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17 December 2024

Dear Catia,

Re: Urgency request CMP423: Generation Weighted Reference Node

As proposer, I would like to request urgent status for CMP423.

CMP423 now requires an urgent timeline for an imminent issue

Urgency is now required due to a new imminent issue, which has emerged. At the time this modification was raised, a normal timescale was sufficient. However, recent developments have combined to increase the importance of reaching an early decision, while the prospect of timely progress within normal industry process has substantially worsened. This has now combined to create an impasse that can only be resolved by awarding urgent status.

This modification should be given urgent status because it would have a substantial impact on the value of tariffs and materially impact imminent commercial decisions with substantial implications for existing generators and new investment in generation and demand for the GB energy system.

Urgency was not initially required for CMP423 when it was raised on 12th October 2023. This is because it was raised with sufficient time for it to be assessed by Industry and the Authority and for a decision to be made in time for the impacts of the modification to be able to be included in bid prices for CfD AR7 in 2025 and Final Investment Decision's to deliver what is now the Clean Power 30 target (CP30).

Recent developments have increased the importance of a timely resolution of this modification to deliver new government policy objectives of Clean Power 2030 Action Plan[1] including expansion of CfD AR7 in 2025 announced last week on 13th December 2024, as well as the

[1] Clean Power 2030 Action Plan: A new era of clean electricity: Clean Power 2030 Action Plan: A new era of clean electricity

SSEP[2], CSNP[3] and tCSNP2[4], details of which were also published last week on 9th December 2024. This modification also needs to be resolved within REMA timescales, with government announcing last week on 13th December 2024[5] that policy development will be concluded around mid-2025. The interdependence with REMA is that this modification provides an important solution for a Reformed National Market design as an alternative to Zonal pricing, as well as providing a potential benchmark for grandfathering within the REMA process.

It is in customers' best interest that the result of this modification is resolved in time for key FID points to reduce risk to investors to reduce cost of capital, reduce risk margins and reduce support payments to reduce the cost to customers support schemes, or other market prices relevant for investors.

The impact of this modification on locational generator tariffs has a strong interaction with the outcome of CMP444 "Cap and Floor" modification, CMP432 "Security Factor" modification and CMP442 "Fixed generator TNUoS Charges". It is therefore essential that this modification is progressed urgently in line with, or ahead of the other three modifications, , so that Ofgem is able to make a decision on all four at the same time in a joined-up way.

This modification will change the impact of CMP440 "Demand TNUoS Locational Credits" and should inform other workgroup discussions regarding potential changes to the structure of wider demand TNUoS charges such as splitting out the Peak Security and Year Round charges and removing the floor at zero.

Unfortunately, due to Connection Reform all other workgroup modifications were put on hold. Now that CUSC workgroups are able to resume, the timeline to achieve a timely decision, which was previously sufficient via the normal process, now requires an urgent timeline.

As Industry looks to recommence Workgroups on other modifications, other than Connection reform, a number of other modifications have subsequently been raised and deemed by the CUSC Panel to be more important than CMP423. The CUSC Panel prioritised this modification as "Medium"[6] which would now not enable it to be implemented in time critical industry dates for CfD AR7 to deliver CP30.

Significant impact

We understand the need to progress Industry mods in a manner which best utilises limited resources. However, we are now facing what we consider:

> **"a significant commercial impact on parties, consumers or other stakeholder(s);"**

Significant impact on consumers

[2] Strategic Spatial Energy Plan Draft methodology: download
[3] Centralised Strategic Network Plan (CSNP) High-level methodology principles: download
[4] Transitional Centralised Strategic Network Plan 2 Refresh Methodology: download
[5] Review of Electricity Market Arrangements Autumn Update: REMA Autumn update 2024

This modification will materially impact the value and relative locational signal for any new demand investments which are part of government's targets to decarbonise the energy system. This will include new demand for the electrification of heat, transport, and other forms of commercial and industrial demand.

In Ofgem's open letter[7], they correctly recognised that customers benefit from reducing uncertainty for generation investors:

> "*Seeking industry action to develop a temporary intervention to protect the interests of consumers by reducing the uncertainty associated with projected future TNUoS charges*"

The modification should be considered high importance because it's impact is large as it would substantially change the value of wider locational tariffs and relative locational signals for both generation and demand.

Significant impact on parties

This modification should receive urgent consideration because it would substantially change the absolute value and the relative value of locational signals for the large capacity of generation projects expected to bid into CfD allocation rounds from 2025 onwards.

This Reference Node modification CMP423 more appropriately and sustainably addresses the long-underlying cause of investor uncertainty, which complements the short-term nature of CMP444 "Cap and Floor" modification. By contrast, CMP444 only addresses the symptoms of uncertain tariffs in the short-term rather than the underlying cause of TNUoS charge uncertainty over the long-term.

The importance of addressing the issue of uncertainty is described by Ofgem in their open letter as:

> "*This open letter is our response to the developing uncertainty around long-term Transmission Network Use of System ("TNUoS") charges, particularly concerns driven by last year's 10-year projections of significant charge increases for generators in the North of Great Britain ("GB").*"

By reducing those large values of northern TNUoS charges through changing the Reference Node, industry will naturally reduce the defect and variability thus reducing the need for the cap and floor mechanism.

Any delays to this modification would materially distort the outcome of CfD allocation rounds for a large capacity of projects that are essential to deliver government low carbon targets.

[7] Open Letter: Seeking industry action to develop a temporary intervention to protect the interests of consumers by reducing the uncertainty associated with projected future TNUoS charges

In addition, a decision on this modification should be made before applying any fixed price TNUoS charges such as through modification CMP442. This is because CMP442 proposes to offer an option of fixing tariffs based on a NESO forecast of future tariffs, so this Reference Node modification is essential to avoid fixing tariffs at the current excessive and non-cost reflective level.

Practical to complete in urgent timescale

This modification is is low complexity, so should be considered a quick-win for improving cost reflectivity and effective competition. This modification is already part way through the workgroup stage and can be completed within an urgent timescale.

The case for this modification is based primarily on economic principles rather than empirical economic behaviour, so does not require detailed wholesale market modelling that may otherwise require more substantial industry resource.

The modification is low complexity for implementation because it does not require any changes to processes, does not require any new data streams, does not require changes to any other codes, and does not change the structure of tariff. The modification would only require changes to the ICRP VBA code, which NESO has already been completed as part of the impact assessment. The only impact on the rest of industry would be to change the value of existing tariff elements. In this regard, NESO has already developed a new version of the TNUoS transport model to accommodate the impact of this modification as part of assessing its impact. This means that when approved, this modification would be straight forward to implement into charging arrangements.

The impact of this modification does interact with and complement other key modifications including CMP444 “Cap and Floor”, CMP432 “Security Factor” and CMP442 “Fixed price generator TNUoS”.

Its potential impact should inform discussion and solutions in other modifications. This modification has the potential to substantially change the magnitude of TNUoS price signals, so it will be important to reach a decision on this modification before calculating the value of any fixed price signals that may be provided via other modifications. It is also important that the potential outcome of this modification is taken into consideration during workgroup discussions regarding potential TNUoS cap and floor arrangements.

The implementation of this modification is not directly contingent on any other modification, and no other modification is directly contingent in it.

I would be more than happy to discuss anything in this letter further if helpful.

Yours sincerely,

John Tindal
Head of Market Design