

CUSC Alternative and Workgroup Vote

CMP308: Removal of BSUoS charges from Generation

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) 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.

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:

- 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 *; and

- e) 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).

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 would better facilitate the CUSC objectives (against Baseline or the Original) 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

Not required

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)
Christopher Granby – Banks Group						
Original	Y	-	-	-	Y	Y
Voting Statement:						
<p>The mod ensures that the charge is levied at the most efficient point and removes both the distortion between different generation types and the excess premia added at various points of the supply chain.</p> <p>We agree that with the consultant that this mod will have a positive impact.</p>						

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						
Original	Y	Y	-	-	-	Y
Voting Statement:						
<p>(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;</p> <p>Positive</p> <p>CMP333 implemented for April 2021, a change to how BSUoS is charged for Suppliers BMU's. BSUoS will be charged on Gross Demand for those BMU's. This removed an Embedded Benefit but did not create a charge for Exports (Generation) within those BMU's, as only Gross Demand will be charged BSUoS. CMP308 helps to deliver the BSUoS taskforce recommendation by removing the BSUoS charge from CVA Generator BMU's which also creates a level playing field with Exporting SVA Generation. A level playing field is crucial for competition.</p> <p>Outside of GB, in the vast majority of EU countries, Generators are not charged the equivalent of BSUoS. For those EU countries that may apply an equivalent type of charge, the magnitude is much smaller than GB generator BSUoS. With increased interconnectivity with Europe, disparity in charges will be exploited to the detriment of</p>						

competition. Removing the BSUoS charge from Generation will therefore also create a more level playing field with Europe.

- (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);

Positive

The BSUoS taskforce determined that BSUoS charges is cost recovery, as it does not provide an effective price signal. Removing the charge from Generation is better for cost reflectivity because it removes a non-cost reflective charge which, if left in place, would incentivise economically inefficient behaviour. It is not detrimental to cost reflectiveness as it just transfers the cost to demand who ultimately pay for the Generator’s element of BSUoS through the wholesale charge. Based on the current baseline BSUoS is currently variable and unpredictable, therefore a risk premium is added. BUSoS costs when they reach the end consumer are higher than those initially charged. Removing the charge from Generation better aligns costs and charges

- (c) That, so far as is consistent with subparagraphs (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; **Neutral**

- (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 * **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	N	N	-	-	-	N

Voting Statement:

As required, my assessment of CMP308 is against the current CUSC baseline. Strictly on that basis, I consider it will have a negative impact on the applicable objectives.

Applicable CUSC Objective (a): Negative impact.

The current methodology for setting the retail price cap includes a delay in reflecting changes in the level of BSUoS costs within the cap. Therefore, without a change to the retail price cap methodology, suppliers will face significant and unjustified losses due to the higher BSUoS costs that would result from CMP308 not being reflected in the price cap from the point of implementation. If an efficient supplier is unable to recover its costs, then this will adversely affect competition in supply.

The volatility of BSUoS costs has increased in recent years. Currently the portion of balancing costs paid by generation is incorporated into the power price, which suppliers can hedge against. Therefore, recovering all BSUoS costs from suppliers will lead to an increase in the uncertainty

of BSUoS related costs and cash flows. Suppliers will have varying abilities to manage this increased uncertainty, with a resultant negative impact on competition in supply.

Partially offsetting these negative impacts, there is likely to be a positive effect on competition in generation.

Applicable CUSC Objective (b): Negative impact.

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. CMP308 would double the strength of these distortive signals, making it less cost reflective than the baseline.

Applicable CUSC Objectives (c), (d) and (e): Neutral impact.

Comment on further industry changes:

I note that subsequent industry developments could remove or reduce the negative impacts I have identified above. CMP361 (Introduction of an ex ante fixed BSUoS tariff) is currently going through the CUSC change process and I also understand that Ofgem are fully aware of the implications of CMP308 on the price cap.

