

## CUSC Alternative and Workgroup Vote

### CMP345: Defer the additional Covid-19 BSUoS Costs

**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 Code Modifications.

#### 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) If WACMs exist, vote on whether each WACM better facilitates the Applicable CUSC Objectives better than the Original Modification Proposal.

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

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

- a. 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;
- b. 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);
- c. 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;
- d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency. These are defined within the National Grid Electricity Transmission plc Licence under Standard Condition C10, paragraph 1 \*; and

e. Promoting efficiency in the implementation and administration of the CUSC arrangements.

\*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 Code 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 would better facilitate the CUSC objectives (against either the Baseline or the Original) then the potential alternative will be fully developed by the Workgroup with legal text to form a Workgroup Alternative Code 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	Alternative 1 (Sembcorp)	Alternative 2a (Infinis)	Alternative 2b (Infinis)	Alternative 3a (Uniper)	Alternative 3b (Uniper)	Alternative 4a (FGG)	Alternative 4b (FGG)
Garth Graham	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>
Jenny Doherty	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>
Grace March	<i>Y</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Bill Reed	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>
Paul Jones	<i>Y</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Paul Mott	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>
George Moran	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Joshua Logan	<i>Y</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>
Simon Lord	<i>Y</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Jennifer Byrne	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>
Graz Macdonald	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>Y</i>	<i>Y</i>
Tom Putney	<i>Not present at Vote</i>						
Joe Dunn	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>
Kate Dooley	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>
Lisa Waters	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>
Matthew Cullen	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>
James Kerr	<i>Y</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>
John Harmer	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>N</i>	<i>N</i>	<i>Y</i>	<i>Y</i>
<b>WACM?</b>	<b>WACM1</b>	<b>No</b>	<b>No</b>	<b>WACM2</b>	<b>No</b>	<b>WACM3</b>	<b>WACM4</b>

Workgroup Member	Alternative 5 (Centrica, 1) 2022/23	Alternative 6 (Centrica, 2) 2021/2022	Alternative 7 (Centrica, 3) Both	Alternative 8 (ESO, 1) Payment Terms	Alternative 9 (ESO, 2) Deferral within Year	Alternative 10 (E.ON)	Alternative 11(SSE)
Garth Graham	Y	Y	Y	N	N	Y	Y
Jenny Doherty	N	N	N	Y	Y	N	N
Grace March	N	N	N	Y	N	N	N
Bill Reed	N	N	N	N	N	N	N
Paul Jones	N	N	N	Y	Y	N	N
Paul Mott	Y	Y	Y	N	N	Y	Y
George Moran	Y	Y	Y	N	Y	Y	Y
Joshua Logan	Y	Y	Y	N	N	Y	Y
Simon Lord	N	N	N	Y	Y	N	N
Jennifer Byrne	N	N	N	Y	Y	N	N
Graz Macdonald	N	N	N	Y	N	N	N
Tom Putney	<i>Not present at Vote</i>						
Joe Dunn	Y	Y	Y	N	N	Y	Y
Kate Dooley	Y	Y	Y	N	N	Y	Y
Lisa Waters	N	N	N	Y	N	N	N
Matthew Cullen	Y	Y	Y	N	N	Y	Y
James Kerr	N	N	N	Y	Y	N	N
John Harmer	N	N	N	Y	Y	N	N
<b>WACM?</b>	<b>WACM5</b>	<b>No</b>	<b>No</b>	<b>WACM6</b>	<b>WACM7</b>	<b>No</b>	<b>WACM8</b>
	<i>Saved by Chair</i>				<i>Saved by Chair</i>		<i>Saved by Chair</i>

**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)
Garth Graham, SSE Generation						
Original	Y	-	Y	-	-	Y
WACM 1	N	-	N	-	-	N
WACM 2	Y	-	Y	-	-	Y
WACM 3	N	-	N	-	-	N
WACM 4	N	-	N	-	-	N
WACM 5	Y	-	Y	-	-	Y
WACM 6	N	-	N	-	-	N
WACM 7	N	-	N	-	-	N
WACM 8	Y	-	Y	-	-	Y

Voting Statement:

**Original / WACM2 / WACM5 / WACM8**

Each of these four proposals will be positive in terms of Applicable Objective (a) as it will ensure that BSUoS paying market participants are not adversely impacted by the costs incurred by the ESO to manage the transmission system during the Covid

event and thus this will facilitate 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.

Each of the four proposals is neutral in terms of Applicable Objective (b).

Each of the four proposals will be positive in terms of Applicable Objective (c) as it will ensure that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event.

Each of the four proposals is neutral in terms of Applicable Objective (d).

Each of the four proposals in terms of Applicable Objective (e).

**WACM1 / WACM3 / WACM4 / WACM6 / WACM7**

Each of these five proposals will not be positive in terms of Applicable Objective (a) as it fails to ensure that BSUoS paying market participants are not adversely impacted by the costs incurred by the ESO to manage the transmission system during the Covid event and thus this will not better facilitate effective competition in the generation and supply of electricity and (so far as is consistent therewith) not facilitate competition in the sale, distribution and purchase of electricity.

Each of the five proposals is neutral in terms of Applicable Objective (b).

Each of the five proposals will not be positive in terms of Applicable Objective (c) as it will not ensure that the BSUoS methodology properly takes account of the developments in transmission licensees' transmission businesses arising from the unprecedented Covid event.

Each of the five proposals is neutral in terms of Applicable Objective (d).

Each of the five proposals is neutral in terms of Applicable 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)
	Jenny Doherty, National Grid ESO					
Original	N	N	N	-	N	N
WACM 1	-	-	N	-	Y	N
WACM 2	N	N	N	-	N	N
WACM 3	-	-	N	-	N	N
WACM 4	-	-	-	-	-	Y
WACM 5	N	N	N	-	-	N
WACM 6	Y	-	Y	-	Y	Y
WACM 7	-	-	-	-	Y	Y
WACM 8	N	N	N	-	N	N

**Voting Statement:**

Do not think that it is competitive for the market, or in the best interests of consumers to defer costs outside of the current charging year.

The ESO will need to finance any support approved by The Authority, and therefore it is important that we must be able to implement any option, both from a finance and system perspective. We cannot support an option without a cap, we note however that due to the specific costs being identified in WACM3 and WACM4 that this concern may be minimised. We also cannot support any option which defers costs outside of the current charging year. More detail of our red lines are set out in our consultation response.

We have significant concerns over our ability to implement some of the options due to the short implementation timescales, any change to our Charging and Billing system will not be achievable in the timescales as noted in our consultation response.

We believe that the only options which the ESO will be able to implement within the timescales and meets our red lines for support, are WACM6 and WACM7. We are currently undertaking an IT impact assessment on our ability to implement WACM4.

