

## CUSC Alternative and Workgroup Vote

### CMP381: Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023

**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:

- 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;
- 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.

\*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).

## 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

Workgroup Member	Alternative 1 (Centrica, after Ofgem Decision)	Alternative 2 (Centrica, after Ofgem Decision, £200m)	Alternative 3 Uniper, after Ofgem Decision £15/MWh, £200m)	Alternative 4 (ESO, after Ofgem Decision £20/MWh, £200m)	Alternative 5 (ESO, after Ofgem Decision, £50/MWh, £200m)
Simon Vicary	N	N	N	N	N
Jenny Doherty	N	Y	Y	Y	Y
Niall Coyle	Y	Y	Y	Y	N
Paul Jones	Y	Y	Y	Y	Y
Josh Logan	Y	Y	Y	N	N
Graz Macdonald	Y	Y	Y	Y	N
Damian Clough	Y	Y	Y	Y	Y
George Moran	Y	Y	Y	N	N
WACM?	WACM1	WACM2	WACM3	WACM4	WACM5 – Saved by Chair

## 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)
Simon Vicary – EDF Energy						
Original	Y	Y	Y	-	-	Y
WACM1	Y	Y	Y	-	-	Y
WACM2	Y	Y	Y	-	-	Y
WACM3	Y	Y	Y	-	-	Y
WACM4	Y	Y	Y	-	-	Y
WACM5	Y	Y	Y	-	-	Y

### Voting Statement:

The Original proposal is the best option as it is the only one that will give protection against exceptionally high BSUoS costs from 1<sup>st</sup> January 2022, rather than nearly three weeks later. The £10/MWh cap and £300m limit would also give the most appropriate level of protection for consumers, suppliers and generators in the event that BSUoS out turns significantly higher than the latest (December) forecast from the ESO, which we expect.

However, all of the options better facilitate Applicable Objectives a, b and c, although the £50/MWh cap option is expected to deliver an almost insignificant benefit.

- Positive: We believe this proposal will have a positive impact on consumers as it spreads the recovery of a portion of the exceptional BSUoS costs over a longer period, providing time for consumers to budget for these exceptional costs at a time of already extreme power prices. 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.
- 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.
- Positive: This is fully consistent with para (a), similar in approach to previous modifications that have been approved and adopted successfully
- Neutral
- Neutral: There should be little, if any, system impact as the change can use the processes introduced by CMP345, CMP350 and CMP373.

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)
	Jennifer Doherty – National Grid ESO					
Original	N	N	N	-	N	N
WACM1	N	N	N	-	N	N
WACM2	N	N	-	-	N	N
WACM3	N	N	-	-	N	N
WACM4	Y	Y	-	-	N	Y
WACM5	Y	Y	-	-	N	Y

#### Voting Statement:

Below I have set my rationale for each option against each of the Applicable Charging Objectives (ACO).

ACO a – We believe the Original, WACM1 and WACM2 are negative, as £10/MWh is too low a threshold for the current market conditions. For WACM3, we similarly believe that £15/MWh is too low and the market is very different to that in CMP345 when this cap was introduced. In addition, for the Original, we do not think it is appropriate to introduce retrospective implementation, which cannot be taken account of in market decisions.

ACO b – The Original, WACM1, WACM2 and WACM3 are negative against this objective, as we do not believe that they only defer exceptional costs. WACM4 and WACM5 are positive against this, as £20/MWh could be justified as unforeseen costs, and £50/MWh is truly exceptional costs as they have never been seen prior to September 2021.

ACO c – The Original and WACM1 are negative against this objective, as the ESO is unable to support £300m. WACM2 – 5 are neutral against this objective, due to the overall support being £200m.

ACO d – All options are neutral against this objective

ACO e – All options are negative against this objective as it moves funds between financial years. This is in addition to CMP345 / 350 recovery not yet concluding increasing the complexity of the methodology for 21/22 and 22/23. Although all options are negative against ACO e, this could be outweighed by positives in other charging objectives.

Overall, the two options better than the baseline are WACM4 and WACM5. I believe that WACM4 is a good alternate for providing justified market support for unforeseen costs, however I would highlight that the overall cap of £200m would still have been breached if you assume Jan – March 22 is going to be the same as Sept – November 21 and therefore the market would not be supported equally across the whole period. I believe that WACM5 is the best alternate for providing market support for extreme costs, this option in my opinion is also in consumers best interests and therefore is why it was selected as my “best option”.

