID with long-term contracted revenue). 30% is based on the required investment return of early-stage projects to attract the necessary capital investment.

For example, it typically costs in the region of £600k to develop a 400MW-1,025MW BESS (based on Innova's market-leading portfolio of BESS). If Innova had to pay a PCF fee of £5,000/MW, that would add between £2,000,000 and £5,125,000 to the development cost. Let's say we raised the capital for this, and we're able to do so at half the cost of capital that we think (15%). Assuming a 1-year period and no other fees (which there would be), financing this would cost £300,000 for a 400MW project and £768,750 for a 1,025MW project. This is a 50-100%+ increase in costs, just on the basis of very conservative financing costs. This would dramatically increase the development costs and risk taken by developers to the extent that the fundamentals of the business model could break down, and it may not be financially viable to proceed at all. Most importantly, if the developer is unable to submit planning, e.g. unsuitable land or environmental concerns, then the developer would lose the increased DEVEX cost of £900k - £1.37m plus the PCF of £2m - £5.125m, this is an unacceptable level of risk for something as uncertain as planning submission.

Potentially Viable Projects Will Leave the Connections Queue due to the High Financial Risk

Ofgem believes the PCF will *"Support CP2030 delivery by removing stalled projects and allowing projects to connect earlier"*

Reality: CMP435 and CMP376 already address stalled projects through Gate 2 criteria and milestones. Queue Management milestones have been designed to allow projects sufficient time to submit planning and align the connections process with project development timelines and local authority timelines. The method designed by NESO, which is used to calculate the M1 milestone (planning submission), is summarised in Appendix 1.

Flaw in Ofgem's logic: Ofgem's assumption that an 8% financing cost is manageable is palpably incorrect. Debt cannot be raised for PCF liabilities at this rate, if at all; the additional equity financing reduces returns, making projects uneconomic and stopping or delaying development. Capital will flow to other countries and sectors that do not have punitive upfront costs. The PCF will deter new projects, especially solar and storage, which have lower DEVEX and cannot absorb additional speculative costs. The financing of a PCF of £2,500-£10,000/MW represents a substantial and disproportionate percentage of early-stage costs. This undermines CP2030, particularly in the 20230 - 2035+ window, by reducing pipeline growth when most needed.

The PCF will Create an Inefficient Connections Process that is misaligned with the Planning Process

Ofgem believes the PCF will *"Improve network planning signals"*.

Reality:

- Leads to artificial attrition, removing viable projects that could deliver CP2030 targets.
- PCF does not guarantee better signals, instead, it may encourage developers to submit **low-quality planning applications** prematurely to avoid PCF escalation or get the PCF refunded. Developers may then withdraw the application and cancel the connection offer, creating inefficiencies and undermining the integrity of the planning process. This

behaviour risks further overburdening planning authorities and damaging public perception of renewables.

Consider a developer working on a 400MW battery energy storage system (BESS) project, as per the example above. Typical development costs are around £600,000 before planning. Now add the PCF:

- Initial spend: £300,000 already invested in early development.
- Next step: Planning costs another £300,000.
- PCF liability: £5,000/MW = £2,000,000 paid to NESO upfront.

Now imagine the developer decides the project is not viable due to land or environmental constraints:

- If the developer still goes ahead and submits planning, they spend £300,000 more but get the £2,000,000 PCF refunded.
- If they do not submit planning, they lose the PCF (£2,000,000) plus the £300,000 already spent.

It is rational—but perverse—for the developer to submit a low-quality planning application with no intention of proceeding with the project, just to recover the PCF. This will delay project termination instead of accelerating it. For larger projects (e.g., 1,025MW), the PCF could exceed £5 million, making this behaviour even more likely.

Is There a Better Approach to Contract Management Instead of the Proposed PCF?

Fundamentally, the PCF is trying to solve a contract management issue. The industry benefits if Users terminate their connection agreement as soon as they become aware that they will not be able to submit planning for a project. Currently, there is limited incentive for users to notify NESO that the project will not be progressing before the queue management milestone date is reached. Industry will also benefit if Users terminate their connection agreements as soon as they know they will not get planning consent or if they will not be taking a final investment decision in a project, but these milestones are not in scope of the PCF.

Historically, NESO has not requested evidence of project development, e.g. results of surveys, communication with local authorities, etc, to help them determine if a User is likely to submit planning and meet the M1 milestone. NESO has historically not even known if the companies they have contracts with are still trading. Recent Grid Connection Reforms (CMP376, CMP435, and CMP434) have forced NESO to be more proactive with contract management and regularly request information from users.

