

# CUSC Alternative and Workgroup Vote

**Workgroup vote should CMP408 be approved**

## **CMP415: Amending the Fixed Price Period from 6 to 12 months**

**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**

<b>Term</b>	<b>Meaning</b>
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 are:**

- a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;
- b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;
- c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency \*; and
- d) Promoting efficiency in the implementation and administration of the CUSC arrangements.

\*The Electricity Regulation referred to in objective (c) 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
	Amending the Fixed Price Period from 6 to 12 months with two seasonal tariffs
Name	
Alice Taylor	<b>yes</b>
George Moran	<b>yes</b>
Kate Livesey	<b>yes</b>
Monika Hudakova	<b>yes</b>
Niall Coyle	<b>yes</b>
Robert Longden	<b>yes</b>
Simon Vicary	<b>yes</b>
<b>WACM?</b>	<b>WACM1</b>

### Stage 2a – Assessment against objectives

# ESO

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)		Overall (Y/N)
<b>Workgroup Member</b>	Alice Taylor – ESO					
Original	Neutral	No	Neutral	Neutral		No
WACM 1	Neutral	Yes	Neutral	Neutral		Yes

**Voting Statement:**

Whilst the ESO recognises that the baseline of a 6 months fixed period provides reduced risk to the ESO WCF being fully utilised and therefore reduces the likelihood of tariff resets within a fixed period, we believe that WACM 1 provides a better compromise between the ESO and suppliers. WACM 1 of two seasonal tariffs within a 12-month fixed period allows suppliers to price longer contracts with price certainty, reducing risk premia being passed onto end consumers. The risk of the ESO WCF being fully utilised is less than that of CMP415 as the two tariffs can take into account the issue of seasonality, which can lower the likelihood of tariff resets within a fixed period. Furthermore, the longer fixed period falls in line with the results of the Second BSUoS Taskforce of 15 months total combined period, which under the current baseline is only that of 9 months. Therefore, on balance whilst we support the current baseline of 6 months, we believe that WACM 1 would be seen as the best way forward to give suppliers that longer certainty whilst also managing the WCF risk.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)		Overall (Y/N)
<b>Workgroup Member</b>	George Moran – Centrica					
Original	Neutral	Yes	Neutral	Neutral		Yes
WACM 1	Neutral	Yes	Neutral	Neutral		Yes

**Voting Statement:**

**Annex 6 - Formal Vote:**

Objective (b): Negative impact

On the basis that both the Original and WACM1 seek to increase the fixed period to 12 months, with a reduction in notice period to 3 months, I consider that they both have a negative impact on Objective (b) compared to a baseline of a 6-month fixed period with 9 months notice.

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. 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. Neither the Original nor WACM1 have demonstrated that any benefit from a potential improvement in forecast accuracy will outweigh the additional risk premium included due to less notice being provided.

**Annex 7 - Illustrative Vote (if CMP408 were the baseline):**

Objective (b): Positive Impact

My views if CMP408 was the baseline would be that both the original and WACM1 would have a positive impact on Objective (b) by providing more certainty of the applicable BSUoS tariffs over a 15 month period. My slight preference between the solutions would be WACM1 as it allows the ESO to better align the profiles of revenue and cost recovery to its best view at the time of tariff setting.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Overall (Y/N)
<b>Workgroup Member</b>	Kate Livesey – Drax				
Original	Neutral	Yes	Neutral	Neutral	Yes
WACM 1	Neutral	Yes	Neutral	Neutral	Yes

Voting Statement:

**Annex 6 - When comparing CMP415 and WACM1 to the existing CUSC arrangements (9-month notice, 6-month fixed):**

**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, as in the non-domestic sector.

# ESO

## Original:

**Negative against non-charging objective (b)** – Compared to the Baseline arrangements of 9N6F, the Original acts to reduce visibility of upcoming BSUoS Tariffs ahead of time due to the shorter notice period of 3 months. This may cause suppliers to include higher risk premia in contract pricing compared to the Baseline situation, which will negatively impact on competition and result in higher prices for consumers.

Neutral against non-charging objectives (a), (c), (d) – no further comments.

## WACM1:

**Negative against non-charging objective (b)** – Compared to the Baseline arrangements of 9N6F, WACM1 acts to reduce visibility of upcoming BSUoS Tariffs ahead of time due to the shorter notice period of 3 months. This may cause suppliers to include higher risk premia in contract pricing compared to the Baseline situation, which will negatively impact on competition and result in higher prices for consumers.

Neutral against non-charging objectives (a), (c), (d) – no further comments.

**Annex 7 - As CMP415 is a consequential modification to CMP408, it's also important to compare it to the CMP408 proposed arrangements of 3-month notice, 6-month fixed:**

**Compared to CMP408 (3N6F), CMP415 and WACM 1 bring positive improvements against non-charging objective (b) and result in better arrangements for consumers.**

CMP415 and WACM1 ensure the Notice Period + Fixed Period = 15 months. This was a key recommendation from the 2nd BSUoS Taskforce because this arrangement can provide greater visibility of BSUoS costs to suppliers, likely leading suppliers to reduce risk premia included within contract pricing. This benefits consumers due to lower costs and improved competition.

Whilst the ESO claim that the 2nd BSUoS Taskforce recommendation is no longer valid, no evidence has been provided to discredit the recommendation, which was endorsed by Ofgem after rigorous examination of evidence.

