

CUSC Alternative and Workgroup Vote

CMP286/287: Improving TNUoS Predictability through Increased Notice of the Target Revenue & Inputs used in the TNUoS Tariff Setting Process for CMP287

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 (ESO, As per Original but “ESO pass through” costs are not locked down 15 months ahead of the TNUoS tariffs going live.
Niall Coyle	N
Nicky White	Y
Simon Vicary	N
Andy Colley	N
Paul Bedford	N
Robert Longden	Y
Richard Woodward	Abstain
WACM1	WACM1 – Saved by Chair on the basis that excluding these costs may not make much difference to the overall benefit (reduction in risk premia) but that small amount could be important to ESO’s finance

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)
Niall Coyle - EON						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
<p>Voting Statement:</p> <p>Volatility of TNUoS charges presents a significant challenge for suppliers in managing their risk exposure. TNUoS tariffs are only set with 2-months' notice, with many of the inputs into the tariff setting process difficult for market participants to forecast. Risk premia is applied to customers fixed contracts to reduce this risk exposure. Both modifications provide market participants with greater certainty of TNUoS tariffs when agreeing fixed contracts, thereby reducing the overall cost to consumers through reduced TNUoS risk premia, enabling enhanced competition in the retail market. The original proposal is our preferred option of the two because of its slightly reduced complexity.</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)
Nicky White – National Grid ESO						
Original	N	-	-	-	N	N
WACM 1	N	-	-	-	N	N
<p>Voting Statement:</p> <p>NGESO does not consider that either the Original or WACM1 solutions better facilitate the Applicable Objectives overall compared to Baseline.</p> <p>Fixing of the inputs (revenue and charging base) 15 months ahead of the TNUoS tariffs going live creates a significantly increased (when compared to NGESO Regulatory Asset Value) cashflow risk to NGESO. Considering that NGESO is an 'asset light' business and in light of the current climate and level of cashflow risk NGESO is already exposed to (such as BSUoS etc), it would be extremely difficult to take on any additional cashflow risk driven by the changes proposed by this modification.</p> <p>Although the solution may provide improved certainty to suppliers/consumers over a longer period and therefore could have some level of positive change in relation to ACO(a), any</p>						

perceived benefit is offset by the potential for significant financial impact on NGENSO as described above.

In addition, the end-to-end solution process will be significantly more complex than current with any reconciliation of (likely larger) forecast variances potentially required to be recovered over an extended / phased number of years. Due to this associated complexity, we believe that the solution is negative with respect to ACO(e).

The solution outcome is a balance of longer-term certainty over process complexity. There is clearly some ambiguity over the level of benefit and how any benefit will be realised in terms of reduced costs to the end consumer as this will be heavily dependent upon; both the appetite of, and the application of risk premia by industry parties, the proportion of consumers who face a fixed tariff (rather than a default or pass-through tariff) and the net benefit to the consumer once additional costs incurred through TO cost of capital impacts are taken into account.

NGESO have proposed an alternative solution for consideration (WACM1). We consider that this does mitigate some of the risks faced by NGENSO. However, NGENSO consider that both the Original and WACM1 solutions do not better facilitate the Applicable Objectives when compared to the Baseline.

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
WACM 1	Y	-	-	-	Y	Y

Voting Statement:

Certainty of TNUoS charges is a significant issue for consumers, suppliers and generators. This modification will lower risk premia applied to consumer contracts by extending the stability of certain parameters. This is supported with quantifiable evidence through the RFI conducted by NGENSO

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)
Andy Colley – SSE Generation Ltd.						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y

Voting Statement:

No Voting Statement provided

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 Bedford - Drax						
Original	Y	Y	-	-	-	Y
WACM 1	Y	Y	-	-	-	Y

Voting Statement:

The Original proposal improves transparency and foresight in the tariff setting process which results in benefits aligned with Applicable CUSC Objectives a) and b).