Once CMP435 has been implemented, all projects in the connection queue will have land rights secured. Securing land rights is one of the biggest indicators that a project is going to submit planning and meet milestone M1.

Innova believes that new projects will need to be developed over the next decade to allow the UK to meet the Clean Power 2030 plan and Net Zero, due to the natural attrition of projects in development and the ambitious capacity targets set by the Government. Project attrition will be significant between 2030-2035 as these projects are less mature and have a higher probability of failure. At a time when an increase in new projects will be required to replace stalled or unviable projects within the Clean Power 2030 plan, the Progression Commitment Fee (PCF) will have

created a significant barrier to entry and deterred new projects from entering the connections queue.

CMP448 identifies that there is not a sufficient incentive for developers of unviable projects to voluntarily exit the connections queue promptly. A more effective solution to the problem identified by CMP448 would be to incentivise NESO to have a more robust contract management process and complete more rigorous audits of existing connection agreements. Ofgem should also incentivise or require Users to disclose information about project development as soon as it is available.

Alternative PCF Thresholds

Innova is firmly of the view that no PCF should be introduced. However, if Ofgem were to review the consultation responses and still believe a PCF was in the best interest of the industry, then Innova would recommend WACM1 be implemented. A maximum PCF of £1,000/MW would still provide Developers with a significant incentive for unviable projects to leave the queue before the M1 milestone is reached, and be more manageable for SME's and embedded generators to finance. For clarity, Innova believe even £1,000/MW may be difficult for SME and large connections (>1GW) to finance. WACM1 also introduces a period of 6 months where the PCF is £0, and this period would provide a short window for well-prepared developers to submit planning without being exposed to the PCF.

Appendix 1 - Queue Management Milestone Calculation

Extract from NESO's [Queue Management Guidance](#).

| Milestone | 0 – 2 years (729 days) | 2 – 3 years (730 – 1094 days) | 3 – 4 years (1095 – 1459 days) | 4 – 5 years (1460 – 1824 days) | 5 years (1825 days) + |
|--|---------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------|
| M1 – Initiated Statutory | Bilaterally Negotiated | 18 months | 24 months | 36 months | 48 months |
| Consents and Planning Permission (see also below) | | | | | |
| M2 – Secured Statutory Consents and Planning Permission | | 12 months | 18 months | 24 months | 30 months |
| M3 – Secured Land Rights | | 21 months | 27 months | 39 months | 51 months |
| M5 – Contestable Design Works Submission | | 12 months | 15 months | 18 months | 21 months |
| M6 – Agree Construction Time | | 9 months | 12 months | 15 months | 18 months |
| M7 – Project Commitment | | 6 months | 9 months | 12 months | 15 months |
| M8 – Initiate Construction | | 3 months | 6 months | 12 months | 15 months |

Table 2 – Queue Management Milestone backwards calculation

User Progression Milestone M1:

| Relevant Planning Regime / Technology Type | Timescale from Gate 2 Modification Offer date (CMP435) or Gate 2 Offer date (CMP434) to User Progression Milestone M1 |
|--|---|
| Town and Country Planning (England, Scotland and Wales) | 2 years |
| Section 36 (England/Scotland) | 3 years |
| Development of National Significance (Wales) | 3 years |
| NSIP / DCO (England and Wales) | 3 years |
| Offshore (including Offshore Wind, Interconnectors and OHAs) | 5 years |
| Nuclear | Case by Case |
| Novel technologies | Case by Case |

Table 3 – Queue Management Planning Regime and Technology Types

M1 Adjustment Exception Process:

Unless M1 has already been met at the time of the Gate 2 Modification Offer date (CMP435) or Gate 2 Offer date (CMP434), the durations will be the earlier of:

- a) the date calculated forwards from the Gate 2 Modification Offer date (CMP435) or Gate 2 Offer date (CMP434) to M1 as set out in Table 3; or
- b) the date calculated back from the contract Completion Date.

If the forward calculated date is the earlier of the two, the User has (under CUSC Section 16) the possibility of an adjustment exception process. This process allows the User to demonstrate with evidence that a forward calculated M1 would have a detrimental impact on the project. If the evidence is accepted by NESO, the customer will be able to propose a new M1 date no later than the backwards calculated M1.