
Minded-to Decision: Project Designation Methodology

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This Minded-to Decision relates to and is subsidiary to the document titled 'Consultation: TMO4+ Connections Reform Proposals – Code Modifications, Connection Methodologies & Impact Assessment', which invites responses to questions on connections reform proposals, including our Minded-to Decisions relating to the proposed Connections Methodologies.

Subject to a consideration of responses received, we¹ are minded to approve the Project Designation Methodology.

Project Designation Methodology approval would be contingent on the adoption of proposed licence conditions, in particular the new proposed condition E17. The licence conditions, if implemented following the statutory consultation, would be the basis for the Methodologies (including this Project Designation Methodology) coming into force.

Project Designation Methodology approval would also be contingent on CMP434 and CMP435 also being approved. CMP434 sets out the enduring process for applications and offers in Section 17 of the Connections and Use of System Code (CUSC) and CMP435 sets out the Gate 2 to Whole Queue process for existing agreements in CUSC Section 18.

We have reached this minded to position by assessing the Project Designation Methodology against the policy intent and objectives we set for this Methodology in the draft NESO licence conditions, which are being consulted on. We have also taken into account our Principal Objective, wider statutory duties, the legal text in CM434 and CMP435 and stakeholder feedback.

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.

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1. Summary

- 1.1 The Project Designation Methodology is an important part of the NESO's² proposed connections process design known as TMO4+.³ TMO4+, requires changes to industry codes (CMP434, CMP435 and CM095), licences (NESO, Transmission and Distribution) and the introduction of new Methodology documents (Gate 2 Methodology, Connections Network Design Methodology (CNDM) and Project Designation Methodology). The Connections Methodologies are only required and can only be approved as part of the entire TMO4+ reform package. Ofgem's Minded-to decision on the TMO4+ code modification proposals and the statutory consultation on licence changes have been published simultaneously with our Minded-to decisions on the Connections Methodologies.
- 1.2 The Project Designation Methodology sets out the processes that NESO will follow to 'designate'⁴ projects under the reformed connections process. Readers should refer to the Project Designation Methodology for details of the specific criteria and processes.⁵
- 1.3 The Project Designation Methodology provides a basis for connecting projects that can deliver significant net zero, system or consumer benefits. In particular, the Project Designation Methodology enables connection of projects that:
- are critical to security of supply
 - are critical to system operation
 - materially reduce system/network constraints
 - are highly innovative / emerging technologies not anticipated in the Clean Power 2030 (CP2030) Action Plan

² On 1 October 2024, National Grid Electricity System Operator (NGESO) was transitioned to the publicly owned National Energy System Operator (NESO). We refer to NESO in these documents for consistency but references to actions taken before 1 October 2024 should be read as NGESO.

³ This is referred to as the TMO4+ / TMO4+ reform package interchangeably throughout this document and refers to the entire package, including the code modifications CMP434, CMP435, CM095, and the three Connections Methodologies: Gate 2 Methodology, Connections Network Design Methodology, and Project Designation Methodology.

⁴ 'Designate', in the context of the Project Designation Methodology, means to elect specific projects for inclusion in the reformed connections queue or for potential prioritisation within that queue based on predefined criteria.

⁵ [Project Designation Methodology](#)

- have particularly long lead times and that may be needed beyond 2035 but are not reflected in the Clean Power 2030 Action Plan (“**CP2030 Action Plan**”)
- 1.4 Designated projects would meet the Gate 2 Strategic Alignment Criteria and could therefore be made a Gate 2 offer (providing they meet the Gate 2 Readiness Criteria). The CNDM contains the process for how these designated projects would be prioritised for queue position.
- 1.5 In this Minded-to Decision, we have assessed the Project Designation Methodology against:
- our Principal Objective to protect the interests of existing and future gas and electricity consumers as well as our other statutory duties (for a fuller description, see section on Ofgem’s Statutory Duties in ‘Consultation: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment’)
 - the objectives for this Methodology in new proposed NESO licence conditions
 - compatibility with the intention of CMP434 and CMP435 and legal text
 - stakeholder feedback on the draft Project Designation Methodology
- 1.6 Subject to final decision, we intend to approve the Project Designation Methodology coming into force. Our current view is that the Project Designation Methodology delivers the policy objectives for this Methodology set out in the draft NESO licence conditions and accords with our Principal Objective (see section 3). In our view NESO has appropriately considered and responded to stakeholder feedback on its connections design proposal as a whole and on the Project Designation Methodology in particular.

2. Policy context and intent

The role of Project Designation Methodology

NESO’s Connections Methodologies (Gate 2 Methodology, Project Designation Methodology and CNDM) collectively deliver connection policy reform objectives in line with code reform proposals, as required and enabled by the proposed new licence conditions.

This section sets out the role of the Connections Methodologies, the policy objectives specific to the Project Designation Methodology and relevant licence objectives. This context underpins the rationale for the Minded-to Decision in section 3.