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)
	Grace March, Sembcorp					
Original	N	N	N	-	N	N
WACM 1	N	Y	N	-	-	N
WACM 2	-	N	-	-	N	N
WACM 3	N	N	N	-	-	N
WACM 4	N	N	N	-	-	N
WACM 5	N	N	N	-	N	N
WACM 6	N	Y	-	-	-	N
WACM 7	N	N	-	-	N	N
WACM 8	N	N	N	-	N	N

**Voting Statement:**

Original: ACO (a) A feature of the situation which has bought about these unexpected costs has been a dramatic drop in I&C demand and a small rise in residential demand. Deferring costs to 2021/2, when it is assumed demand profiles are back to “normal”, will shift costs from mainly suppliers with most domestic portfolios to suppliers with I&C customers as well. While these extra costs will be recoverable, the distortion between different types of suppliers will create a distortion in competition. Generators hedge their portfolios differently, which is a commercial and competitive decision. Some hedging strategies will be ‘safer’ in the face of unexpected costs than others and protecting all generators from the consequences of their hedging strategies will dilute competition.

ACO (b) BSUoS is currently charged in a manner which attempts to recover costs onto the users at the time. The original solution removes this cost-reflectivity and could therefore be viewed as penalising users who responded to ESO’s forecasts of higher BSUoS. The Modification must be judged against the Baseline, not against recommendations from the 1<sup>st</sup> BSUoS Task Force or presumed recommendations from the 2<sup>nd</sup> Task Force. The ESO do not believe they will be able unable to identify Covid costs accurately, so the intention to leave ‘business as usual’ BSUoS as the baseline will be hard to realise in practice.

ACO (c) The ESO have made it clear they are not able to provide finance to the industry at the materiality suggested by the Original solution, and so risk breaching their licence obligations to keep suitable credit status.

ACO (d) The £500m figure proposed as a cap was based on comparing forecasts, and there is a chance that, should these forecasts change or the Covid situation continues, there will need to be separate follow-up Modifications to discuss a new figure. These Modifications are likely to go over conversations this Workgroup as already had and be Urgent. It is clear that asking the ESO to manually adjust BSUoS invoices that have already gone out, and been paid, would be a difficult and error-prone process and so be negative against ACO (e).

On WACMs:

While attempting to identify covid-related costs directly is challenging for the ESO, I do not believe there is enough evidence to set a proxy figure, either as a percentage of BSUoS or an overall number, that will be robust in the future. Low demand can be due to various factors, but the cost of one-off nuclear contracts and the new ODFM service clearly only represent some of the extraordinary BSUoS costs, and therefore do not, on their own, address the defect as described. Over-compensating for Covid costs, through a fixed amount to be deferred/delayed, would be an unnecessary intervention, the end cost of which would be borne by consumers.

Aside from the distributional impacts of deferring costs, there will be financing costs and impacts of “missing money” to the ESO, the results of which will be recovered from end consumers in some way. The longer costs are deferred to, such as 2022/3, the greater the end cost and distributional impacts are increased. WACMs which propose this are therefore worse than the Original. WACMs that proposed to defer to the costs to within year still have the distributional effect, but reduce the financial exposure to the ESO and lower the financing costs associated with the intervention, thus lower the cost to end consumers.

Extended Payment Terms allow users to delay the financial impact of the unexpected BSUoS costs, giving them time to either recover costs from customers (when BSUoS is a pass-through cost), manage their forward trades or access suitable finance in order to pay. A cap on the £ figure that can be delayed creates an incentive to use the opportunity early, and so damages competition. It also means Users who do not ‘need’ the support may be encouraged to use it, meaning consumers will bear the cost of this Modification without the assumed benefit. No cap leaves the ESO financially exposed, should additional costs continue to rise, and is therefore negative against ACO (c). However, WACMs that feature a cap proposed by the ESO are less likely to cause the ESO to breach licence obligations around credit status and are therefore likely to be neutral against ACO (c).

WACMs that proposed a fixed amount have the potential to give poor value to consumers. Should actual Covid related costs be less than the amount codified, the generalised costs to industry would be higher than necessary. Any over-recovery by the ESO will be returned through future BSUoS prices and so not to the parties that have overpaid. This reduces cost-reflectivity and potentially damaged competition. In order to avoid that, Urgent Modifications would have to be raised, and therefore an absolute cost to be deferred/delayed is negative against 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)
	Bill Reed, RWE					
Original	N	-	-	-	N	N
WACM 1	N	-	-	-	N	N
WACM 2	N	-	-	-	N	N
WACM 3	N	-	-	-	N	N
WACM 4	N	-	-	-	N	N
WACM 5	N	-	-	-	N	N
WACM 6	N	-	-	-	N	N
WACM 7	N	-	-	-	N	N
WACM 8	N	-	-	-	N	N

Voting Statement:

I do not believe that the original proposal not any of the alternatives better meet the CUSC charging objectives, particularly in relation to Objective (a) with respect to competition and Objective (e) with regard to efficient administration.

**The original proposal and alternatives that are based on the deferral of costs do not better fulfil Objective (a).** These modifications have a detrimental impact on competition and the efficiency of the wholesale power market. They will simply remove certain BSUoS costs from one period and recover them on a different basis in another. This relieves certain parties of costs that could be reasonably foreseen and forecasted. It will reward inefficient party behaviour at the expense of those parties that have efficiently managed positions in the wholesale market. This will distort competition.

The alternatives that are based on payment holidays do not better fulfil Objective (a) These modification alternatives have the effect of keeping inefficient parties in the market and enabling them to compete with efficient parties to the detriment of competition. It will sustain parties that would have a lower cost based on the short term and enable them to compete against parties that have prudently managed their costs and have a higher cost. This will distort competition.

We are concerned that payment relief provided is available to all parties and is not targeted on energy suppliers and shippers who are facing cash flow challenges as a result of the unprecedented public health emergency triggered by COVID-19. The basis any relief for network charges is set out on the Ofgem letter on "Managing the impact of COVID-19 on the energy market – introducing the option of relaxing network charge payment terms for suppliers and shippers" dated 2nd June . The alternative based on payment relief do not meet the criteria set out in this letter. The letter can be found at: [https://www.ofgem.gov.uk/system/files/docs/2020/06/open\\_letter\\_on\\_relaxing\\_network\\_charge\\_payment\\_terms\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_1.pdf)

**The proposal and all the alternatives do not better meet objective (e).** The complexity of the original and all of the alternatives do not better meet Objective (e). The proposals will create short term BSUoS billing issues particularly with respect to the 1st May implementation date, introduce administrative complexity and introduce complex financing arrangements to the CUSC, as well as financing issues for the ESO.

The original proposal and alternatives that are based on the deferral of costs will transfer cost recovery from one set of customers to another. This is unfair, disproportionate and may distort the wider electricity market.

The alternatives that result in payment holidays require new billing arrangements and will create issues with credit and the management of bad debt which to the detriment of all CUSC parties.

