

First Panel recommendation vote

The Panel met on 25 November 2022 to carry out their first recommendation vote.

They assessed whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the Applicable Objectives.

Before the Panel Recommendation Vote took place, the Code Administrator explained that both CMP286 and CMP287 were Charging Modifications and although they haven't been formally amalgamated, it is impractical to separate out the solutions. Panel noted this and were content to proceed with a joint CMP286/CMP287 vote.

Panel Member: **Andrew Enzor**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	No	No	Neutral	No	Yes
WACM1	Yes	No	No	Neutral	No	Yes

Voting Statement

There are minor detrimental impacts on ACO(b), ACO(c) and ACO(e) which I consider are more than offset by a positive impact on ACO(a).

ACO(a) - positive for both Original and WACM1, by creating more stable arrangements for costs which suppliers cannot control creates a more stable platform for competition in respect of other, more meaningful, aspects of electricity supply. The Original is better than WACM1 in this respect as it provides a greater level of certainty.

ACO(b) - negative for both Original and WACM1 as an additional lag is introduced between costs being incurred and being reflected in use of system charges in instances where those costs were not forecast 15 months ahead of charges coming into force. For the TOs, this reflects a relatively small proportion of total revenue allowances so is a relatively minor negative impact. For the ESO this is more material under the Original, with WACM1 being less detrimental on this ACO than the Original.

Panel Member: **Andy Pace**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes

Voting Statement

This modification improves the predictability of TNUoS charges. Short term changes in TNUoS are difficult to manage and Suppliers and customers would benefit from greater certainty on TNUoS tariffs. We assess this modification as better meeting applicable charging objective (a) as the improvement in predictability facilitates competition in the sale, distribution and purchase of electricity.

We agree with the principle of reducing risk premia and believe the original may be beneficial overall to energy consumers and therefore better than baseline, however Ofgem will need to carefully weigh up the risks identified by TOs to ensure there is a clear anticipated benefit to consumers.

Panel Member: **Binoy Dharsi**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes

Voting Statement

Both of these options are better than the baseline. Ofgem has given guidance on their expected outcome from the TNUoS Task Force launched in 2022 which is greater TNUoS predictability. I therefore see any approval of any of these options as a temporary improvement until a more permanent and enduring solution is found. WACM1 does not impose the ESO to an unfair risk that the original does and therefore believe Ofgem would find this option easier to agree with. Whilst I fully support the Original option, the outcome of the TNUoS Task Force and any subsequent direction on a modification may reach a decision whereby appropriate risk for the ESO is necessary and agree a suitable mechanism to mitigate this.

Panel Member: **Cem Suleyman**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes

Voting Statement

I believe that the Original and WACM1 for CMP286 and CMP287 better facilitate the Applicable CUSC Objectives for the same reasons as provided by the Proposer. Overall I have a preference for the Original over WACM1 as I do not believe that a compelling case has been made for excluding ESO costs.

Panel Member: **Garth Graham**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Voting Statement						
No voting statement provided						

Panel Member: **Grace March**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	No	No	Neutral	Neutral	No
WACM1	Yes	No	No	Neutral	Neutral	No
Voting Statement						
<p>This modification will relieve some of the uncertainty faced by suppliers that offer fixed contracts, whereas suppliers who structure TNUoS as pass-through do not face such uncertainty. This will therefore facilitate competition between suppliers and should lower the risk premia that fixed-tariff consumers face. It will create longer-term uncertainty than currently exists, especially at the beginning of a Price Control period. On balance, this modification is positive against ACO a).</p> <p>The proposed timescales of 15 months mean there will be considerable lag to reconcile actual and recovered revenue and any changes in TOs allowed revenue will take years to 'flow through' to TNUoS tariffs. TO costs will be significantly delayed and so TNUoS tariffs will be less cost reflective of the licensee's business. This modification is therefore negative against ACO b). They delay in recognising changes in costs means this modification is slightly negative against ACO c) as it does not "properly take account" of developments (resulting in adjusted revenues) of the transmission licensees' business.</p> <p>WACM1 has the same pros and cons as the original but with a smaller value being fixed, so lesser impacts, both beneficial and negative.</p>						

Panel Member: **Joe Dunn**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	Neutral	Yes
WACM1	Yes	Neutral	Neutral	Neutral	Neutral	Yes
Voting Statement						

Both the Original and WACM1 better facilitate Applicable Objective (a) by providing more certainty of aggregate expected TNUoS charges faced by suppliers that will in turn reduce risk premia.

Panel Member: **Karen Thompson – Lilley**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	No	Neutral	Neutral	Neutral	No	No
WACM1	No	Neutral	Neutral	Neutral	No	No

Voting Statement

I do not consider that either the Original or WACM1 solutions better facilitate the Applicable Objectives overall compared to Baseline.

Fixing revenue and charging base inputs a year earlier than we do today creates significant cashflow risk to ESO. We are also mindful of the cashflow risk that are already exposed to e.g. BSUoS, CMP395 and other modifications in the pipeline.

The solution may provide improved certainty to suppliers/consumers and therefore could have some level of positive change in relation to ACO(a), however any perceived benefit is offset by the potential for significant financial impact on ESO.

The end-to-end solution process will be significantly more complex than current with reconciliation of (likely larger) forecast variances required to be recovered over a further year. Due to this associated complexity, we believe that the solution is negative with respect to ACO(e).

The solution is a balance of longer-term certainty over process complexity. There is some ambiguity over the level of benefit and how any benefit will be realised in terms of reduced costs to the end consumer. 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.

ESO 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.

Panel Member: **Paul Jones**

	Better facilitates AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Overall (Y/N)
Original	Yes	Neutral	Neutral	Neutral	No	Yes
WACM1	Yes	Neutral	Neutral	Neutral	No	Yes

Voting Statement

Both solutions remove a large source of uncertainty for suppliers and therefore better meet objective a) by better promoting competition. They are both slightly worse in terms of e) as the calculations are made slightly more complex. Overall they are better than the baseline. By removing a potential source of unmanageable risk from the ESO, with relatively little apparent detriment to the benefit to suppliers, WACM1 is on balance the better solution to adopt.

Vote 2 – Which option is the best?

Panel Member	BEST Option?	Which objectives does this option better facilitate? (If baseline not applicable).
Andrew Enzor	WACM1	a
Andy Pace	Original	a
Binoy Dharsi	WACM1	a
Cem Suleyman	Original	a
Garth Graham	Original	a
Grace March	Baseline	n/a
Joe Dunn	Original	a
Karen Thompson - Lilley	Baseline	n/a
Paul Jones	WACM1	a

Panel Conclusion

The Panel recommended by majority that the Proposer’s solution and WACM1 better facilitate the applicable CUSC objectives than the current CUSC arrangements.