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for energy consumers

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20 January 2025

Delivered by email.

Dear Trisha,

**Decision on CUSC Modification Panel's recommendation for CMP423 'Generation Weighted Reference Node' to be treated as an Urgent CUSC Modification Proposal**

On 12 October 2023, SSE (the 'Proposer') raised Connection and Use of System Code (CUSC) Modification Proposal CMP423<sup>1</sup> (the 'Proposal'). On 17 December 2024, the Proposer requested that the Proposal be treated as urgent based on Ofgem's Urgency criteria.<sup>2</sup>

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<sup>1</sup> [CMP423: Generation Weighted Reference Node](#)

<sup>2</sup> [Ofgem Guidance on Code Modification Urgency Criteria](#)

The CUSC Panel (the 'Panel') met on 10 January 2025 to consider the Proposal and the request for urgency. On the same day, the Panel wrote to inform us<sup>3</sup> of its majority view that CMP423 should not proceed as an Urgent CUSC Modification Proposal.<sup>4</sup>

We have considered both the Panel's and the Proposer's arguments in relation to urgency and decided that the Proposal should not be progressed on an urgent basis. We have set out our reasoning below.

## **Background**

The ongoing costs of the transmission network are recovered by Transmission Network Use of System (TNUoS) charges, which are recovered from licensable generators and demand users. The TNUoS Task Force<sup>5</sup> focused on potential changes to improve the stability and predictability of the existing TNUoS framework, such as inputs to the Transport model<sup>6</sup> and assumptions about different users impacts on the network, as well as considering core aspects of the basis on which signals are sent to different network users.

The reference node is a concept in the Transport model which determines how flows on the network are assumed to adjust to a marginal increase in generation at a location. The model currently adopts a 'demand weighted' distributed reference node approach to derive TNUoS charges. It does this by adding 1MW of generation capacity at each node in turn, and as the system needs to balance, it then applies a 1MW increase to demand (spread across all demand nodes in proportion to their contribution to total demand) to ensure that total generation and demand are equal.

The Proposal aims to change from a 'demand weighted' reference node to a 'generation weighted' reference node. This means that when an additional 1MW of generation is added to a node, there would be a pro-rata reduction in generation, rather than the current increase in demand across nodes.

## **Urgency request**

In its urgency request, the Proposer explained why it was requesting urgency, highlighting one of the three criteria set out in Ofgem's Guidance on Code Modification Urgency Criteria

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<sup>3</sup> [References to the "Authority", "Ofgem", "we", "us" 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.](#)

<sup>4</sup> [CMP423: Urgency Request Letter](#)

<sup>5</sup> [Transmission Network Use of System Charges – a Task Force Update](#)

<sup>6</sup> The Transport model contains a representative network map of around 900 nodes. Each node has a demand and/or generation capacity to create a 'baseline' system.

(‘Ofgem’s Urgency Criteria’): (a) *A significant commercial impact on parties, consumers or other stakeholder(s).*

The Proposer considers the Proposal should proceed under an urgent timeline on the basis that it would substantially change the absolute and relative values of the locational signals for the large capacity of generation projects expected to bid into Contracts for Difference (CfD)<sup>7</sup> allocation rounds from 2025 onwards. The Proposer states that the Proposal more appropriately and sustainably addresses the long-underlying cause of investor certainty, and will complement the short-term nature of CMP444: *Introducing a cap and floor to wider generation TNUoS charges*.<sup>8</sup> They also consider that by reducing the large values of northern TNUoS charges through changing the reference node, the current defect and variability of TNUoS will be reduced, therefore, reducing need for the cap and floor mechanism proposed through CMP444.

Furthermore, they believe that a decision on this Proposal should be made before applying any fixed price TNUoS charges through CMP442: *Introducing the option to fix Generator TNUoS charges*<sup>9</sup>, as this will prevent TNUoS being fixed based on NESO’s current forecast of TNUoS charges.

The Proposer also briefly outlined in their urgency request that a decision on this Proposal needs to be resolved within the Review of Electricity Market Arrangements (REMA)<sup>10</sup> decision timescales, and that the solution proposed under CMP423 could be provided as a solution for a Reformed National Market design as an alternative to Zonal pricing.

## **Panel view**

At the Panel meeting on 10 January 2025 the majority of Panel members agreed to recommend to Ofgem that CMP423 should not be progressed as an Urgent CUSC Modification Proposal. The Panel’s arguments for and against urgency are set out in their letter of 10 January 2025.

