

Curate – Demand Connections Reform

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About Regen

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

Regen is a membership organisation with over 200 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups and research organisations across the energy sector. We manage the Electricity Storage Network (ESN) – the industry group and voice of the grid-scale electricity storage industry in GB.

Summary and recommendations

This document sets out Regen's response to [Ofgem's Curate – Demand Connections Reform consultation](#) (published 29 July 2026), prepared on behalf of Regen and its members.

Our main test for these proposals is whether they help data centres to operate on low-carbon electricity, in line with the UK's clean power and net zero goals.

We support Ofgem in its ambitions to prevent the demand queue itself from holding back viable projects. However, we do not think Ofgem has adequately addressed the risk that these proposals push developers towards fossil fuel generation sources.

The key points from our response are:

- We support the principle of a data centre commitment fee to remove non-viable and speculative projects from the queue. Still, we are concerned that the level of the fee and

the requirement to secure in full at offer acceptance will push developers toward on-site or private wire connections powered by fossil fuels.

- We would urge Ofgem to consider other solutions that achieve the core objectives whilst creating benefits for consumers and society, such as additionality-backed renewable procurement with firming. In other words, buying green electricity in a way that directly funds the construction of brand-new clean energy projects (additionality), while using batteries or backup power to guarantee a steady, reliable supply of electricity, even when the sun isn't shining, or the wind isn't blowing (firming).
 - Additional measures could include a consumer bill offset fund and/or public benefit-sharing.
- We support a milestone-linked release of security (Option 1B), with any security refundable at least up to Milestone 2, given how much of the pre-consent stage of development sits outside a developer's control.
- We are concerned that the proposed 40 MW threshold risks a wave of sub-threshold distribution applications assembled into larger sites.
- We support the proposed data centre queue management milestones and their consistent application across transmission and distribution. In our view, this framework, not the scale of the fee, is the more effective and proportionate tool for removing speculative projects from the queue.

Recommendations:

- **Recommendation 1:** Ofgem should develop and consult on other solutions that achieve the core objectives whilst creating benefits for consumers and society, such as additionality-backed renewable procurement with firming, a consumer bill offset fund, and consumer benefit-sharing.
- **Recommendation 2:** Ofgem should remove the 40 MW threshold to avoid a surge of applications at below that level on the distribution network.
- **Recommendation 3:** Ofgem should focus efforts on well-defined readiness requirements as the primary mechanism for determining which data centres can connect and maintain their position in the queue.
- **Recommendation 4:** Ofgem should set out a clearer, proactive verification and spot-check mechanism, rather than relying primarily on NESO or the relevant network operator having "reason to believe" a project should have self-declared.
- **Recommendation 5:** Regen supports Option 1B milestone-linked security with securities refundable up to Milestone 2 over the proposed upfront fee in this consultation.

Data Centre Commitment Fee Mechanism and Design

Q1. Do you agree with our proposed Data Centre Commitment Fee, based on Option 1A? Please provide the reasons for your answer.

No. Regen supports the inclusion of a commitment fee to remove non-viable and speculative projects from the demand connections queue. However, a fee at this level is likely to have the unintended effect of incentivising off-grid solutions and new gas network connections.

We do not support Option 1A as the mechanism for delivering this. Requiring 100% of a very large fee to be secured at offer acceptance removes a valuable part of the development lifecycle, in which specialist developers originate, de-risk and package sites before passing them to a hyperscaler or co-location provider to take forward. If that stage of the market is squeezed out, hyperscalers and co-location providers (whose core business is not early-stage project origination) will have fewer investable, viable projects to choose from.

We would prefer a milestone-linked security release (Option 1B), which ties financial exposure to demonstrated project progress rather than requiring the full amount to be posted at the point of greatest project risk, before Milestone 1 land rights and consents are secured.

Q2. Do you agree with our qualitative assessment? Please provide the reasons for your answer.

Partially agree. We agree with the four evaluation objectives Ofgem has set out and with much of the comparative reasoning between Options 1A, 1B and 2. However, we consider the qualitative scoring understates two effects that matter for viable projects:

- **Impact on small-scale developers:** the impact of Option 1A on the specialist developer segment of the market that originates and packages sites (see Q1), which reduces rather than protects the pipeline of investable projects; and
- **Low carbon risk:** the risk that a fee set at its maximum at the point of greatest project risk pushes developers toward on-site gas generation or private wire connections that avoid the fee altogether, undermining the low-carbon objective.

