



Consultation Response

**Call for Input: Financial
Instrument**

November 2024

About us

Since 1978, Solar Energy UK has worked to promote the benefits of solar energy and to make its adoption easy and profitable for domestic and commercial users. A not-for-profit association, we are funded entirely by our membership, which includes installers, manufacturers, distributors, large-scale developers, investors, and law firms.

Our mission is to empower the UK solar transformation. We are catalysing our members to pave the way for 70GW of solar energy capacity by 2035. We represent solar heat, solar power and energy storage, with a proven track record of securing breakthroughs for all three.

Respondent details

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 - ◆ **Would you like this response to remain confidential:** No
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Introduction

Solar Energy UK appreciates the opportunity to respond to the NESO's call for evidence on the introduction of a Financial Instrument as part of the connections reform process. This issue is highly significant for us, as the current grid challenges are creating substantial obstacles for the solar industry, limiting our ability to deliver clean, affordable energy to both consumers and businesses. Grid constraints are also hindering the Government's goal of achieving a tripling of solar capacity by 2030 and affecting the UK's progress towards its Net Zero and Clean Power 2030 targets.

For context, Solar Energy UK actively participates in the Connection Process Advisory Group and the Connections Delivery Board, contributing to the ongoing discussions on connection reform. While we acknowledge the difficulties faced by network operators in connecting projects, it is critical to the UK's Net Zero ambitions that viable projects are not delayed or blocked. A large portion of our members believe that introducing a financial commitment fee would have this adverse effect, asserting that a well-designed and enforced milestone system is sufficient for demonstrating project readiness and filtering out unviable projects.

That said, it should be noted that there is no unified stance across the solar industry on this matter. A smaller segment of our membership supports a cost-reflective fee, though there is a consensus that the initial proposed fee of £20,000 was excessive. Nevertheless, in their view it is critical that any fee is not applied retroactively to any projects that have obtained planning or have a connection before and up to 2028. NESO must ensure that any action does not damage investor confidence, raise the cost of capital or impede the industry's ability to deliver on Clean Power 2030. A few members have expressed support for the fee in its current form and have engaged directly with NESO on this matter. Whilst our response highlights the key challenges posed by NESO's proposals, it's important to recognise that Solar Energy UK represents a diverse membership with a range of perspectives on this issue. Our response reflects the majority of the feedback we've received, but we acknowledge that some member views may not be fully captured.. As always, Solar Energy UK remains open to further engagement with NESO.

Consultation Questions

1. Please indicate whether you are either i) broadly supportive of our initial proposal for a financial instrument; ii) supportive of a financial instrument in principle but believe that our initial proposal requires further changes; or iii) believe that a financial instrument in any form is the wrong solution. Please explain.

Feedback from our members reveals a mixed response to the proposed financial instrument. While a small portion of our membership generally supports the idea of a Capacity Commitment Fee (CCF) as a mechanism to ensure only serious, committed projects advance, they stress that any fee must be proportionate to development expenditures (DEVEX). Excessively high fees could lead to increased consumer costs, as these costs are likely to be passed through CfD bids, without providing any tangible benefit.

To align better with DEVEX, members suggest significantly lowering the fee and introducing stepped fees tied to queue management milestones to reflect project progress while reducing development cost burdens. A phased approach to securities, where fees increase as projects advance, coupled with a refund at milestone 7 for developers meeting or exceeding deadlines, is a recommended alternative. It's important to note that the proposed £20,000/MW CCF is based on speculative and unverified assumptions. NESO's calculations rely on estimated values achieved by Resellers and a 60–70% probability of grid connection. However, NESO's own data suggests that only 30–40% of projects in the queue ultimately reach fruition. Revising this assumption alone would lower the securities to approximately £2,000/MW. Moreover, NESO assumes that Resellers achieve a value of £50,000/MW—far exceeding market reality, where typical values range between £5,000 and £10,000/MW. Correcting these assumptions would reduce the proposed fees to a more realistic range of £2,000–3,000/MW. Additionally, to preserve trust and encourage investment, any new fees must not apply retrospectively. Projects that have obtained planning or a grid connection before 2028 should be exempt, as retroactive changes risk undermining investor confidence, reducing funding, and harming the renewables sector. Furthermore, in exchange for such a bond, NESO should provide clear guidelines on how the fee will be utilised for works, including provisions for exceptional circumstances, such as planning delays. Additionally, if NESO does not utilise the fee, developers should be entitled to a refund, helping to minimise the risk profile.

Despite limited support for the CCF, considerable concern remains about its overall structure and associated costs. Many members fear that these financial barriers could stifle investment, slow industry growth, and disproportionately favour larger developers with significant capital, thereby limiting the competitiveness of smaller players. NESO's proposal introduces high early-stage costs that could deter investment and create market uncertainty, while providing little clarity on the benefits of this approach compared to existing connection reforms. SEUK members argue that NESO has not sufficiently justified the CCF, given that existing Gate 2 criteria and queue management milestones already address speculative developers. Once a project achieves planning consent, it is heavily invested and likely to proceed, suggesting that excessive fees risk deterring new entrants without meaningfully reducing speculation.