Context and policy objectives relevant to the Project Designation Methodology

- 2.1 The Connections Methodologies are intended to allow NESO to discharge its new enhanced role in coordinating a whole system approach to energy system planning and connections.
- 2.2 NESO is responsible for the planning and operation of the energy system, taking into account whole system needs and ensuring that the network can be designed accordingly by network companies. With its enhanced responsibilities, it is appropriate for NESO, through its licence, to be charged with having greater control over the connections process to support the delivery of the CP2030 Action Plan and future strategic plans. Accordingly, the Connections Methodologies contain the transparent processes that NESO and network companies would adhere to within the new proposed connections process, alongside appropriate safeguards.
- 2.3 If, following a consultation, the relevant Code Modification proposals and the proposed licence changes (published alongside this Minded-to Decision) are adopted, the new licence requirements will give rise to three Connections Methodologies.
- 2.4 A summary of each Methodology as well as further overall background on the policy context informing the TM04+ proposal is provided in our primary consultation document 'Consultation: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment' and is not repeated in full here. This section highlights the key points relevant to Project Designation Methodology only.
- 2.5 In its recommendations report published on 5 December 2023,⁶ NESO (then NGESO) proposed developing criteria for accelerating 'priority' projects as part of the reformed connections process. At that stage it was envisaged that projects could achieve designation by government or prioritisation by NESO if they

⁶ [Connections Reform Final Recommendations Report](#)

“demonstrate significant additional consumer, net zero and/or wider economic and societal benefits.” This prioritisation was proposed to be subject to the process for identifying any such projects being “clearly defined, consistent and transparent.”

- 2.6 We shared our intent to give NESO “greater control over the connections process” alongside appropriate safeguards in our Open Letter published on 16 September 2024.⁷ This was part of the context and intent for the proposed regulatory framework, including the creation of Connections Methodologies. We also set out our view that a specific Designation Methodology should be established and would apply to projects that are “critical to security of supply or system operability, which would materially reduce system/network constraints (and therefore balancing costs on consumers), are innovative / emerging technologies, or that have particularly long lead times”.
- 2.7 In a further DESNZ and Ofgem joint Open Letter of 5 November 2024,⁸ we stressed the need for the new connections process to balance certainty with flexibility. In practice this would mean that as well as aligning to energy system plans (a policy intent facilitated by the Gate 2 and Connections Network Design Methodologies), the reformed connections process should remain open and responsive to the “emergence of new or improved technologies, unforeseen changes in system needs, and risks to system stability or security of supply”. The concept and the creation of the Project Designation Methodology responds to this need.
- 2.8 The Government’s CP2030 Action Plan,⁹ published on 13 December 2024, set explicit policy intent for the connections process “to prioritise projects needed for 2030” while maintaining “a robust pipeline beyond 2030”. The Action Plan emphasised the need to accelerate connection timescales for projects that reduce network constraints and are critical to achieving net zero and clean power by 2030 goals. The Project Designation Methodology responds to this need.
- 2.9 We consulted on proposals to introduce new licence conditions that place a responsibility on NESO to develop and maintain Connections Methodologies in

⁷ [Open letter on the reformed regulatory framework on connections | Ofgem](#)

⁸ [Open letter from DESNZ and Ofgem: Aligning grid connections with strategic plans - GOV.UK](#)

⁹ [Clean Power 2030 Action Plan](#)

November 2024.¹⁰ The proposed objectives of the Project Designation Methodology are in the new proposed licence condition E17.10 of the NESO Licence. According to this proposed licence condition, which is subject to statutory consultation, the Project Designation Methodology should:

- be clear, transparent, and objective
- provide a basis to effectively assess applicants and CUSC Users against the Designation Criteria
- facilitate safe and secure electricity supply
- consider the impact on consumers
- facilitate innovation and competition in electricity markets
- take into consideration strategic energy system plans

2.10 These objectives are identified in the proposed NESO licence conditions as the basis for the Authority's review and approval of the Methodology. We note that in carrying out its principal functions in accordance with the Energy Act 2023, NESO should act in the way that it considers is best calculated to promote net zero, security of supply, and efficiency and economy objectives.¹¹

2.11 Section 3 will assess whether feedback from NESO's consultation on the draft Project Designation Methodology has been taken into consideration, in addition to whether and how the Project Designation Methodology meets these objectives as well as our Principal Objective and relevant statutory duties.

2.12 Section 3 also affirms our current view on the compatibility of this Methodology with the intention of the proposer of CMP434 and CMP435 and relevant legal text relating to the Project Designation Methodology.

3. Rationale for Minded-to Decision

An assessment of the Project Designation Methodology against licence objectives, our Principal Objective and stakeholder feedback.

This section provides the rationale for our Minded-to Decision. It summarises the key themes of feedback received on the Project Designation Methodology, primarily through

¹⁰ [Proposed licence changes to enable TMO4+ Connections Reform | Ofgem](#)

¹¹ As described in section 163(1) of the Energy Act 2023.

NESO's consultation on Methodologies, and NESO's response to that feedback. This section gives Ofgem's view on whether and how key themes of stakeholder feedback relevant to the Project Designation Methodology have been addressed.

