



Energy for  
generations

# ESB GT's response to Ofgem's Minded-to Consultation on CMP444 - Introducing a cap and floor to wider generation TNUoS charges

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## 1. INTRODUCTION

This submission presents ESB Generation and Trading's ("ESB GT") response to Ofgem's Minded-to Consultation on *CMP444 - Introducing a cap and floor to wider generation TNUoS charges*.

ESB GT welcomes this opportunity to discuss this important topic. ESB's portfolio in Great Britain includes a combined-cycle gas turbine plant in the northwest, offshore wind farm interests in Scotland, and a growing onshore wind presence. A central feature of ESB's business is to deliver benefits to consumers by investing in the most efficient renewable assets, particularly offshore and onshore wind at locations where the wind resource is highest. Naturally, it is important for the rules to facilitate investments at locations where the energy yield is economically viable for these renewable assets.

By way of an introduction, ESB is Ireland's foremost energy company, with around 7,000 employees. Established in 1927 by the Irish Government, and remaining 95% state owned, ESB created the first fully integrated electricity system in the world. ESB owns the transmission and distribution systems in Ireland and Northern Ireland. ESB have been present in Great Britain since market liberalisation and for 25 years has powered homes and businesses across the country, investing around £2 billion. ESB was one of the first IPPs in the UK with our investment in Corby Power Station (350 MW) in the early 1990's.

ESB is supporting Britain's transition to a low carbon future by investing in flexible and renewable generation assets, including combined-cycle gas turbine, wind, and biomass technologies. ESB opened Carrington Power Station (880 MW) in 2016, one of the most flexible and efficient plants in the market on the site of an old coal plant near Manchester. This was the first large-scale gas-fired station to come on stream in Great Britain since 2013. Carrington is owned by ESB's 100% subsidiary Carrington Power Limited. ESB also owns 125 MW of onshore wind generation capacity (with over 1,400 MW in the development pipeline across the UK), a 7 MW battery storage project in Lincolnshire, and has also invested in the 1100MW Inchcape and 353 MW Galloper offshore wind projects.

## 2. KEY POINTS

- **Transmission Network Use of System (TNUoS) charges are too high in Northern GB and are projected to go even further – this will deter investment in Renewable generation.** The CMP444 Original Proposal was raised by the NESO, and given urgent status, at Ofgem's request, to try to resolve a clear defect, highlighted by the ESO's 10-year TNUoS tariff forecast in September 2023. Therefore, ESB GT does not support Ofgem's "Minded to Decision" to reject CMP444 Original Proposal and all seven WACMs.
- ESO's 10-year TNUoS tariff forecast showed, that given the necessary transmission network investment to meet the UK's decarbonisation objectives, **TNUoS charges in Northern GB would reach a level that would deter investment in the very renewable generation required to meet those objectives.**
- **The Enduring Impact of CMP444** – CMP444 has been designed to introduce a temporary cap and floor to TNUoS charges until an enduring solution is introduced. DESNZ's decision to introduce a Reformed National Price Market will require appropriate signals to generators and demand to locate where best-placed to meet the capacity requirements set out in the Strategic Spatial Energy Plan (SSEP). However, an enduring TNUoS solution is not expected until at least 2029 – CMP444 was intended to be implemented in April 2026 and would give at least 3 years of certainty for investors and impact future TNUoS charges to a more realistic level for investment in Northern GB.
- **The CMP444 Original, and any alternatives developed by the WG, must deliver an effective cap and a realistic floor.** We believe that several of the WACMs (WACMs 1, 2, 3, 4 & 6) do deliver an effective cap and floor, and offer a better solution than the Baseline. On balance, we believe that WACM1 is the best solution - it offers a clear rationale for the creation of a cap and floor, using an appropriate statistical evaluation, based on deciles, rather than standard deviations.
- **We believe that WACM1 facilitates competition in the generation of electricity and therefore meets CUSC Objective d).** It also leads to a more cost-reflective and fairer recovery of costs for connection of assets to the National Electricity Transmission System and therefore meets CUSC Objective e).
- **We support the proposed implementation approach and the proposed implementation date of April 2026.** We understand that the proposed cap and floor does not require NESO to change its TNUoS forecasting approach or timetable and is able to be implemented by April 2026.

