

CUSC Alternative and Workgroup Vote

CMP395: Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers

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

Stage 1 - Alternative Vote

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

Stage 2 - Workgroup Vote

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

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

Terms used in this document

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

The Applicable CUSC Objectives (Charging) are:

- 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.

*The Electricity Regulation referred to in objective (d) is Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

Workgroup Vote

Stage 1 – Alternative Vote

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

“Y” = Yes

“N” = No

“-“ = Neutral (*Stage 2 only*)

“Abstain”

Workgroup Member	Alternative 1 (Centrica, £25/MWh, Generators and Suppliers)	Alternative 2 (VPI, £30/MWh, Generators and Suppliers)	Alternative 3 (NGESO, £40/MWh, Generators and Suppliers)	Alternative 4 (Centrica, £25/MWh with re-assessment of price cap (ESO), Generators and Suppliers)	Alternative 5 (EDF, £15/MWh, Suppliers only)	Alternative 6 (NGESO, £25/MWh, Suppliers only)	Alternative 7 (SSE, £15/MWh, with re-assessment of price cap (Ofgem), Generators and Suppliers)
Graz Macdonald	N	N	N	N	N	N	Y
Karen Thompson – Lilley	Y	Y	Y	Y	Y	Y	N
Paul Youngman	Y	Y	N	Y	N	N	Y
Phil Broom	Y	Y	N	Y	Y	Y	Y
Simon Vicary	N	N	N	N	Y	N	N
Sean Gauton	Y	Y	N	Y	N	N	Y
Ryan Ward	N	N	N	N	N	N	Y
George Moran	Y	Y	Y	Y	Y	Y	Y
Damian Clough	N	N	N	N	N	N	Y
Niall Coyle	Y	Y	Y	Y	Y	Y	Y
Iwan Hughes	Y	Y	N	N	N	N	Y
WACM?	WACM1	WACM2	WACM3 – saved by Chair	WACM4	Not saved by Chair	Not saved by Chair	WACM5

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)
Graz Macdonald – Waters Wye (on behalf of Saltend Cogeneration Company Ltd)						
Original	Y	-	Y	-	-	Y
WACM 1	Y	-	Y	-	-	Y
WACM 2	-	-	-	-	-	-
WACM 3	-	-	-	-	-	-
WACM 4	Y	-	Y	-	-	Y
WACM 5	Y	-	Y	-	-	Y

Voting Statement:

Placing a cap on BSUoS will remove inefficient risk premia from the market, resulting in an overall reduction in BSUoS costs, and an overall reduction in consumer bills (or future taxpayer liability). Much of winter has not been hedged, particularly for low load factor plant (partly or largely due to liquidity constraints).

With this mod, generators will not need to factor in potentially very high BSUoS costs into Short Run Marginal Costs (SRMC) for wholesale market trades for winter, quarterly, monthly, weekly, day ahead, within day and BM offers. Instead, they know there will be a modest fixed SRMC added to next year’s energy sales. These premia are a purely inefficient (non-cost reflective) misallocation of risk that only increases costs. As the BSUoS taskforce has found, BSUoS is not cost reflective, and so generating extra cost, particularly in the current cost of living climate, is simply not appropriate. Note this misallocation of risk always existed, but recent geopolitical conditions have caused extreme levels of BSUoS and variability that traders cannot ignore in their decisions.

The level of the cap is important to the effectiveness of this mod, and it is our view that prices above the current average forecasted prices have diminishing benefits in regard to the competitive benefits noted above, Hence, caps above £25/MWh are likely to be too high to bring the benefit this mod intends. We believe this benefit outweighs the risk of the limit running out before the end of the winter.

The limit available to use should be higher but we recognise NGENSO’s limitations. WACM5 allows for subsequent intervention or government backing to be reflected without raising a new mod. Given the benefit of overall lower cap for the consumer and for market participants, this WACM is very sensible. The Government has promised to support suppliers in capping retail

prices over the next two winters. It would be appropriate for Treasury to consider backing extra funding from NGENSO to increase the limit proposed in this mod. Doing so would have the effect of lowering the total amount that Treasury must borrow to cover capped energy bills providing an opportunity for this policy to have a lower impact on taxpayers. The lower the cap and higher the limit the better.

CMP308 removes BSUoS charges from generation in April 2023, as it recognises the inefficiencies arising from misallocation of risk and non-cost-reflectivity. It is at least partly because NGENSO systems could not implement this change sooner that generation pays BSUoS still. CMP361 would have suppliers pay a flat rate for BSUoS in April 2023 (assuming Ofgem approves it). These two mods solve the problem this mod is also trying to fix, but just a little too late. This mod in effect brings forward decisions already agreed by industry as necessary and better for the consumer, recognising the extreme situation at the moment and over the coming winter.