We recommend that Ofgem's final assessment give these two additional factors explicit weight alongside the four existing criteria.

Data Centre Commitment Fee: Value and Calibration

Q3. Is it reasonable to assess the impact of the fee on a hypothetical data centre IRR for a viable project? If not, what alternative basis for an assessment of the impact of the fee on a viable data centre would be more appropriate?

Partially agree. The Internal Rate of Return case study is a reasonable starting point for a single large, well-capitalised hyperscaler-backed project. Still, it does not represent the range of developer types and capital structures active in the queue. It does not test the impact on smaller and powered land developers, who typically face a materially higher cost of capital than the 10.95% WACC used in Ofgem's case study. SMEs can have a WACC of up to 16%, while the rate of return for retail co-location data centres is much higher, at 20-25%, compared with 13-18% for wholesale leases (see [McKinsey](#)).

We recommend that Ofgem extend the analysis to model the impact using a cost-of-capital and balance-sheet profile representative of both smaller, specialist developers and hyperscalers, before setting a final fee value. With further research into capital costs across various project scales, fees could vary depending on the developer category.

Q5. Do you agree with the proposed estimate of approximately £9.5 million per MW as the average capital cost of building a data centre? Please provide reasons for your answer.

Yes. Regen agrees that an average capital cost will decrease the risk of gaming.

Q6. Do you agree that capital expenditure is a more appropriate basis than development expenditure for calculating the commitment fee? Please provide the reasons for your answer.

Yes. We agree that CAPEX is the more practical and less gameable basis, since it scales with project size in a way DEVEX does not, and is less exposed to variation from location and planning consent requirements.

We would flag, however, that a CAPEX-based fee, as opposed to a fee based on potential grid upgrades required, is disproportionately penalising smaller developers with higher average CAPEX per MW. A fee proportional to triggered grid upgrades would be more directly related to the grid congestion issue and could incentivise development in less-constrained areas of the network.

Q7. Do you agree that a fee range of 2.5% to 7.5% of average capital costs is proportionate to the policy objective? What value would best balance impact while avoiding undue burden? Please provide reasons for your answer.

No. We do not support a fee at this level and would suggest introducing a fee proportional to expected grid upgrades rather than project CAPEX. A fee of this scale risks pushing developers toward on-site gas generation or private wire connections that sit outside this regime altogether. This would be counterproductive for wider decarbonisation policy.

We also recommend the fee be calibrated to the system impacts the project actually imposes, i.e. the cost the connection places on the grid, and the whole-system cost or benefit of the load's location – quantified by NESO/Ofgem, rather than set as a flat percentage of CAPEX.

We recommend Ofgem consult further on alternative or complementary mechanisms that achieve the same deterrent effect without this scale of financial burden, whilst also creating benefits for consumers and society, including:

1. A fee proportional to the network expenditure of the project. This could be an average expected expenditure by project tier to relieve administrative burden, rather than striving for cost-specific network upgrades at each connection request. This data centre-specific network charging regime would work like TNUoS to ensure that system costs from data centres are recovered quickly
2. Fee exemptions where evidence of additionality-backed renewable procurement with firming (as Australia is legislating through its national AI standard);
3. A contribution to a fund that offsets consumer bills (or TNUoS); and equity or benefit-sharing arrangements with GB consumers, for example, through GB Energy or community ownership models.

We recognise some of these may require DESNZ intervention rather than Ofgem action alone.

Q9. Would a fee at the upper end of the proposed range risk deterring viable, non-speculative projects? Please provide the reasons for your answer.

Yes. A fee at the upper end risks deterring viable projects with lower balance sheets toward gas-fired on-site generation or private wire fossil fuel connections, and risks disproportionately excluding specialist and powered land developers who provide an important part of the project origination pipeline, even though they are not the intended target of the policy.

Q10. Do you agree with our assumptions that projects that are speculative/non-viable at the point of application (or already in the queue) will not be able to secure such a fee based on any of the selected range? Please provide the reasons for your answer.

No. We do not agree with this assumption. The size of a developer's balance sheet is not a reliable test of project viability. A well-capitalised but speculative applicant within the hyperscaler category (Google, Amazon, etc) could readily secure the fee at any point in the proposed range. At the same time, a genuinely viable but smaller or earlier-stage developer may struggle to do so. This is precisely the outcome Regen is concerned that Option 1A could produce. It sorts projects by financial capacity rather than by genuine intent and ability to deliver.