This section also assesses whether the Project Designation Methodology meets the objectives in the proposed licence condition, compatibility with CMP434 and CMP435, as well as whether approving it would be in line with Ofgem's Principal Objective and wider statutory duties.

Key themes relevant to the Project Designation Methodology in stakeholder consultation responses

- 3.1 This section reflects the feedback to NESO's consultation on its Connections Methodologies¹² as well as our consultation 'proposed licence changes to enable TMO4+ Connections Reform'. Overall themes that cut across the Gate 2 Methodology and CNDM are detailed in those Minded-to Decisions. This section sets out the themes in stakeholder feedback that are relevant to the Project Designation Methodology only.
- 3.2 There was relative support for the concept and creation of the Project Designation Methodology to enable identification and prioritisation of strategically important projects that are critical to security of supply, system operability or provide significant additional consumer, net zero or other benefits to the energy system. Stakeholders were in support of including new technologies and innovative projects as one of the categories for designation and generally agreed that the categories of projects NESO identified for potential designation are appropriate. NESO's sentiment analysis of 154 consultation responses indicated that half of respondents (~50%) held positive views while 11% were negative about introducing this Methodology, with the remainder (39%) conveying neutral sentiment.
- 3.3 Some stakeholders felt that the criteria for assessing projects for designation presented at consultation stage were too broad and that there was a need for greater transparency and clarity around the designation criteria and processes. This section sets out key themes identified in stakeholder feedback relating to the

¹² NESO shared both confidential and non-confidential responses with Ofgem following closure of their consultation on proposed Connections Methodologies.

Project Designation Methodology and our view on how this feedback has been addressed by NESO.

Project Designation Methodology theme 1: strengthen the assessment criteria

3.4 There were calls for strengthening and clarifying the criteria used to assess potential projects for designation. Some stakeholders viewed the assessment criteria as too vague and open to interpretation and felt that the bar for making an application should be set higher to avoid high volumes of applications which may impact the efficiency of the process. Conversely, some stakeholders argued for an expansion of the designation categories to include certain technologies or project types. In addition, while some stakeholders thought that economic and societal benefits should be given more consideration in the assessment criteria, others queried NESO's ability to make decisions based on these factors.

Actions taken and Ofgem view

3.5 NESO has updated the Project Designation Methodology in response to stakeholder feedback by refining the assessment criteria for all designation categories and clarifying the information that applicants must provide when seeking a designated status. Our current view is that the changes made by NESO sufficiently address stakeholder calls for more clarity on the designation assessment criteria.

3.6 To address stakeholder calls for the bar to be set higher for potential designation projects, NESO has amended the designation process for projects in categories A to C (ie projects that are critical to security of supply, projects that are critical to system operation and projects that materially reduce system and/or network constraints). If projects in these categories are needed, NESO would publish a notice setting out the nature of the relevant system operation, system constraint, or security of supply issue and the services that NESO seeks from projects to address it. The notice would also specify the criteria against which applications would be assessed. Following the publication of the notice, NESO would invite projects to apply for designation in response to that notice.

3.7 We consider that the publication of a notice in this way will increase fairness and transparency; and that it is appropriate for NESO to be as specific as possible about what projects can be designated, which will also reduce speculative applications. In our view, the prescriptive criteria, and processes for designation categories A-C, will ensure that only the most relevant and impactful projects are

- considered for designation, thereby supporting the efficiency of the process, as well as fairness to stakeholders.
- 3.8 As discussed in further detail in the theme 3 section below, the designation category D (ie new technologies and/or highly innovative projects) was cited by stakeholders as being the most vague and open to interpretation. While NESO has clarified that it would consider technology readiness in assessing potential designation for projects under the category D, this category remains less prescriptive than the others. However, we consider it appropriate to have less prescriptive criteria for this category as it has been designed to capture new technologies and highly innovative projects that deliver consumer or system benefits. This includes projects not foreseen in the Government's CP2030 Action Plan, as well as technologies that align with the CP2030 Action Plan but are novel sub-types.
- 3.9 We acknowledge the calls for an expansion of the designation categories but are inclined to agree with NESO that it would not be appropriate to organise designation categories based on technology or project types at this time. The designation powers should be reserved for exceptional circumstances, either to address specific network issues or to enable connection of new technologies or projects that are highly innovative or have very long lead times and can deliver significant consumer, net zero or other benefits to the energy system. In our view, the existing designation categories are adequate to meet these needs.
- 3.10 The primary focus of the designation categories is on generation technologies (albeit transmission-connected demand projects could also be designated). We welcome that NESO and the Government will further consider the treatment of large strategic demand and whether future designation categories should be considered with regards to transmission-connected demand and its potential benefits for economic growth.
- 3.11 NESO has also clarified that instead of basing its decisions on socioeconomic benefits, it would consider the benefits to the energy system and consumers alongside its various duties when assessing designation requests. This not only introduces further ascertainable criteria for designation, but also ensures that NESO's decisions are consistent with its regulatory objectives. NESO, as the system operator, has specific expertise in managing the energy system. Using this expertise for designation of projects allows for more informed and effective

decision-making, facilitating the achievement of the relevant objectives, including clean power by 2030 and net zero.