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)
Karen Thompson – Lilley – National Grid ESO						
Original	N	N	-	-	-	N
WACM 1	N	N	-	-	-	N
WACM 2	N	N	-	-	-	N
WACM 3	Y	Y	-	-	-	Y
WACM 4	Y	Y	-	-	-	Y
WACM 5	N	N	-	-	-	N

Voting Statement:

The Original, WACM 1, 2, 5 do not better facilitate objectives (a) or (b), are neutral against (c), (d) and (e) and therefore overall Negative. None of these options are based on providing for a cap that addresses exceptional events and all of these would therefore result in a high likelihood that the £250m fund would be used before the end of the 6-month period. This view is based on ESO forecasts for BSUoS caps as at data from August forecast. All of these in ESO opinion could therefore not be able to provide the certainty and Winter risk mitigation requested from the industry to facilitate competition and drive down generator bids.

WACM 3 & 4 both better facilitate relevant objectives (a) and (b) and overall. WACM 3 as this is based on ESO data and forecasts and therefore provides for a cap for exceptional events against a fund that is available and could last for the 6 month period. WACM 4 as although the cap is not sufficient to address all exceptional events has the ability to review at utilisation of £150m of the cap and has the ability for the ESO to increase the cap accordingly.

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 Youngman – Drax						
Original	Y	-	Y	-	-	Y
WACM 1	Y	-	Y	-	-	Y
WACM 2	Y	-	Y	-	-	Y
WACM 3	-	-	-	-	N	N
WACM 4	Y	-	Y	-	-	Y
WACM 5	Y	-	Y	-	-	Y

Voting Statement:

The Original proposal, WACM1, WACM2, WACM 4 and WACM5 are all positive against both applicable objective (a) and applicable objective (c). For (a) the proposals are likely to further competition in the supply and generation of electricity and lower costs to consumers overall by deferring charges above the cap level to the new charging year and reducing BSUoS risk. It is widely accepted that the BSUoS charges are quite exceptional even when compared to the previous instances when similar interventions have been granted by the Authority. For ACO (c) the proposals reflect the impact of the challenging market conditions and present positive adaptations of the charging methodology whilst ensuring ESO duties and obligations, including those with regard to competition, are maintained.

WACM3 has a proposed cap of £40/MWh which we believe would severely limit the benefit of the proposal. We believe that this is neutral against applicable objectives (a) and (c) and is negative against (e) as we do not believe it is efficient to introduce arrangements that are likely to only have a marginal benefit.

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)
Phil Broom – Engie						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
WACM 2	Y	-	-	-	-	Y
WACM 3	Y	-	-	-	-	Y
WACM 4	Y	-	-	-	-	Y
WACM 5	Y	-	-	-	-	Y

Voting Statement:

All of the proposals are likely to be risk reducing and should benefit consumers through lower costs. WACM 1 is preferred because, given the analysis of forecast costs, the £25MWh strikes the right balance between the cap level and optimal use of the available ESO funding.

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
WACM 1	Y	Y	Y	-	-	Y
WACM 2	Y	Y	Y	-	-	Y
WACM 3	Y	Y	Y	-	-	Y
WACM 4	Y	Y	Y	-	-	Y
WACM 5	Y	Y	Y	-	-	Y

Voting Statement:

All of the WACMs better facilitate Applicable Objectives a, b and c.

- a. Positive: This proposal will have a positive impact on consumers as, during this exception period where the conflict in Ukraine is driving energy prices to extreme highs, it spreads the recovery of a portion of the exceptional BSUoS costs into a future year. Despite the relatively small cost being deferred against exceptional wholesale costs (£250m limit), any relief provided to consumers would be welcome. It reduces the risk of further destabilisation of industry participants, to mitigate against further insolvencies that would simply lead to greater costs for consumers, and further disruption of the market.
- b. Positive: This enables all costs incurred by transmission licensees to be recovered, but over a period of time that is more manageable and will drive greater payment from industry participants. Paradoxically, seeking to recover costs in a shorter period (i.e. by not introducing this modification) could ultimately result in less cost being recovered by transmission licensees due to the risk of driving further industry insolvency and non-payment leading to stranded costs.
- c. Positive: This is fully consistent with para (a), similar in approach to previous modifications that have been approved and adopted successfully.
- d. Neutral: No impact.
- e. Neutral: There should be little, if any, system impact

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)
Sean Gauton - Uniper						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
WACM 2	Y	-	-	-	-	Y
WACM 3	Y	-	-	-	-	Y
WACM 4	Y	-	-	-	-	Y
WACM 5	Y	-	-	-	-	Y

Voting Statement:

The Original proposal and all WACMs better facilitate applicable objective (a). The cap on BSUoS allows a reduction in risk premia in offer prices which has the potential to benefit consumers. I favour the original proposal, a cap without the uncertainty of an in period review.