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	-	-	Y
WACM1	Y	-	Y	-	-	Y
WACM2	Y	-	Y	-	-	Y
WACM3	Y	-	Y	-	-	Y
WACM4	Y	-	Y	-	-	Y
WACM5	Y	-	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 WACM1/2 offer the right level of protection to extreme BSUoS costs caused by the current market conditions, as evidenced by the analysis provided as part of WACM1.

The calculation supporting the cap level in WACM4 includes the high prices observed in Q4 2021 which in my opinion overstates what a market participant could reasonably have foreseen, whilst WACM5 is even more extreme, and I believe neither would offer sufficient support to market participants.

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 Jones – Uniper						
Original	N	-	-	-	N	N
WACM1	Y	-	-	-	N	Y
WACM2	Y	-	-	-	N	Y
WACM3	Y	-	-	-	N	Y
WACM4	Y	-	-	-	N	Y
WACM5	Y	-	-	-	N	Y

#### Voting Statement:

Strongly against the retrospective implementation of modifications as this undermines market confidence and frustrates competition. These negative effects outweigh any positives from the original proposal. Setting a cap of £200m is more realistic given indications from the ESO on its ability to carry cashflow. A cap of £15/MWh seems a more appropriate measure of extreme prices than £10/MWh. It also has the benefit of allowing the cap to be applied over a longer period before the £200m limit is reached. £20 and £50 caps provide far less protection but are better than no cap at all.

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)
	Josh Logan - Drax					
Original	Y	-	-	-	-	Y
WACM1	Y	-	-	-	-	Y
WACM2	Y	-	-	-	-	Y
WACM3	Y	-	-	-	-	Y
WACM4	Y	-	-	-	-	Y
WACM5	Y	-	-	-	-	Y

#### Voting Statement:

The Original Proposal and all WACM's better facilitate the Applicable CUSC Charging Objectives, albeit to different extents. We believe the Original proposal is the best option as it provides the most protection against exceptionally high BSUoS costs from 1<sup>st</sup> January 2022 until 31<sup>st</sup> March or earlier if the deferral limit is reached. Based on the analysis set out in the Workgroup Report and our own internal BSUoS forecasting, we believe that a £10/MWh cap with a £300m deferral limit is appropriate. The Original Proposal will most effectively tackle the defect of CMP381, it will defer unforeseeably high BSUoS costs as a result of current market conditions.

Other options with a higher cap and lower deferral limit reduce the benefit of this modification to market participants and consumers. In particular, the benefits of WACM5 which proposes a £50/MWh cap are insignificant.

#### Applicable Charging Objective (a) – All positive

For the market to operate efficiently, suppliers and generators need to forecast and pass through third party costs such as BSUoS. Volatile and unforeseeably high BSUoS costs can disrupt competition in both the generation and supply markets and affect the financial resilience of market participants.

If no action were taken, there would be a significant financial exposure for market participants. This risks further insolvencies and consequential mutualisation costs being borne by suppliers, and ultimately consumers.

This would cause further disruption to the market and have a detrimental impact on competition and consumers. A BSUoS price cap would provide some relief to market participants over Q1 2022. By spreading costs above the cap into the 2022/23 charging year, they will be more stable and forecastable compared to the status quo. Suppliers and generators would be able to recover a greater proportion of costs through wholesale market transactions and fixed contracts with consumers.

The Original Proposal sets the £/MWh cap and total limit at the level which best ensures the deferral of BSUoS costs which couldn't have been foreseen by prudent market participants. Whilst the Original and all WACM's will better facilitate Applicable CUSC Charging Objective (a), the Original facilitates it the most.

#### Applicable Charging Objective (b), (c), (d) & (e) – All neutral

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					
Original	Y	Y	Y	-	-	Y
WACM1	Y	Y	Y	-	-	Y
WACM2	Y	Y	Y	-	-	Y
WACM3	Y	Y	Y	-	-	Y
WACM4	N	-	Y	-	-	N
WACM5	N	-	Y	-	-	N

#### Voting Statement:

WACM4 & WACM5 set too high a cap. Those caps are too high to undo the beneficial effects that the lower caps will have, which is to lower volatility and thereby the speculative activity that generators have to engage in to ensure they are not on the wrong side of a BSUoS charge in a given Settlement Period, as well as to provide some reasonable protections from unprecedented costs for large users and suppliers. Retrospectivity is not preferred for the concerning precedent it sets.

