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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 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

Respondent details	Please enter your details	
Respondent name:	Niall Coyle	
Company name:	NESO	
Email address:	niall.coyle@neso.energy	
Phone number:	07731 808 968	
Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input type="checkbox"/> Supplier <input checked="" 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"/> Non-Confidential (this <u>will be shared</u> with industry and the Panel for further consideration)
<input type="checkbox"/> Confidential (this <u>will be disclosed</u> to the Authority in full but, unless specified, <u>will not be</u>

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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

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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 type="checkbox"/>d <input type="checkbox"/>e <input type="checkbox"/>f <input type="checkbox"/>g <input type="checkbox"/>h <input checked="" type="checkbox"/>None </td> </tr> </table>	Original	<input type="checkbox"/> d <input type="checkbox"/> e <input type="checkbox"/> f <input type="checkbox"/> g <input type="checkbox"/> h <input checked="" type="checkbox"/> None
		Original	<input type="checkbox"/> d <input type="checkbox"/> e <input type="checkbox"/> f <input type="checkbox"/> g <input type="checkbox"/> h <input checked="" type="checkbox"/> None	
<p>We do not believe that the proposed move to a generation-weighted reference node would increase cost-reflectivity of TNUoS charges.</p> <p>Electricity demand is expected to increase very significantly over the next decade and beyond as we transition to net zero (and in line with national developments, including those aligned with the government's National Data Strategy, and its AI Opportunities Action Plan). New generation capacity will need to be installed to meet this increased level of demand. We therefore do not believe the assumption underpinning the proposed generation-weighted reference node, that new generation displaces generation elsewhere on the network with static demand, is appropriate for the future (we accept that this assumption may have been reasonable in the recent past, when total demand was relatively static, or in some years, reducing slightly).</p> <p>Therefore, we feel the redistribution of over £300m of revenue per annum from generation to demand without the justification of increased cost-reflectivity</p>				

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		would be detrimental to consumers, giving what would amount to a “windfall gain” to the existing generation fleet.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No We agree that, if approved, the modification should be implemented no earlier than 1 April 2027, to give parties sufficient time to account for the resulting tariff impacts.
3	Do you have any other comments?	Click or tap here to enter text.
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 Workgroup Consultation Section) <input checked="" type="checkbox"/> No Click or tap here to enter text.
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 Click or tap here to enter text.

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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>We agree that it would be beneficial to reinstate demand charges in Northern GB, which are currently floored at zero to avoid negative charges sending operational signals with potentially harmful effects to industry participants (in terms of increasing peak demand, and the resulting impact on whole system costs, security of supply, and net zero objectives). However, we believe this can be better achieved by directly addressing the reason for the floor, as the proposed CUSC modification CMP440 (which was recommended by the TNUoS task force) seeks to do, rather than changing the reference node.</p> <p>We disagree that changing to a generation-weighted reference node would be more cost-reflective, and therefore believe that reinstating the gradient of demand charges in this way would be inappropriate.</p>
8	Do you have any comments on the change in revenue collection proportions between generation and Demand?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		<p>We note that the analysis contained in annex 5 demonstrates that changing the reference node would increase revenue recovery from demand by over £300m per annum. Many demand users, including domestic consumers and businesses, currently face significant cost pressures, which may be exacerbated by CMP423.</p> <p>This may also result in a windfall loss for suppliers, particularly those who offer fixed contracts beyond the proposed April 2027 implementation date. This</p>

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		<p>increases the risk of supplier insolvency triggering the SolR process, and the associated costs needing to be socialised across other demand users.</p> <p>We believe this redistribution of revenue without sufficient justification would be inappropriate and detrimental to consumers.</p>
9	Do you have any comments on the interactions between <u>CMP423</u> with other modifications, including <u>CMP432</u> , <u>CMP440</u> , <u>CMP442</u> and <u>CMP444</u> ?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>CMP440: We believe that CMP440 would better address the defect caused by the floor on demand TNUoS charges. The CMP440 solution seeks to remove the floor and directly address why the floor was implemented. We feel this is more efficient than the CMP423 solution increasing demand TNUoS charges so that the floor “bites” less deeply.</p> <p>CMP442: We believe that it would be efficient for CMP423 to be decided upon, and if approved, implemented prior to users being allowed to fix their TNUoS charges under CMP442. This would avoid potential increases to the generator adjustment tariff and/or TDR caused by generators fixing before CMP423 has been reflected in tariffs.</p> <p>CMP444: Assuming both CMP423 and CMP444 were implemented, we note that while the impact of CMP423 may lead to the cap biting to a lesser extent, it may also lead to the floor biting to a greater extent.</p>
10	Regarding terms of reference (g), do you have comments on whether the assumption that a	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>If we were to assume a transmission system with a steady state level of demand over time, then the</p>

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	<p>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?</p>	<p>assumption that new generation will displace existing generation may have merit.</p> <p>However, significant growth in electricity demand is expected as we transition to net zero, with decarbonisation efforts resulting in electrification of many forms of existing energy demand (including heat and transport, synthesis of aviation fuel, other electrolysis use cases, and energy-intensive “data centres”). FES 2024 projects a ca. 40% increase (average of the 4 scenarios, with a max of 49% and minimum of 20%) in total system demand by 2035, with installed generation capacity projected to increase by 82% over the same time horizon. This suggests that the status quo of the current demand weighted reference node is more cost reflective of the expanding electricity system, with new generation capacity meeting, and being driven by, increasing levels of system demand.</p> <p>Therefore, we believe the assumption underpinning the proposed generation weighted reference node, that new generation displaces existing generation with static levels of demand, doesn’t reflect the energy system of today or the future.</p>
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