For Applicable objective a), improving transparency and giving greater certainty to inputs into the TNUoS Charging Methodology should enable suppliers to compete more vigorously around the costs that are within their control. That focus will increase the competitive pressure across suppliers leading to economically efficient prices for consumers. It will also enable suppliers to better reflect the actual TNUoS costs in charges to customers and reduce (if not remove) any risk premia that is currently included in charges to mitigate the uncertainty in forecasting transmission network charges. This is supported with quantifiable analysis conducted by NGESO through the RFI.

For Applicable objective b), if Target Revenue (CMP286) and parameters that feed into the TNUoS tariff setting process (CMP287) are fixed 15 months ahead of TNUoS tariffs going live, and the ESO holds the risk of forecasting error rather than Suppliers (who have no ability to control such a risk), then it will incentivise the ESO to forecast charges more accurately.

We believe the ESO is better placed to mitigate the risk of TNUoS uncertainty as they understand the underlying cost drivers far better than Suppliers and can therefore forecast them more accurately, and they can also better manage the exposure because they will have a lower cost of capital than many suppliers.

We favour the Original proposal over the 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)
Robert Longden – Cornwall Energy						
Original	Y	N	-	-	N	-
WACM 1	Y	N	-	-	N	-

Voting Statement:

The proposal has potential benefits and disbenefits. From work group analysis it appears that without changes to the regulatory framework for the TOs (which are outside of consideration for this modification), there will be increased costs for the TOs under both the Original and the WACM – and ultimately for consumers. There will certainly be an increase in complexity. These need to be balanced against expected benefits. Competitive dynamics suggest that there will be reduced risk premia applied by suppliers but without actual market experience (which is not available) it is difficult to estimate (with precision) how much the outturn cost to consumers will

be reduced. Although the projected benefits exceed the initial estimates of increased TO costs, they are of similar magnitudes. As such, it is matter of judgement whether there will be a net benefit.

The Original would place a risk on the ESO that it is not well placed to manage and as such WACM1 is the preferred option if the Modification is approved.

Given the current reform programme, it may be that equivalent benefits to those estimated for CMP 286/287 will be derived from the ongoing TNUoS reform programme, without the accompanying negative cost impacts on the TOs. This is a matter for Ofgem in their deliberations.

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)
	Richard Woodward - NGET					
Original	N	N	N	-	N	N
WACM 1	N	N	N	-	N	N

Voting Statement:

After assessing this modification proposal (and the alternative) against the applicable objectives, we cannot support this change.

Both the original and WACM proposals lead to a revised tariff setting process which relies on a knowingly lesser-accurate longer term revenue forecast as compared to the baseline. This will reduce cost reflectivity of TNUoS charges, both in the short-term and long-term, and in our view is in direct contradiction to a core strategic aim of the CUSC Charging Methodology [objective B] and arguably the spirit of our licence special conditions.

In respect of our own Price Control arrangements [objective C], we have flagged the greater reliance of uncertainty mechanisms and other re-openers which impact our ongoing revenue cash-flow position. Consequently our allowances (and therefore revenues) were agreed to be updated on a 'foresight basis' for the entire Price Control (rather than year by year). This was introduced to smooth allowances and revenues to make them less volatile and more predictable. CMP286/7 is at direct odds to this approach, reintroducing volatility for us by creating a new unforecastable true-up delta which we believe will also likely negatively impact end consumer bills (objective B+E).

This would not be as significant a concern for us if we had greater confidence that the supplier benefits set out during the workgroup were fully demonstrable. Overall we remain wary that there is limited evidence provided to quantify the extent of the defect in the supply sector, certainly with sufficient detail to justify making such a fundamental change.

In our view, the proposed solution could weaken signals to compel suppliers to innovate commercially in the interests of their customers. Instead a 'lowest common denominator' solution would be applied via this mod, which in some instances might actually erode competition

[objective A] for those suppliers who have already navigated this issue (if/when it is encountered).

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	4
WACM1	4

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? (if baseline not applicable)
Niall Coyle	E.ON	Original	a
Nicky White	National Grid ESO	Baseline	n/a
Simon Vicary	EDF Energy	Original	a, e
Andy Colley	SSE Generation Ltd.	Original	a
Paul Bedford	Drax	Original	a, b
Robert Longden	Cornwall Energy	WACM1	a
Richard Woodward	NGET	Baseline	n/a