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
WACM1	Y	-	-	-	-	Y
WACM2	Y	-	-	-	-	Y
WACM3	Y	-	-	-	-	Y
WACM4	Y	-	-	-	-	Y
WACM5	Y	-	-	-	-	Y

#### Voting Statement:

All of the options better facilitate Applicable Objective a. However, we believe that the **Original proposal is the best** option as it best protects customers from exceptionally high BSUoS costs for the longest period of time and is not retrospective in terms of the calculation of the Daily Charge.

Specifically with regard to the feature of the under-collection limit, the Original and WACM1 are equal best because they have the highest limit, so have the potential to provide protection for customers. It is important to note that the £300m limit is only a small proportion (<20%) of the increase in outturn BSUoS costs versus the value forecast by NGESO before the start of the year.

The Original proposal also has an added benefit of reducing Balancing costs by reducing the need to forecast exceptional Daily Charges when pricing Bids in the Balancing Mechanism. This benefit reduces the higher the cap.



We expect Ofgem to work with the ESO to work out the practicalities for the most appropriate approach to financing the under collection.

With regard to WACM5, any potential customer benefit would be minimal and likely insignificant compared with Baseline. WACM5 could be perceived as having the purpose of minimising any costs transferred between years, especially when compared to what is a substantial and significant change in actual costs when compared to BSUoS forecasts. This would appear to negate the original intent and purpose of the modification and would, in practice, fail to materially address the defect.

In terms of WACM 4 and 5, industry should not class what is exceptional based on the highest percentile within an exceptional period. Instead, “exceptional” should be defined in relation to ‘normal’ periods, i.e. what Users would have reasonably expected and taken account of in commercial contracts.

Objective e) Neutral: There should be little, if any, system impact as the change can use the processes introduced by CMP345, CMP350 and CMP373.

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
WACM1	Y	-	-	-	-	Y
WACM2	Y	-	-	-	-	Y
WACM3	Y	-	-	-	-	Y
WACM4	Y	-	-	-	-	Y
WACM5	Y	-	-	-	-	Y

Voting Statement:

**All options better facilitate ACO (a)** by providing some mitigation against the exceptional losses likely to be being incurred by Parties because of the current levels of BSUoS costs. Deferring costs to a future period will allow Parties to reflect 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. The change will also mitigate against the risk of further insolvencies that would lead to greater costs for consumers in both the short term (SoLR costs) and long term (reduced competition).

**Original:** I don't support retrospective implementation and so the benefit of the Original is reduced due to this aspect of the proposal.

**WACM1** (or **WACM2** depending on support limit) **is the best option** as it does not include retrospective implementation and presents analysis which objectively justifies £10/MWh as the level of cap required to return the overall average BSUoS rate to one which a prudent market participant could have reasonably foreseen (based on a P80 risk adjustment). The support limit will need to be assessed and agreed between Ofgem and the ESO, but I consider industry

should be provided with as much support as possible at this exceptional time and so consider £300m is appropriate. However, if support is limited to £200m then WACM2 would be best.

**WACM3** – applies a £15/MWh cap – this would have resulted in a capped average BSUoS rate of £7.23/MWh for Autumn 2021, which, based on the analysis included in my workgroup consultation response, would be equivalent to a market participant applying a risk adjustment of just under the P99 level. I consider a P99 risk adjustment to be excessive and unrepresentative of a prudent market participant acting reasonably.

**WACM4 and WACM5** – apply a £20/MWh cap and £50/MWh cap respectively which would equate to a risk adjustment in excess of a P99 level. I don't believe such an adjustment can be considered to properly capture the exceptional BSUoS costs which could not have been reasonably foreseen by a market participant acting prudently. For this reason, I assess these WACMs as delivering the least benefit.

**Stage 2b – Workgroup Vote**

Which option is the best? (Baseline, Proposer solution (Original Proposal), WACM1, WACM2, WACM3, WACM4 or WACM5)

Workgroup Member	Company	BEST Option?	Which objective(s) does the change better facilitate? (if baseline not applicable)
Simon Vicary	EDF Energy	Original	a, b, c
Jenny Doherty	National Grid ESO	WACM5	a, b
Niall Coyle	E -ON	Original	a, c
Paul Jones	Uniper	WACM3	a
Josh Logan	Drax	Original	a
Graz Macdonald	Waters Wye	WACM1	a, b, c
Damian Clough	SSE Generation Ltd	Original	a
George Moran	Centrica	WACM1	a

Of the 8 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
WACM2	7
WACM3	7
WACM4	7
WACM5	7