Should a reasonable CMP361 solution be implemented at the same time as CMP308 (or earlier), and should Ofgem confirm that the price cap methodology will be revised to ensure that the increase in BSUoS costs would be allowed for from the point of implementation, then the negative impacts I identify above would be largely mitigated, leaving the positive impact on competition in generation.

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 – UKPR					
Original	Y	Y	-	-	Y	Y

Voting Statement:

This modification facilitates competition between transmission-connected and embedded generation in GB and between generation in GB and European markets, as interconnected markets do not charge similar fees to generation.

In line with the conclusion of the Second Balancing Services Task Force, BSUoS is not a signal that generators forecast with any degree of reliability, nor act on. This modification will remove ‘noise’ from the wholesale market. This will increase the visibility of genuinely cost-reflective signals, so encourage suitable investment and allow for more efficient dispatch as the wholesale prices will be based more on Short Run Marginal Cost of generation technologies and not commercial decisions about potential BSUoS costs. As BSUoS is cost recovery, and cannot be cost-reflective, recovering the revenue in the least distortive way will improve overall cost-reflectivity of the charging methodology.

Analysis by Frontier/LCP supports the Workgroup’s opinion that reduced system costs and reduced wholesale prices will outweigh the increase in BSUoS on the smaller charging base.

Cost recovery from Final Demand is the most efficient method and the proposed solution aligns BSUoS with TNUoS cost recovery (the TDR), so makes the charging methodology more internally consistent.

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)
	Jason Harkay – Utilita					
Original	Y	-	Y	-	-	Y

Voting Statement:

We would prefer the approval of a fixed BSUoS charge (such as the in development CMP361/362) in conjunction with this modification. This would address our concerns about moving a variable BSUoS charge from generation and suppliers to just suppliers and would align with the Second BSUoS’s Task Force’s recommendations. Without fixed BSUoS this change would place an increased risk on suppliers, which could have a direct effect on consumers if that supplier is forced to exit the market due to a sudden BSUoS change or error in charging resulting in unexpected costs. While we welcome changes to make UK generation more competitive, it must come with protection to its consumers.

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 – NGESO					
Original	Y	-	-	-	Y	Y

Voting Statement:

The updated original solution for CMP308 seeks to align with the recommendations of the Second BSUoS Task Force, that BSUoS should be paid by demand only, and the principles introduced through the Targeted Charging Review for Final Demand. Where BSUoS charging differs to TNUoS, such as charging on a BM Unit level as opposed to site level, an appropriate approach has been found to ensure BSUoS can continue to be billed by BM Unit metered volume on a half hourly basis.

The solution is positive against objective a, as it levels the playing field between transmission and distribution connected generators as well as GB and EU generators by removing the BSUoS liability from transmission connected generators. As noted in the analysis produced by Frontier, this can also deliver significant consumer benefits.

The solution is positive against objective e, as it facilitates closer alignment between BSUoS and TNUoS terminology.

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)
Josh Logan – Drax Power						
Original	Y	-	Y	-	Y	Y
<p>Voting Statement:</p> <p>CMP308 will implement part of the recommendations from the Second BSUoS Task Force and will better facilitate the Applicable CUSC Charging Objectives.</p> <p>Applicable Objective (a) – Positive</p> <p>The removal of BSUoS charges from GB generation would enable GB and continental generation to compete on a more equal basis and remove the potential for BSUoS to distort cross border trade. This will facilitate effective competition.</p> <p>Applicable Objective (c) – Positive</p> <p>As interconnection capacity increases, the current market distortion between GB and continental generators will increase. CMP308 takes account of this development and will prevent the existing distortion from becoming exacerbated.</p> <p>Applicable Objective (e) – Positive</p> <p>BSUoS costs are passed through various markets and mechanisms before ultimately being recovered from the end consumer. Economic theory would suggest that recovering BSUoS directly from final demand will promote efficiency and reduce whole system costs.</p> <p>Frontier Analysis – Positive impact on end consumers</p> <p>The Analysis concluded that “<i>recovering BSUoS costs entirely from demand is likely to reduce overall system costs and customer costs</i>”.</p>						

