

## CUSC Alternative and Workgroup Vote

### CMP361 - BSUoS Reform: Introduction of an ex ante fixed BSUoS tariff

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

#### The Applicable CUSC Objectives (Charging) are:

- 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;
- 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 C26 requirements of a connect and manage connection);
- 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;
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and
- Promoting efficiency in the implementation and administration of the system charging methodology.

\*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

## Workgroup Vote

### Stage 1 – Alternative Vote

Vote on Workgroup Alternative Requests to become Workgroup Alternative CUSC Modifications.

*The Alternative vote is carried out to identify the level of Workgroup support there is for any potential alternative options that have been brought forward by either any member of the Workgroup OR an Industry Participant as part of the Workgroup Consultation.*

*Should the majority of the Workgroup OR the Chairman believe that the potential alternative solution may better facilitate the CUSC objectives than the Original proposal then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative CUSC modification (WACM) and submitted to the Panel and Authority alongside the Original solution for the Panel Recommendation vote and the Authority decision.*

“Y” = Yes

“N” = No

“-“ = Neutral

Workgroup Member	A1 12N 3F	A2 12N 12F	A3 9N 6F	A4 9N 6F, No Fund	A5 12N 3F, No Fund	A6 5-year Fund Recovery	A7 9N 6F, P90, Fund cap	A8 12N 3F, P90, Fund cap
Jennifer Doherty	N	N	Y	N	N	N	N	N
Paul Jones	Y	N	Y	Y	Y	Y	Y	Y
Robert Longden	Y	N	Y	Y	Y	Y	N	N
Joshua Logan	Y	Y	Y	Y	Y	Y	Y	Y
Simon Vicary	Y	N	Y	Y	Y	Y	Y	Y
Matthew Cullen	Y	N	Y	Y	Y	Y	Y	Y
George Moran	Y	Y	Y	Y	Y	Y	Y	Y
Andrew Colley	Y	N	Y	Y	Y	N	Y	Y
WACM?	WACM1	-	WACM2	WACM3	WACM4	WACM5	WACM6	WACM7

## Stage 2a – Assessment against objectives

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

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 (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	Jennifer Doherty	National Grid ESO				
Original	Y	-	-	-	Y	Y
WACM 1	N	-	N	-	Y	N
WACM 2	Y	-	-	-	Y	Y
WACM 3	N	-	-	-	Y	N
WACM 4	N	-	N	-	Y	N
WACM 5	N	-	-	-	N	N
WACM 6	N	-	-	-	N	N
WACM 7	N	-	N	-	N	N

### Voting Statement:

For objective a, although all the options will produce a fixed tariff only the Original and WACM 2 are positive. This is due to them having a more reasonable fix and notice period so tariffs will be more reliable closer to real time delivering benefits to the end consumer through efficient competition. The other alternates are all negative against objective a. For WACMs 1, 4 and 7, this is due to having a long notice period, which will be very challenging to forecast tariffs over, and therefore the likelihood of resetting tariffs within these periods will increase or the BSUoS fund requirement would need to be greater to provide the same P99 level of certainty. For WACMs 3,4 6 and 7, having no BSUoS fund in place or having a reduced BSUoS fund built up over a slower period, will also increase the likelihood of tariffs being reset within a fixed period. Parties today are aware of the BSUoS risk changing each period, however with fixed BSUoS there is an expectation that this would only happen in exceptional circumstances. Increasing the likelihood of tariffs being reset within the fixed period may not be well understood across parties, and therefore may result in parties needing to exit the market should these not be accounted for.

All options are neutral under b and d as they are not relevant objectives for this modification.

Under objective c, WACMs 1, 4 and 7 are negative against objective c, as cost reflectivity is significantly reduced with long notice periods.

Under objective e, the majority of options are positive against this objective as it simplifies the current charging methodology. Under WACMs 5,6 and 7, this is negative, as there will likely be additional complexity for parties understanding the variability exposure in each year as this changes so frequently.

