

# CUSC Alternative and Workgroup Vote

## **CMP408: Allowing consideration of a different notice period for BSUoS tariff settings**

**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 against the CUSC objectives compared to the baseline (the current CUSC).

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

## **Terms used in this document**

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

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

- That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);
- That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly

takes account of the developments in transmission licensees' transmission businesses;

- 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”

**No viable Workgroup Alternatives proposed.**

**Please note the Alternatives referred to in some voting statements were unable to proceed. Both requests seek to change the non-charging section of the CUSC (section 11) and are therefore outside the scope of CMP408.**

**Alternative 1 – Amend the notice period from 9 to 3 months and the fixed period from 6 to 12 months**

**Alternative 2 – Amend the notice period from 9 to 3 months and the fixed price period from 6 to 12 months with two seasonal tariffs.**

## Stage 2a – Assessment against objectives

To assess the original 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)
	Alice Taylor - ESO					
Original	Y	Y	Y	-	Y	Y
<p>Voting Statement:</p> <p>The original proposal, reducing the notice period from 9 months to 3 months, increases the accuracy of BSUoS forecasting by shortening the notice period to aid in reducing the likelihood of tariff resets within a fixed period. This ultimately can allow a reduction in risk premiums being charged to end consumers. The proposal also supports implementation of the recommendation of the second BSUoS Task Force by addressing industry concerns about a shorter notice period than fixed period, allowing for increased accuracy on BSUoS forecasting.</p> <p>The ESO also considers that of the recommendation from the second BSUoS Task Force of a 15 month overall combined period. We therefore offer our support to the consequential modification that is being raised that looks to extend the Fixed Price Period from 6 months to 12 months with two seasonal tariffs which is intrinsically linked to that of CMP408's change to the notice period. We feel this is a compromise to account for the possible seasonality issue, reducing the likelihood of tariff resets within a longer fixed period. This allows for alignment with the 15month overall combined period.</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)
	Damian Clough - SSE					
Original	N	Y	-	-	-	N
<p>Voting Statement:</p> <p>The Original for CMP408 allows the ESO to better forecast BSUoS due to the shortened notice period so improves Objective B. This however is at the expense of Objective A which severely harms competition as it makes it very difficult to have any certainty over</p>						

BSUoS when setting Supply contracts with the end consumers. Arguably it pretty much reverses CMP361

For Alternative 1 and Alternative 2 these align with the BSUoS taskforce optimum combination of notice and fixed which is 15 months, so are automatically better than the original solution proposed by CMP408. However, without any consideration of BSUoS fund, over recovery, future risk etc, any further change now risks adding further confusion to Industry, just after a decision has been made by the Authority and may increase the risk of reopening prices at a later date. The tight defect does not allow things to be tweaked to make the 12 month notice, 3 month fix a more attractive proposition than the current Baseline.

I can empathise with the ESO's position in raising the modification when they did, but with the subsequent reduction in the overall BSUoS costs; the modification with its very tight defect, restricts any innovation or tweaking of risk to provide a better solution than the current baseline. The potential modifications and solutions being discussed in the TCMF subgroup provide an opportunity for a more rounded solution to both Industry and the ESO as well as crucially the end consumer. Is this modification therefore just an unnecessary distraction?

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)
	Dimuthu Wijetunga – Shell Energy					
Original	<b>N</b>	<b>Y</b>	-	-	-	<b>N</b>

## Voting Statement:

As we have articulated in our working group consultation response, we do appreciate ESO's point about shorter the notice period higher the forecast accuracy would be. However, we do not believe ESO's original proposal of 3N6F model would better facilitate the CUSC charging objectives compared to the baseline (i.e CMP361 WACM3, 9N6F model). We do not agree with ESO's argument of a potential reduction in BSUoS risk under their original proposal (i.e the claim that a 3N6F model would better facilitate CUSC objective A), hence it would not be beneficial for the end consumer and would go against the intended objectives of the BSUoS taskforce's recommendations and Ofgem approved CMP361 WACM3's objectives.

Having said that, Shell Energy appreciate the challenges ESO would be facing when setting a fixed tariff with advance notice for a highly volatile and unpredictable charge like BSUoS, hence our previous support for Alternative 2. However, given the fact that Alternative requests 1 and 2 had to be withdrawn due to technicalities in the CUSC, the original proposal under CMP408 (3N6F) remains the only option. As we have mentioned above, we do not believe 3N6F is the best model and we strongly believe this would not be in the best interest of the end consumer. Therefore, in the absence of

any alternatives under CMP408, we have voted against it and believe the current baseline (9N6F) model gives far better value for the end consumer.

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

Voting Statement:

I believe the proposal does not better facilitate the objectives.

### Objective (a): Negative impact

Less tariff notice may lead to an improvement in the accuracy of the forecast underpinning the published BSUoS tariff, and so may act to reduce the probability of tariff resets. However, this comes at the cost of meaning a smaller proportion of contracts are able to take account of the published fixed tariff (as demonstrated by Annex 4 of the Workgroup consultation). If fewer contracts are able to incorporate the fixed tariff this will act to increase the aggregate amount of risk premium included across the consumer base. The proposal has not demonstrated that any benefit from a potential improvement in forecast accuracy will outweigh the additional risk premium included due to less notice being provided. I believe it is negative against applicable objective (a).

