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# CUSC Alternative and Workgroup Vote

## CMP475: Amendment to the BSUoS tariff reset process

**Please note:** To participate in any votes, Workgroup members need to have attended at least 50% of meetings.

### Stage 1 – Alternative Vote

If Workgroup Alternative Requests have been made, vote on whether they should become Workgroup Alternative CUSC Modifications (WACMs).

### Stage 2 – Workgroup Vote

2a) Assess the original and WACMs (if there are any) against the CUSC objectives compared to the baseline (the current CUSC).

2b) Vote on which of the options is best.

## Terms used in this document

Term	Meaning
<b>Baseline</b>	The current CUSC (if voting for the Baseline, you believe no modification should be made)
<b>Original</b>	The solution which was firstly proposed by the Proposer of the modification
<b>WACM</b>	Workgroup Alternative CUSC Modification (an Alternative Solution which has been developed by the Workgroup)

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### 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.

## Workgroup Vote

### Stage 1 – Alternative Vote

No Alternatives were raised for this modification.

### Stage 2a – Assessment against objectives

To assess the original and WACMs against the CUSC objectives compared to the baseline (the current CUSC).

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You will also be asked to provide a statement to be added to the Workgroup Report alongside your vote to assist the reader in understanding the rationale for your vote.

ACO = Applicable CUSC Objective

Workgroup Member	Better facilitates ACO (d)	Better facilitates ACO (e)	Better facilitates ACO (f)	Better facilitates ACO (g)	Better facilitates ACO (h)	Overall I (Y/N)
	Alex Curtis – NESO					
Original	Y	-	-	-	-	Y
<p><b>Voting Statement:</b> NESO acknowledges the significant impact that a tariff reset could have on Suppliers and their customers. These workgroups have also been incredibly useful to understand potential impacts in more detail, such as interaction with price cap periods and different supplier contract types. Regardless of the outcome of this modification these details will all be carefully considered in our BSUoS processes to mitigate risk for all industry participants.</p> <p>NESO believes that having the ability to be able to amend a Fixed BSUoS Price, during a Fixed Price Period, due to extreme circumstances is key, to be able to maintain the Working Capital Facility (WCF). This coupled with the ability to 'Top Up' the BSUoS tariff to allow NESO to recover the WCF back towards neutrality is needed to avoid NESO having to trigger multiple resets to better manage the WCF.</p> <p>NESO pledges to continue its open and continued communication with industry to give regular updates on the WCF health. To give industry as much foresight of any potential reset being considered, taking on board all of the valuable information that has been discussed in this work group.</p>						

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Workgroup Member	Better facilitates ACO (d)	Better facilitates ACO (e)	Better facilitates ACO (f)	Better facilitates ACO (g)	Better facilitates ACO (h)	Overall I (Y/N)
	Damian Clough - SSE					
<b>Original</b>	<b>Y</b>	<b>Y</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Y</b>
<p><b>Voting Statement:</b> (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</p> <p>Having a working capital fund reduces the risk of the reopening of tariffs. Ultimately NESO requires cash to fund and balance the System. We expect NESO to manage top ups and recovery of funds in a practical and fair way, but ultimately it needs the ability to do so. Reducing the risk of future reopening of tariffs is better for all competition.</p> <p>(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)</p> <p>BSUoS cannot perpetually underrecover and expect or hope the costs to be covered by other means. A top up is a recovery of historical costs and mirrors the K mechanism in tariffs.</p>						

Workgroup Member	Better facilitates ACO (d)	Better facilitates ACO (e)	Better facilitates ACO (f)	Better facilitates ACO (g)	Better facilitates ACO (h)	Overall I (Y/N)
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	Gareth Evans – Waters Wye Associates (nominated by Corona Energy)					
<b>Original</b>	<b>N</b>	<b>N</b>	<b>-</b>	<b>-</b>	<b>N</b>	<b>N</b>
<p><b>Voting Statement:</b> The modification undermines the benefits of the fixed price regime by resulting in increased potential price risk for suppliers and non-domestic customers on pass-through contracts. Then this is for E and H, because that was part D really, you think of the competition and pricing is that it doesn't create a reflective price by over recovering, you're actually creating an unreflective price because you're trying to catch up on past cost expenditure. So you're not actually removing a time lag, you're actually baking in a time lag from previous months with the top-up mechanism.</p>						

<b>Workgroup Member</b>	<b>Better facilitates ACO (d)</b>	<b>Better facilitates ACO (e)</b>	<b>Better facilitates ACO (f)</b>	<b>Better facilitates ACO (g)</b>	<b>Better facilitates ACO (h)</b>	<b>Overall I (Y/N)</b>
	Gregory Edwards – Centrica					
<b>Original</b>	<b>N</b>	<b>N</b>	<b>N</b>	<b>-</b>	<b>N</b>	<b>N</b>
<p><b>Voting Statement:</b> The Original Proposal does not better facilitate the Applicable CUSC Objectives relative to the current baseline.</p> <p>We recognise that NESO wants greater flexibility to manage the BSUoS Working Capital Facility. However, the greater flexibility undermines the Fixed BSUoS Price regime and introduces additional uncertainty that does not exist with the baseline. This, in turns, erodes the expected benefits associated with CMP 408 and CMP 415 and worsens the management of BSUoS charges from both a supplier and a customer perspective. Furthermore, we have significant concerns regarding the design and governance of the proposed mechanism.</p>						

