Making a positive difference for energy consumers

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

Decision	The Authority[1] determines that this modification should be made[2]
Target audience	National Energy System Operator (NESO), Parties to the CUSC, the CUSC Panel and other interested parties
Date of publication:	08 December 2025
Implementation date:	02 January 2026

Background

1.1 In April 2025, Ofgem published decisions to approve a package of connections reforms, known as 'TMO4+', which included code modifications, licence amendments, and the introduction of Connections Methodologies.[3] As well as introducing an enduring process for new connection applications, TMO4+ reforms the existing queue to form a new Gate 2 connections queue of projects that are 1) 'ready' and 2) 'needed' (ie meeting Strategic Alignment Criteria) under the Clean Power 2030 Action Plan

[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989
[3] See Decision on Connections Reform Package (TMO4+) I Ofgem

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(CP2030).[4] This reform of the existing queue is achieved through a process known as the Gate 2 to Whole Queue exercise ('G2tWQ').[5] The overall TMO4+ reform process captures projects connecting at transmission level and generation as well as storage projects connecting at distribution level, that qualify for a Transmission Impact Assessment (TIA). Smaller generation and storage projects, and demand projects connected at distribution, are not included in the reforms.

1.2 The reformed connection process however does not require projects in the connections queue to regularly reassess their viability. Therefore, there could be instances where some projects meet those criteria initially and receive an offer, then subsequently their project becomes less viable, for example due to changes in market conditions, costs assumptions and risk appetite, or financing issues.

1.3 If any projects that form part of the reformed connections queue subsequently do become less viable, these could cause inefficiencies in the connections process as well as in the transmission and distribution systems, resulting in an unclear network build signal.

The modification proposal

1.4 CMP448, proposed by NESO in February 2025, aims to incentivise regular reassessment of project viability by introducing a Progression Commitment Fee ('PCF') as part of the cancellation charges and securities regime established in section 15 of CUSC. The Proposer, NESO, argues that the current process does not incentivise

[4] Clean Power 2030 Action Plan (CP2030) is a document setting out a pathway to a clean power system by 2030. NESO has provided independent advice to HM Government, developing a range of pathways, including an analysis of the location and type of new investment and infrastructure needed to deliver it

[5] The Gate 2 to Whole Queue exercise is the process of NESO and network operators re-examining existing connection offers and determining whether these meet the criteria of the new connections process. This will see existing connection offers amended to bring them in-line with the requirements of the new process

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developers to assess project viability and leave the connections queue where necessary. As TMO4+ is currently in the process of being implemented at the time of this decision (with new connection offers expected to start being made shortly), at the time of writing, it is uncertain how many projects going through G2tWQ will not receive a Gate 2 offer.[6] The Proposer considers that the introduction of the PCF would incentivise projects that receive a Gate 2 offer to assess their viability prior to meeting Queue Management (QM) Milestone 1 (M1).[7] In this way any projects that have not submitted planning will be subject to the PCF and projects that are less committed to progress are incentivised to leave the queue at the earliest opportunity after they receive a Gate 2 offer. This can maximise efficiency of the connections process and complements the benefits of the overall TMO4+ reform package.

1.5 CMP448 comprises an Original Proposal (presented by NESO) and two Workgroup Alternative CUSC Modifications ("WACMs"), which are summarised in the paragraphs below.[8] All aspects of the Original Proposal and both WACMs, can be structured within three broader categories: 1) PCF Design: Activation process and rationale, 2) Activation metric, threshold and governance, 3) PCF Value (including increments and cap). In the section below titled "Our Decision" we have assessed the proposal using this structure.

1.6 Considering the PCF design, the Original Proposal introduces a PCF applicable to all generation projects that hold Transmission Entry Capacity, Developer Capacity or Interconnector Capacity (including small, medium and large distribution connecting

[6] See NESO's Connections Reform Timeline
[7] As set out in CUSC section 16, Milestone M1 is 'Initiated Statutory Consents and Planning Permission'
[8] The Original Proposal is the solution identified by the Proposer of a CUSC modification which has been developed during the Workgroup stage of a CUSC modification proposal. The Original Proposal is different from Workgroup Alternative CUSC Modifications (WACMs) which are different solutions raised by Workgroup members

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generation) and have accepted a Gate 2 contract offer and not passed QM M1 (Initiate Planning Consent). The PCF relates to network capacity that is terminated, and this includes also the amount of network capacity that the User has requested to reduce after accepting a Gate 2 connection offer.

1.7 Moving to the category of activation metric, threshold and governance, the PCF would be dormant until an activation threshold is met, which is set to 6.5GW of network capacity terminated. The activation metric is based on project terminations and capacity reductions of projects that have accepted a Gate 2 offer but have not passed QM M1 as set out in CUSC section 16. If the threshold is met, NESO would determine whether to activate the PCF and Ofgem would have the power to override NESO's decision. NESO would measure and publish the activation metric every six months (the PCF Period) within a PCF Metric Period of approximately five years.[9]

1.8 Lastly, taking into account the PCF value and profile, to incentivise a regular assessment of project viability, the PCF has a profile that starts at £2,500/MW and increases by £2,500/MW every six months until it reaches a cap of £10,000/MW.[10] The PCF would be treated as a cancellation charge and CUSC Users would be required to post a security against the PCF which will remain in place until they have successfully achieved QM M1. After the User has passed M1, the requirement to securitise the PCF will fall away and the amount paid will be returned.[11]

[9] The legal text of CMP448 defines this time as the period from the date CMP448 takes effect until 31 December 2030; and then each subsequent period of five years commencing on 1 January and ending on 31 December

[10] The monetary value of the PCF is based on the amount of network capacity contracted by the project, which includes Transmission Entry Capacity or Developer Capacity or Interconnector User Commitment Capacity in Megawatts

[11] Under section 15 of CUSC (User Commitment Methodology) the amount and start of security payments will depend on specific aspects of the project, taking into consideration attributable works and how much Transmission Owners have spent on the specific project. If the Transmission Owners are spending straight away the developers could be required to secure an amount 30 days after they sign their agreement

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1.9 Nine alternative requests were raised by Workgroup members, with two modifications receiving the majority of support.