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)
Ryan Ward – Scottish Power Renewables						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
WACM 2	Y	-	-	-	-	Y
WACM 3	Y	-	-	-	-	Y
WACM 4	Y	-	-	-	-	Y
WACM 5	Y	-	-	-	-	Y

Voting Statement:

Recent developments have driven balancing costs to a level higher than what could have been forecast or expected. The proposed BSUoS cap could offer additional protection against the volatility expected over the winter period. A reduction in the risk premia, could feed through via some generators and suppliers to lower the costs faced by customers. The delayed cost could offer suppliers and generators that are struggling the opportunity to recover this portion of BSUoS back in potentially more favourable market conditions during 23/24. In order to maximise the potential benefit delivered to the consumer, SPR believe it is appropriate to set the cap at £15/MWh and support the relevant authority in increasing the cap above £250m, if deemed appropriate and/or the necessary funds are available.

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
WACM 1	Y	-	Y	-	-	Y
WACM 2	Y	-	Y	-	-	Y
WACM 3	Y	-	Y	-	-	Y
WACM 4	Y	-	Y	-	-	Y
WACM 5	Y	-	Y	-	-	Y

Voting Statement:

To varying degrees, I believe **the Original and all WACMs better facilitate applicable objectives (a) and (c)** for the reasons set out in more detail below. The key differences in the options relate to the level of the cap and whether there should be an in-period review mechanism.

The benefits of introducing a cap are diminished if:

- a) The cap is set too high and as a result limits the reduction in risk premia in offer prices and affects too few settlement periods; or,
- b) The cap is set too low and as a result the £250m is utilised too quickly

On balance I consider **the best option to be WACM4** (£25/MWh cap with an in-period review mechanism). A £25/MWh cap reasonably represents an exceptional HH BSUoS price – it is broadly equivalent to the mean plus two standard deviations of HH BSUoS prices over the most recent 12 month period. I also consider a £25 cap strikes the right balance between seeking to ensure the cap is not set too high and seeking to ensure that the £250m lasts for the duration of the winter period. The review mechanism included with WACM4 provides further mitigation against the £250m not lasting for the whole winter.

Objective (a): Positive Impact

For Parties (suppliers and generators) with longer term contracts, all options will provide some mitigation against the losses likely to be incurred because of the exceptional levels of BSUoS costs forecast by the ESO, which are over and above what a prudent market operator could have foreseen. Deferring to a future period will allow Parties to reflect a portion of these exceptional costs into future tariff offerings. Such protection, for exceptional events, that are high impact and low probability, 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. If the cap is set too high, it may limit the degree of cost pass-through achieved and so reduce the beneficial impact on future risk premia.

For Parties operating in shorter term markets all options will reduce, to varying degrees, the BSUoS risk that will need to be factored into offer prices and will allow more fundamental drivers of costs to determine the merit order of offers. This has the potential to materially lower overall balancing costs over the winter period. If the cap is set too high it will reduce the benefits of the modification by limiting the reduction in risk premia included in offer prices. On the other hand, if the cap is set too low, the £250m deferral limit could be reached early and so the benefit of lower risk premia could end well before the end of the winter period, leaving Parties exposed

once again to exceptional HH BSUoS prices. This would also reduce the benefits of the modification.

As set out above, I consider WACM4 to provide the best balance between these competing objectives.

Applicable Objective (c): Positive Impact

As well as introducing a BSUoS cap for these new exceptional circumstances, all options also reflect the latest view of the ESO of the amount of support than can be provided (£250m). Such a limit to the amount of exceptional BSUoS costs that can be deferred will help to ensure the continued financeability of 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)
Damian Clough – SSE Generation Ltd						
Original	Y	-	Y	-	-	Y
WACM 1	Y	-	Y	-	-	Y
WACM 2	Y	-	Y	-	-	Y
WACM 3	Y	-	Y	-	-	Y
WACM 4	Y	-	Y	-	-	Y
WACM 5	Y	-	Y	-	-	Y

Voting Statement:

The Original and all alternatives are better than the baseline for objectives a and c for the reasons described below, and in line with previously approved modifications.