For WACMs 1, 3 and 4, overall these are negative against the CUSC objectives as the concerns over competition (with tariffs being reset within a fixed period) and cost reflectivity (objective a and c), outweigh the simplicity under objective e.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	Paul Jones	Uniper UK Ltd				
Original	Y	N	-	-	N	Y
WACM 1	Y	N	-	-	N	Y
WACM 2	Y	N	-	-	N	Y
WACM 3	Y	N	-	-	N	Y
WACM 4	Y	N	-	-	N	Y
WACM 5	Y	N	-	-	N	Y
WACM 6	Y	N	-	-	N	Y
WACM 7	Y	N	-	-	N	Y

**Voting Statement:**

Voting Statement: All options are better than the baseline, by reducing the risk associated with the current volatile BSUoS methodology by allowing the ESO to manage cashflow risk on behalf of the industry. As long as the regulatory arrangements around effectively provide the ESO as a regulated monopoly with zero payment default risk, then this should be managed at a lower cost of capital than suppliers are able to achieve, being exposed to the competitive market and having to manage default risk.

A longer notice appears to be something that suppliers are seeking, but if coupled with a long fix period risks making the position very difficult for the ESO to manage. Therefore, a shorter fix period coupled with a longer notice period seems better than the option in the original solution. A 12 month notice period with 3 month fix appears to be the best combination for most suppliers whilst retaining the 15 month overall combined period.

Recognising that removing the BSUoS fund will clearly be a preference to suppliers, there appears to be a significant concern about the ESO's ability to cover the full potential cashflow risk. Therefore some level of fund appears inevitable. WACM1 appears to be the best solution by combining the 12 month notice period and 3 month fix with the BSUoS fund outlined in the original proposal.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	Robert Longden	Cornwall Insight				
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
WACM 2	Y	-	-	-	-	Y
WACM 3	Y	-	-	-	-	Y
WACM 4	Y	-	-	-	-	Y
WACM 5	Y	-	-	-	-	Y
WACM 6	Y	-	-	-	-	Y

WACM 7	Y	-	-	-	-	Y
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Voting Statement:

Insofar as the Original and WACMs provide a degree of protection from BSUoS volatility then they represent an improvement on the Baseline. Some are more effective than others in providing an appropriate balance between notice/fixed period/funds required and level of protection. Each has merits in different areas.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	Joshua Logan Drax					
Original	Y	-	Y	-	Y	Y
WACM 1	Y	-	Y	-	Y	Y
WACM 2	Y	-	Y	-	Y	Y
WACM 3	Y	-	Y	-	Y	Y
WACM 4	Y	-	Y	-	Y	Y
WACM 5	Y	-	Y	-	Y	Y
WACM 6	Y	-	Y	-	Y	Y
WACM 7	Y	-	Y	-	Y	Y

Voting Statement:

**The Original and all CMP361 WACMs better facilitate the Applicable CUSC Charging Objectives.** A regulated entity (in this case the ESO) who is guaranteed to recoup the cost, should have a lower cost of capital than that of energy suppliers. Therefore, fixing BSUoS should reduce whole system costs and, all else being equal, lead to lower costs for the end consumer. We prefer options with a longer notice period than 3 months, this will enable suppliers to remove more of the BSUoS risk from longer contracts.

#### Applicable Objective A – Positive

BSUoS is volatile and difficult to forecast. Adopting an ex-ante fixed charge would go some way to addressing this issue. Market participants attempt to forecast BSUoS but given the uncertainty, there is risk premia factored into retail contracts which is ultimately borne by end consumers. Fixing BSUoS as per the Original Solution would materially reduce that risk premia and thus reduce this additional cost to the end consumer.

Due to the volatility of BSUoS, there will be times when market participants incorrectly forecast BSUoS and as a result will be unable to recover the cost. Fixing BSUoS will improve competition as it allows market participants to more effectively compete on price (wholesale market hedging, cost to serve, etc.) and is not influenced by their ability (or inability) to forecast BSUoS charges which are outside of their control. In summary, the volatility and unpredictability of BSUoS charges causes uncertainty for market participants, has a negative impact on competition and increases costs for consumers. CMP361 would significantly reduce the BSUoS risk faced by market participants and reallocate this to the ESO. This will have a positive impact on competition in the retail market.

