

Consultation on CMP448 (Progression Commitment Fee)

Authors: [REDACTED]

Approved by: [REDACTED]

Regen provides independent, evidence-led insight and advice in support of our mission to transform the UK's energy system for a net zero future. We focus on analysing the systemic challenges of decarbonising power, heat and transport. We know that a transformation of this scale will require engaging the whole of society in a just transition.

Regen is a membership organisation with over 200 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups and research organisations across the energy sector. We manage the Electricity Storage Network (ESN), the industry group and voice of the grid-scale electricity storage industry in GB. The ESN has 100 members who share a mission to promote the use of energy storage and flexibility to support the net zero transition. ESN members include clean energy developers, owners, investors, optimisers and academic institutions. This includes representation from publicly listed specialist funds focusing on storage and independent developers that have raised several billion pounds to invest in this new technology.

This is a joint consultation response from Regen and the Electricity Storage Network and is based input from our 200 members involved in developing projects in GB, and feedback from members of our grid connection working group.

Response to questions

Thank you for the opportunity to respond to this consultation. We have engaged our membership on this issue and responded to the NESO connections reform call for input on the initial financial instrument proposal.

Question 1. No, we do not agree with the minded-to-position.

Overall, the majority of our members are concerned about the impact of this proposal on project development. We agree there is merit in a financial commitment mechanism. However, the levels and methodology proposed are not fit for purpose in a post connection reform framework with tougher milestones and strategic system planning. In our view the Progression

Commitment Fee as set out in the minded-to decision will not deliver the intended benefits and risks making Clean Power 2030 more difficult to deliver. We are also concerned it will lead to less diverse and competitive market, in particular disadvantaging smaller developers.

Question 2. We have set out our concerns with the analysis that underpins the minded-to-position below:

1. **Lack of a clear financial basis for the fee** – The PCF does not make clear how the chosen figures were derived and how they represent the minimum incentive needed for developers to exit the queue. Currently, the fee lacks a tangible basis, diverging from the current securities and liabilities framework, which is grounded in real infrastructure costs and associated risks. Without modelling how the fees affect developer behaviour, the proposal simply transfers risk onto developers without a financial justification.

Moreover, projects are already monitored against agreed milestones, with DNOs and NESO identifying projects that are not progressing. Without a transparent rationale showing that the PCF delivers benefits beyond this existing framework, it risks duplicating obligations and adding cost without a clear incentive effect.

2. **Ofgem's assumption that the PCF can be funded entirely through debt does not reflect how early-stage projects are financed.** Lenders will not provide non-recourse debt to special-purpose vehicles without assets; consequently any fee would need to be funded from equity, increasing development costs and risk for many projects. The modelling behind the PCF uses an 8 % cost of finance, whereas pre-planning funding typically combines high-cost debt and equity. One member estimates a weighted average cost of capital of about 25 %, making the fee substantially more expensive than the consultation suggests and potentially amounting to 15–27 % of development expenditure for a solar project. Ofgem's own summary notes that the PCF has a higher relative impact on solar and storage projects and could reduce competitiveness for smaller players. The PCF should be grounded in realistic financing assumptions and structured in a way that aligns with how early-stage projects are funded, to support continued investment and manageable development risk.
3. **Fee levels favour larger firms and reduce competition** – Because solar and energy-storage projects have lower development expenditure compared to other technologies, the same fee level represents a larger share of their up-front costs and therefore hits smaller developers harder. Ofgem's own assessment warns of a risk of reduced competitiveness versus larger, well-capitalised firms. The PCF therefore risks entrenching the position of established firms and undermines competition in the sector. Scaling the fee to reflect differences in development costs per technology would help

ensure the mechanism does not unintentionally favour bigger players or dampen investment in technologies like solar and storage.

4. **Planning application timeframes are not reflected** – The six-monthly re-assessment cycle envisaged by the PCF does not reflect the way planning consents are managed in practice, encouraging adverse developer behaviour. Planning timeframes vary: for some embedded generation schemes there may be only two months between accepting a connection offer and initiating planning, while for projects with connection dates many years in the future it is sensible to delay submitting a planning application so that the consent remains valid when construction begins. A mechanism that treats all projects the same risks encouraging premature applications or penalising those who wait until the right moment. A more effective and proportionate PCF would take account of the range of connection dates and the finite life of planning permissions within its assumptions.
5. **Inappropriate use of real options analysis** – The impact assessment relies on real options theory to estimate the value of delay, assuming projects continue if their net present value (NPV) is non-negative and are cancelled otherwise. This may be a useful technique for financial options but does not reflect how developers make decisions. Project development has binary milestones; developers may proceed with a negative NPV because of sunk costs, strategic positioning or expectations of future policy changes. Conversely, projects may terminate for non-financial reasons such as land access or permitting difficulties. Game theory approaches, which model strategic interactions and binary decision points, would better capture the incentives created by the PCF. Without robust modelling, the PCF could unintentionally increase risk and drive capital away from renewable energy development.

We recommend a more targeted PCF based on the following:

1. **Set the fee at the minimum financial level needed to incentivise developers to submit a formal cancellation** when a project has already been abandoned, rather than escalating to high levels that penalise projects that are still progressing.
2. **Recognise the different cost structures of technologies**; solar and storage projects have much lower development expenditure and are disproportionately affected by a uniform fee, so the fee could be scaled or capped to avoid deterring smaller players.
3. **Base its design on realistic financing assumptions** - developers note that PCF liabilities would be funded from equity rather than debt and provide a transparent analysis of how different fee levels influence behaviour.
4. **Work alongside other queue-management measures**, such as the new milestone framework and planning requirements, so that projects that are genuinely progressing are not forced to exit the queue.

By focusing on these objectives, the PCF can help free up capacity without undermining the pipeline of projects needed for the delivery of Clean Power 2030. We look forward to continuing engagement with Ofgem and NESO on this topic.