A deeper analysis further highlights flaws in NESO's proposal, particularly its treatment of early-stage developers, or "Resellers," who play a crucial role in the energy transition. NESO appears to view Resellers as a hindrance to progress toward CP30, proposing measures to remove them from the queue. However, this perspective overlooks the critical value that Resellers provide by aggregating grid and land, advancing projects to stages where larger developers can take over.

Without these early-stage developers, a vital pipeline of projects would not exist, stalling progress and harming the energy transition. Examples such as Cleve Hill (Hive Energy → Hive Energy/Wirsol Energy → Quinbrook), Longfield (Conservation Energy → Padero Solar → EDF), and Mallard Pass (Windel Energy → Canadian Solar) demonstrate the value of Resellers in advancing projects to completion. While developers who trade grid connections without adding project value should indeed be discouraged, NESO's existing Gate 2 criteria already address this issue by tying grid connections to specific projects. Additional financial securities are unnecessary and would only impose undue costs, slowing the energy transition further.

As an aside point, to the members who do not agree with the fee, the lack of market understanding underlying NESO's analysis has also raised investor concerns. The CP30 pathways, as currently drafted, exacerbate uncertainty, especially for NSIP solar projects that may not be able to connect to the transmission grid before 2030—or potentially later. Such unpredictable policy shifts introduce risks that investors cannot quantify, deterring much-needed investment in the UK at a critical time.

2. What consequences do you anticipate from introducing a financial instrument in the form that we have proposed? Please explain your response.

As specified above, there is broad concern that introducing the financial instrument as proposed would place a heavy financial burden on developers. Many Solar Energy UK members worry that this fee may disproportionately impact smaller developers, discouraging their participation and potentially stifling innovation and diversity in project development. The proposed £20,000/MW fee is particularly problematic for projects in early stages, where risks related to land acquisition, planning approval, and connection certainty remain high.

Most developers are unlikely to accept this added financial risk at such an early stage, particularly when combined with development and planning uncertainties. Funders, too, are unlikely to support projects facing this level of speculative risk. As a result, developers would likely delay triggering Gate 2 until after securing planning approval, leading to significant delays in grid connections. Considering the three years typically required from Final Investment Decision (FID) to connection, this delay could mean that most projects will not meet a 2030 connection timeline.

Further compounding this issue, funders may hesitate to invest in projects without a firm connection point and date, resulting in many projects not progressing at all. This could drastically reduce the number of developers active in the UK market and severely undermine the government's ability to achieve its 2030 Clean Power targets. Members emphasise that the UK renewable energy sector's growth – and the diversity of players within it – could be significantly reduced by such high security amounts at such an early stage.

3. Do you agree that only parties that are currently subject to User Commitment obligations should be subject to the new requirement? Are there any additional parties that it should be applicable to? Or should there be any exclusions? Please explain.

No comment.

3. Please detail any existing financial security requirements you believe should be considered in the development of a financial instrument modification.

Most of our members point to the sufficiency of existing mechanisms, such as Gate 1 and Gate 2 criteria, in screening project viability. There is concern that introducing a new financial instrument without adequate integration or differentiation from these existing tools may lead to redundancy, administrative complexity, or unnecessary cost burdens. A careful alignment with established protocols is recommended to prevent duplication and ensure a coherent financial framework.

The proposal also raises concerns due to its lack of exemptions for factors beyond developers' control, such as grid delays or planning issues that may occur after Gate 2. This absence of flexibility could pose significant challenges for projects facing unforeseen risks. Additionally, it is recommended that liabilities be adjusted to account for grid-related changes, connection charges, or delays that could undermine a project's viability. Such adjustments would offer a fairer approach, recognising the impact of uncontrollable factors on project timelines and financial stability.

Some members who are in opposition to the fee, also referenced the existing User Commitment structure, which adjusts security requirements based on a project's risk profile and view this as more favourable compared to the proposed CCF, which does not consider pre-planning risks. Under User Commitment, grid connection offers come with a Cancellation Charge Secured Amount, reflecting the fact that early-stage projects may struggle to provide substantial security. As such, the initial security requirement begins at £1k/MW and increases by £1k/MW each year. This approach ensures that significant security increases only occur during the last four years before the connection date, when projects are expected to have obtained planning consent and to be nearing their Final Investment Decision. The proposed CCF, by contrast, fails to account for the risk profile of projects during the pre-planning phase, which could have a detrimental impact.

5. Do you see any risks¹ to the profitability or financial viability of your projects arising from the introduction of the financial instrument? If so,

a. Please explain what those risks are, their cause and whether they are

¹ For example, the period in which the financial commitment is required, the value of the financial commitment required during that period, or the conditions around the liability.

technology dependent;

b. If possible, please provide a ranking of those risks in the order of their likely magnitude; and

c. Outline any mitigations for those risks that should be considered.