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						
Original	N	-	-	-	N	N
WACM 1	Y	-	-	-	N	Y
WACM 2	Y	-	-	-	N	Y
WACM 3	N	-	-	-	N	N
WACM 4	N	-	-	-	N	N

WACM 5	N	-	-	-	N	N
WACM 6	Y	-	-	-	N	Y
WACM 7	N	-	-	-	N	N
WACM 8	N	-	-	-	N	N

Voting Statement:

Options which move costs into another period, either within year or to a following year, move costs from one set of users to others. This effectively results in a cross subsidy which works against competition. Some options mitigate this by limiting the degree of cost movement. If parties are unable to recover COVID costs, then this may work against competition if this alone is the cause which force parties out of the market. Therefore, some degree of mitigation may be necessary, but not fully socialising all potential COVID costs. Payment holidays address the cashflow implications of higher BSUoS, but not the possible inability to recover costs. Nevertheless, they are an improvement on the baseline. Retrospectively applied solutions undermine positions people will have taken in shorter term trading and in providing balancing actions. They also by their nature undermine market confidence in the regulatory regime, increasing investor perceptions of market risk. Deferred payment options increase default risks for BSUoS as struggling parties are likely to prioritise other non-deferred costs for payment with limited funds. Options around identifying COVID actions and removing them, increase uncertainty about effect on prices going forwards making it more difficult to manage risk. Options should seek to identify periods with unusually high cost during unusually low demand periods, to ensure only the additional costs caused by COVID are removed for deferral. Options which just identify a cost level which is removed from all periods are arbitrary in nature and do not achieve this.

WACM2 is the best option.

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 Mott, EDF						
Original	Y	Y	Y	-	-	Y
WACM 1	N	N	-	-	-	N
WACM 2	Y	Y	-	-	-	Y
WACM 3	N	N	-	-	-	N
WACM 4	N	N	-	-	-	N
WACM 5	Y	Y	Y	-	-	Y
WACM 6	N	N	-	-	-	N
WACM 7	N	-	-	-	-	N
WACM 8	Y	Y	Y	-	-	Y

Voting Statement:

Original :

**Applicable Objective (a): Positive Impact**

This proposal will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus from Wuhan. Deferring costs to a future period will allow Parties to reflect these exceptional costs into future tariff offerings and other business operations. Such protection, for exceptional risks, that are very high impact and very low probability, such as Covid-19 (which goes well beyond the electricity industry’s past pandemic considerations, on so many levels), will reduce the level of risk that will need to be factored into future tariffs and generation operations, and will facilitate effective competition in the generation, supply and purchase of electricity. It would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn’t possibly have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a “windfall” – but this is not a bonus that they could ever have foreseen, and BSUoS-related embedded benefits are an identified distortion that is to be abolished.

**Applicable Objective (b): Positive Impact**

The exceptionally high BSUoS prices would provide a signal to reduce demand or increase embedded generation (to increase the size of that windfall), potentially increasing the costs of balancing the system in a “death spiral”, positive-feedback, type effect. By removing costs from high BSUoS periods and recovering them in a smeared fashion in a future year, the proposal

reduces this signal. Therefore, cost reflectivity is improved by reducing the impact of the inappropriate signal in the current baseline charging approach.

**Applicable Objective (c): Positive Impact**

The proposal takes account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM1

Applicable Objective (a): negative Impact

This alternative requires the ESO to be able to identify Covid related costs accurately, which is technically challenging and an extra administrative burden on the ESO.

The defect is high cost in 2020, and by not deferring out of 2020/21, the defect is not met. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS is kept within 2020/21; this is anti-competitive and distortionary. Suppliers that use deferred payment will, if they would have failed in summer, still fail with all the disruption that that brings, just slightly later on.

Applicable Objective (b): negative Impact

The exceptionally high BSUoS prices are still there in relation to summer, just deferred. They have to be paid. This still provides a signal as under baseline to reduce demand, potentially increasing the costs of balancing the system in a “death spiral”, positive-feedback, type effect. Customers on BSUoS-pass-through are still adversely affected by the exceptional costs, even if deferred. Cost reflectivity is not improved by reducing the impact of the inappropriate signal in the current baseline charging approach.

Applicable Objective (c): neutral Impact

The proposal does not take effective account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM2 Uniper

Applicable Objective (a): slightly positive Impact

This alternative relies on an arbitrary and very high cap on BSUoS that will almost never bite – it may have effect just over a very small proportion of the time. The WACM is far less effective against defect, and arbitrary.

Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall,

an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as the exceptional BSUOS is almost all kept within 2020/21; this is anti-competitive and distortionary. Some Suppliers may fail this summer.

Applicable Objective (b): slightly positive Impact

All but the most exceptionally high BSUoS prices are still there. This still provides a signal as under baseline to reduce demand, potentially increasing the costs of balancing the system in a “death spiral”, positive-feedback, type effect. Customers on BSUoS-pass-through are still almost as adversely affected by the exceptional costs, even if deferred. Cost reflectivity is not improved as it hardly reduces the impact of the inappropriate signal in the current baseline charging approach.

Applicable Objective (c): neutral Impact

The proposal does not take much effective account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM3

Applicable Objective (a): slightly positive Impact

This alternative relies on an arbitrary and very high cap on BSUoS that will almost never bite – it may have effect just over 1% of the time, deferring on average £2/MWh of BSUoS; a total deferral of less than £2m. The WACM is ineffective against defect, and arbitrary. It attempts to force revelation of currently unreported cashflows relating to commercial contracts, whilst arbitrarily excluding Super-SEL contracts, actions for the creation of “footroom” and some other covid costs that end up in BSUoS. Costs still all fall within 2020/21, which is too soon, so parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as the exceptional BSUOS is almost all kept within 2020/21; this is anti-competitive and distortionary. Some Suppliers may still fail.

Applicable Objective (b): negative Impact

Cost reflectivity is not improved as it doesn’t do much to reduce the impact of the inappropriate signal in the current baseline charging approach.

Applicable Objective (c): neutral Impact

The proposal does not take effective account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM 4 as WACM 3

WACM 5

Applicable Objective (a): Positive Impact

This proposal will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus. It avoids the need for the ESO separately identify Covid-19 related actions, making it easier to implement. A Fixed level of support set at £250m represents some degree of risk-sharing and allows for the £500m being an over-forecast. Deferral of costs to 2022/23 rather than 2021/22 is a better solution as it allows Parties to reflect the costs in future contracts and operations by going well beyond most contracting windows; it thereby reduces the chance of risk premia that arise from baseline, in future.

Deferring costs to a future period this far therefore very effectively allows parties to reflect these exceptional costs into future tariff offerings and other business operations. Such protection, for exceptional risks, that are very high impact and very low probability, such as Covid-19 (which goes well beyond the electricity industry's past pandemic considerations, on so many levels), will reduce the level of risk that will need to be factored into future tariffs and generation operations, and will facilitate effective competition in the generation, supply and purchase of electricity. It would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn't possibly have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a "windfall" – but this is not a bonus that they could ever have foreseen, and BSUoS-related embedded benefits are an identified distortion that is to be abolished.

Applicable Objective (b): Positive Impact

The exceptionally high BSUoS prices would provide a signal to reduce demand or increase embedded generation (to increase the size of that windfall), potentially increasing the costs of balancing the system in a "death spiral", positive-feedback, type effect. By removing costs from high BSUoS periods and recovering them in a smeared fashion in a future year, the proposal reduces this signal. Therefore, cost reflectivity is improved by reducing the impact of the inappropriate signal in the current baseline charging approach.