- WACM1 was raised by Innova and reduced the PCF value by a factor of ten and introduced a six-month grace period where the PCF is set to £0/MW, after activation. Upon activation, a project's PCF would increase at a rate of £250/MW, as opposed to £2500/MW and to a maximum of £1,000/MW, as opposed to £10,000/MW.

- WACM2 was raised by Scottish Power Renewables. The proposal sought to provide a 75% discount if the project was to self-terminate as opposed to being terminated by NESO if they had failed to meet M1. Users would only pay 25% of the applicable PCF value if they notified their intent to self-terminate or reduce capacity at least 90 days prior to the M1 date, providing the application to terminate or reduce capacity is not withdrawn prior to termination.

Workgroup Views

1.10 For further details on this section see Annex II, page 3.

CUSC Panel recommendation[12]

1.11 For further details on this section see Annex II, pages 3-4.

Code Administrator Consultation Views

1.12 For further details on this section see Annex II, page 4.

[12] The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC

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Ofgem minded-to decision and Impact assessment

1.13 In October 2025, Ofgem consulted on our minded-to position to approve the Original Proposal of CMP448, outlining the reasons for our position.[13] The consultation received 40 responses, of which 33 were non-confidential and 7 were confidential. Many of the points raised by consultation respondents were also captured in our minded-to decision document, and so are not reflected again here.[14] In our consultation we received some feedback not directly related to ACOs. This feedback and our view can be found in the subsequent paragraphs, pages 7-12 to this decision. Considering the ACO analysis, a summary of responses raised to our consultation are available after the *Code Administrator Consultation* section pertinent to each ACO. Non-confidential Consultation responses can be found in full in our minded-to decision.[15]

1.14 The consultation was accompanied by a draft Impact Assessment, assessing the Original Proposal, WACM 1 and WACM 2.[16] The draft Impact Assessment provides analysis underpinning the development of the CMP448 solution, and can be found in Annex I. We have considered the evidence presented by respondents and deem that it does not present a significant challenge to the analysis and assumptions used in our draft Impact Assessment. Therefore, we did not amend the draft Impact Assessment. An additional analysis of those responses and our view can be found below in paragraphs 1.25-1.31.

1.15 On the first consultation question ("*Do you agree with our minded-to position to approve the Original Proposal of CMP448?*"), the majority of respondents disagreed

[13] See Ofgem Consultation: Connection and Use of System Code (CUSC) CMP448: Introducing a Progression Commitment Fee to the Gate 2 Connections Queue, October 2025
[14] See Ofgem Consultation: Connection and Use of System Code (CUSC) CMP448: Introducing a Progression Commitment Fee to the Gate 2 Connections Queue, October 2025
[15] See Ofgem Consultation: Connection and Use of System Code (CUSC) CMP448: Introducing a Progression Commitment Fee to the Gate 2 Connections Queue, October 2025
[16] See Ofgem CMP448 Impact Assessment

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with our minded-to position to approve the Original Proposal: with 12 in favour and 28 against.

1.16 On the second consultation question (*"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?"*), of those who expressed a view, a majority of respondents believed the PCF could: negatively impact competition; raise barriers to entry, particularly for small developers; and also add financial risk. Many respondents also commented on the Impact Assessment and its assumptions.

Respondents feedback related to information presented in minded to decision and Impact Assessment

1.17 The following two sub-sections present some feedback to our minded-to decision that is not strictly related to the ACO analysis (which will be discussed in the section "Our decision"). This feedback relates to some information provided in our minded-to decision that some respondents believed it was misinterpreted by the Authority, as well as feedback pertinent to the Impact Assessment that accompanied the minded-to decision. We thought necessary to include that feedback and how we considered it, as it supports transparency to show how we reached our decision.

Respondents feedback to information presented in the minded-to decision and our view

Minded-to decision views

1.18 Regarding the consultation responses received, a small collection of responses noted concerns that the Workgroup and Panel views had been misinterpreted in the minded-to decision. The responses highlight there was no majority support for CMP448 better

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facilitating the CUSC objectives and the largest group of support from responses to the Code Administrator Consultation was for the baseline.

1.19 A respondent highlighted that a majority of Workgroup members voted that the Original Proposal did not better facilitate ACO (i). To provide further context to this point, 11 members responded positively to the Original Proposal better facilitating ACO(i), ten responded negatively and two expressed neutral responses.

1.20 A concern was also raised that there had been misinterpretation by the Authority, as there had been insufficient attention given to the case for no PCF being implemented in our minded-to decision. Moreover, the Authority stated there was agreement within the Workgroup and Panel that the introduction of CMP448 would accelerate the connection of both 'ready' and 'needed' projects, meaning committed developers would avoid waiting an unnecessary extended time for connection and be able to effectively contribute to the achievement of CP2030 targets. Respondents believed this statement was at odds with the views found in the earlier Workgroup report. To provide further clarity, the respondents cited also a section of the Workgroup report.