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The Original is assessed to be inferior with respect to the following objectives when compared to the baseline:

- Objectives (d,e): by increasing cost volatility, reducing predictability, and driving the inclusion of risk premia, as suppliers would need to anticipate how and when NESO may recover the Working Capital Facility.
- Objective (f): by weakening incentives on accurate forecasting, while focusing exclusively on recovering additional revenue from suppliers and customers rather than fully exploring alternative tools to manage temporary shortfalls
- Objective (h): by introducing additional uncertainty and disproportionate risk, including for non-domestic customers on pass-through contracts who would face greater difficulty managing budgets in the face of unpredictable in-period adjustments at potentially short notice.

Workgroup Member	Better facilitates ACO (d)	Better facilitates ACO (e)	Better facilitates ACO (f)	Better facilitates ACO (g)	Better facilitates ACO (h)	Overall (Y/N)
	Karl Maryon – Drax Energy Solutions Limited					
<b>Original</b>	<b>N</b>	-	-	-	-	<b>N</b>
<b>Voting Statement:</b> Not supportive. The modification does not better facilitate the applicable objectives with respect to the baseline and is negative in relation to promoting objective (d) effective competition. The impact of the modification would be to overcorrect tariff recovery (to a zero position) that would not be the case under the baseline. This could lead to large corrections that would adversely impact competition. Suppliers would need to pass through those costs directly to consumers who will be largely unsighted as to the change.						

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Overall objective (h) promoting efficiency in the administration of arrangements is neutral. As a positive there is the definition of a separate 'top up' charge by NESO. However, this is countered negatively by the increased charge and lack of foresight for customers subject to the charge.

Workgroup Member	Better facilitates ACO (d)	Better facilitates ACO (e)	Better facilitates ACO (f)	Better facilitates ACO (g)	Better facilitates ACO (h)	Overall (Y/N)
	Laide Adekanle - Scottish Power					
Original	N	N	-	-	-	N
<p><b>Voting Statement:</b> The current reset mechanism only holds the Working Capital Facility at its triggered level and does not allow restoration towards neutrality, creating a risk of repeated resets. However, the proposed solution addresses that with an open-ended over-recovery component which, together with the existing five-Business-Day reset mechanism, worsens rather than improves the position against the Applicable Objectives.</p> <p>Objective (d) – Worse facilitated. A larger, discretionary uplift delivered at five Business Days' notice is unhedgeable. Prudent suppliers must therefore price additional risk premia into customer contracts, acting as a barrier to effective competition in supply.</p> <p>Objective (e) – Worse facilitated. While the tariff may be more cost-reflective at the moment of reset, the recovery to zero or the amount deemed reasonable by The Company introduces unbounded discretion. This does not produce predictably cost-reflective charges over me.</p> <p>Objective (f) – Neutral. The modification does not engage this objective.</p> <p>Objective (g) – Neutral. The modification does not engage this objective.</p>						

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Objective (h) – Neutral. The drafting adds a mechanism to the existing process without codifying objective criteria, defined information requirements or a defined recovery floor. It therefore neither materially improves nor worsens administrative efficiency relative to the baseline.

Workgroup Member	Better facilitates ACO (d)	Better facilitates ACO (e)	Better facilitates ACO (f)	Better facilitates ACO (g)	Better facilitates ACO (h)	Overall (Y/N)
	William Cartwright - TotalEnergies Gas and Power					
<b>Original</b>	<b>N</b>	<b>Y</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>N</b>
<b>Voting Statement:</b> While the top up tariff does make the recovery of charges more reflective by allowing NESO to recover additional costs within period, rather than waiting for the next published tariff. However it introduces a new risk as published tariffs could be increased significantly to cover the Working Capital impacting fixed customers. There is a further impact to pass through customers who could receive sudden and unexpected increases to bills if tariffs were reset to include the working capital mid period.						

Of the 7 votes, how many voters said this option was better than the Baseline.

Option	Number of voters that voted this option as better than the Baseline
<b>Original</b>	2



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## Stage 2b – Workgroup Vote

Which option is the best? (Baseline or Original)

Workgroup Member	Company	Industry Sector	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Alex Curtis	NESO	System Operator	Original	(d)
Damian Clough	SSE	Generator	Original	(d) and (e)
Gareth Evans	Waters Wye Associates (nominated by Corona Energy)	Consultant	Baseline	
Gregory Edwards	Centrica	Supplier	Baseline	
Karl Maryon	Drax Energy Solutions Limited	Supplier	Baseline	
Laide Adekanle	Scottish Power	Supplier	Baseline	
William Cartwright	TotalEnergies Gas and Power	Supplier	Baseline	