**WACMs with a notice period greater than 3-months remove more of the BSUoS risk from longer retail contracts and have a greater positive impact on competition.**

**Applicable Objective C – Positive**

The ESO forward plan commits to reviewing BSUoS charges and exploring the possibility of fixing BSUoS. CMP361 does this and therefore takes account of developments in the licensee's business.

**Applicable Objective E – Positive**

Fixing BSUoS simplifies the recovery of BSUoS costs and unlocks process efficiencies for market participants compared to the status quo. Fixing BSUoS promotes efficiency in the administration of the charging methodology.

**Impact on Consumers**

In addition to the qualitative reasoning given in relation to the Code Objectives, the quantitative analysis by Frontier also concludes that fixing BSUoS would have a £140 - £148m benefit to end consumers (NPV, 2023 - 2040).

**Preferred Option**

We note that it's common for non-domestic supply contracts to have a duration of 2 years and be agreed several months prior to the supply start date. None of the options would fully remove the BSUoS risk from all supply contracts, especially in the non-domestic market.

A notice period of 3-months as per the ESO's original is not sufficient. This variation wouldn't maximise the benefits of fixing BSUoS.

When comparing the Original and WACMs, our view is that 9-month notice and 6-month fix strikes the optimum balance, and would best minimise the BSUoS risk faced by suppliers when entering into fixed contracts with customers

Our absolute preference would be to not have a BSUoS fund, but to also have certainty tariffs will not be re-opened during a fixed period. Re-opening tariffs would undermine the benefits associated with this modification and should be an absolute last resort. If a P99 fund is required to mitigate the risk of this occurring, we would support a BSUoS Fund built up over 2 years.

**Our preference is for WACM2.**

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	Simon Vicary EDF Energy Customers Limited					
Original	Y	-	-	-	Y	Y
WACM 1	Y	-	-	-	Y	Y

WACM 2	Y	-	-	-	Y	Y
WACM 3	Y	-	-	-	Y	Y
WACM 4	Y	-	-	-	Y	Y
WACM 5	Y	-	-	-	Y	Y
WACM 6	Y	-	-	-	Y	Y
WACM 7	Y	-	-	-	Y	Y

**Voting Statement:**

BSUoS, being an ex-post charge, has been determined to be a cost recovery mechanism rather than a price signal by the Second BSUoS Task Force. Therefore, the most efficient and effective recovery, to reduce as far as possible forecast error risk for Suppliers, is to fix BSUoS in advance so the Original and all WACMs would better facilitate effective competition in the generation and supply of electricity. An ex-ante fixed volumetric BSUoS tariff should be set over a minimum total fixed and notice period of 15 months to give sufficient forward certainty for industry parties. WACM 1 seems the best solution overall as it will ensure there is always at least 12 months of fixed BSUoS.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	Matthew Cullen E.ON UK					
Original	Y	-	-	-	Y	Y
WACM 1	Y	-	-	-	Y	Y
WACM 2	Y	-	-	-	Y	Y
WACM 3	Y	-	-	-	Y	Y
WACM 4	Y	-	-	-	Y	Y
WACM 5	Y	-	-	-	Y	Y
WACM 6	Y	-	-	-	Y	Y
WACM 7	Y	-	-	-	Y	Y

**Voting Statement:**

The Original proposal and all WACMs look to introduce a fixed, ex ante BSUoS charge (replacing the baseline variable, ex post charge). This allows suppliers to removal risk premia on tariffs (only partially for some longer-term tariffs) which is a cost that is dependent on the suppliers' risk appetite and not on any fundamental driver. This then allows suppliers to better compete on a level playing field rather than a race to the bottom where all suppliers are exposed to the full market risk (a very real issue as demonstrated by the current situation regarding hedging strategies). This better facilitates ACO (a).

Similarly, as stated by the BSUoS taskforce, BSUoS should be seen as a cost recovery charge rather than a pricing signal. The Targeted Charging Review recommends that residual (or cost recovery) charges should be unavoidable and fixed which making BSUoS an ex ante fixed charge facilitates. This better facilitates ACO (e).