### Objective (b): Neutral impact

BSUoS is a cost recovery charge, providing no cost reflective forward-looking signal. As such I believe the proposal is neutral against objective (b).

### Objectives (c), (d) and (e): Neutral impact

I believe the proposal is neutral against objectives (c), (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 Livesey - Drax						
Original	N	-	-	-	-	N

Voting Statement:

### General comments

There has been insufficient evidence that a defect exists in the current charging methodology. The existing arrangement has only been in place for a few months, and

even then not in its true form due to the timing of Ofgem's decision on CMP361 with respect to the charging calendar (i.e., a 9-month notice period wasn't possible for April 2023 or October 2023 due to Ofgem's decision mid-December 2022).

The Baseline (9N6F) offers certainty for suppliers well in advance of tariff start dates, which is particularly important for those agreeing contracts many months in advance.

## Original

**Negative against Objective (a)** – the proposed 3N6F does not provide sufficient certainty to suppliers as to what BSUoS costs will be imposed, particularly for non-domestic suppliers that agree contracts many months in advance that fix costs for 2 – 3 years. This will therefore likely raise the risk premia included in the contract pricing, with a potential distortive effect on non-domestic contracts, and between larger and smaller suppliers. The Original proposal contravenes the recommendation of the BSUoS Taskforce that Notice Period + Fixed Period equal 15 months, a recommendation endorsed by Ofgem after rigorous examination of evidence; the same rigour has not been applied here and so there's no evidence that this recommendation can now be ignored.

**Neutral against Objectives (b), (c), (d)** – no further comments.

**Neutral against Objective (e)** – Whilst the proposed framework may reduce the risk of tariff reset and therefore reduce the ESO's administrative burden (positive impact), it is not prudent to be changing charging methodology within such a short time of new arrangements that have yet to be proven to have a defect (negative 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)
	Monika Hudakova - OVO					
Original	N	-	-	-	-	N

## Voting Statement:

We are in favour of Baseline position.

Shorter notice period of Original Proposal (while maintaining 6 months fixed tariff) would result in more price uncertainty for suppliers and ultimately more negative impact on suppliers' competitiveness, considerably reducing the benefits that BSUoS fixed tariff was designed to bring and would result in higher risk premia than the risk arising from a potential tariff reset.

15-months combined fixed and notice period (Baseline) is appropriate and would result in lower risk premia and ultimately savings for customers.

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 - EON					
Original	N	-	N	-	-	N
<p><b>Voting Statement:</b></p> <p>As a consequence of reducing the notice period for BSUoS tariff setting, all three proposals (the original proposal and both alternatives) increase the risk exposure for suppliers on any fixed contracts they may agree, thereby increasing the likelihood of suppliers including risk premium in their fixed contract offerings. The original increases this risk exposure to the greatest extent by way of reducing the overall combined fixed/notice period, while also straying from the findings of the second BSUoS task force which we believe is paramount to the success of any ex-ante fixed BSUoS tariff charging methodology. Whilst both alternatives are better than the original proposal, E.ON cannot support either due to the increase in risk exposure they cause for suppliers, albeit to a lesser extent. E.ON believe the baseline CUSC offers the best solution, by allowing suppliers to minimise risk premium factored into fixed supply contracts.</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)
	Robert Longden – Eneco Energy Trade BV					
Original	N	Y	-	-	-	N
<p><b>Voting Statement:</b></p> <p>There are a number of variables involved when attempting to deal with the assessment of fixed BSUoS arrangements. Notice period, fixed period, certainty of tariff (without the need for mid year reset), forecast accuracy and supplier ability to effectively manage any outcomes. CMP408 only addresses one of these and as such represents an incomplete approach.</p> <p>The Original proposal to simply reduce the baseline notice period from 9 months to three months will expose suppliers to considerably more risk, as customer contracts need to be priced with a longer lead time than this. This risk will considerably outweigh any benefit in forecast accuracy and lead to a net detriment if the proposal is implemented.</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)
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	Simon Vicary – EDF					
Original	N	N	N	-	N	N
Voting Statement:  I consider the Original to be worse than the Baseline as it would have an adverse impact on consumers and suppliers by significantly reducing the current BSUoS certainty.						

Of the **9** 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	1

## Stage 2b – 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)
Alice Taylor	ESO	Original	a, b, c, e
Damian Clough	SSE	Baseline	
Dimuthu Wijetunga	Shell Energy	Baseline	
George Moran	Centrica	Baseline	
Kate Livesey	Drax	Baseline	
Monika Hudakova	OVO	Baseline	
Niall Coyle	EON	Baseline	
Robert Longden	Eneco Energy Trade BV	Baseline	
Simon Vicary	EDF	Baseline	