

Public

## Workgroup Consultation Response Proforma

### CMP423: Generation Weighted Reference Node

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [cust.team@neso.energy](mailto:cust.team@neso.energy) by **5pm** on **20 June 2025**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact [cust.team@neso.energy](mailto:cust.team@neso.energy)

Respondent details	Please enter your details	
<b>Respondent name:</b>	John Tindal	
<b>Company name:</b>	SSE	
<b>Email address:</b>	John.tindal@sse.com	
<b>Phone number:</b>	Click or tap here to enter text.	
<b>Which best describes your organisation?</b>	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input checked="" type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

### I wish my response to be:

(Please mark the relevant box)

<input checked="" type="checkbox"/> <b>Non-Confidential</b> (this <u>will be shared</u> with industry and the Panel for further consideration)
<input type="checkbox"/> <b>Confidential</b> (this will be disclosed to the Authority in full but, unless specified, <u>will not be</u>

Public

*shared with the Workgroup, Panel or the industry for further consideration)*

**For reference the Applicable CUSC (charging) Objectives are:**

- d) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;*
- e) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C11 requirements of a connect and manage connection);*
- f) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses and the ISOP business\*;*
- g) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*\*; and*
- h) Promoting efficiency in the implementation and administration of the system charging methodology.*

*\* See Electricity System Operator Licence*

*\*\*The Electricity Regulation referred to in objective (g) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.*

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**For reference, the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:**

- a) fostering effective competition, non-discrimination and transparency in balancing markets;*
- b) enhancing efficiency of balancing as well as efficiency of national balancing markets;*
- c) integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*
- e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*
- f) facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

### What is the EBR?

The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the NESO should have terms and

## Public

conditions developed for balancing services, which are submitted and approved by Ofgem.

**Please express your views in the right-hand side of the table below, including your rationale.**

Standard Workgroup Consultation questions				
1	Do you believe that the Original Proposal better facilitates the Applicable Objectives versus the current baseline?	Mark the Objectives which you believe the Original solution better facilitates than the current baseline:		
		<table border="1"> <tr> <td>Original</td> <td> <input checked="" type="checkbox"/>d   <input checked="" type="checkbox"/>e   <input checked="" type="checkbox"/>f   <input checked="" type="checkbox"/>g   <input type="checkbox"/>h  <input type="checkbox"/>None </td> </tr> </table>	Original	<input checked="" type="checkbox"/> d <input checked="" type="checkbox"/> e <input checked="" type="checkbox"/> f <input checked="" type="checkbox"/> g <input type="checkbox"/> h <input type="checkbox"/> None
		Original	<input checked="" type="checkbox"/> d <input checked="" type="checkbox"/> e <input checked="" type="checkbox"/> f <input checked="" type="checkbox"/> g <input type="checkbox"/> h <input type="checkbox"/> None	
<p><b>D Effective Competition</b></p> <p>Yes, better for reasons including:</p> <p><b>Better international competition:</b> Reduces competitive disadvantage of GB Generators who pay expensive GB TNUoS charges (transmission connected and large distribution connected), compared with Generators in other countries and markets who do not pay such network charges.</p> <p><b>Better allocation of risk between generators at different locations that arises from changes in tariff gradient:</b> More efficient allocation of risk regarding variations in elements of TNUoS charges that change the tariff gradient by multiplying the locational signal e.g. Expansion Constant, Security Factor. With Baseline, southern generator charges are close to £zero, so changes in the steepness of the tariff gradient have very little impact on them, while within Baseline, all of the steepening gradient risk is experienced by the most northern</p>				