### 3. DETAILED RESPONSE TO QUESTIONS

**1. To what extent do you agree with our assessment of the impacts of CMP444 options on cost reflectivity? Please provide your detailed rationale and any supporting evidence.**

The CMP444 Original Proposal was raised by the NESO, and given urgent status, at Ofgem's request, to try to resolve a clear defect, highlighted by the ESO's 10-year TNUoS tariff forecast in September 2023. This defect has **not** been resolved: forecast TNUoS charges in Northern GB are too high and will deter investment in clean, renewable generation in Scotland.

We do not agree with the statement in paragraph 4.8 of the Consultation that: *“applying limits to TNUoS tariffs may reduce the effectiveness of cost reflective locational signals which are used to inform investment decisions, and that this would lead to inefficient siting of generation and sub-optimal network development and an increase to consumer bills”*. This is because the siting of most new offshore wind generation is off the Northern GB coast – this locational decision is dictated by energy yield i.e. wind speed and availability, not necessarily by the availability of transmission network capacity. It is likely that the Strategic Spatial Energy Plan (SSEP) will encourage generation to locate in areas where the wind energy yield is high and where the transmission system may not be fully developed. Therefore, although a factor in the location of new generation, the transmission charging methodology may not be the key determinant.

**Transmission charges should provide appropriate signals that both generation and demand can respond to in a realistic way – this not currently the case.** Transmission charging that deters investment in renewable generation will not deliver the UK's net zero targets – we do not believe that the current TNUoS charging methodology will deliver the investment needed. If done properly, network charges could carry an economic signal that includes a fair and accurate estimation of the wider network investment and operational costs and benefits associated with delivering net zero energy and security for customers. We believe that CMP444, especially WACM1, can provide an appropriate interim solution to facilitate investment in new renewable generation in Northern GB. Longer-term reform should ensure that TNUoS, and network charges more generally are clear, dependable and give a long-term cost signal i.e. 10 years plus.

- 2. Do you agree with our assessment of the impacts of CMP444 options on competition between generators? Please provide your rationale and any supporting evidence. If you have contemporaneous documents and/or data to support your assessment of the interactions between CMP444 options and competition in generation we would encourage you to share it with us alongside this consultation response, clearly marking any confidential data.**

Development of Scottish offshore wind farms is considered crucial to reach the UK's decarbonisation goals. NESO's *Further Flexible Energy and Renewables* scenario, in line with the leasing of Scottish sea beds and development of the Scottish transmission capacity, expects 12GW of offshore wind in Scotland by 2030. A report by Aurora<sup>1</sup>, outlined the benefit to GB customers of two TNUoS modifications (CMP444 & CMP432: *Onshore Locational Security Factor*) by reducing the cost of TNUoS, therefore reducing the cost of CfD Strike Prices. According to Aurora, the CMP 432 proposal will incur £11.1bn of savings to the consumer between 2028-2050, by reducing the CfD bid prices of Scottish wind farms. Under the CMP 444 proposal, the WACM 1 alternative incurs the highest savings to the consumer with £16.2bn over the same period. The estimated benefit to customers between 2028-2050 equates to c.£75m for every £1 reduction in CfD Strike Price. The Aurora report assumed that Scottish Generators set the CfD clearing price 90% of the time.

The divergence of wider TNUoS charges across regions has increased significantly in recent years and is expected to rise further over the next decades with TNUoS increasing in Scotland and decreasing in the South of GB. This uncertainty disadvantages Scottish wind farms, increasing their cost of capital and opportunities to secure debt financing, increasing their bid prices in CfD auctions. Based on Aurora's forecast of status quo TNUoS charges, **TNUoS charges lead to a bid price differential of up to £21/MWh for offshore wind generation between the North and South of GB in 2025.** Wider TNUoS charges are shown

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<sup>1</sup> "Consumer savings under TNUoS reform proposals" – Report by Aurora, Commissioned by Ocean Winds, West of Orkney and Spiorad na Mara – April 2025

to increase CfD bids in Scotland by up to £17/MWh. When accounting for the TLM divergence between the North and South, the differential rises to £27/MWh.