Applicable Objective (c): Positive Impact

The proposal takes account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM 6

Applicable Objective (a): negative Impact

The defect is high cost in 2020, and by not deferring out of 2020/21, the defect is not met. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS remains; this is anti-competitive and distortionary. Suppliers that use deferred payment will, if they would have failed in summer, still fail with all the disruption that

that brings, just slightly later on, exacerbated by the interest payment, that wrongly benefits all parties in 2021/22 as a BSUoS discount then – a curious distortion. Some with internal costs of capital just below 8.1%, will not be able to use the mod; there is some unintended distortion there.

Applicable Objective (b): negative Impact

The exceptionally high BSUoS prices are still there in relation to summer, just deferred for some, yet with others with internal costs of capital just below 8.1%, not able to use the mod so the exceptionally high BSUoS prices remain in full for them. This still provides a signal as under baseline to reduce demand, potentially increasing the costs of balancing the system in a “death spiral”, positive-feedback, type effect. Customers on BSUoS-pass-through are still adversely affected by the exceptional costs, even if deferred. Cost reflectivity is not improved by reducing the impact of the inappropriate signal in the current baseline charging approach.

Applicable Objective (c): neutral Impact

The proposal does not take effective account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM 7

Applicable Objective (a): negative Impact

The defect is high cost in 2020, and by not deferring out of 2020/21, the defect is not met. Parties will not be easily able, if at all, to reflect these exceptional costs into future tariff offerings and other business operations, so this will not facilitate effective competition in the generation, supply and purchase of electricity. The embedded benefit windfall, an exacerbation because of COVID of an identified distortion that is to be abolished, is maintained as BSUOS is kept within 2020/21; this is anti-competitive and distortionary.

It is problematic that there would be no requirement to provide additional security on the Covid related costs recovered through higher charges between October 2020 and January 2021. This means that users are not required to provide additional security cover, leaving a risk to other parties because the ESO says it would also “need to be able to recover any bad debt” (in financial year 2021/22). This circumvents the usual careful protection against bad debt on BSUoS; normally the ESO is careful about this due to the (deliberate) lack of mutualisation, but here this major risk is anticipated and intended to be transferred to CUSC parties, who may price this risk into their business operations, contracts and tariffs, to the detriment of customers.

Applicable Objective (b): neutral Impact

Applicable Objective (c): neutral Impact

The proposal does not take effective account of the impact of the Covid-19 event on the ESO.

D, E neutral

WACM 8 :

Applicable Objective (a): Positive Impact

This proposal will mitigate against the exceptional losses likely to be incurred by Parties as a result of the virus from Wuhan. Deferring costs to a future period will allow Parties to reflect these exceptional costs into future tariff offerings and other business operations. Deferral of costs to 2022/23 rather than 2021/22 is a better solution as it allows Parties to reflect the costs in future contracts and operations by going well beyond most contracting windows; it thereby reduces the chance of risk premia that arise from baseline, in future.

Deferring costs to a future period this far therefore very effectively allows parties to reflect these exceptional costs into future tariff offerings and other business operations. Such protection, for exceptional risks, that are very high impact and very low probability, such as Covid-19 (which goes well beyond the electricity industry's past pandemic considerations, on so many levels), will reduce the level of risk that will need to be factored into future tariffs and generation operations, and will facilitate effective competition in the generation, supply and purchase of electricity. It would, if passed, stabilise costs to customers on BSUoS pass-through which are still operating as usual during the crisis and are being hit with costs they couldn't possibly have planned for. This will, as a result, lower the long-term costs to consumers. Embedded generators do lose a "windfall" – but this is not a bonus that they could ever have foreseen, and BSUoS-related embedded benefits are an identified distortion that is to be abolished.

Applicable Objective (b): Positive Impact

The exceptionally high BSUoS prices would provide a signal to reduce demand or increase embedded generation (to increase the size of that windfall), potentially increasing the costs of balancing the system in a "death spiral", positive-feedback, type effect. By removing costs from high BSUoS periods and recovering them in a smeared fashion in a future year, the proposal reduces this signal. Therefore, cost reflectivity is improved by reducing the impact of the inappropriate signal in the current baseline charging approach.

Applicable Objective (c): Positive Impact

The proposal takes account of the impact of the Covid-19 event on the ESO.

D, E neutral

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	Y	-	-	Y
WACM 1	N	-	N	-	-	N
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	N	-	N	-	-	N
WACM 7	Y	Y	Y	-	-	Y
WACM 8	Y	Y	Y	-	-	Y

Voting Statement:

**Applicable Objective (a):**

- **Deferral** options (**Original, WACM2, WACM3, WACM4, WACM5, WACM7, WACM8**) are **positive** against this objective because they will mitigate, to varying degrees, against the exceptional losses likely to be incurred by Parties as a result of Covid-19. Deferring costs to a future period will allow Parties to reflect these exceptional costs into future tariff offerings. Such protection, for exceptional risks, that are high impact and low probability, such as Covid-19, will reduce the level of risk that will need to be factored into future tariffs and facilitate effective competition in the generation and supply of electricity. In my view this will, as a result, lower the long-term costs to consumers.
- **Deferral** options which defer to 2022/23 (**WACM5, WACM8**) are the strongest options as they provide a more complete solution to allow Parties to reflect the costs in future contracts (and so reduces further increases to risk premia) as contracts go beyond 2021/22.
- **Deferral** options which significantly reduce the scope of Covid-related costs (**WACM2, WACM3, WACM4**), and/or which only offer a within year deferral (**WACM3, WACM4, WACM7**) significantly reduce the protection being offered as they reduce the amount of the exceptional costs that Parties will be able to recover in future contracts. They are better than the baseline – but not by much.

- **Extended payment term** options (**WACM1, WACM6**) are **negative** against this objective. Options which simply extend payment terms do not remove the need to factor high impact low probability events into risk premiums and will therefore adversely affect competition and cost consumers more in the long run. There will also be additional risk premiums that will be necessary to cover the risk of default associated with the extended payment terms, particularly because the proposals do not require any additional credit. The risk of accumulated bad debt sits not with the ESO, who are simply providing a financing facility, but with market participants and consumers who are acting as guarantors to any extended payment terms and this will have an inevitable impact on risk premia and consumer costs.

#### Applicable Objective (b):

- **Deferral** options (**Original, WACM2, WACM3, WACM4, WACM5, WACM7, WACM8**) are **positive** against this objective. The exceptionally high BSUoS prices would provide a signal to reduce demand or increase embedded generation, potentially increasing the costs of balancing the system. By removing costs from high BSUoS periods and recovering them in a smeared fashion in a future year, deferral options reduce this signal. Therefore, cost reflectivity is improved by reducing the impact of the inappropriate signalling present in the current baseline charging approach.
- The **Original and WACM8** perform best in this respect as they are likely to remove an appropriate level of Covid-19 related costs from the periods where the baseline charging approach would otherwise provide the most inappropriate signal. The other deferral options are still better than the baseline, but either do not remove an appropriate amount (**WACM2, WACM3, WACM4**) or remove an appropriate amount in a less targeted way (**WACM5 and WACM7**).
- **Extended Payment Term** options are **neutral** against this objective.