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	<p>generators. By contrast, CMP423 would move the “zero point” further north, so the risk from future changes in the steepness of the tariff gradient will be more equally experienced by generators at either ends of the north-south gradient. In this way, CMP423 will beneficially reduce the distortion caused by the Baseline methodology where the current locational difference in risk inappropriately amplifies the relative locational investment signal beyond a cost reflective level.</p> <p><b>Better demand competition:</b> Improves competition between demand customers by largely reinstating the locational price signal for demand by increasing demand locational charges so the “floor at £zero” practically applies for fewer zones. Also improves competition between demand, demand side response and behind the meter generation versus grid connected generation by making demand charges closer to being equal/opposite to generation charges.</p> <p><b>Better embedded Generation competition:</b> Largely reinstates the locational gradient for small distribution connected generators (&lt;100MW) since increasing the demand locational tariff will also increase the value of the Embedded Export Tariff (EET), so that the “floor at £zero” of the EET also practically applies in fewer zones.</p> <p><b>E Cost Reflectivity</b></p> <p>Yes, better for the reasons including:</p> <p>Changing from a demand weighted reference node to a generation weighted reference node</p>
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		<p>changes the load flow in the T&amp;T model, changes the resulting tariffs and changes the value of relative price signals. Therefore a key question is which type of reference node better reflects the way the system changes in response to incremental user decision that the TNUoS price signal is supposed to reflect.</p> <p>A generation weighted reference node is better for cost reflectivity because it is more cost reflective of the drivers of network investment according to a cost benefit analysis (such as Network Options Assessment and new strategic planning approaches) and SQSS.</p> <p>A generation weighted reference node better reflects that it is generation that meets demand, while the Baseline is not cost reflective in the way it effectively assumes demand meets generation. This applies better to all situations of an increase, or reduction in generation, as well as an increase, or reduction in demand as described below:</p> <p><b>Better reflects <u>increase</u> in generation:</b> If a generator user incrementally increases its generation, it will tend to displace alternative generation either: Firstly by substituting for an alternative new generator e.g. through competition in CfD, CM, or other contracted service, which will tend to be weighted towards areas of existing generation. Or Secondly, by a different generator closing, which can only happen at locations where generators are already located. By contrast, a generation user decision to increase their generation does not cause an increase in demand as the Baseline incorrectly assumes.</p>
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		<p><b>Better reflects <u>reduction</u> in generation:</b> If a generator user incrementally reduces their generation (e.g. through closure), then alternative generation will respond by either: Firstly an increase in alternative generation to fill the gap e.g. through merchant investment, additional CfD awards to meet decarbonisation targets, or CM capacity to meet capacity targets. Or, secondly, a different generator will not close that otherwise may have done. By contrast, a generation user decision to reduce their generation does not cause a reduction in demand, as the Baseline incorrectly assumes.</p> <p><b>Better reflects <u>increase</u> in demand:</b> If a demand user incrementally increases their demand, then this will be met by an increase in generation e.g. through either merchant investment, or contracts such as CfD, or Capacity Mechanism to deliver policy targets. By contrast, there is not a determined capacity of demand, so a decision for a demand user to increase their demand does not cause a corresponding reduction in other demand, as the Baseline incorrectly assumes.</p> <p><b>Better reflects <u>reduction</u> in demand:</b> If a demand user incrementally reduces their demand, then this will be met by a reduction in generation e.g. closure of existing generation, or reduced provision of new generation via routes including: merchant investment, or contracts such as CfD, or Capacity Mechanism to deliver policy targets. By contrast, there is not a determined capacity of demand, so a decision from a demand user to reduce their</p>
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		<p>demand does not cause a corresponding increase in other demand, as the Baseline incorrectly assumes.</p> <p><b><i>F developments in transmission licensees' transmission businesses and ISOP business</i></b></p> <p>Yes, better.</p> <p>There appears to be a growing difference in average locations of generation versus Demand. This means any detrimental impacts caused by using an inappropriate reference node is already large and likely to worsen over time. This adds to the importance of addressing this defect in a timely way.</p> <p><b><i>G Compliance with Electricity Regulation</i></b></p> <p>Yes, better for reasons including:</p> <p>In particular, better meets the objective of UK retained law relating to European Regulation 838/2010 which relates to the Limiting Regulation of generator transmission charges to within €0 to €2.50.</p> <p>This modification will bring the average cost arising from the generator TNUoS Wider charges closer to being within the range of the limiting regulation on an underlying basis. This will reduce the need to make add-on corrections via the Generator Adjustment Credit to bring overall charges back within the range.</p> <p><b><i>H Efficiency in implementation and administration</i></b></p> <p>Neutral</p>
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## Public

2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  Click or tap here to enter text.
3	Do you have any other comments?	We urge Ofgem to reach a decision on this modification in good time before investors successful in CfD AR7 make their final investment decisions, and before the introduction of any fixed charges as per CMP442.
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes (the request form can be found in the <a href="#">Workgroup Consultation Section</a> ) <input checked="" type="checkbox"/> No  Not at this time
5	Does the draft legal text satisfy the intent of the modification?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  Click or tap here to enter text.
6	Do you agree with the Workgroup's assessment that the modification does not impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  

## Public

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### Specific Workgroup Consultation questions

7	Is it beneficial that the modification would largely reinstate the gradient of locational Demand charges?	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No
		<p>Yes</p> <p>For the reasons described in the consultation, it is beneficial that the modification would largely reinstate the gradient of locational demand charges. Including:</p> <p>Better competition between demand at different locations, including providing a better locational signal to incentivise demand to locate in areas that are dominated by generation.</p> <p>Better competition between demand and generation by making locational charges more equal and opposite.</p> <p>Better competition between generation that is behind customer meters (offsetting demand TNUoS) and smaller distribution connected generators (receiving EET) versus transmission connected generators by better aligning the price signals they face.</p> <p>Better complement CMP440 which intends to reinstate TNUoS demand credits. CMP423 will reduce the scale of the defect that CMP440 is attempting to resolve by reducing the number of demand zones with negative demand charges, and also reducing the magnitude of</p>