- 3.12 Overall, we are minded to consider this feedback theme to have been appropriately addressed.

Project Designation Methodology theme 2: clarity on designation process, fees and timelines

- 3.13 Some stakeholders raised concerns about a perceived lack of clarity regarding certain aspects of the designation process. In particular, there were calls for clarity on the impacts of project changes and the fees that the projects that apply for designation would be required to pay. Some respondents also highlighted the perceived need to remove or expedite the consultation element of the designation process to better align with the 'Gate 2 to Whole Queue' exercise timelines.

Actions taken and Ofgem view

- 3.14 NESO has provided further detail on the impacts of project changes on designation by making it clear that where a party seeks to amend their project after receiving a designation decision, NESO would reassess whether that project should continue to be designated. The projects that NESO determines are no longer eligible for designation would be required to reapply for the Gate 2 assessment in the next application window, in line with the processes set out in CMP434. Our current view is that this is an appropriate approach to project changes, as it ensures that only projects that continue to meet the relevant criteria remain designated and in the connections queue.
- 3.15 NESO has also confirmed that it would charge a fee for assessing designation applications. The fee, which NESO would determine on the basis of time and resources used to assess the application, would be added to the Use of System Charging Statement in accordance with CUSC section 14. While this introduces some additional clarity on the payment of fees, our view is that the clarity on fees could be enhanced further by, for example, including an estimate or a range of likely fees within the Methodology. Therefore, while we presently consider this feedback theme to have been appropriately addressed, we would expect NESO to provide further clarity on fees in the next iteration of the Methodology or through guidance.

- 3.16 In response to stakeholder feedback on the requirement to consult, NESO has been working with Ofgem to explore whether the consultation process could be expedited to ensure that projects can be designated in time for the 'Gate 2 to Whole Queue' exercise.
- 3.17 NESO consulting will be the default. However, we have proposed to include Authority discretion on whether such consultation would be necessary as part of our statutory consultation on proposed licence conditions relating to the Project Designation Methodology. We would require a satisfactory rationale to apply this discretion and allow for the consultation stage to be either truncated or bypassed.
- 3.18 Our provisional view is that it is appropriate to expedite the consultation element of the designation process ahead of the 'Gate 2 to Whole Queue' exercise (should other TMO4+ Code Modifications and Connections Methodologies be approved).
- 3.19 We understand that NESO may not issue the relevant notice for designation categories A-C ahead of the first application and design window. If that is the case, expediting designation in advance of the 'Gate 2 to Whole Queue' exercise would be more focused on either the case for new technologies and/or highly innovative projects (category D) or, more likely, projects with very long lead times (category E). Allowing for designation of these projects, where appropriate, in time for the 'Gate 2 to Whole Queue' exercise could increase investors' confidence and facilitate economic growth, as these projects would be provided certainty around connection timelines. In addition, allowing projects to obtain designated status for the 'Gate 2 to Whole Queue' exercise would ensure consistent treatment of all relevant designation applicants.
- 3.20 Designated projects can be prioritised for a queue position within a Gate 2 assessment, including the 'Gate 2 to Whole Queue' exercise. Projects that are designated ahead of the 'Gate 2 to Whole Queue' exercise would likely attain a preferential queue position compared to projects designated in a future window, so it would not be consistent for designation to come into force later than other Connections Methodologies (although this would be possible). Above all, designation may have tangible consumer and system benefits through its use in the first application and design window.
- 3.21 Overall, we are minded to consider this feedback to have been appropriately addressed.

Project Designation Methodology theme 3: clarity on what constitutes innovative technology

3.22 While there was broad support for including new technologies and innovative projects as one of the categories for designation, respondents called for greater clarity on the criteria used to assess projects within this category (category D). Stakeholders also emphasised the need to ensure that projects designated under the category D are commercially viable and have potential to deliver consumer benefit.

Actions taken and Ofgem view

3.23 NESO has amended the Project Designation Methodology in response to stakeholder feedback by refining the definition of projects that are outside the scope of the Government's CP2030 Action Plan and providing further detail on the assessment criteria for projects seeking designation under the 'new technologies and/or highly innovative' category (category D). We presently consider that this addresses stakeholder calls for greater clarity on the criteria used to assess projects within this category.

3.24 NESO has also clarified that, as part of assessing potential designation projects under this category, it would consider whether the technology meets the definition of technology readiness level ('TRL') eight or nine. Under the TRL, technologies that achieve the readiness level of eight or nine are considered sufficiently mature for commercial deployment.

3.25 The TRL is a government approved measure used to assess the maturity of evolving technologies and, in our current view, is an appropriate approach for evaluating the commercial viability of potential designation projects in this category. We note that while this additional granularity is positive, category D remains less prescriptive relative to other categories. This is, in part, due to the inherent uncertainties relating to technological development and some limitations in describing precisely what might meet this bar. However, the Methodology makes it clear that there is a high bar, and we presently consider that NESO has provided sufficient additional clarity on the types of projects that may meet it.