1.21 Lastly, feedback was received in the consultation that the statement found in paragraph 3.15 of the minded-to decision was inaccurate, particularly for distribution-connected projects. Feedback was received that these projects often incur significant securities immediately upon acceptance if attributable liabilities apply.

Our view

1.22 In the minded-to decision, we reported the Workgroup did not reach a majority consensus on which option was best, and the original vote count reported is found in Annex II, page 3. Regarding the Code Administrator Consultation, we reported that the largest group of respondents favoured the baseline as their preferred option.

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1.23 Considering the feedback related to the misinterpretation of Workgroup views, the Authority acknowledges despite a collection of responses supporting the theory that CMP448 would accelerate the connection of both 'ready' and 'needed' projects, the majority of Workgroup and Panel responses did not expressly state this view. The aim of the minded-to decision was to present a comprehensive overview of perspectives. The Authority has understood the concerns raised and accepts that in the above instance, insufficient emphasis was given to views that expressed concerns centred around the implementation of CMP448.

1.24 Considering the feedback about the statement provided in the minded-to decision in paragraph 3.15: to provide further clarity, the following text was included in two references in the minded-to decision. Footnote 14 stated ‘Under section 15 of CUSC (User Commitment Methodology) the amount and start of security payments will depend on specific aspects of the project, taking into consideration attributable works and how much Transmission Owners have spent on the specific project. If the Transmission Owners are spending straight away the developers could be required to secure an amount 30 days after they sign their agreement’. In addition, footnote 37 stated ‘As noted in footnote 14, existing securities could be paid as early as 30 days after developers signed their agreement. Therefore, in the event securities are required prior to a project Achieving M1, during the time between PCF activation and the project achieving M1 securities and PCF will overlap’. The Authority acknowledges the referenced text was provided respectively as additional explanation in paragraphs 2.4 and 3.31, instead of paragraph 3.15, and it provides greater clarity and should have been emphasised more prominently in paragraph 3.15 as well.

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Respondents feedback considering information presented in the Impact Assessment and our view

Minded-to decision views

1.25 Many respondents considered the use of the "real option" to be inappropriate, arguing that the Impact Assessment makes incorrect assumptions around financing the PCF, and that the Impact Assessment is unbalanced towards the PCF design instead of risks and uncertainties.[17] A respondent suggested to use a game theory framework, though without providing assumptions. Some respondents also highlighted a lack of consideration to the impacts of planning factors (ie cost, risks, timing and evaluation of submissions).

Our view

1.26 We consider the use of the "real option" is appropriate and a strong approximation, as it is utilised as a proxy to understand what motivates less viable projects to remain in the queue and allows for a proportionate fee to be set. Regarding wider economic analysis, there is support for the use of the "real option" analysis and acknowledgement that holding a place in the queue is itself an option and should be treated accordingly.[18] The Authority deems the assumptions and methodology provided by NESO reasonable to assess the effectiveness of the proposal, as it can be applicable to the variety of projects in the connections queue.

[17] The "real option" analysis is a common financial evaluation methodology to assess strategic decision-making in an uncertain business environment. The value of "real options" is calculated using models for financial option pricing, that consider the characteristics of the underlying real asset and the relevant uncertainties. This concept is set out in Ofgem CMP448 Impact Assessment, Appendix 1

[18] By a way of example, an article from Frontier Economics, supports the idea that maintaining a position in the queue should be considered an option – 'The end of the line: assessing the impact of reform to the arrangements for connection to the GB grid'

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1.27 The Authority accepts some respondents expressed dissatisfaction with the use of the "real option". However, we believe that in the absence of substantial evidence that challenged the assumptions of the PCF to the contrary provided in consultation responses, the PCF assumptions about financing the PCF are satisfactory approximations. These assumptions are used to assess viability of projects and are aimed at projects that will stay in the queue, ultimately connect, and will make financial gains over the project's lifetime.

1.28 The Authority considered the impact of the PCF dependent on the size of the developer and found, in principle, the PCF did not discriminate between small and large developers. In assessing the impact, the Authority is satisfied that it received the best information available and we have relied upon the best available assumptions. However, as part of the monitoring and evaluation plan and prior to taking a decision to activate the PCF, the Authority may request additional data and evidence that becomes available to avoid any unintended consequences and evaluate assumptions.

1.29 We note that regardless of a PCF value there will be a small number of projects in the margins that could be impacted by the PCF value, and it will be extremely hard to assess what projects fall in this category, in the absence of profitability data of projects. That being said, if the evidence collected before and post activation suggests that specific projects leave the connections queue consistently as a result of the implementation of the proposal and for reasons beyond the intended objective to regularly assess viability, Ofgem and NESO will take appropriate measures including a substantial review of the proposal, to ensure it meets the intended objectives and does not create united consequences.

1.30 In the published Impact Assessment, we rely on the best available data and analysis provided by NESO. In doing so, we make reasonable assumptions when required whilst considering the risks and uncertainties associated with the data provided. We have

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considered the views provided by stakeholders and the Authority retains the views expressed in the published Impact Assessment. We believe that an Ofgem veto power and a robust monitoring and evaluation process will be crucial to ensure the policy works as intended and does not create unreasonable risks or unintended consequences. Therefore, we will take appropriate actions to engage with NESO, network companies and the wider industry as necessary to ensure unintended consequences are under review.