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
<p>Voting Statement:</p> <p>I agree that the removal of BSUoS charges for generation will help to ensure a more competitive market (levelising the costs seen by UK based generation and continental generation via the interconnector) and that the UK market is likely to be sufficiently competitive that these savings are passed through to end customers (ACO (a)). However, there is a risk that is being implicitly forced onto suppliers through the retail price cap. Ofgem must ensure that the price cap methodology is updated to take into account CMP308 (if approved) or approve CMP361 (fixing BSUoS charges ex ante) to not create distortions in the supply market. Without either of these</p>						

two changes, suppliers with high levels of default tariff customers will be unfairly forced into a position where (for a limited period) they are paying double the BSUoS charge (as per CMP308), but are only able to pass through the historic pre CMP308 BSUoS charge as per the price cap methodology. With the very slim margins being made by suppliers on these types of tariff, this is likely to lead to negative margins.

I also agree that BSUoS is a cost recovery charge (as stated by the first BSUoS task force) and hence is best addressed by passing this through to the end consumer. (ACO(b)). However, an even fairer methodology will be to approve CMP361 and make the charge fixed thereby removing any chance that BSUoS could send market signals that allow for some customers to avoid the charge.

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	Y	-	-	-	Y	Y

Voting Statement:

Removes the existing charging distortion which results from transmission connected generation paying BSUoS, whilst distributed generation/storage and cross border trades do not. This improves competition in the wholesale market. It is also more efficient to recover balancing costs from customers directly via their supplier, rather than via a more convoluted route via generators (which has to in turn go through energy and balancing markets, to suppliers and onto customers). Ofgem’s cost benefit analysis suggests that this change will be of benefit overall to consumers with a positive NPV. The analysis was undertaken assuming the present volatile ex post basis of charging BSUoS. The benefits should be even greater if fixed price BSUoS proposals are implemented too.

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	Y

Voting Statement:

Yes, in two principle ways: -

1. Better aligning the GB market arrangements and the charges faced by GB generation with those prevalent in other interconnected countries, where generation is typically not subject to such charges, allows GB and continental generation to compete on a more equitable basis and removes the potential for BSUoS to distort cross border trade
2. Removal of the distortion in BSUoS charge between embedded and transmission connected generation. The estimated cost to consumer of the distortion between embedded and transmission connected generation is estimated to be around £130m/year. This is driven by the higher marginal cost that transmission connected

generation has because of the BSUoS charge and the % of time that this type of generation sets market price. This value is expected to reduce consumer costs once CMP 308 is implemented.

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						
Original	Y	-	Y	-	Y	Y

Voting Statement:

Better aligning the GB market arrangements with those prevalent in other European countries would allow GB and continental generation to compete on a more equitable basis by removing the potential for BSUoS to distort cross border trade.

In the long run removal of the identified distortion in the wholesale market would ensure more effective competition which is in consumers' interests: i.e. will ensure dispatch and investment in new generation and transmission is more efficient.

This change will also simplify the charging and billing arrangements, thus simplifying administration.

Stage 2b – WACM Vote (If required)

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

Not required

Stage 2c – Workgroup Vote

Which option is the best? (Baseline or Proposer solution (Original Proposal))

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Christopher Granby	Banks Group	Original	A, E
Garth Graham	SSE	Original	A, B
George Moran	Centrica	Baseline	N/A
Grace March	UKPR	Original	A, B, E
Jason Harkay	Utilita	Original	A, C
Jenny Doherty	NGESO	Original	A, E
Josh Logan	Drax Power	Original	A, C, E
Matthew Cullen	E.ON UK	Original	A, B

Paul Jones	Uniper	Original	A, E
Simon Lord	Engie	Original	A, E
Simon Vicary	EDF Energy	Original	A, C, E

Of the 11 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	10