## Public

		<p>negative charges in those zones that may remain negative.</p> <p>Better for fairness because it will rebalance demand charges away from the demand Residual currently charged as a fixed charge per site, so reduce the standing charge and put more of the demand charge onto demand locational charges instead. This will better facilitate Ofgem's workstream that is considering how to make customer charges fairer and more affordable for vulnerable customers.</p>
8	Do you have any comments on the change in revenue collection proportions between generation and Demand?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>The change is beneficial for reasons including:</p> <p><b><u>Better for customers</u></b></p> <p><b>Firstly, increasing the proportion of collection from demand is better consistent with Ofgem's Targeted Charging Review principles that revenue collection should be wholly from final demand.</b></p> <p>For reasons including it is both fairer for customers and reduces market distortions, facilitating a more efficient energy system at better value for customers in both the short-term and long-term.</p> <p><b><u>Beter for economic growth</u></b></p> <p><b>Secondly, reducing the proportion of collection from generators will deliver better value for customers by better meeting the government's pro-growth strategy</b></p> <p>An additional issue which should be considered is how this modification better facilitates the stated primary</p>

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	<p>mission of the UK Government to deliver economic growth.</p> <p>This modification will better meet the government's pro-growth strategy by reducing the cost of TNUoS network charges paid by GB generators, compared with network charges paid by generators in competing markets, deliver reduced investor risk through better predictability of TNUoS signals and better facilitate effective competition by making network charges more cost reflective.</p> <p>In particular, approving this modification will result in a regulatory improvement that is pro-growth and a pro-investment intervention, while it will support growth and international competitiveness of the GB power generation sector, encouraging investment – including international direct investment – into the UK.</p> <p>The high importance of this is explained in the Department for Business &amp; Trade strategic steer to the Competition and Markets Authority updated 15<sup>th</sup> May 2025 which highlighted the importance of the CMA to promote growth (<u>Draft strategic steer to the Competition and Markets Authority – GOV.UK</u>):</p> <p>:</p> <p><b><u>"The primary mission of this government is economic growth. Free and fair competition and effective consumer protection support growth by driving forward innovation, increasing productivity, and encouraging investment – including international direct investment – into the UK."</u></b> (emphasis added)</p>
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## Public

	<p><i>"In all areas where the CMA has discretion over which reviews, studies or investigations to commence, and in all cases where the CMA is considering remedies, the CMA should give appropriate consideration to:</i></p> <ul style="list-style-type: none"> <li><i>• prioritising <b><u>pro-growth and pro-investment interventions</u></b></i></li> <li><i>• focusing on markets and harms that particularly impact UK-based consumers and businesses</i></li> <li><i>• <b><u>supporting growth and international competitiveness</u></b> in the industrial strategy's 8 key sectors" (emphasis added)</i></li> </ul> <p>The report also highlighted the role of regulators, such as Ofgem, in delivering this:</p> <p><i>"The Prime Minister has been clear that <b><u>regulators have a key role to play</u></b> in upholding and promoting the reputation of the UK as a centre for certain, proportionate and transparent regulation. This includes the Competition and Markets Authority (CMA)."</i> (emphasis added)</p> <p><i>"The CMA should <b><u>work with other relevant regulators in the UK to ensure regulatory action is coherent, timely and that it supports growth and investment in the UK.</u></b>" (emphasis added)</i></p> <p><b><u>Better meet the intent of Regulation 838/2010</u></b></p> <p><b>Thirdly, as described above, reducing the total transmission charges collected from generate will result in average generator Wider locational generator charges being closer the lower end of the</b></p>
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		<p><b>€0 to €2.50 per MWh range.</b> This is better consistent with the value of transmission charges paid by the majority of generators in EU Member States, better for competition and better for investment in generation in GB.</p>
9	<p>Do you have any comments on the interactions between <a href="#">CMP423</a> with other modifications, including <a href="#">CMP432</a>, <a href="#">CMP440</a>, <a href="#">CMP442</a> and <a href="#">CMP444</a>?</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>All of these modifications are beneficial and complementary and we urge Ofgem to approve all of them, or an appropriate WACM, as part of a package of improved TNUoS. In particular:</p> <p><b>Complements CMP432 (Security Factor):</b> CMP423 will complement CMP432 by reducing the magnitude of impact that removing the Security Factor will have on charges, for northern charges in particular.</p> <p><b>Complements CMP444 (Cap and Floor):</b> CMP423 will complement CMP444 cap and floor by reducing the underlying cost of northern charges, so that the cap is less likely to bite. CMP423 will tend to make the southern floor price bite harder, and in combination, this is also consistent with Ofgem's statements in the charging open letter that questioned whether it is appropriate for southern generators to receive TNUoS credits where it is questionable whether they, in practice, actually deliver a net benefit for the network.</p> <p><b>Complements CMP440 (Demand Credits):</b> CMP423 complements CMP440 by reducing the scale and magnitude of the defect that CMP440 is attempting to resolve.</p> <p><b>Complements CMP442 (Fixed Price TNUoS):</b> CMP423 complements CMP442 by making generator charges</p>

## Public

		more cost reflective in advance of any element of fixing charges being put into place.
10	Regarding terms of reference (g), do you have comments on whether the assumption that a change in generation will displace generation elsewhere is appropriate both now and, in the future, and how this applies or is relevant to the modification?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Yes, it is an appropriate assumption that an incremental change in a generation user use of the system is better reflected as causing a corresponding change in other generation. This is true both now and in the future.</p> <p>The rationale is the same as that provided in the Workgroup consultation document and we have explained this in more detail in our answer to question "1" in this consultation response regarding why CMP423 is better for cost reflectivity.</p>