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Dear Neal

Connection and Use of System Code (CUSC) Modification CMP448: Introducing a Progression Commitment Fee to the Gate 2 Connections Queue

I am writing in response to Ofgem's consultation on its minded-to position to approve the Original Proposal of CUSC Modification CMP448 *Introducing a Progression Commitment Fee to the Gate 2 Connections Queue*. I note that this Progression Commitment Fee (PCF), forming part of the cancellation charges and securities regime under the CUSC, would apply to generation projects with an accepted Gate 2 connections offer that have not passed an established Queue Management Milestone 1. I also note the Proposer's argument that the PCF would incentivise developers to reassess regularly the viability of such projects, on the theory that they would self-terminate projects deemed to be "unviable", potentially reducing the number of projects in the connections queue and nominally improving its efficiency.

EDP Renewables is a global leader in the renewable energy sector and the fourth largest renewables producer worldwide. Our renewable energy portfolio, with a worldwide installed capacity in 2024 of 27.34 GW, spans wind, solar, hydro and storage across Europe, North and South America and the Asia Pacific. In the UK, we are developing a growing portfolio in onshore wind, solar and battery storage from our office in Edinburgh. We are also co-owner of Ocean Winds, the offshore wind developer with a sizeable presence in the UK. Our main shareholder is EDP (formerly *Energias de Portugal*), the global energy company headquartered in Lisbon.

We support the principle that the connections queue, in its transitional and future iterations, should be as efficient as possible to facilitate the most optimal creation and allocation of network capacity. As an experienced developer with a global track-record of delivery, we welcome efforts to expedite timely connections for well-formulated projects in Great Britain. At the same time, we believe that such efforts should be appropriately targeted, to deliver the goals set out in the Clean Power 2030 Action Plan. We note the diversity of views expressed within the framework of the CUSC on the suitability of the Original Proposal and the alternative proposals WACM1 and WACM2 compared to the status quo, resulting in the absence of a clear industry position on the most appropriate course of action at this stage. In that light, we believe that a measured approach to the introduction of a PCF arrangement should be adopted.

In that context, we are sympathetic to the contention that it could be beneficial for the TM04+ connection reforms to be operationalised before introducing a PCF arrangement. We note that any assessment of whether projects in the transitional connections queue would fall within the scope of the proposed PCF is hypothetical. Developers will surely formulate their projects and applications (including decisions to withdraw) in line with the rules in effect at the time. In that regard, the functioning of the reformed connections queue – and whether such a mechanism as a PCF is necessary to it – would only become clear once it was in operation. However, we note Ofgem's current position that it is minded to approve the Original Proposal of CMP448.

Given that Ofgem states in its consultation document that all of the Original Proposal, WACM1 and WACM2 would better facilitate the Applicable CUSC Objectives (ACOs) compared to the status quo, we see the prospective decision at hand as a question of degrees of difference. In our assessment, the disparate views within industry on the creation of a PCF arrangement and the need to balance the potential costs and benefits of establishing a PCF both point in the direction of a more moderate level for the PCF value than that set out in the Original Proposal.

At this stage, we would bring the following three core points to Ofgem's attention:

1. Instituting a PCF, separate from its value, would create incentive

Where the Proposer contends that the defect in the Code is that the connections process does not currently provide a financial incentive for developers to assess the viability of their projects (and to self-terminate "unviable" projects), we hold that instituting a PCF arrangement would create such incentive in its own right, separate from the PCF value. We are not persuaded by the argument that the PCF needs to be set at a particularly "high" level in order to deliver the envisaged benefits of a PCF arrangement and to better facilitate ACOs (i), (ii) and (iv). In our view, the establishment of a PCF would itself motivate developers in the manner intended, as it will remain in the commercial interests of developers to minimise their costs. We consider the prospect of a negative impact from a "higher" PCF value on competition (ACO ii) to be genuine, as it could deter investment, even from established developers with track-records of delivery. In turn, we see merit in a lower base PCF value than the proposed £2,500/MW, at least initially.

2. The PCF should be monitored for unintended consequences

We are concerned that the Original Proposal, were it to be approved and implemented, could result in suboptimal outcomes, such as premature self-terminations by developers of viable projects in the connections queue (which Ofgem recognises in its consultation document as a possibility) and new disincentives for developers to acquire affected projects. In that regard, should the Original Proposal ultimately be enacted, we believe that both NESO and Ofgem should closely monitor the PCF arrangement to ensure that unintended consequences which would hinder, rather than facilitate, the ACOs do not arise (and, if they do, to address them).

3. Activation of the PCF should be subject to consultation

While we acknowledge the discretion afforded by the Original Proposal to NESO to decide whether or not to activate the PCF (were the activation threshold to be met) and to Ofgem to override NESO's decision, we strongly believe that activation of the PCF should be subject to industry consultation. We would in particular consider it normal practice for the Authority to receive representations before making a decision of this kind. Should the Original Proposal be approved and implemented, we would encourage Ofgem to set out in a proactive manner how it would receive representations on a PCF activation decision, as part of its general approach.

We look forward to engaging further with Ofgem on the subject of connections reform.

Yours sincerely


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