#### Applicable Objective (c):

- **Deferral** options (**Original, WACM2, WACM3, WACM4, WACM5, WACM7, WACM8**) are **positive** against this objective as they properly (to varying degrees) take account of the impact of the Covid-19 event on the ESO. For the same reasons set out in my assessment against applicable objective (a) those options that defer to 2022/23 (**WACM5 and WACM8**) perform best against this objective, whilst those options which significantly reduce the scope of 'Covid-costs' (**WACM2, WACM3, WACM4**), and/or which only offer a within year deferral (**WACM3, WACM4, WACM7**) are better than the baseline – but not by much.
- **Extended Payment Term** options (**WACM2, WACM6**) are **negative** against this option as they do not 'properly' take account of the impact of the Covid-19 event for the same reasons set out in my assessment against applicable objective (a).

**Applicable Objective (d):** all options are neutral against this objective

**Applicable Objective (e):** clearly some options are more complex than others, but this is a consequence of the different approaches to defining or approximating Covid-related costs. Therefore, all options are neutral against this 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)
	Joshua Logan, Drax					
Original	N	-	-	-	-	N
WACM 1	N	-	-	-	-	N
WACM 2	N	-	-	-	-	N
WACM 3	N	-	-	-	-	N
WACM 4	N	-	-	-	-	N
WACM 5	Y	-	-	-	-	Y
WACM 6	N	-	-	-	-	N
WACM 7	N	-	-	-	-	N
WACM 8	N	-	-	-	-	N

**Voting Statement:**

Overall, we believe that only WACM5 better facilitates the applicable CUSC objectives and offer our qualified support. By removing £250 million evenly from BSUoS between June – Sep settlement periods and allocating this evenly across 2022-23, we believe this will help market participants recover the additional BSUoS costs and may reduce the risk of supplier failures and mutualisation costs. On balance, WACM5 goes some way to addressing the defect and does so in a way which minimises distortions, unintended consequences and can be implemented relatively easily. As such, we believe it is positive against CUSC Objective a.

The Original, WACM3, WACM4 and WACM8 will remove different BSUoS amounts from different settlement periods. We have concerns about the potential distortive and distributional impacts that removing specific costs from the settlement periods they were incurred could

have on competition (Objective a). Additionally, we believe that accurately establishing which costs are COVID related would be complex in practise.

WACM3, WACM4 and WACM7 propose a within year deferral. If parties are unable to recover the additional BSUoS costs over the May – Aug period it is unlikely they would be able to recover such additional costs between the Oct – Jan period given the short notice and contracting time horizons. We also believe a within year deferral would have an adverse impact on competition (Objective a) between generators where the generation mix varies at different times throughout the year.

WACM1 and WACM6 offer extended payment terms and we do not believe this tackles the defect and could lead to increased mutualisation costs as a result of supplier failures. We also believe the 8.1% interest rate for WACM6 is overly penal, not cost reflective and could lead to parties having additional financial difficulties. As such, we believe they are negative against CUSC Objective a.

WACM2 proposes a BSUoS price cap and we do not believe this tackles the defect or better facilitates the CUSC Objectives. WACM2 would only provide relief to generation or demand in the settlement periods where the cap is reached and could have a negative impact on Objective a.

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 Lord, Engie						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
WACM 2	Y	-	-	-	-	Y
WACM 3	Y	-	-	-	-	Y
WACM 4	Y	-	-	-	-	Y
WACM 5	N	-	-	-	-	N
WACM 6	Y	-	-	-	-	Y
WACM 7	N	-	-	-	-	N
WACM 8	Y	-	-	-	-	Y

**Voting Statement:**

Whilst we have supported a broad range of WACM's the cost to the industry of financing these options has yet to be determined. We have only supported WACM's that "smear" COVID/excess costs across all users or are cash flow management solution available on application. We would not support options that force additional cost on the industry or move costs unrelated to COVID to other periods. WACMs with more structural changes to BSUoS we have not supported as these should be dealt with following the second BSUoS task force. WACM2 (capped BSUoS) is the favoured alternative.

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 Byrne, GOTO Energy						
Original	N	N	-	-	-	N
WACM 1	Y	Y	-	-	Y	Y
WACM 2	N	N	-	-	-	N
WACM 3	N	N	-	-	-	N
WACM 4	N	N	-	-	-	N
WACM 5	N	N	-	-	-	N
WACM 6	Y	Y	-	-	Y	Y
WACM 7	-	-	-	-	-	-
WACM 8	N	N	-	-	-	N

**Voting Statement:**

We do not support any of the amendments where the current level of BSUoS is charged outside of the current charging year or where the reallocation of the deferral will change who will be liable for those charges.

The only option for deferral that could be acceptable was the deferral in year within WACM7.

Whilst the amount to be paid is currently excessive, and the mechanisms that caused that charge to be incurred should be investigated, it is not reasonable for parties that did not accrue those costs in the 2020/21 year to have to pay them if the charges are deferred to a later

charging year. Examples could include if a supplier significantly increased its customer base by the start of the next charging year or if a new generator is commissioned.

Whilst there is a concern that doing nothing could lead to further supplier failures the number of costs being deferred to next year could just delay the inevitable. This could also be an additional cost for any supplier taking on a portfolio due to SoLR. In addition, the original and those variations of it do not give parties the option to opt in or out so parties that could finance the additional charges will be subject to the financing costs of the deferral.

If the problem we are looking at is a cash flow issue, then a payment holiday/ extended terms would be our preferred option which would then not fundamentally change what needed to be paid (apart from finance costs) just when. This may also be more cost effective due to possibly reduced implementation costs.

In addition, we would strongly suggest that the BSUoS task force is restarted to continue its work. There are issues with the non-commodity costs that need to be addressed. Although the demand reduction caused by Covid is an extreme case there is an issue with a system that increases costs where demand is lowered especially with the drive to net zero.

Overall, we feel the baseline best meets the objectives.

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)
	Graz Macdonald, Viridis					
Original	N	-	-	-	N	N
WACM 1	N	-	-	-	N	N
WACM 2	N	-	-	-	N	N
WACM 3	N	-	-	-	N	N
WACM 4	N	-	-	-	N	N
WACM 5	N	-	-	-	N	N
WACM 6	N	-	-	-	N	N
WACM 7	N	-	-	-	N	N
WACM 8	N	-	-	-	N	N

### Voting Statement:

Neither the original mod proposal nor the WACMs are positive against the CUSC objectives. Some of the WACMs are better than the original but all are either neutral or negative. Any WACM that imposes a distortive shift of BSUoS to next year. An exception is WACM2, as its distortive impacts are likely to be minimised compared to the others and is focussed on a BSUoS costs that are higher than historical norms. Mods that defer costs or payments to within this year are the least damaging, but nonetheless negative against the objective.