Given the high risks and significant funding burden at such an early stage of development, the vast majority of projects are likely to halt. Small to medium- sized developers, in particular, would be unable to manage the risks associated with developing or co-developing transmission assets, forcing them to withdraw from these activities entirely.

6. Please let us know how much you typically spend on DEVEX,² identifying this by technology? Can you also let us know how much of a premium you would expect to pay on top of this if you were acquiring a Ready to Build (RTB) asset?

No comment.

7. Please explain how you fund your DEVEX? As part of this, can you also comment on the point at which you would expect to secure debt finance (if at all)?

No comment.

8. Do you expect that you would be able to raise finance to cover the cost of the financial instrument? If so, what sort of finance would this be and what sort of cost do you expect that it may have?

While some developers may anticipate being able to raise the necessary finance to cover the costs of the proposed financial instrument, significant concerns remain

² For the sake of clarity, we define DEVEX as all expenditure undertaken prior to the start of construction.

about the types and costs of such financing. Introducing the instrument at such an early stage, ahead of planning, creates a substantial barrier as funding cannot be raised against such high risks. This issue changes dramatically later in the development process when planning and other milestones have been secured.

Members in opposition to the fee state that relying on high-risk or high-cost debt to meet these early-stage requirements could jeopardise project viability, leading to increased overall costs and reduced market competitiveness. Members emphasise the need for accessible and proportionate financing mechanisms that avoid imposing undue financial strain.

In its current form, the financial instrument is likely to force otherwise viable projects out of the queue, delaying decarbonisation efforts. Developers are unlikely to have the substantial funds required for their existing pipelines available all at once, resulting in the cancellation of viable near-term projects. Furthermore, the proposed scheme disproportionately increases up-front risks and costs for legitimate projects, while the queue itself is already designed to manage out non-serious proposals.

The removal of viable schemes will ultimately reduce the amount of generation coming online, leading to higher energy bills for consumers. Additionally, developers will struggle to build a robust pipeline, making it harder to spread costs across multiple projects. This will further drive up the cost of capital as construction cannot be efficiently packaged across sites.

Speculative projects, by their nature, avoid up-front costs and meaningful progress, whereas legitimate developers actively work through project stages as efficiently as possible. A more effective approach to filtering speculative projects would involve straightforward engagement on tangible progress and expenditure, rather than relying on disproportionately high financial barriers that penalise serious developers.

9. What is the typical cost of capital (real, project-level, pre-tax) that you use to perform an “all-in” financial assessment of a project (i.e. from development through to end of operation)? How much higher would the cost of capital be for just the development stage (which we define as covering all costs and activities prior to the start of construction)?

No comment.

10. Do you agree that a 0.5% outperformance on cost of capital (project level) is a reasonable lower-end outperformance that developers would target? If not, what would it be?

Our feeling is that the Baringa analysis of how to value the Capacity Commitment Fee (CCF) is completely flawed. Baringa used NPVs for shovel ready projects, whereas the CCF will apply to pre-consented projects with a very different risk profile and much lower values. Looking at a potential change in cost of capital to build a project does not equate with the impact of the proposed financial instrument which will substantially increase development cost and hence the upfront funding which is at high risk of being lost for projects which aren't successfully developed. Larger developers may be able to take a view that these extra costs of failed projects can be absorbed across a large portfolio but for smaller developers the extra financial risk during development will be very challenging, and not compensated by a small potential improvement in cost of capital of successful projects.

11. What proportion of all projects that make it to Gate 2 do you expect to fail – i.e. to drop out of the queue? Do you expect the drop-out rate to differ materially by technology, and if so, how?

There is scepticism among stakeholders about speculative projects reaching Gate 2 stages due to their limited upfront investment. Non-speculative projects, on the other hand, are perceived as more likely to proceed successfully to completion.

12. The speculative project archetype is a developer that incurs the absolute minimum amount of costs needed to secure a connection agreement. Do you have a view on:

a. the proportion of speculative projects that get to Gate 2 that are likely to result in successful project development and how this compares to the proportion for non-speculative projects?

b. the typical resale value (ideally by technology type and on a per MW basis) that such a speculative project may be able to command from selling the connection agreement?

Experienced developers will only proceed to Gate 2 if they have adequate funding to fully develop their projects. In contrast, speculative developers typically aim to sell their projects before reaching Gate 2, as they are often unable to meet the associated milestone commitments. However, with clearly defined and enforced milestones, any speculative developers who do enter Gate 2 can be swiftly identified and replaced by committed developers.

Selling a connection prior to obtaining planning approval holds limited value. In most cases, when a connection is sold before planning approval, the payments are structured to be made upon achieving key milestones, such as securing planning consent, reaching a final investment decision (FID), and commencing construction.

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