1.31 Reflecting on the lack of consideration for planning factors in our Impact Assessment: we consider that pre-planning, planning processes and associated costs constitute the normal steps for projects intending to progress. We expect that committed projects will take opportune choices to progress with planning and the PCF could provide an additional incentive to ensure projects that are confident at this stage will progress. Furthermore, we expect that for viable and more committed projects the overall PCF cost is manageable as it is mostly absorbed after achieving M1, since the PCF security will be returned.

Our decision

1.32 We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 4 July 2025. We have considered and taken account of the responses to the industry consultations on the modification proposal which are attached to the FMR.[19]

[19] See NESO CUSC Modifications for modification proposals, modification reports and representations

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1.33 We have also considered and taken into account the votes of the Workgroup and Panel and the responses to the consultation on our minded-to decision and Impact Assessment, published on 20 October 2025. We have concluded that:

- The Original Proposal, WACM1 and WACM2 better facilitate the achievement of ACOs (i), (ii), and (iv) as compared to the baseline and all have a neutral impact on ACO (iii). Overall, implementation of the Original Proposal will best facilitate the achievement of the relevant ACOs.
- Directing that the Original Proposal be approved is consistent with our principal objective and statutory duties.[20]

1.34 We have set out below our assessment of the proposal focusing on the main factors that emerged from the consultation responses to our minded-to decision. In our minded-to decision we provided a detailed assessment of our view and rationale to approve the Original Proposal, we consider that view has not changed since we published our minded-to decision. This detailed assessment is reported in Annex II.

Reasons for our decision

1.35 We consider this modification proposal will better facilitate CUSC objectives (i), (ii), (iv).

1.36 In the following section we set out our assessment of the proposal in light of the responses to the consultation on our minded-to decision. Similarly to our consultation, we have structured our assessment within three broader categories: 1) PCF Design: Activation process and rationale, 2) Activation metric, threshold and governance, 3) PCF Value (including increments and cap).

[20] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended

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1.37 Our evaluation of the Original Proposal, WACM1 and WACM2 against the baseline and assessment of the Original Proposal against both WACMs with regards to ACO (i), (ii), (iii), (iv) has not changed from our minded-to decision, therefore we consider that Original Proposal, WACM1 and WACM2 better facilitate the achievement of ACOs (i), (ii), and (iv) as compared to the baseline and all have a neutral impact on ACO (iii). For further details about that assessment, see below. The subsequent sections will also cover the additional view that has emerged following consideration of responses to our consultation.

(i) the efficient discharge by the licensee of the obligations imposed upon it under the Electricity Act 1989 and by this licence

Workgroup and Panel view

1.38 For further details on this section see Annex II, pages 5-6.

Code Administrator Consultation

1.39 For further details on this section see Annex II, pages 6-7.

Minded-to decision views

PCF Design: Activation process and rationale

1.40 In considering responses that expressed a view pertinent to ACO (i), a majority believed that the Original Proposal did not facilitate this ACO, pointing out that: the PCF was unnecessary, as TMO4+ and QM milestones did not have time to embed; that the PCF may contribute to premature project terminations.

1.41 However, many respondents to the minded-to decision were supportive of improving efficiency in the connections queue and were of the view that the Original Proposal

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better facilitates ACO (i), as it creates a strong incentive to assess viability, improves system efficiency and transmission planning.

Activation metric/threshold and governance

1.42 Some respondents argued that some projects may be unduly impacted, therefore suggesting the need for an activation metric specific to project types.

PCF Value (including increments and cap)

1.43 Some respondents were also concerned that: the PCF profile does not align with planning timeframes; many projects could submit substandard planning applications to avoid the PCF; and that for projects with distant dates in the future, they may be counterproductively prompted to submit planning earlier than they otherwise would. Furthermore, some respondents also argued that the PCF payments should count towards existing cancellation securities or cancellation charges should be reduced proportionately.

Our view pertinent to ACO (i)

1.44 Overall, we still consider that the Original Proposal better facilitates ACO (i) compared to the status quo. WACM1 and WACM2 also facilitate ACO (i) better than the baseline, but less effectively than the Original Proposal, which provides the strongest incentive to regularly assess project viability post receipt of a Gate 2 offer. We believe the present connections landscape, focused on facilitating positive change and reform, is suitable for the introduction of a PCF and will contribute to an effective upgrade to network capacity. In our minded-to decision we have provided a detailed explanation analysing all aspects of the proposal and WACMs pertinent to ACO (i). This analysis is also reported in Annex II, pages 7-18.

1.45 Most of the stakeholders' views mentioned in paragraphs 1.40-1.43 have been considered in the minded-to decision, and these views are also summarised in Annex II

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attached to this decision, pages 5-7. The evidence presented to the consultation did not change our position. The following subsection "Our considerations of minded-to decision responses" will provide our views about concerns surrounding planning.

Original Proposal

1.46 We have discussed our view of Original Proposal that has not changed from our minded-to decision in Annex II, pages 7-14.

WACM 1

1.47 We have discussed our view of WACM 1 that has not changed from our minded-to decision in Annex II, pages 14-17.

WACM 2

1.48 We have discussed our view of WACM 2 that has not changed from our minded-to decision in Annex II, pages 17-18.

Our considerations of minded-to decision responses

PCF Design: Activation process and rationale

1.49 In considering the consultation respondents' concern about substandard planning applications being submitted by developers, we consider that the submission of a planning application is an important step in the development stage of a connection project. This process has a cost and would often require intermediate steps or the achievement of certain pre-requisites before submission. Therefore, we consider that projects will take appropriate financial decisions to proceed with planning submissions; we do not expect projects will rush to submit planning to avoid the PCF.