In relation to competitiveness (CUSC objective A), the original mod proposal suggests a relative arbitrary level of value (costs) to be moved to the next charging year. While it is true that BSUoS is widely acknowledged to not be cost reflective anyway (as per the furloughed BSUoS taskforce), it is nonetheless an expected cost to parties, even if volatile.

In our workgroup consultation response, Viridis Power provided a chart of BSUoS costs over the past few years. Going back to the beginning of 2017 (before the vast bulk of hedging for this summer was done), we see a high level of volatility and a clear upward trend. Additionally, the ESO has been long expressing their concerns about balancing the system in low-demand summers with high renewable output and low system inertia.

Granted, Covid brought this eventuality quite sharply into focus, but generally uncertainty over the level and volatility was not unexpected. Many market participants have been factoring in BSUoS risks into their actions. This mod directly punishes them for doing so.

Suppliers' customers will be rolling out of their fixed tariffs over the next few months, as they do constantly – some customers will have rolled out to a new tariff as we speak – and over the coming months. Suppliers with PPAs may find themselves taking advantage of low wholesale costs. Other suppliers may choose to take advantage of the scheme outlined in Ofgem's letter relating to targeted Covid loans to some suppliers. This is the competitive market operating as it should – and this mod and many of the WACMs would damage this market functioning.

Generators that have sold ahead (baseload) will have been able to buy back lower spreads and are now able to price in BSUoS into BM offers. We don't know if they all have (though we can see very few PNs in real time, suggesting that most generators have bought back their forward positions), but that is down to their business strategy and not a function of BSUoS or Covid. Removing BSUoS – particularly retroactively – will cause permanent windfall gains to these parties. Meanwhile, embedded generators relying on BSUoS income will have windfall permanent losses – with these losses redistributed as gains of financial and of competitive positioning to other market participants. This is not the sort of signalling that improves competition in the short or long term.

Because this was an urgent mod, no consideration has been taken of these windfall losses and gains other than as passing mention and acknowledgement. But we note that a proposed £500 million pound transfer between charging years and parties is massive – and should not be made lightly without deeper analysis of the winners and losers and without consideration of the negative impacts on competition that re-writing of the rules in this way will have. Even temporarily, and even in the face of a global health emergency. What trust can market participants have that the market is fair and that at least there is a base level of regulatory certainty in the market? This mod further erodes the already precarious ledge of regulatory certainty that any properly functioning market relies on, and is unambiguously negative against CUSC objective A.

Therefore, with a clear understanding that there will be winners and losers, and for such a significant value transfer, it is impossible to say that this mod is anything other than negative for competition. The same logic applies for all the WACMs, though some of them (as noted in Stage 2 of the WACM vote) are less negative than the original.

I voted neutral against B, C & D even though I think there are arguments to be made that this mod proposal and WACMs are in fact negative against B and C. On balance, we chose not to focus on them. However, we do note that it is not the ESO role to ensure the financial well-being of market participants (against C) nor is an intertemporal transfer in any way cost reflective. Quite the opposite, as unknown customers and generators will pay the costs unrelated to their behaviour in this year (against B) and who knows what levels BSUoS will be next year!

In relation to Objective E – all these options will require extra administrative effort by the ESO and by all parties at the other end of the invoice. Without a clear understanding of the impact on the market it is impossible to give assess these options as anything other than negative against this objective. It is highly likely that temporary “fixes” required by the ESO to rejig billing in line with any of these mods will cause billing issues and delay other IT work that the ESO is already struggling to complete in a timely matter. We are concerned about the ripple effects in coming years as the ESO catches up with the IT backlog.

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)
	Joe Dunn, Scottish Power					
Original	Y	-	Y	-	-	Y
WACM 1	N	-	-	-	-	N
WACM 2	Y	-	Y	-	-	Y
WACM 3	N	-	-	-	-	N
WACM 4	N	-	-	-	-	N
WACM 5	Y	-	Y	-	-	Y
WACM 6	N	-	-	-	-	N
WACM 7	N	-	-	-	-	N
WACM 8	Y	-	Y	-	-	Y

**Voting Statement:**

The original and WACMs 2, 5 and 8 better facilitate CUSC objective (a) as each will improve the opportunity for BSUoS paying market participants to recover costs to mitigate the P&L impact (on suppliers and generators) of unforeseen COVID-related costs are not adversely impacted by the costs incurred by the ESO to manage the transmission system during the Covid event. As a result, this will facilitate 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.

On the contrary, WACMs 1, 3, 4, 6 and 7 deal with cash flow. WACMs 1 and 6 (payment holidays) are akin to short terms loans and WACMs 3, 4 and 7 merely defer costs within year. None of WACMs 1, 3, 4 and 6 appropriately address the cost recovery issue which is at the core of the defect and therefore do not better facilitate CSUC objective (a)

The original and WACMs 2, 5 and 8 better facilitate CUSC objective (c) as each will, to a greater or lesser extent, ensure that the BSUoS methodology takes account of the developments in transmission licensees’ transmission businesses arising from the unprecedented Covid event.

WACMs 1, 3, 4, 6 and 7 are Neutral to CUSC objective (c).

All of the original and alternatives are Neutral to CUSC objectives (b), (d) and (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)
	Kate Dooley, ESBI					
Original	Y	-	Y	-	-	Y
WACM 1	-	-	-	-	N	N
WACM 2	Y	-	Y	-	-	Y
WACM 3	-	-	-	-	N	N
WACM 4	-	-	-	-	N	N
WACM 5	Y	-	Y	-	-	Y
WACM 6	-	-	-	-	N	N
WACM 7	-	-	-	-	N	N
WACM 8	Y	-	Y	-	-	Y

Voting Statement:

ESB believes that the Original and any WACM that facilitates market participants ability to recover unforeseen and unprecedently high BSUoS costs are better than baseline. We do not believe that recovering these costs within year helps suppliers or generators deal with the costs incurred by COVID-19 and therefore believe that implementing these solutions would only result in a negative impact on the administration of the CUSC.

While ESB has voted for the Original as the best option, we believe that WACM 5 has merit.

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)
	Lisa Waters, Waters Wye					
Original	N	N	-	-	N	N
WACM 1	Y	Y	-	-	N	N
WACM 2	Y	N	-	-	N	N
WACM 3	Y	N	-	-	N	N
WACM 4	Y	N	-	-	N	N
WACM 5	N	N	-	-	N	N
WACM 6	Y	Y	-	-	N	N
WACM 7	N	N	-	-	N	N
WACM 8	N	N	-	-	N	N

**Voting Statement:**

I understand the issues that parties are facing as a result of rising BSUoS costs and that some may not be able to pass these costs through the supply chain. However, I have grave concerns about changes that shift costs between parties in a non-cost reflective way, and I consider shifting costs too far forward (original, WACMs 2, 5, 7 and 8) creates a greater risk that the “wrong” parties end up paying (against objective a and b). I also worry that BSUoS may be equally high in future years, so these changes could exacerbate future problems. As other reliefs end (delayed payment of CfDs, DUoS, etc.) and bills fall due (ROCs, etc.) there is a risk of multiple party failures creating substantial costs

for the remaining parties added to the deferred BSUoS costs. While helping companies in the short term is sensible, storing up too many price shocks does not seem sensible. The financing costs of carrying BSUoS costs forward will also add to overall costs to all parties (against e).