As a result, the fee should not be considered as the primary mechanism for deterring applicants from the queue. Readiness Criteria should be the main mechanism.

Q11. If you disagree with Question 10, what assumptions can be improved and how? Please suggest what additional data Ofgem would need to make an informed decision.

We recommend that Ofgem consider other types of queue management fees, such as those outlined in our response to Q7.

Q12. Do you agree that the commitment fee should apply only to data centre projects equal to or above 40 MW that connect to the transmission system or have a transmission impact? Please provide the reasons for your answer.

No. We are concerned that it may push activity toward distribution-connected projects below the threshold, creating increasing requests to connect at distribution voltage levels and increased competition for capacity with other important sources of demand, such as new housing, EV charging and industrial electrification. See our response to Q13 specifically on threshold gaming risk.

Q13. Is 40 MW the appropriate threshold for determining applicability? If not, what threshold should be used and why?

No. Our members have raised concerns that a hard 40 MW threshold will invite a wave of applications just under the threshold (for example, at 39.9 MW) from which a larger data centre site is then assembled from multiple distribution connections. We could support a lower 10 MW threshold in principle. If any threshold is taken forward, we recommend Ofgem's legal drafting include explicit anti-avoidance or aggregation provisions that treat related or co-located sub-threshold applications by the same or connected parties as a single project for the threshold test, and that this gap be closed before the mechanism is implemented.

Q15. Is there any key element that we did not consider that would improve the quality of our analysis to establish the appropriate Data Centre Commitment Fee? Please provide the reasons for your answer.

We recommend Ofgem's analysis be extended to cover:

1. The alternative or complementary mechanisms described in our response to Q7;
2. The differentiated impact of the fee across developer types and capital structures, not just a single hypothetical hyperscaler-backed project; and
3. The risk that the fee design, as currently proposed, incentivises developers toward on-site gas generation or private wire connections to avoid it, which would run directly counter to the wider decarbonisation objectives this reform programme sits within.

Data Centre Commitment Fee: Scope and Detailed Implementation

Q16. Do you agree with our proposed threshold of 40 MW for projects to be within the scope of the commitment fee? Please provide the reasons for your answer.

No. As set out in our response to Q12 and Q13, which raises the risk of sub-threshold gaming through project splitting or aggregation of distribution applications, and monitors for resulting congestion at the distribution level.

Q17. Do you agree with our proposal to apply the Data Centre Commitment Fee from offer acceptance to energisation? Please explain your reasoning.

No. We do not support securing 100% of the fee for the full period from offer acceptance to energisation, for the reasons set out in our response to Q1: this places the maximum financial burden on a project at the point in its lifecycle when planning, consenting and commercial risk are at their highest and least within the developer's control, rather than reducing the developer's exposure as the project de-risks.

We recommend a milestone-linked structure under which the secured amount is reduced as key risk-reducing milestones (in particular, securing statutory consents and planning permission) are achieved, and that any security should, at a minimum, be refundable up to and including Milestone 2.

Q18. Do you agree with our proposed definition of data centre, including the proposed approach for self-declaration and verification? Please provide the reasons for your answer.

Partially agree. The proposed definition (drawing on the Cyber Security and Resilience (Network and Information Systems) Bill) and the self-declaration process are a reasonable starting point. However, given the scale of the financial consequences attached to (mis)declaration and the gaming risk identified at Q13, we recommend Ofgem sets out a clearer, proactive verification and spot-check mechanism, rather than relying primarily on NESO or the relevant network operator having "reason to believe" a project should have self-declared.

Q21. Do you agree with our proposed sanction pre-energisation? Please provide the reasons for your answer.

Yes. We support the principle that misrepresentation in a self-declaration should carry a meaningful consequence. However, this should include a short grace period to allow correction if mistakes were due to administrative error.

Q22. Do you agree with our proposal to treat the Data Centre Commitment Fee as a security and accept existing types of securities? Do you agree with our proposal to pass forfeited securities to consumers through TNUoS charges? Please provide the reasons for your answer.

Yes. We support both proposals. Using the existing CUSC Section 15 securities framework and accepted security types (performance bond, letter of credit, cash deposit) supports timely and proportionate implementation, and passing forfeited amounts back to consumers through TNUoS is consistent with, and proportionate to, the existing treatment of forfeited securities under the generation Project Commitment Fee.

Q23. Do you agree with our proposal in relation to the treatment of hybrid projects with regard to the commitment fee? Please provide the reasons for your answer.