1.50 We anticipate that the PCF will provide sufficient incentive to assess viability and facilitate the effective discharge of the licensee's obligation. This would be the case in

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the event the cost of planning submission is lower than the PCF, so that the less viable projects may be incentivised to terminate because of the additional PCF incentive on top of the cost of planning submission. It is not necessarily true or guaranteed that the cost of a planning submission is lower that the potential cost of the PCF. Further, we consider it would be counterproductive for projects to submit a speculative or poor planning application to avoid the risk of paying the PCF. This is because these projects would face an even greater risk of failing to meet Milestone 2 (M2) (consent achieved) as their planning application may be at heightened risk of being rejected.

1.51 The PCF will be activated only when the need arises. As discussed in our Impact Assessment, for the PCF to be activated six months after implementation would require project attrition of 33% to 35%, which is unlikely given the majority of projects connecting in 2026 or 2027 should have already submitted the relevant planning or be close to fulfilling the requirements of that stage.[21] This analysis indicates that, it is unlikely that existing viable projects with distant dates will face an imminent PCF activation that would force them to submit planning much earlier than they would normally do. Additionally, we expect that as a result of TMO4+, the rate of connections will increase, so that connection applicants will not receive connection dates too distant in the future. The PCF will incentivise regular assessment of project viability, supporting faster connections and a more reliable connections pipeline.

1.52 Considering that some respondents reiterated that TMO4+ did not have time to embed and that the PCF is unnecessary, the Authority maintains that once the Gate 2 queue is confirmed there will still be a lack of an appropriate financial incentive to self-assess viability. As argued in our Impact Assessment a proportion of the estimated Gate 2 queue will be in scope for the PCF.[22] In addition, the Authority maintains the view that

[21] As set out in Ofgem CMP448 Impact Assessment, pages 27-30 and page 47
[22] As set out in Ofgem CMP448 Impact Assessment, pages 27-28

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we do not find the current trigger date for payment of existing cancellation charges sufficient. We believe investor confidence and end-consumers will be more significantly impacted if the connections queue were made up of less committed projects.

1.53 Lastly, the Authority is not compelled by the arguments that PCF payments should count towards existing cancellation securities, or that cancellation charges should be reduced proportionately. As previously outlined, the current cancellation charges are not designed to incentivise a proactive assessment of a project's own viability. Any netting of the PCF security and existing securities will undermine the overarching objectives of CMP448.

1.54 The Authority is committed to monitoring the impact of the PCF in relation to the benefits for the energy system in relation to the facilitation of ACO (i) and should the risk of any negative consequences, relating to the facilitation of both ACOs appear likely, we reserve the right to utilise the power to veto as a backstop if required.

PCF Value (including increments and cap)

1.55 We acknowledge the stakeholders' view that the six-monthly profile of the PCF could not be fully aligned with the timeframe of planning submission of all projects in the queue. This could happen because some requirements to submit planning such as surveys, studies, etc. can take more than six months, and if that is the case the PCF six-monthly increase may be less effective in allowing those projects to assess their viability in an informed way at that interval. Nevertheless, the PCF design is based around incentivising less viable projects to leave the queue at the earliest opportunity. For some projects, a six-monthly increase may still provide that incentive, whereas other projects could make that decision later.

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WACMs Considerations

1.56 Regarding responses to our minded-to decision, our view in assessing the WACMs against ACO (i), the Original Proposal and the status quo has not changed, for further details see Annex II, pages 7-18. Overall, we still believe that both WACMs better facilitate ACO (i) compared to the status quo but not as well as the Original Proposal.

(ii) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity

Workgroup and Panel View

1.57 For further details on this section see Annex II, pages 18-19.

Code Administrator Consultation View

1.58 For further details on this section see Annex II, pages 19-20.

Minded-to decision views

PCF Activation process/rationale and Activation metric/threshold and governance

1.59 Some respondents were concerned that the PCF could be unfair if activated. This is because the activation metric is based on projects and network capacity that have been terminated, whereas once activated the PCF will have an impact on all projects remaining in the queue, which did not contribute to the PCF's activation.

1.60 Further, some respondents thought the Original Proposal could disproportionately impact specific project types, suggesting instead that a trigger metric based on technology types would be needed and would ensure the PCF does not unintentionally

favour certain developers or technologies. Some respondents were also concerned that: solar and battery projects will be the most affected due to lower development expenditure (DEVEX) and access to finance; offshore wind will have an additional liability on top of current financial liabilities and community projects will face barriers in accessing finance.[23] There was support for the Authority to consult with industry to gather data regarding the impact of the PCF on competition for certain project types.

PCF Value (including increments and cap)

1.61 Many respondents were concerned that the PCF security could be cost prohibitive for small developers, thereby weakening competition, favouring larger developers and creating an overall less diverse connections pipeline. Some respondents highlighted that small organisations are typically required to securitise in cash as opposed to large developers that have other methods (eg company rating).

1.62 Many respondents also believed the PCF introduces financial risk. It was argued that the high value of the PCF (as in the Original Proposal) at an early stage of project development could act as a barrier to investment and queue entry and be counterproductive if large projects are risk-averse and smaller companies cannot afford the PCF. Some developers would also factor the potential PCF activation in their investment decision even if the PCF is not activated, potentially leading the project to be unsuitable for further investment whilst increasing costs and potentially passing them onto consumers.