3.26 Overall, we are minded to consider this feedback to have been appropriately addressed. However, we expect NESO to consider whether and how the criteria for category D could be further iterated in future.

Project Designation Methodology theme 4: transparency around decisions and disputes process

3.27 There were some concerns around NESO being given the power to designate projects, with stakeholders calling for greater transparency around decision making. In particular, stakeholders sought clarity around the appeals process, emphasising the need for a transparent and fair mechanism to resolve disputes.

Actions taken and Ofgem view

3.28 We recognise stakeholder concerns around NESO being given the power to designate projects. However, we currently consider that the processes put in place for designation, alongside the requirements imposed on NESO via its licence conditions, would ensure a fair and transparent decision-making process. NESO would be required to publicly consult on its minded to decisions to designate unless otherwise agreed with the Authority.

3.29 As set out in our statutory consultation on proposed licence changes, which has been published alongside this Minded-to decision, the Authority would also have a veto power over NESO's designation decisions. As per new NESO licence conditions E17.6 and E17.7, if Ofgem does not agree with NESO's designation decision on specific projects, it would have 28 days to exercise a veto. In such circumstances we would provide a direction to NESO on whether more information is required regarding a designation application or if our decision is final. However, if Ofgem does not exercise its veto power within 28 days from receiving a decision from NESO, the designation decision would be deemed approved.

3.30 In addition, NESO would be required to publish an impact assessment of the designation decision, demonstrating how projects have been assessed against the relevant designation criteria. This ensures that the rationale for designating projects is transparent and understood by industry.

3.31 In relation to disputes, NESO has confirmed that a dispute process would be available to projects that applied for designation but were not designated by NESO. Parties seeking to contest NESO's decision would be able to refer the matter to an independent expert, whose decision would be final and binding. NESO will set out further details on this process in the designation application form. Our present view is that the right to appeal introduces further transparency

and appropriate safeguards for the fairness of the designation decision-making process.

- 3.32 Overall, we are minded to consider this feedback to have been appropriately addressed.

Assessment of the Project Designation Methodology against draft licence objectives

Licence objective 1: be clear, transparent, and objective

- 3.33 Our current view is that the updated Project Designation Methodology is sufficiently clear, transparent and objective.
- 3.34 Regarding clarity, the Methodology clearly outlines which projects are eligible for designation, what information and evidence those projects are required to submit to NESO in order to be considered for designation, and how they would be assessed against the criteria in each designation category.
- 3.35 The Methodology is objective as it relies on clear and measurable criteria for assessment. In our view NESO has set out objective assessment criteria for categories A, B, C and E insofar as it is feasible to do so. Furthermore, the publication of the notice for designation categories A-C ensures that the criteria used to assess projects critical to security of supply or system operation are as prescriptive as possible.
- 3.36 As set out in the theme 3 above (i.e. clarity on what constitutes innovative technology), we recognise that there are some limitations in setting prescriptive criteria for category D when compared to other designation categories, as this category would include innovative projects and technologies that were not known or anticipated in the CP2030 Action Plan (in addition to highly innovative projects that align with the Action Plan) and that can bring significant additional consumer or system benefits. Assessment of innovation and potential or likely consumer or system benefits necessarily, and appropriately, involves the exercise of judgement and discretion. Accordingly, our present view is that NESO has set objective criteria for designation category D insofar as it is reasonable to do so. However, NESO should consider how it can further enhance the clarity of this designation category in the next iteration of the Project Designation Methodology, in particular around what constitutes consumer benefit (see paragraph 3.55 below).

- 3.37 Regarding transparency, the Methodology contains the safeguards necessary to ensure that designation processes and decisions are as transparent as possible. It includes the requirement for NESO to consult on all designation decisions, unless otherwise agreed with the Authority, as well as clear processes for the review of the Methodology.
- 3.38 As set out above in paragraph 3.13, some consultation responses indicated that aspects of the draft Project Designation Methodology lacked clarity and transparency, particularly regarding the designation assessment criteria, payment of fees, and the dispute process. As set out in those sections, we presently consider that the amendments NESO has made to address these concerns are appropriate, enhance clarity, and are sufficient to meet this objective.
- 3.39 Overall, we are minded to consider that NESO has established a clear, transparent and objective process for project designation and hence that the Project Designation Methodology meets this proposed licence objective.

Licence objective 2: provide a basis to effectively assess applicants and CUSC Users against the Designation Criteria

- 3.40 Our current view is that the Project Designation Methodology provides a basis for effective assessment of designation applications by presenting a structured and transparent framework for evaluating designation requests, as well as requiring an appropriate level of detail from applicants and ensuring that interested parties are appropriately consulted on any Minded-to designation decision.
- 3.41 The Methodology contains specific and detailed criteria that projects must meet to be considered for designation under each of the categories. NESO only envisages designating projects in 'exceptional circumstances'.¹³ This statement and approach meet our policy intent and expectation that designation would be highly selective and based on specific needs.
- 3.42 Clear assessment criteria are essential for the effective evaluation of designation requests to ensure that applications are assessed consistently and fairly. As referred to in the section above, we consider that the criteria set out in the Project Designation Methodology are sufficiently clear, transparent and objective to enable NESO effectively assess potential designation requests. An effective

¹³ Project Designation Methodology 2.2.5

assessment encompasses the clarity of the criteria, and the steps NESO would take to consider the application, including the opportunity to invite alternative views and challenge.