Yes. We welcome that the non-data centre elements of a hybrid project will not be brought into the scope of the fee, as a different fee associated with generation sites will apply elsewhere, and we do not wish to disincentivise on-site renewable generation.

Q24. Do you agree with our proposal in relation to change of use and modification applications? Please provide the reasons for your answer.

Yes. We broadly support the proposed treatment of the four change-of-use and modification scenarios set out in Chapter 5. We agree this should incentivise developers to commit to a specific, declared use case and reduce the incentive to hold capacity without a clear intended use.

Q25. Do you agree with our proposal in relation to the treatment of self-terminating projects following an increase in the data centre commitment fee? Please provide the reasons for your answer.

No. We believe that projects already in the connections queue should be able to self-terminate at a later stage without paying the commitment fee. This will provide a fair way to share costs and ensure that all existing and future data centres pay the fee if successful, without unduly penalising those who wish to leave the queue post-connection agreement stage upon the introduction of a new fee. New projects not in the queue before the fee is introduced should not be able to self-terminate and also recuperate the fee post connection agreement, as they entered into the queue with full knowledge of the commitment fee upfront.

Q26. What option do you prefer regarding other cancellation charges following self-termination: Option 1: being required to pay them, or Option 2: not being required to pay them? Please provide the reasons for your answer.

We prefer Option 1 to protect network expenditure and to cover costs incurred when a project decides not to proceed (existing liabilities, securities or cancellation charges).

Q27. Do you agree with our proposal in relation to exemptions and grace periods? Please provide the reasons for your answer.

Yes. We support the proposed exemptions and grace periods as a proportionate and balanced approach to implementation for projects that are already well progressed. As noted at Q17, we would go further and recommend that, in addition to the proposed exemptions, security be refundable at least up to Milestone 2, given the extent to which planning consent timing sits outside a developer's control.

Data Centre Queue Management Milestones: Policy Design

Q29. Do you agree with our proposed data centre queue management milestone measures? Please provide the reasons for your answer.

Yes. Regen supports stronger readiness testing applied consistently across transmission and distribution, and we prefer evidence of real development activity (compute offtaker evidence, long-lead procurement, technical and financial capability) over financial and commercial screens that favour the largest balance sheets. We consider the milestone framework, rather than the commitment fee alone, to be the more effective and proportionate tool for removing speculative and non-viable projects from the queue.

Q30. Which of the three options for binding compute offtake evidence do you consider most appropriate, and why? Do you agree with our minded to position of a requirement for at least 20% of compute capacity for at least one year?

We support Option 2 (a binding commitment for at least 20% of compute capacity for at least one year), consistent with Ofgem's minded-to position. For the Lease or Sale Pathway, we consider it important that any range of commercial arrangements can be accepted, so long as a formal, legally binding agreement is in place and a compute offtaker is clearly identified.

Q31. For the compute offtake threshold, should the percentage threshold or minimum contract duration should be higher, lower, or designed differently for different data centre business models?

We support Option 2 (20%) as the general default but recommend that network operators retain the ability to accept aggregate evidence across multiple contracts reaching the 20% threshold for multi-customer projects.

Q32. For the long-lead procurement requirement, should the requirement cover transformers and switchgear only, or should other long-lead electrical equipment be accepted?

We support the principle of requiring evidence of long-lead procurement for transformers and switchgear, as this demonstrates a project has overcome real supply chain barriers.

Q33. For the long-lead procurement requirement, should equipment be assessed against indicative voltage-linked ranges, or should NESO and distribution network operators assess whether it is appropriate to the project's particular connection and design?

We support case-by-case assessment by NESO and distribution network operators against the project's particular connection and design, rather than fixed indicative voltage-linked ranges, given the genuine engineering variability between projects that Ofgem itself identifies in Chapter 6 (paragraphs 6.50–6.52).

Q34. Do you agree with our proposal to require data centre projects to demonstrate financial capability through either an investment-grade credit rating or legally enforceable credit support committed to the project?

Partially agree. We could support this proposal, but only if the credit support alternative is retained in a genuinely broad form. A ratings-only test would favour developers with large balance sheets over developers with the most viable projects, and many special-purpose vehicles used to develop data centres will not hold a standalone credit rating.

Q41. Do you agree with our proposal to structure the data centre queue management milestones framework around distinct Self-operation and Lease or Sale Pathways? Please explain whether the proposed pathways accurately reflect data centre business models and identify any models that would not be appropriately accommodated.