1.63 A respondent was also concerned that no analysis has been undertaken for the CMP434 projects. In the respondent's view, projects that apply under the CMP434 window for the first time will not be as advanced and therefore have a different risk

[23] DEVEX is associated to the development costs incurred by project developers

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appetite as opposed to G2tWQ projects which may have already made most of their project development decisions.

Our view pertinent to ACO (ii)

1.64 Overall, we still consider that the Original Proposal more effectively facilitates ACO (ii) than the status quo and both WACMs. This is mainly because: the PCF will allow the most viable projects to connect faster; the financial burden on developers ought to be reasonable to endure if the project is viable; and the activation governance of the PCF allows NESO and Ofgem to make opportune decisions based on the prevalent market conditions and potential impact on competition.

Original Proposal

1.65 For further details on this section see Annex II, pages 20-23.

WACM1

1.66 For further details on this section see Annex II, page 24.

WACM2

1.67 For further details on this section see Annex II, pages 24-25.

Our considerations of minded-to decision responses

PCF Activation process/rationale and Activation metric/threshold and governance

1.68 The Authority is committed to monitoring the impact of the PCF in relation to the benefits for the energy system (as stated above in relation to the facilitation of ACO (i)) and competition (ACO (ii)) and should the risk of any negative consequences, relating to the facilitation of both ACOs appear likely, we reserve the right to utilise the power to veto as a backstop if required.

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Making a positive difference for energy consumers

1.69 We note the concerns raised around competition and concerns for small and community projects; however, we believe it is important to highlight the strongest system benefit that the Original Proposal can bring over either of the WACMs. Misallocation of costly network capacity caused by less viable projects in the queue creates additional costs to consumers because of inefficient system planning. The PCF of the Original Proposal creates the strongest incentive to assess project viability compared to the baseline and both WACMs. Hence a better discharge of NESO obligations against ACO (i), and potentially against SLC C1 part D.

1.70 We understand that it is hard to quantify the strength of this incentive until the PCF is activated and/or monitored over time. However, the governance around the PCF activation offers Ofgem an opportunity to assess the status of the queue, size of projects, and how close these projects are to meeting M1. To improve understanding of the overall impact on competition, Ofgem can request additional profitability data from developers on a regular and voluntary basis. In this way, the impact on competition for small developers can be monitored and if there is evidence of an unduly disproportionate impact on competition, it is possible the PCF may not be activated as a result.

1.71 PCF activation should consider capacity termination in the activation metric because the proposal aims to incentivise progression and commitment towards the contracted capacity until the project achieves M1, and termination capacity levels may indicate a lack of incentive, thereby warranting PCF activation. Furthermore, self-terminations will not count towards the activation metric, therefore only the projects that fail to progress are used as indication of potentially less viable projects. This aspect will ensure that less viable projects that self-terminate will not count towards the activation metric. Viable projects that pass M1 will have the PCF returned, therefore viable projects should also be encouraged not to terminate as the PCF security would not pose an

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excessive burden to progress. If the PCF incentivises the intended behaviour, in the longer term we anticipate a more reliable connections queue with fewer terminations, better facilitating network planning and increasing investor confidence.

1.72 We appreciate concerns for specific project types, however we believe that a trigger metric based on project-type could provide the wrong investment signals for a diverse generation mix. A technology-based metric could result in instances where the PCF is activated for specific technologies and not for others. This, may encourage investment in technologies for which the PCF has not been activated. In this case, the technology subject to the pay the PCF could be disadvantaged because other needed technologies are not subject to the same financial obligations. If technologies subject to paying the PCF are incentivised to leave the queue, the energy system may become less diverse and resilient. Therefore, the proposed activation metric being based on overall capacity termination and reduction ought to help mitigate against this by ensuring a consistent measure of 'queue health' assessed against the progression to M1 (as noted also in our minded-to decision).

PCF Value (including increments and cap)

1.73 The PCF should not be seen as an undue cost to the overall project development cycle, because if the project achieves M1 the PCF security will be returned and the PCF liability will fall away. Our Impact Assessment demonstrates that the impact of the PCF (as in the Original Proposal) ranges between 1.1% and 15.5% as a percentage of DEVEX.[24] On this basis, we do not believe the impact of the PCF would be significant for the average developer. Therefore, the PCF is expected to incentivise viable projects to continue to progress and (equally importantly) incentivise less viable projects to self-

[24] As set out in Ofgem CMP448 Impact Assessment, table 7

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terminate, thus enabling enhanced planning and clarity on timelines for both developers and the network.

1.74 We anticipate that investor confidence and end-consumers would be more detrimentally impacted if the connections queue were to be significantly made up of less committed projects, as this would provide the wrong network build signal. Even in this case, the benefit of a PCF security, which once activated provides certainty of its profile, outweighs the perceived negative impact on investor confidence. We believe that the existing projects (included in G2tWQ) that are already invested as well as any typical new project arising in future application windows will be able to afford the PCF, as evidenced in our Impact Assessment.[25] Furthermore, the PCF profile is predictable and returned if the project achieves M1, reducing overall risk for any project subject to the PCF.