That said, I recognise that the BSUoS Task Force has indicated that BSUoS should be about collecting money to cover the BSUoS costs, and not a way to try and allocated costs in a cost reflective manner or to provide any signals to parties. It is therefore unfortunate that their work has not be allowed to conclude to steer this process. Had Ofgem indicated that they intend to move to a fixed BSUoS on suppliers in the near future then the assessment of these proposals may have been different. As the baseline stands, BSUoS is likely to go on increasing and remain volatile to the detriment of all parties. This could be further exacerbated by recharging costs based on a per day not per MWh cost recovery.

WACMs 3 and 4 have the disadvantage of smearing costs between parties, but at least in the same charging year, with a stable £/MWh pay back adding to transparency so parties can plan around that. The pot of costs has a clear link to covid related costs. I appreciate the point the proposer of the original makes about footroom costs being higher and it was unfortunate the ESO did not feel it could create a system to flag and capture the “abnormal activity”. We have just had the sunniest May on record and the ESO’s demand forecasts against “normal” forecasts could have been used to make a more robust guess than a fixed cap (original, WACMs 2, 5 and 8). WACMS 3 and 4 therefore seem to create less risk of windfall gains and losses, though clearly does not remove it, and are more clearly linked to covid related costs. On balance I therefore feel these do not overall better meet the objectives on cost reflectivity (b), have less impact on competition (a) and will add to admin costs (e).

WACMs 1 and 6 are simply cost deferral. So were you to assume that BSUoS is the right way to allocate costs, these leave the bills in the right place, but create a payment holiday in line with Ofgem’s letter of 2 June. I prefer WACM 1 to 6 as it is open to all parties, whereas 6 will limit who can benefit which has an element of discrimination that feels unfair. WACM 6 also has a high interest rate, which may incentivise parties not to apply, but feels like over charging (against objective b and e).

Both WACM 2 and 7 have rather random caps applied (against objective b). I prefer WACM 2 as the money comes back within year, compared to WACM 7 where cost recovery has the potential to exacerbate BSUoS issues in future years. Both therefore are likely to negatively impact competition (against a) and be costly (against e).

In all cases there are risks of default and of other parties having to pick up additional costs associated with the scheme. As there is no formal mutualisation process in the CUSC for BSUoS, the ESO would have to carry such costs into the next charging year, which means some options may carry costs even further forward. The majority (with the exception of WACMs 1 and 6) also move costs between parties which would appear to distort competition and create winners and losers. The impact may not be material, but without any analysis of this impact I have felt it is prudent to err on the side of caution and vote that the CSUC remains unchanged until a more robust, longer term solution is found.

Were Ofgem to want to start moving towards a price capping system, then WACM 2 would be my preferred option. The £15/MWh cap would be transparent and would probably not create a huge pot of money to carry forward. Analysis on this should be considered by the BSUoS Task Force. An enhancement could be to add some of those costs back to lower priced periods within year, reducing the administration costs.

I would note that this has been useful in examining the type of liability the ESO may be willing to carry were we moved to some form of fixed/capped BSUoS charging and has illustrated the need for greater transparency in the costs being incurred by the ESO.

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					
Original	Y	-	Y	-	-	Y
WACM 1	N	-	N	-	-	N
WACM 2	Y	-	Y	-	-	Y
WACM 3	N	-	N	-	-	N
WACM 4	N	-	N	-	-	N
WACM 5	Y	-	Y	-	-	Y
WACM 6	N	-	N	-	-	N
WACM 7	N	-	N	-	-	N
WACM 8	Y	-	Y	-	-	Y

**Voting Statement:**

Any option that does not defer costs to a different year does not address the defect (extraordinary costs that were unforeseeable and so cannot be passed through to end customers). Therefore, any alternative that suggests payment holidays, expanded payment terms or deferral within year does not allow suppliers and generators the opportunity to factor these costs into tariffs/wholesale market. By not allowing generators and suppliers to pass these costs through better serves participants with good financial security and does not allow for an even playing field. Hence objective a) and c) are better facilitated than the baseline in the Original Proposal and Alternatives 2,5 and 8 only.

Deferral should be over as short a period as possible to reduce the financial exposure for NGENSO (and eventually customers) and so the original proposal is better than Alternatives 5 and 8.

Alternative 2 and the original proposals are very close in terms of better serving the market and customers, but my preference is the original as it attempts to better quantify the extraordinary Covid related BSUoS costs (Alternative 2 looks to use a proxy of any price above £15/MWh).

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)
James Kerr, Citizens Advice						
Original	-	-	N	-	N	N
WACM 1	-	-	N	-	-	N
WACM 2	-	-	N	-	N	N
WACM 3	-	-	N	-	N	N
WACM 4	-	-	N	-	N	N
WACM 5	-	-	N	-	N	N
WACM 6	-	-	N	-	-	N
WACM 7	-	-	N	-	N	N
WACM 8	-	-	N	-	N	N

**Voting Statement:**

We recognise that Covid-19 has resulted in a significant increase in balancing costs. We also note that suppliers, in particular, will have locked-in contracts and will be unable to recover higher balancing costs in the short term. However, we are unconvinced that this modification and all variants result in a beneficial outcome for consumers, and we are unclear on the full impact on different market participants.

BSUoS is naturally variable and market participants should expect volatility relating to a range of known and unknown external factors. We note the wholesale cost of energy is low and this should dampen the impact of high network charges.

There are a number of other support schemes available for market participants becoming available - Government-backed loans, Ofgem’s £350m support for network charges and BEIS’ support for CfD payments, for example. Given the other support available, we do not see the need for further support.

<b>Workgroup Member</b>	<b>Better facilitates ACO (a)</b>	<b>Better facilitates ACO (b)</b>	<b>Better facilitates ACO (c)</b>	<b>Better facilitates ACO (d)</b>	<b>Better facilitates ACO (e)</b>	<b>Overall (Y/N)</b>
John Harmer, Infinis						
Original	N	N	N	-	N	N
WACM 1	N	-	N	-	N	N
WACM 2	N	N	-	-	N	N
WACM 3	-	-	Y	-	N	N
WACM 4	-	-	Y	-	N	N
WACM 5	N	N	N	-	N	N
WACM 6	N	-	N	-	N	N
WACM 7	-	-	Y	-	N	N
WACM 8	N	N	N	-	N	N

**Voting Statement:**

As stated in its Workgroup Consultation Response, Infinis believes this modification should be rejected. In our view it is worse than the baseline against objectives (a), (b) and (e), neutral to negative against (c) and neutral against (d).

All options require a change to the CUSC and additional work for the ESO in administrative and additional funding costs. This makes any change option under this modification negative against objective (e).