- 3.43 The level of detail included in the assessment criteria (enhanced by the notice for categories A-C) provides a basis for NESO to: (a) reject frivolous applications outright where the application clearly does not meet the high bar for designation; and (b) effectively assess applications that may meet the high bar.
- 3.44 In addition to detailing the processes that NESO must follow when assessing designation requests, the Project Designation Methodology includes the necessary safeguards to ensure that NESO's designation decisions are transparent and aligned with strategic plans and needs. In particular, the requirement to consult on Minded-to Decisions, unless otherwise agreed with the Authority, enhances NESO's ability to effectively assess designation requests as it ensures that NESO appropriately considers the impacts on interested parties of potential designation decisions.
- 3.45 Accordingly, we are minded to conclude that the Project Designation Methodology meets this proposed licence objective.

Licence objective 3: facilitates a safe and secure electricity supply

- 3.46 Maintaining security of supply is critically important in today's complex and interconnected energy system. The move away from fossil fuels to renewable energy sources like wind, solar and hydro, which can be intermittent in nature, introduces new challenges for managing the electricity system that need to be approached in a coordinated way. The introduction of the Project Designation Methodology into the new connections process provides an additional tool to address this, enabling a more coordinated approach to connections and network design which accounts for system needs, operability and security of supply, as well as commercial interests.
- 3.47 The Project Designation Methodology provides a tool for NESO to proactively mitigate and effectively deal with network operability issues by designating, and then prioritising, projects that can demonstrate they are critical to safe and secure electricity supply. We anticipate that this tool would be used rarely.
- 3.48 If NESO identifies a network issue that could affect security of supply, it will publish a notice stating the nature of the issue, the services that NESO would

require a project to provide and the specific criteria against which potential designation projects would be assessed. NESO will then invite projects to apply for designation in response to the notice. As set out in the Methodology, this includes both generation and demand projects that can demonstrate significant system benefits. Designated projects could be prioritised for queue position within a Gate 2 assessment process, as per process set out in the CNDM.

- 3.49 As we explain in the accompanying Impact Assessment, we expect that this new designation power would enable NESO to more effectively manage the connections queue by providing a process for efficiently identifying and connecting projects needed to address critical system needs.
- 3.50 Accordingly, we are minded to conclude that the Project Designation Methodology meets this proposed licence objective.

Licence objective 4: considers the impact on consumers

- 3.51 As set out in the 'Impacts on Consumers' section in the accompanying Impact Assessment, connections reform would have impacts on consumers. While it is expected that the reform would benefit consumers overall, it is important that the consumer impacts are continually monitored, and any emerging issues are addressed quickly after the new connection process is implemented. The Project Designation Methodology provides a route for NESO to intervene where it feels that the connections queue is not delivering on the needs of consumers.
- 3.52 The consumer impact assessment is a key feature in the designation of projects under the Project Designation Methodology, and NESO has set out how it would consider consumer benefit as part of assessing all designation requests.
- 3.53 In its assessment of potential designation for projects in categories A-C, NESO would consider a project's ability to deliver material benefits to consumers in relation to identified security of supply, system operation or network constraint risk. Projects designated under the category C (i.e. projects that materially reduce system and/or network constraints) would especially have a direct impact on consumer bills, as lower constraint costs would manifest as lower Balancing Services Use of System (BSUoS) costs paid by consumers.
- 3.54 The consumer benefit assessment is also embedded as a consideration for category E: NESO would only designate a project under this category if that project has a long lead time and delivers clear benefits to consumers. Similarly,

projects seeking designation under the category D would be required to evidence how they deliver benefits to consumers, in addition to meeting other criteria relevant for this category.

- 3.55 However, we note that while the Methodology is clear on what constitutes consumer benefit in relation to designation categories A-C, it does not specify how consumer benefit would be assessed in relation to categories D and E. We expect NESO to consider whether and how it can provide further clarity on what would be considered consumer benefit in relation to these categories in the next iteration of the Methodology.
- 3.56 We also note that, as set out above, category D has attracted some feedback as the category that provides NESO with the greatest discretion. However, in our view fostering innovation has well established benefits for consumers, and the inclusion of this less prescriptive category is necessary to make sure that innovative projects, including those not known at this point, are not precluded from attaining connections agreements.
- 3.57 Accordingly, we are minded to conclude that the Project Designation Methodology meets this proposed licence objective.