1.75 We recognise it is hard to predict the behaviour of new entrants (ie CMP434 projects) following PCF activation.[26] We anticipate that the PCF could affect a small number of projects that are close to the margin of viability, which is hard to quantify at this stage based on the information available. However, the design of the PCF guarantees that viable projects will connect faster proving a greater benefit for the energy system, developers and consumers. This factor ought to allow for investors to best assess timing of application decisions, ultimately optimising a connections pipeline suitable for system need. Further, Ofgem is prepared to request additional data, including but not limited to attrition rates and project replacements before deciding on PCF activation as part of our monitoring plan and in preparation for any PCF activation, and use this information to monitor and/or model the possible impact of the PCF for new

[25] As set out in Ofgem CMP448 Impact Assessment, page 25

[26] CMP434 is a CUSC code modification approved by the Authority in April 2025. This modification establishes the enduring connection process made of application windows and gated offers. See Ofgem, Connection and Use Code (CUSC): CMP434: Implementing Connections Reform

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entrants.[27] Following PCF activation, a robust monitoring and evaluation as outlined in the Impact Assessment will be put in place to assess that the policy is still fit for purpose and meets its objectives.

1.76 The PCF value has been built on the evidence provided by Call for Input (CFI) respondents, the majority of which were developers. We anticipate that the assumptions used to calculate the value of the PCF will be applicable to new entrants so that the PCF will still be a valid tool to incentivise project viability. We are also cognisant that new projects that apply for a connection will face a different investment scenario compared to G2tWQ projects. This is because they will be subject to CP2030 technology limits subject to change year on year, without being eligible for "protections" as set out in the Gate 2 Criteria Methodology.[28] Furthermore, the connections queue will be streamlined as a result of TMO4+ and the PCF will incentivise a connection queue made of more viable projects. These factors, coupled with the PCF's predictability, should facilitate investment decisions to assess the best time and locations to apply for grid connections, ultimately optimising a connection pipeline suitable for system needs and net zero targets.

1.77 Regarding offshore wind projects, the Authority considers this technology type to be the least affected by the PCF value of the Original Proposal based on the results of our Impact Assessment. We accept that some offshore wind respondents disagreed with our view. In determining our position, the Authority has considered the total DEVEX costs in our assumptions when calculating estimated impact. The Authority has utilised the best available data relating to DEVEX and has addressed any data gaps using reasonable assumptions. It is also important to note that a bespoke PCF value for all

[27] As set out in Ofgem CMP448 Impact Assessment, section 4 'Monitoring and Evaluation'
[28] See NESO, Gate 2 Criteria Methodology (April 2025), section 6.2

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projects in the queue is impractical to achieve. Therefore, for any given project in the queue, the PCF value will be inherently underestimated or overestimated.[29]

1.78 NESO's analysis of impacts on different project archetypes is based on the CFI evidence which had the majority of respondents being solar and battery projects. Therefore, assumptions and calculation of impacts on project archetypes considered the average DEVEX of those technologies, reaching the conclusion that the impact was not disproportionate. Despite this, we recognise that some projects may fall in the margin of our analysis. Therefore, it is important that NESO and Ofgem obtain all relevant project data information prior to PCF activation to assess whether ensure that the PCF will create disproportionate or and ensure any unreasonable impact on the specific project types in the queue is minimised.

1.79 When considering the trade-off between the benefit of the PCF incentive to support a more efficient connections queue and the potential impact on competition, we believe that a robust monitoring and evaluation plan before the PCF activation can mitigate the potential impact on competition allegedly caused by the PCF. Therefore we will take appropriate actions to engage with NESO, network companies and the wider industry as necessary to ensure impact on competition is under review. We still believe that the activation design and governance mechanism creates reasonable safeguards for competition, and we still believe the Original Proposal facilitates ACO (ii) better than the baseline and both WACMs, for the reasons expressed above and as argued in Annex II.

1.80 In response to the request for an industry consultation prior to the PCF being activated, we refer to the existing rationale outlined in Annex II, pages 29-30.

[29] As set out in Ofgem CMP448 Impact Assessment, page 55

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WACMs Considerations

1.81 We recognise that some respondents to the consultation on our minded-to decision expressed a preference for options other than the Original Proposal. A majority of those believed WACM1 to offer a more balanced solution considering the impact that the PCF under the Original Proposal could have on competition. We disagree with this view; we consider WACM1 provides a weak incentive compared to the Original Proposal and risks making the proposal ineffective due to a reduced ability to encourage the desired behaviours.

1.82 Our assessment of the Original Proposal and WACMs against ACO (ii) and the status quo has not changed, for further details see Annex II, pages 18-25. Overall, we still believe that both WACMs better facilitate ACO (ii) compared to the status quo but not as well as the Original Proposal.

(iii) compliance with the Electricity Regulation and any Relevant Legally Binding Decisions of the European Commission and/or the Agency

Workgroup and Panel View

1.83 For further details on this section see Annex II, page 25.

Code Administrator Consultation View

1.84 For further details on this section see Annex II, page 26.

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Minded-to decision views

1.85 The majority of respondents that expressed a view with regards to ACO (iii) believed the proposal had no impact on this ACO.

Our view pertinent to ACO (iii) and minded-to decision responses

1.86 Our assessment of the Original Proposal and all WACMs against ACO (iii) has not changed from our minded-to decision. Therefore, overall we still believe that both the Original Proposal and all WACMs are neutral against ACO (iii). For further details see Annex II, page 26.