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
	George Moran Centrica					



Original	Y	Y	-	-	N	Y
WACM 1	Y	Y	-	-	N	Y
WACM 2	Y	Y	-	-	N	Y
WACM 3	Y	Y	-	-	Y	Y
WACM 4	Y	Y	-	-	Y	Y
WACM 5	Y	Y	-	-	N	Y
WACM 6	Y	Y	-	-	-	Y
WACM 7	Y	Y	-	-	-	Y

#### Voting Statement:

**ACO (a): All options better facilitate ACO (a)** by improving the predictability of the BSUoS charges that suppliers need to factor into contract offerings. There are two main elements of the proposal that affect the level of the benefit from the modification, the notice period and the BSUoS Fund.

The more advance notice that is provided of a fixed charge, the more contracts will be able to benefit from the reduction in risk. All of the WACMs provide more notice than the Original and will increase the benefit of the change and spread it more fairly across the market (and customers).

The BSUoS Fund in the Original acts to reduce the benefit of the change. The BSUoS fund was not recommended by the Task Force or Ofgem and would represent a shock to industry. The mechanism requires suppliers to be able to forecast changes in the ESOs working capital arrangements and risk modelling to be able to forecast future BSUoS rates, neither of which Suppliers will be well placed to do. The fund itself will therefore add back some of the risk premium that the change seeks to reduce and reduces the benefit of those options which include it – although this is mitigated in WACMs 6 and 7 by the capped annual contribution.

**Overall, WACMs 3 and 4 perform best against ACO (a).**

**ACO (b): All options better facilitate ACO (b).** BSUoS is currently a cost recovery charge, providing no useful cost reflective forward-looking signal. It can encourage responses that are inefficient and increase system costs e.g. reducing demand to avoid high BSUoS costs caused by excess Generation in a zone. CMP361 will remove/reduce these distortive signals, making it more cost reflective than the baseline.

**ACO (e): The Original and WACMs 1,2 and 5 do not better facilitate ACO (e). WACMs 6 and 7 are neutral against ACO (e). WACMs 3 and 4 better facilitate ACO (e).** Moving to an ex-ante approach for BSUoS should simplify the use of system charging methodology, but the introduction of the BSUoS Fund in the Original and WACMs 1,2 and 5 introduces an additional and unnecessary complexity relative to the baseline. Therefore, these options do not better facilitate ACO (e). WACMs 6 and 7 reduce some of this adverse effect by capping the annual contribution to the BSUoS fund which will be easier for Parties to understand and manage – therefore these WACMs are judged to be neutral against ACO (e). **WACMs 3 and 4 do not include a BSUoS Fund and therefore better facilitate ACO (e).**



Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Better facilitates ACO (e)	Overall (Y/N)
Andrew Colley SSE						
Original	Y	-	Y	-	Y	Y
WACM 1	Y	-	Y	-	Y	Y
WACM 2	Y	-	Y	-	Y	Y
WACM 3	Y	-	Y	-	Y	Y
WACM 4	Y	-	Y	-	Y	Y
WACM 5	Y	-	Y	-	Y	Y
WACM 6	Y	-	Y	-	Y	Y
WACM 7	Y	-	Y	-	Y	Y
Voting Statement:						

### Stage 2b – Workgroup Vote

Which option is the best? (Baseline, Proposer solution (Original Proposal), WACM1 – WACM7)

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Jennifer Doherty	National Grid ESO	<b>Original</b>	<b>(a), (e)</b>
Paul Jones	Uniper UK Ltd	<b>WACM1</b>	<b>(a)</b>
Robert Longden	Cornwall Insight	<b>WACM2</b>	<b>(a)</b>
Joshua Logan	Drax	<b>WACM2</b>	<b>(a), (c), (e)</b>
Simon Vicary	EDF Energy Customers Limited	<b>WACM1</b>	<b>(a), (e)</b>
Matthew Cullen	E.ON UK	<b>WACM1</b>	<b>(a), (e)</b>
George Moran	Centrica	<b>WACM3</b>	<b>(a), (b), (e)</b>
Andrew Colley	SSE	<b>WACM1</b>	<b>(a), (c), (e)</b>

Of the 8 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
Original	<b>8</b>
WACM1	<b>7</b>
WACM2	<b>8</b>
WACM3	<b>7</b>
WACM4	<b>7</b>
WACM5	<b>7</b>

WACM6	7
WACM7	7