Licence objective 5: facilitates innovation and competition in electricity markets

- 3.58 The Project Designation Methodology facilitates innovation by establishing a framework for connecting new technologies and highly innovative projects under the new connections process.
- 3.59 As set out above, innovation benefits consumers. It is therefore important that innovative projects, including projects that are not in scope of the CP2030 Action Plan technology pathways, are not precluded from attaining a connection and delivering that benefit.
- 3.60 The Strategic Alignment Criteria in the Gate 2 Methodology establishes the technologies that can receive Gate 2 connection offers, which might prevent certain innovative business models from being developed. However, as we explain in the accompanying Impact Assessment, the Project Designation Methodology mitigates this risk by ensuring that emerging technologies that

deliver system and consumer benefits but that are not in scope¹⁴ of the pathways in the CP2030 Action Plan are appropriately considered and can be prioritised in the reformed connections queue. In addition, the processes outlined in the Methodology, specifically those in designation category E, enable NESO to provide projects with very long lead times certainty around connection timelines which, as set out in the accompanying Impact Assessment, could increase investors' confidence and facilitate the development of complex and potentially innovative projects, thereby promoting innovation within the sector.

- 3.61 We also currently consider that the Project Designation Methodology facilitates competition in the electricity markets, including by ensuring that alignment with the CP2030 Action Plan does not constrain innovation now or in the future. It also facilitates more competition than the status quo by providing a structured and transparent framework for issuing a notice for specific system needs and assessing projects against those needs to determine whether they can be designated. This introduces a tool to foster competition targeted at system needs that is not part of the existing first-come, first-served process.
- 3.62 In addition, as set out in the accompanying Impact Assessment, the requirement to review the Connections Methodologies annually, as well as Ofgem's ability to trigger the review at any point, mitigates the risk to competition and innovation by allowing quick interventions to be made in the event that significant risk to competition emerge from the implementation of Connections Methodologies.
- 3.63 Accordingly, we are minded to conclude that the Project Designation Methodology meets this licence objective in full.

Licence objective 6: takes into consideration strategic energy plans

- 3.64 The Project Designation Methodology works in conjunction with the CP2030 Action Plan by providing a route to connection for projects that deliver significant additional consumer or system benefits, including projects that are highly innovative or introduce new technologies, irrespective of whether they are aligned with the CP2030 Action Plan. This ensures that the CP2030 Action Plan, and any subsequent strategic energy plans, can be delivered via the reformed connections

¹⁴ Some technologies not in scope are listed as not in scope in section 6.3 of the Gate Methodology. These technologies (Transmission-Connected Demand, Wave, Tidal, Non-GB Generation) would only need to meet 'Readiness Criteria' to be eligible for a Gate 2 offer.

process, while also accommodating new technologies and innovative projects, including those not foreseen by the Action Plan.

- 3.65 The Project Designation Methodology, specifically the designation category E, ensures that the 10-year time horizon in the CP2030 Action Plan can be delivered while allowing projects with verifiably long design, consenting and/or construction periods, some certainty around connection timelines.¹⁵
- 3.66 The Project Designation Methodology also considers strategic energy plans by working in conjunction with the CNDM to appropriately prioritise designated projects in the reformed connections queue alongside projects in scope of the CP2030 Action Plan pathways.
- 3.67 Accordingly, we are minded to conclude that the Project Designation Methodology meets this proposed licence objective in full.

Compatibility with the intention of CMP434 and CMP435 and relevant legal text

- 3.68 Subject to their approval, the Connections Methodologies would put in place the connections process as intended by the proposer of CMP434 and CMP435. The Minded-to Decision on the Gate 2 Methodology sets out the intention of these code proposals which is not repeated here.
- 3.69 Our current view is that the Project Designation Methodology is compatible with the intention of the CUSC code proposals and the relevant legal text. The Minded-to Decision on the Gate 2 Methodology sets out our current view that the need to apply the CNDM or Project Designation Methodology to determine whether a user meets Strategic Alignment Criteria in the Gate 2 Methodology does not present a conflict with the legal text of the code modifications.

Assessment of the Project Designation Methodology against the Authority's Principal Objective and wider statutory duties

- 3.70 Ofgem's Principal Objective is to protect the interests of existing and future consumers. This includes, but is not limited to, their interests in achieving net zero by 2050 and the five-year carbon budgets, as well as their interests in the security of supply of electricity. In addition, Ofgem has a new duty to have regard

¹⁵ The designation category D applies to projects with very long lead times (i.e. long design, consenting and construction periods) that may be needed beyond the 2035 capacities within the CP30 Action Plan.

to the desirability of promoting economic growth provided for in the Deregulation Act 2015. A fuller description of Ofgem's statutory duties can be found in 'Consultation: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment'.