Yes. We support this structure. Different data centre business models should be supported to connect with tailored readiness criteria, provided the criteria applied remain robust and effective at reducing speculative projects in the queue. We recommend Ofgem ensure the evidence requirements for projects using both pathways (paragraph 6.16) are clearly specified to avoid duplicative or inconsistent evidence obligations for hybrid self-operate/lease-or-sale projects.

Q42. Do you agree with our proposed timing for each evidence requirement, including pathway selection and MoU at M0.5.Dc, long-lead procurement at M2.Dc and firm compute offtaker evidence at M6.Dc? Please provide evidence on when viable, non-speculative projects can ordinarily supply each form of evidence.

Partially agree. We support the overall milestone structure, linking data centre-specific evidence to network delivery timelines, though we note a gap remains: projects can be development-ready yet blocked by network constraints outside their control and should not be penalised for delays attributable to the network's own timetable.

Based on Regen's member feedback the M0.5.Dc timing for non-binding compute offtaker evidence (six months post-connection signature) may be premature in commercial practice: compute offtakers reportedly will not meaningfully engage with a developer until a firm connection date exists, and then require a further six to twelve months to conclude an agreement. We recommend Ofgem test this timing directly against real-world developer and offtaker engagement patterns.

Data Centre Queue Management Milestones: Implementation

Q43. Do you agree with our options for the thresholds at which the data centre queue management milestones are implemented, and do you agree with our proposed threshold of 10 MW rated IT load? Please provide your reasoning and supporting evidence.

Yes. We support Option 2, a 10 MW-rated IT load threshold. This strikes a reasonable balance between proportionality and avoiding a cliff-edge incentive at the same 40 MW threshold used for the commitment fee, if this is carried forward, and helps close the potential loophole where projects sit just below the commitment fee threshold but are otherwise unconstrained by any readiness testing.

Q44. Do you agree that the data centre queue management milestones should apply to relevant projects connecting at both transmission and distribution? Please explain whether any differences between the transmission and distribution connection processes require a different approach.

Yes. We strongly support applying the milestones consistently across both transmission and distribution. Transmission-only rules would simply push speculative activity onto distribution queues, undermining the policy objective. We recognise the implementation routes will necessarily differ (CUSC changes for transmission; distribution network operator contracts, RIGs and licence changes for distribution), but the substantive readiness tests should be equivalent.

Q45. Do you agree with the proposed approach to applying the data centre queue management milestones to existing and future projects? Please identify any circumstances in which different treatment would be appropriate.

Yes. The existing pipeline is substantial, likely making up the majority of data centre capacity that will ever be built in the UK, and should under no circumstances be exempt from the process.

Q46. Do you agree with the proposed approach to the submission, assessment and ongoing validity of milestone evidence? In particular, what process should apply where evidence is incomplete, has expired, is no longer effective or needs to be replaced?

Partially agree. We support the general approach of ongoing (rather than one-off) evidence obligations. We recommend Ofgem publish clear, binding turnaround times for NESO and distribution network operator assessment decisions and confirm that the six-month replacement window set out in the draft CUSC Section 16 provisions (paragraph 16.4.9.1A) applies consistently across all data centre-specific milestones where evidence lapses or is withdrawn.

Q47. Do you agree that failure to provide satisfactory evidence by the applicable deadline should result in the project being treated as having failed the relevant queue management milestone? Please identify any circumstances in which a project should instead be allowed to remedy the failure, and how this could work.

Partially agree. We support the general framework, provided a short (e.g. 1 week) cure period is available for administrative failures – for example, evidence submitted late or in an incomplete but readily correctable form. This is distinct from a genuine failure to progress the project. The existing “Project Milestone Remedy Period” concept, already drafted into CUSC Section 16 for the general queue management process, provides a workable precedent that we recommend be applied explicitly and consistently to the new data centre-specific milestones.

Q48. Do you agree with our proposed exemptions and transitional arrangements for existing data centre projects? Please identify any circumstances in which a different exemption or transitional period would be appropriate.

No. Existing data centres should be required to provide all readiness criteria that will be applied to new data centre applications. This is because the queue of data centres currently in possession of a connection offer (or with a connection request) is likely to make up most of the future capacity and already surpasses the need. Not applying readiness criteria to the current queue, i.e. allowing exemptions for those with six months to energise, risks creating a loophole for most projects.