We agree with the views expressed in paragraph 4.37 that the projected level of charges in northern GB from the NESO 10-year projection risks harming competition if not addressed (the defect identified in the Original CMP444 Proposal). We believe that CMP444 Original and 5 of the WACMs: WACMs 1, 2, 3, 4 and 6 better meet the Applicable CUSC Objectives (ACO) 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’* than the Baseline. These solutions would provide greater certainty on the level of wider TNUoS incurred by users. We agree that this would result in a lower cost of capital allowing developers to provide lower bids into CfD auctions, thus increasing competition in the supply of electricity due to greater deployment of renewables.

We believe that WACM1 is the best solution in that it offers a clear rationale for the creation of a cap and floor, using an appropriate statistical evaluation, based on deciles, rather than standard deviations. **Therefore, we believe that WACM1 facilitates competition in the generation of electricity and therefore meets CUSC Objective d).**

3. ***To what extent do you agree with our views on the interactions between cost-reflectivity and competition? Please provide evidence (qualitative or quantitative) supporting your answer.***

**There may be no need for locational investment signals to be delivered through TNUoS under a more centrally planned system that could result from developments such as the Strategic Spatial Energy Plan (SSEP).** With their siting defined by the SSEP, as proposed by the Electricity Networks Commissioner, assets will be very limited in where they can site. In this instance, there would be no need for locational investment signals to be delivered through TNUoS, and it could be a purely cost-recovery mechanism. However, if locational signals were used to influence the investment decisions of system users, a better economic outcome would be achieved through a long-term signal rather than using short-run operational signals delivered through wholesale energy and flexibility markets.

**The unpredictability and volatility of TNUoS charges is an issue.** TNUoS charges do not provide a sufficiently useful investment signal because investors cannot accurately predict them at the time they make commercial decisions, so cannot effectively respond to them. This unpredictability also increases investor risk, which increases the cost of capital, which in turn tends to increase the cost to customers and disincentivise investment in generation, especially renewables.

**TNUoS currently provides a signal for the siting of generation, but as tariffs have the potential to significantly change over the course of an asset's lifetime, this has limited value as the generator will be unable to take action once it is connected.** Renewable generators may have less opportunity to recover these costs elsewhere, e.g. via the Capacity Market, than conventional generators.

**TNUoS charges are too high in the areas which are most suitable for the deployment of renewables. If a decarbonised electricity grid is to be delivered by 2035 then the current transmission charging arrangements need to change to provide more realistic signals for investment.** The UK's best wind resource is largely in the north (Scotland). To achieve net zero, the need to make projects viable in a subsidy-free market means these projects will locate where the energy yields (i.e. wind speeds) are highest. Developing in Scotland with the best wind resource is the only realistic choice. Therefore, TNUoS charges as an investment signal cannot override basic project viability and, as such, the charges only serve to damage project viability (which is often marginal) and thereby restrict further onshore and offshore deployment.

The signals where to invest economically can be discovered through either the energy market or through transmission charging. There may be no need for locational investment signals to be delivered through TNUoS under a more centrally planned system that could result from developments such as the *SSEP*. While it can be argued that current TNUoS arrangements result in appropriate charges for traditional on-demand generation, they do not deal effectively with renewable technologies. They also fail to send adequate investment signals for flexible assets such as storage and hydrogen production, and for co-located assets.

- 4. To what extent do you agree with our assessment of CMP444 options against ACO (f)? Please provide your detailed reasoning and any evidence in support.**



We agree broadly with your assessment that CMP444 options are neutral against ACO (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’*

We tend to agree that the proposals do not necessarily reflect developments in transmission licensees’ transmission businesses or the ISOP<sup>2</sup> business; nor do we consider that the proposals run counter to such developments.