- 3.71 As to the **interests of consumers**, one important interest is the affordability of energy. The costs of managing network constraints have been increasing at a significant rate and are predicted to rise even further. As these costs are ultimately borne by consumers through their electricity bills, it is beneficial to have a tool that enables prioritisation of projects that can materially mitigate network constraints, thereby reducing balancing costs for consumers.
- 3.72 As explained in more detail in the accompanying Impact Assessment, the Project Designation Methodology would give NESO the power to intervene where it feels that the connections queue is not delivering on the needs of the consumers. The Methodology provides a basis for connecting projects that address system needs and therefore can reduce costs to consumers resulting from inefficient network operation.
- 3.73 Regarding the **interest of consumers in the security of supply**, this Methodology provides an additional route to ensure that projects critical to maintaining security of supply and operating the system can be appropriately prioritised. As set out in more detail in the assessment of licence objective 3 above, the Project Designation Methodology enables NESO to proactively identify and then designate projects that can demonstrate they are critical to safe and secure electricity supply, and subsequently prioritise these designated projects for queue positions (as per the process in the CNDM). We consider that this approach enables NESO to manage the security of supply more effectively than the status quo.
- 3.74 As to **economic growth**, it is important that the UK provides a stable and attractive environment for investment. As set out in more detail in the accompanying Impact Assessment, the status-quo does not provide a sufficiently certain or stable environment, evidenced by the variation of contracts by both networks and customers and a lack of trust that connection dates can and will be adhered to. This holds back further investment and slows project development. The Project Designation Methodology ensures that projects with long lead times are provided with clarity around connection timelines, which, as the

- accompanying Impact Assessment as well as our assessment of proposed licence objective 5 above explains, provides longer-term investment clarity thereby increasing investors' confidence and supporting economic growth.
- 3.75 While there is currently no designation category specific to economic growth, projects designated under existing categories, for example demand projects located to reduce constraints, could also contribute to economic growth. With the clear focus on economic growth from the Government, we will continue to work with Government and NESO to determine whether any specific designation categories could be introduced in the future with a focus on economic growth, especially in the context of strategic demand projects.
- 3.76 As to the **consumer interest in achieving net zero** and the five-year carbon budgets, we presently consider that the Project Designation Methodology is an important part of the new proposed connection process, key to achieving Clean Power by 2030 and keeps Great Britain on track for a net zero electricity system, while providing a route to appropriately prioritise projects that have defined system benefits or benefits for consumers, or that are not foreseen by the Action Plan.
- 3.77 While it has been our consistent view that connections must be aligned with strategic need in the context of scarce network capacity and physical resources, as we explain in the assessment of licence objective 5 above, the Project Designation Methodology would also be an important part of ensuring that the energy system remains open to innovation.
- 3.78 Our Minded-to Decisions on the Gate 2 Methodology and CNDM, as well as our Impact Assessment, set out why the Connections Methodologies, and alignment with the CP2030 Action Plan, are beneficial for consumers and support achieving a net zero energy system. This Methodology provides a basis to include projects with clear consumer benefit in the connections queue, irrespective of whether they align with the pathways in the Government's CP2030 Action Plan. This would further consumer interests, for example, when emerging or new technology provides system benefit and/or is scaled to support economic growth.
- 3.79 Accordingly, we are minded to conclude that approval of the Project Designation Methodology is in accordance with our principal objective and our other statutory duties.

4. Next steps

Approval process

- 4.1 Each of the Connections Methodologies follows an approval process for their development and amendment as specified in the new proposed licence conditions.
- 4.2 We expect to make our first approve or reject decision of the Connections Methodologies following the consultation period. Should the decision be to reject the Project Designation Methodology, we will specify the changes necessary for Ofgem to be minded to approve.
- 4.3 Following the first approval and introduction of the Project Designation Methodology, NESO will be required to review it at least annually, and to identify any changes that are necessary to ensure that the objectives are met. Ofgem will also have power to direct NESO to review the Connections Methodologies if it feels that the objectives are not being met.

Expectations for identifying emerging issues and reviewing Project Designation Methodology

- 4.4 The introduction of Connections Methodologies provides the opportunity for NESO to have greater control and flexibility; in turn we expect NESO to monitor and act quickly to address emerging issues, and to continually assess how each Methodology can be improved in line with connections reform policy objectives, NESO licence objectives and the relevant statutory objectives for both NESO and Ofgem.
- 4.5 NESO's consultation received broadly positive responses on the concept and need for the Project Designation Methodology. While some concerns were raised (as set out in section 3), specifically in relation to clarity and transparency of the assessment criteria and processes, we are minded to consider that NESO has sufficiently addressed these.
- 4.6 As set out in section 3, we thought that aspects of the Project Designation Methodology could benefit from additional clarification; however, we do not consider these to be significant and expect NESO to address them in the next iteration of the Methodology.

- 4.7 We expect NESO and the Government to consider further whether specific designation categories could be introduced in the future with a focus on economic growth, especially in the context of strategic demand projects.
- 4.8 Our expectation is that the Project Designation Methodology is kept under review and that emerging issues are monitored and promptly addressed outside of the 12-month update and approval cycle if that is necessary.

Next steps for Ofgem’s decision on Project Designation Methodology

- 4.9 This Minded-to Decision relates to and is subsidiary to ‘Consultation: TMO4+ Connections Reform Proposals – Code Modifications, Methodologies & Impact Assessment’ which invites responses to questions on connections reform proposals by 14 March 2025, including our conclusions relating to proposed Connections Methodologies.