(iv) promoting efficiency in the implementation and administration of the CUSC arrangements

Workgroup and Panel View

1.87 For further details on this section see Annex II, pages 26-27.

Code Administrator Consultation View

1.88 For further details on this section see Annex II, page 27.

Minded-to decision views

PCF Design: Activation process and rationale

1.89 Many respondents expressed concerns that the PCF will lead to an increased administrative burden. The additional burden is on NESO and Users, since NESO would need to administer the fee whereas Users would need to fund the PCF. In the respondents view this had been underestimated and had the potential to create additional costs that could be passed to consumers. Some respondents highlighted the

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importance of monitoring unintended consequences as part of the monitoring and evaluation plan proposed in the Impact Assessment.

PCF activation metric, threshold and governance

1.90 Some respondents supported also the need for an industry consultation before any decision regarding the PCF activation and that NESO should publish the activation metric regularly.

Our view pertinent to ACO (iv)

1.91 Overall, we consider that the Original Proposal facilitates ACO (iv) better than the status quo, for the reasons expressed in our minded-to decision. The evidence provided by respondents to our minded-to decision did not change our position. Therefore, we still believe Original Proposal, WACM1 and WACM2 facilitate the achievement of ACO (iv). We anticipate that with the PCF in place, the efficiency in the implementation and administration of the CUSC arrangements will have a negligible impact at the outset. However, in the longer term the PCF implementation will improve the connections process and the greater system benefits that a PCF will create outweigh the initial minor burden to set up the PCF and run it on an ongoing basis. That being said, comparing both WACMs to the Original Proposal, the latter ensures that the benefits of CUSC arrangements are fully achieved. For further detail see Annex II, pages 27-33.

Original Proposal

1.92 For further details on this section see Annex II, pages 28-31.

WACM1

1.93 For further details on this section see Annex II, page 31.

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WACM2

1.94 For further details on this section see Annex II, pages 32-33.

Our considerations of minded-to decision responses

PCF Design: Activation process and rationale

1.95 We disagree with the view that the administrative burden has been underestimated because of the potential administrative burden placed on NESO, in managing the fee, and on Users, that have to make provisions to fund the PCF and could potentially pass any additional costs incurred onto consumers. As argued in our minded-to decision, we consider that the administrative burden of NESO collecting information and publishing the PCF will not create an excessive burden. This is because NESO already monitors the progress of projects towards the achievement of QM milestones as part of the status quo.[30] Therefore recording and publishing M1 termination data for the purpose of this proposal will not be an excessive burden. Furthermore, the requirements surrounding the PCF securities are aligned with CUSC security provisions that Users and NESO are already typically required to provide. We also believe that end consumers will be more impacted if the connections queue is made of less committed project as it provides the wrong network build signal. Therefore, we consider that the benefit of the PCF outweighs the perceived impact on end consumers as result of Users factoring investment decisions surrounding the PCF.

1.96 We agree with stakeholder views that having a robust monitoring and evaluation plan, following the implementation of the proposal, is necessary to prevent any unintended consequences and to ensure the proposal meets its objectives. We will start monitoring and perform an early evaluation before any decision is taken to activate the PCF,

[30] See NESO's Queue Management Guidance

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engaging with NESO and industry as necessary. In our minded-to decision we argued that in the longer term the PCF implementation will outweigh the minor additional burden to the CUSC arrangements at the outset and that the PCF governance would act as a safeguard in case of unforeseen events, therefore facilitating CUSC arrangements. The Authority is committed to monitoring the impact of the PCF and should the risk of any negative consequences, relating to the facilitation of ACO(i) and consequentially the facilitation of ACO (iv), appear likely, we reserve the right to utilise the power to veto as a backstop if required.

1.97 The proposal obliges NESO to publish the PCF metrics biannually. We see merit in providing additional information as it improves transparency. As highlighted in our monitoring and evaluation strategy, we have outlined several data types that will be requested from NESO should the PCF be activated.[31] This reaffirms our commitment to monitor unintended consequences. We consider such additional data will provide the means for a comprehensive assessment to be completed by the Authority, whilst ensuring an increased administrative burden is not placed on stakeholders.

PCF activation metric, threshold and governance

1.98 We disagree with the view that a consultation should be carried out before PCF activation. As explained in our minded-to decision, a consultation would add more administrative burden and delay the implementation of PCF activation, which could pose a risk to securing the benefits of the PCF. For further details on this aspect, see Annex II, page 29.

WACMs Considerations

1.99 Our assessment of WACMs against ACO (iv), the Original Proposal and status quo has not changed. Overall, we consider that both WACMs facilitate ACO (iv) better than the

[31] As set out in Ofgem CMP448 Impact Assessment, section 4 'Monitoring and Evaluation'

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status quo but less effectively than the Original Proposal, which provides the strongest incentive to assess viability. This is because both WACMs can reduce or delay the incentive to assess project viability and leaving the queue at the earliest opportunity if less viable. Therefore, the administrative burden would not be fully outweighed by the longer-term benefits of a queue progressing efficiently as proposed by the incentive provided in the Original Proposal. For further details see Annex II, pages 31-33.

Our assessment against the Authority's Principal Objective and wider statutory duties

1.100 We have considered consultation responses to our minded-to decision but our assessment has not changed since our minded-to decision. For further details see Annex II, page 33.

Decision notice

In accordance with Standard Condition E2 of the Electricity System Operator Licence, the Authority, hereby directs that the Original Proposal of modification proposal CMP448: Introducing a Progression Commitment Fee to the Gate 2 Connections Queue be made.

Jack Presley Abbott

Deputy Director - Strategic Planning and Connections

Signed on behalf of the Authority and authorised for that purpose

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