**To conclude, the existing CUSC arrangements of 9-month notice, 6-month fixed represents the best option for suppliers and consumers, offering the best visibility and assurance to suppliers as to what BSUoS costs will be, likely improving competition and lowering costs to consumers. If it is decided that a 3-month notice period is more suitable, it is imperative that CMP415 or its WACM is approved to maintain the recommendation of the 2nd BSUoS Taskforce.**

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Overall (Y/N)
Workgroup Member	Monika Hudakova – OVO				
Original	Neutral	Yes	Neutral	Neutral	Yes

# ESO

WACM 1	Neutral	Yes	Neutral	Neutral		Yes
<p>Voting Statement:</p> <p><b>Annex 7: Baseline = CMP408 in place (3 months notice + 6 months fixed)</b></p> <p>15-months combined fixed and notice period means more price certainty for suppliers which would result in lower risk premia and ultimately savings for customers. Shortening the notice period (while maintaining 6 months fixed tariff) would considerably reduce the benefits that BSUoS fixed tariff was designed to bring.</p> <p><b>Annex 6: Baseline = The current CUSC (9 months notice + 6 months fixed)</b></p> <p>15-months combined fixed and notice period is appropriate and means more price certainty for suppliers which would result in lower risk premia and ultimately savings for customers.</p> <p>WACM 1 (with two seasonal tariffs) seems like the most appropriate option as in addition to 15 months combined fixed and notice period it is more likely to increase the accuracy of BSUoS forecasting and decrease the risk of tariff reset (It was presented that a single fixed charge may result in the ESO significantly under-recovering during the summer months with the shortfall recovered over winter).</p>						

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Overall (Y/N)
<b>Workgroup Member</b>	Niall Coyle – EON				
Original	Neutral	Yes	Neutral	Neutral	Yes
WACM 1	Neutral	Yes	Neutral	Neutral	Yes
Voting Statement: No voting statement provided					
Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)	Overall (Y/N)
<b>Workgroup Member</b>	Robert Longden – Eneco Energy Trade BV				
Original	Neutral	Yes	Neutral	Neutral	Yes
WACM 1	Neutral	Yes	Neutral	Neutral	Yes
Voting Statement:					
<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</p>					

any outcomes. The proposal under CMP408 only addresses one of these and as such represents an incomplete approach and a WORSE position than the current baseline.

The proposal simply reduces the baseline notice period from 9 months to three months and 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 (ESO) forecast accuracy and lead to a net detriment if the proposal is implemented. However, a decision on CMP 408 has not yet been made. This complicates the assessment of CMP 415 Original and WACM1. Against the current baseline both of these represent a negative step and are undesirable. However, if CMP 408 is approved, then both the Original and WACM1 ameliorate some of the undesirable impacts of CMP 408, with WACM1 being the preferred outcome.

Workgroup Member	Better facilitates ACO (a)	Better facilitates ACO (b)	Better facilitates ACO (c)	Better facilitates ACO (d)		Overall (Y/N)
<b>Workgroup Member</b>	Simon Vicary – EDF					
Original	Neutral	Yes	Neutral	Neutral		Yes
WACM 1	Neutral	Yes	Neutral	Neutral		Yes

#### Voting Statement:

The following is my voting statement for both the official and the illustrative votes.

CMP415 has been developed out of necessity from CMP408 where alternatives were put forward but disallowed as WACMs. This is because the ESO legal team pointed out that a change proposal can either be non-charging or charging, but not mixed.

CMP415 (Original and WACM1) relate to the duration of the fixed period, to retain the overall 15 months of certainty as recommended by the Second BSUoS Task Force (if CMP408 is implemented). This duration change is a change to CUSC (non-charging) Section 11 whereas the notice period is within (charging) Section 14.

Section 11 is Interpretations & Definitions and currently contains the definition of “Fixed Price Period” as ‘the period of time during which the Fixed BSUoS Price applies. Each Fixed Price Period shall apply for six months, from 1st April to 30th September and 1st October to 31st March’. CMP415 (Original and WACM1) propose to increase this to 12 months with either single annual or split summer/winter fixed prices.

In the workgroup voting for CMP415 (both Original and WACM1) workgroup members were required to vote against the current CUSC baseline. However, CMP415 (Original and WACM1) are predicated on the approval of CMP408.

I do not support the CMP408 proposal as it would have an adverse impact on consumers and suppliers by significantly reducing the current BSUoS certainty. If CMP408 is rejected by the Authority, then CMP415 will also have to be as a result.

## ESO

In the workgroup voting for CMP415 (both Original and WACM1), as I have been required to vote against the current CUSC baseline, I therefore had to consider both as negative against Objective b and thereby negative overall.

With CMP415 (Original and WACM1) predicated on the approval of CMP408 then the CMP408 legal text would become the new CUSC baseline, so on this more appropriate assessment basis I would vote both as positive against Objective b and thereby positive overall. This is reflected in my voting in the workgroup members second illustrative vote.

If the CMP408 legal text was the CUSC baseline then I would vote for CMP415 WACM1 as the best option, as I have done in the second illustrative vote on this basis.

Of the 7 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	6
WACM1	7

### Stage 2b – Workgroup Vote

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

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate?
Alice Taylor	ESO	WACM1	b
George Moran	Centrica	WACM1	b
Kate Livesey	Drax	WACM1	b
Monika Hudakova	OVO	WACM1	b
Niall Coyle	EON	WACM1	b
Robert Longden	Eneco Energy Trade BV	WACM1	b
Simon Vicary	EDF	WACM1	b