The way that BSUoS is charged is under review via the 2<sup>nd</sup> BSUoS Task Force following Direction from Ofgem, but the BSUoS methodology as it stands is operating correctly in a way that all market participants can see and take into account. It is widely acknowledged that the means of charging for balancing costs can be improved, but we do not think this should be through such a rushed process. It is not at all obvious to us that effective competition would be enhanced or restored by the change in the Original Proposal. On the contrary, retrospective and sudden short term future change of the nature suggested is likely to undermine competition and confidence in the traded market which is assumed efficient and so takes account of all available information as soon as it is available. Therefore, on balance we consider the change proposed by the Original Proposal mildly negative against objective (a), owing to the sudden change in charging BSUoS that would be imposed on the market that would negatively impact on parties that have made business decisions on the basis of the status quo.

Industry parties alongside all businesses and consumers have all been affected by the Covid pandemic and the UK Government responses to that. These include unusually low summer demand on the transmission system, but they have also affected both individual and corporate revenues, in many cases materially and negatively. We do not see why those affected by higher than recent historic BSUoS costs should be treated as a special case and insulated from those, passing the costs onto future consumers, through a knee jerk and rushed through change to an industry code .

In our consultation response we give an example where our business is now forecasting substantially lower revenue from ROC income than it expected at the beginning of the calendar year, as a result of reduced demand, and question why (if this modification is accepted) this revenue loss should not be the subject of an application for regulatory interference. Where would this stop? Some Workgroup members have asserted that embedded generators have made exceptional revenues from what have been described as unprecedented levels of BSUoS cost, but we noted the comment from the REA in its response that this is not true for the vast majority of embedded generators according to conversations it has had with its members and notably with Electralink.

Deferring costs in a charging year to a future charging year seems intrinsically less cost reflective than the baseline. It is acknowledged (notably following the consideration of the 1st BSUoS Task Force) that the way BSUoS is currently calculated and charged could be improved, but the longer term deferral of the Original Proposal and similar alternatives is in our view negative against objective (b). In recognition that BSUoS is cost recovery we proposed a solution that smoothed BSUoS costs across a year. We were disappointed that this failed to gain Workgroup support as a to be taken forward as a WACM especially as it had substantial minority support in consultation

responses, but we have sympathy with those feeling this was a change that needed more consideration. However, we continue to believe it addressed the defect in an appropriate way and was the best way forward if Ofgem determined some change was necessary owing to the impacts of Covid and 2020 weather patterns. We have viewed as neutral those options where deferral is within a year as we think this is arguably as cost reflective as the baseline.

We consider all payment deferral options are negative against objective (c). We note the comment in the Ofgem open letter of 2 June 2020 that network companies have offered assistance to assist their customers and ultimately it is hoped this will help end consumers. But we do not consider this is in accordance with objective (c) that one private company should help another with financing in this way, especially when those costs are socialised across all users. We have in principle concerns about the credit and bad debt impacts of these changes where they are by design not secured by credit and the potential smearing of those bad debt costs across other consumers. In recognition that this sort of difficult balancing situation may be expected more in future as the penetration of intermittent renewable generation increases, we think that WACM2 has merits as it has longevity as a solution. We think within year deferral of charges (rather than a payment holiday) has greater merit as these shift actual costs to times of higher demand and so help avoid the “death spiral”, as well as avoid deferred payment credit issues, but do not impact the ESO accounting and tax treatment.

The Original modification proposes retrospective action on already billed BSUoS charges. We believe this is unwarranted. We support the REA comments in this regard and also the comment from the ESO that these have been paid by parties liable for them. Our views on supplier’s ability to pass these costs through rather than absorb them are expressed above.

We further note Ofgem’s statement in its 2<sup>nd</sup> June 2020 open letter “In the longer term, if there is a material change in suppliers’ costs as a result of COVID-19 impacts, including bad debt costs, we will consider how to reflect these in the default tariff cap methodology while protecting existing and future domestic default tariff customers.” We suggest this is the appropriate way to consider any squeeze on supplier margins i.e. taking account of all cost impacts on their businesses, rather than this focus on one specific element of their costs.

**Stage 2b – WACM Vote**

Where one or more WACMs exist, does each WACM better facilitates the Applicable CUSC Objectives than the Original Modification Proposal?

Workgroup Member	Company	WACM1 better than Original Yes/No	WACM2 better than Original Yes/No	WACM3 better than Original Yes/No	WACM4 better than Original Yes/No	WACM5 better than Original Yes/No	WACM6 better than Original Yes/No	WACM7 better than Original Yes/No	WACM8 better than Original Yes/No
Garth Graham	SSE Generation	No							
Jenny Doherty	National Grid ESO	No	No	No	Yes	No	Yes	Yes	No
Grace March	Sembcorp	Yes	Yes	Yes	Yes	No	Yes	Yes	No
Bill Reed	RWE	No							
Paul Jones	Uniper	Yes	Yes	Yes	Yes	No	Yes	Yes	No
Paul Mott	EDF	No	No	No	No	Yes	No	No	Yes
George Moran	Centrica	No	No	No	No	Yes	No	No	Yes
Joshua Logan	Drax	No	No	No	No	Yes	No	No	No
Simon Lord	Engie	Yes	Yes	Yes	Yes	No	Yes	No	No
Jennifer Byrne	GOTO Energy	Yes	No	No	No	No	Yes	Yes	No
Graz Macdonald	Viridis	Yes	Yes	Yes	Yes	No	Yes	Yes	No
Joe Dunn	Scottish Power	No							
Kate Dooley	ESBI	No							
Lisa Waters	Waters Wye	Yes	Yes	Yes	Yes	No	Yes	No	No
Matthew Cullen	E.ON	No							
James Kerr	Citizens Advice	Yes	No	Yes	Yes	No	Yes	No	No
John Harmer	Infinis	Yes	Yes	Yes	Yes	No	Yes	Yes	No

**Stage 2c – Workgroup Vote**

Which option is the best? (Baseline, Proposer solution (Original Proposal), WACM1, WACM2, WACM3, WACM4, WACM5, WACM6, WACM7, WACM8)

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Garth Graham	SSE Generation	Original	(a) and (c)
Jenny Doherty	National Grid ESO	WACM6	(a), (c), (e)
Grace March	Sembcorp	Baseline	
Bill Reed	RWE	Baseline	
Paul Jones	Uniper	WACM2	(a)
Paul Mott	EDF	WACM5	(a), (b) and (c)
George Moran	Centrica	WACM5	(a), (b) and (c)
Joshua Logan	Drax	WACM5	(a)
Simon Lord	Engie	WACM2	(a)
Jennifer Byrne	GOTO Energy	Baseline	
Graz Macdonald	Viridis	Baseline	
Joe Dunn	Scottish Power	Original	(a) and (c)
Kate Dooley	ESBI	Original	(a) and (c)
Lisa Waters	Waters Wye	Baseline	
Matthew Cullen	E.ON	Original	(a) and (c)
James Kerr	Citizens Advice	Baseline	
John Harmer	Infinis	Baseline	