**5. To what extent do you agree with our assessment of CMP444 options against ACO (g)? Please provide your detailed reasoning and any evidence in support.**

We agree with your assessment that that the proposals are neutral for all CMP444 options against ACO (g): *‘Compliance with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency’*. We share your view that neither approval nor rejection of CMP444 would be likely to result in non-compliance with the Electricity Regulation or other relevant legally binding decisions.

**6. To what extent do you agree with our assessment of CMP444 options against ACO (h)? Please provide your detailed reasoning and any evidence in support.**

We agree with the proposer (NESO) of CMP444 Original that the impact of all proposals on the complexity of administrative tasks for the NESO relating to TNUoS charging should be modest and so will be neutral against ACO (h): *‘Promoting efficiency in the implementation and administration of the charging methodology’*.

We do, however, believe that WACM5 could make the implementation and administration of the charging methodology more difficult due to the complexity of determining a maximum range between highest and lowest zonal tariffs and setting an explicit maximum cap for each of the tariff components.

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<sup>2</sup> Independent System Operator and Planner



**7. To what extent do you agree with our assessment of CMP444 options against the ACOs, taken collectively? Please provide your detailed reasoning and any evidence in support.**

We do not agree that CMP444 Original Proposal and some of the WACMs do not better facilitate the ACOs. We believe that CMP444 Original and 5 of the WACMs: WACMs 1, 2, 3, 4 and 6 better meet the Applicable CUSC Objectives d) and e), with WACM1 being the most effective at capping and flooring TNUoS charges. We have supported the raising of CMP444 to try to resolve a clear defect, highlighted by the ESO's 10-year TNUoS tariff forecast in September 2023. This defect has **not** been resolved: forecast TNUoS charges in Northern GB are too high and will deter investment in clean, renewable generation in Scotland.

We do not agree that: *“applying limits to TNUoS tariffs may reduce the effectiveness of cost reflective locational signals which are used to inform investment decisions, and that this would lead to inefficient siting of generation and sub-optimal network development and an increase to consumer bills”*. This is because the siting of most new offshore wind generation is off the Northern GB coast – this locational decision is dictated by energy yield i.e. wind speed and availability, not necessarily by the availability of transmission network capacity. It is likely that the Strategic Spatial Energy Plan (SSEP) will encourage generation to locate in areas where the wind energy yield is high and where the transmission system may not be fully developed. Therefore, although a factor in the location of new generation, the transmission charging methodology may not be the key determinant.

The analysis carried out by Aurora (discussed above in our answer to Question 2) shows the competitive disadvantage that northern generators face compared to southern generators who have located there several years ago when the disparity was much less. The divergence of wider TNUoS charges across regions has increased significantly in recent years and is expected to rise further over the next decades with TNUoS increasing in Scotland and decreasing in the South of GB. This uncertainty disadvantages Scottish wind farms, increasing their cost of capital and opportunities to secure debt financing, increasing their bid prices in CfD auctions. Aurora's forecast of status quo TNUoS charges shows that **TNUoS charges lead to a bid price differential of up to £21/MWh for offshore wind generation between the North and South of GB in 2025**. Wider TNUoS charges are shown to increase

CfD bids in Scotland by up to £17/MWh. When accounting for the TLM divergence between the North and South, the differential rises to £27/MWh.

Under the CMP 444 proposal, the WACM1 alternative incurs the highest savings to the consumer with £16.2bn over the period 2028-2050. **The estimated benefit to customers over this period equates to c.£75m for every £1 reduction in CfD Strike Price.** We therefore believe that WACM1 should be implemented as soon as possible.

8. ***Do you consider that implementation of any of the proposals (if we assessed them to better facilitate achievement of the ACOs) would have particular impacts relevant to our principal objective and/or wider statutory duties? Please provide your detailed reasoning and any evidence in support.***

For the reasons outlined above, we believe that Consumers may benefit through a reduction in inframarginal rent in the Contracts for Difference auctions, by reducing bids for generators in Northern GB through reduced costs and associated risk. Therefore, we believe that the implementation of the CMP444 proposals, especially WACM1, would deliver benefits to consumers and help deliver Ofgem's primary objective of protecting consumers.