- 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;*

Positive

When operating in the Balancing Mechanism and submitting Bids and Offers it’s important that the Party forecasts the BSUoS cost for that Settlement Period so as to recover the costs of operating. For example if it were to offer 100MW’s it would need to forecast what the extra 100MW’s would cost in BSUoS. If it under forecasts then there is the danger of offering a service at a loss. This has the potential to damage competition as those Generators who are better at forecasting BSUoS move up the merit order. This may lead to less efficient Generators being dispatched ahead of those who are more risk adverse. Capping BSUoS gives more certainty over the BSUoS costs or at least a smaller range but also reduces the overall BSUoS cost which will aid those end consumers.,

From a Suppliers perspective for domestic customers BSUoS costs are taken into account in future price cap’s but it does provide some relief from a cashflow perspective as there is a lag.

For Suppliers in the Business Market offering fixed contracts this will provide immediate relief as BSUoS costs cannot be recovered and are a lot higher than what was envisaged at the start of the fixed price contract. For those with reconciliations or pass through BSUoS costs this will provide relief to the end consumer.

All the above will help maintain competition as some Parties may be able due to their size be able to absorb the costs whilst smaller Parties may not

- 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);*

Neutral

- 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;*

Positive

As well as introducing a BSUoS cap for these new exceptional circumstances, all options also reflect the latest view of the ESO of the amount of support than can be provided (£250m). Such a limit to the amount of exceptional BSUoS costs that can be deferred will help to ensure the continued financeability of the ESO.

- d. Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*

Neutral

- e. Promoting efficiency in the implementation and administration of the system charging methodology.*

Neutral

Overall, WACM5 is our preferred alternative. If BSUoS is as forecasted, the £15/MWh cap is a reasonable balance between providing sufficient relief for the whole period.

If there are large periods of market disruption this winter the whole fund will be used up very quickly regardless of the cap in place, be it £15 or £40. Under WACM5, the Authority could provide immediate reassurance to the market and end consumers, that the cap will continue, thus saving millions in Balancing Costs per Settlement period, due to not having to forecast BSUoS during turbulent times. Those cost reductions will flow through to the end consumer on top of the relief automatically provided by deferring BSUoS to 23/24.

This immediate reassurance could not be achieved through an urgent modification process, especially if an event happened outside of working hours.

In terms of funding the Energy Markets Financing Scheme make this alternative a practical reality.

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)
Niall Coyle– E-ON						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
WACM 2	Y	-	-	-	-	Y
WACM 3	Y	-	-	-	-	Y
WACM 4	Y	-	-	-	-	Y
WACM 5	Y	-	-	-	-	Y

Voting Statement:

Whilst I believe that the original proposal and all WACMs better facilitates the CUSC charging objectives compared to the baseline, this is to varying extents. I believe the cap level in the original proposal and WACM5 may be too low to be in place for the duration of the winter, and WACM3 may be set too high to offer sufficient support.

In my view WACM1 offers the right balance between protecting customers from extreme BSUoS costs caused by the current market conditions and being in place for the duration of the winter. This is well supported by the analysis provided by the proposer of WACM1, with the scaling applied on a fixed £/MWh basis rather than scaling by percentage.

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)
Iwan Hughes – VPI Immingham						
Original	Y	-	Y	-	Y	Y
WACM 1	Y	-	Y	-	Y	Y
WACM 2	Y	-	Y	-	Y	Y
WACM 3	Y	-	Y	-	Y	Y
WACM 4	Y	-	Y	-	Y	Y
WACM 5	Y	-	Y	-	Y	Y

Voting Statement:

No Voting Statement provided

Stage 2b – Workgroup Vote

Which option is the best? (Baseline, Proposer solution (Original Proposal), WACM1 or WACM2)

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Graz Macdonald	Waters Wye (on behalf of Saltend Cogeneration Company Ltd	Original	a, c
Karen Thompson - Lilley	National Grid ESO	WACM3	a, b
Paul Youngman	Drax	WACM1	a, c
Phil Broom	Engie	WACM1	a
Simon Vicary	EDF Energy	Original	a, b, c
Sean Gauton	Uniper	Original	a
Ryan Ward	Scottish Power Renewables	WACM5	a
George Moran	Centrica	WACM4	a, c
Damian Clough	SSE Generation Ltd	WACM5	a, c
Niall Coyle	E-ON	WACM1	a
Iwan Hughes	VPI Immingham	WACM2	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
WACM1	10
WACM2	9
WACM3	9
WACM4	11
WACM5	10