The majority of the Panel disagreed with the Proposer’s justification for urgency against Ofgem’s criterion (a) *A significant commercial impact on parties, consumers or other stakeholder(s)*. They considered that the materiality of the commercial impact of the Proposal is unclear, with two Panel members querying why a decision on the Proposal is required ahead of the next CfD allocation round. With respect to the Proposer’s views

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<sup>7</sup> A Contract for Difference, or CfD is a contract between a renewable generator and the ‘Low Carbon Contracts Company’ guaranteeing that the generator will receive a specific price for every unit of electricity they export. These contracts are awarded through a government auction into which generators bid, taking into account their projected revenues and liabilities including TNUoS

<sup>8</sup> [CMP444: Introducing a cap and floor to wider generation TNUoS charges](#)

<sup>9</sup> [CMP442: Introducing the option to fix Generator TNUoS charges](#)

<sup>10</sup> [Review of electricity market arrangements \(REMA\) - GOV.UK](#)

regarding the CMP423 decision being aligned with the timing of CMP444, one Panel member noted that they were unable to understand the financial impact on users if this Proposal was implemented before or after CMP444. Additionally, another Panel member highlighted that even if the Proposal were to be granted urgency, any solution proposed would be too late to be factored into the cap and floor solution under CMP444, and although they acknowledged that CMP423 may make it less likely that such a cap may be breached, they do not believe it creates a case for urgency.

In relation to the Proposer's rationale that urgency is required as the Proposal needs to be resolved within the REMA timescales, two Panel members disagreed with this. One Panel member noted that the timelines for the Proposal to inform government policy has passed, and one member highlighted that the Proposal can be assessed under the normal process to meet this objective.

One Panel member considered that the Proposal does not meet criteria for urgency as the current use of a demand weighted reference node has been established for some time when calculating TNUoS tariffs.

The Panel members in support of urgency stated that their views were in line with the Proposer's. One Panel member stated that the Proposal helps complement CMP444 which is already progressing under an urgent timeline, with CMP423 adding an enduring solution element to this. They believed that this would reflect positively in terms of consumer impact as a result of investor decisions and improved ability to commit to invest. Another Panel member highlighted the urgency status of CMP444 and considered that since this Proposal is directly relevant to CMP444, CMP423 should also be granted urgent status.

## **Our decision**

In reaching our decision, we have considered the details within the Proposal, the justification for the Proposer requesting urgency, the Panel's recommendation, and the proposed urgent timeline.

We agree with the rationale that if this Proposal was to be progressed, it should be done on time to feed into the cap and floor design. However, it is unclear with the limited evidence provided, what the commercial impacts of moving to a generation-weighted reference node would be on parties, and on that basis, why CMP423 should be progressed under an urgent timeline. We also note that the Panel has categorised the Proposal as 'medium to high' priority, due to the complexity and technical aspects of the defect. We do not expect the commercial impact of changing the reference node to be different whether it proceeds on an urgent basis or not.

In addition, given the fundamental nature of the reference node within the charging methodology, we expect that this Proposal will require significant industry resource, debate, and analysis. We believe that the urgent timeline proposed is not sufficient when considering the level of analysis potentially required to allow us to make an informed decision that can timely feed into CMP444.

Furthermore, with respect to potential interactions with the proposed cap and floor mechanism (CMP444), considering that the changes to the reference node will mainly impact the locational differential in TNUoS charges, we do not consider it essential that clarity is required on CMP423 ahead of any decision on limiting the overall variability of charges through CMP444. We also agree with the Panel member's view that even if CMP423 were granted urgency, any solution proposed would be too late to be factored into CMP444 analysis. However, although we are not granting urgency for CMP423, we do agree with the Proposer that the timing of any CMP423 decision should be considered in the context of, and be made ahead of, any fixed price TNUoS methodology as proposed through CMP442, as this would then allow any relevant changes to the methodology to be incorporated into NESO's forecast to allow tariffs to be fixed at an appropriate level. We are due to publish an open letter to provide further clarity on code modifications after the potential introduction of a TNUoS cap and floor.

The Proposer suggests that the Proposal needs to be resolved within REMA timescales, and that the Proposal provides an important solution for a reformed national market as an alternative to zonal pricing. We do not agree with this view, given that a firm decision on REMA has not been published yet, and the impact and shape of these reforms are unknown at this point in time. Therefore, we do not consider this justifies a reason for CMP423 to be progressed on an urgent basis.

For the avoidance of doubt, in rejecting the request for urgency, we have made no assessment of the merits of the Proposal, or other related ones, nothing in this letter in any way fetters our discretion in respect of the Proposal.

If you have any comments or questions about this letter, please contact Harriet Harmon at [shai.hassid@ofgem.gov.uk](mailto:shai.hassid@ofgem.gov.uk).

Yours sincerely,

**Shai Hassid**

**Deputy Director of Electricity Transmission Charging and Market Design**

Duly authorised on behalf of the Authority

