

CUSC Alternative and Workgroup Vote

CMP286: Improving TNUoS Predictability through Increased Notice of the Target Revenue

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)
	Stephen Dale – National Grid ESO					
Original	N	N	-	-	N	N
WACM 1	N	N	-	-	N	N
<p>Voting Statement:</p> <p>NGESO do not see that the position has significantly changed since the WG last considered the CMP286 & CMP287 together.</p> <p>ESO do not consider that either the Original or WACM1 solutions better facilitate the Applicable Objectives overall compared to Baseline, primarily because;</p> <p>Fixing of the inputs (revenue) 15 months ahead of the TNUoS tariffs going live as proposed potentially impacts NG ESO cashflow risk. WACM1 whilst mitigating the cash flow risk potential still adds complexity to the TNUoS Charging process, both in calculation and collection the cost of which has to be weighed in light of the projected consumer benefits advocated in the proposal.</p> <p>When considering the benefits, the proposal does not remove or better manage the risk of unpredictability in TNUoS charging to reduce costs, the proposal seeks to transfer the risk away from the suppliers onto other parties.</p>						

This approach may provide improved cost predictability to suppliers that can be passed through to consumers over a longer period providing a level of positive change in relation to ACO(a).

However, any anticipated benefit is potentially offset by;

Increased costs in managing additional complexity of the end-to-end process negatively impacting ACO (e).

Potentially increased costs for other Industry participants who will carry the cost of uncertainty transferred from suppliers and pass this through to the consumers over time – arguably negatively impacting ACO (a)

The fixing of prices for TNUoS without removing the risk of unpredictability defers any gaps between forecast and actuals. The longer such costs are fixed, especially in markets affected by significant inflationary pressures the more the risk of significant step change in charges required to be recovered over an extended period of years after reconciliation. As a result, we believe that the solution is negative with respect to ACO(b).

The consumer benefit predicted is a balance of longer-term certainty facilitating reduced risk premia, over process complexity and the costs of managing uncertainty being passed back to consumers over time.

The level of benefit to the end consumer is difficult to quantify and arguably almost impossible to forecast given this will depend upon

a) future levels of applying risk premia applied to longer term fixed cost agreements.

b) the proportion of consumers who adopt a fixed tariff.

If fixing elements of TNUoS for long periods results in step change in costs after reconciliation consumers may not all see this as a positive change.

NGESO believe that WACM1 as a solution if applied reduces risk to NGESO, but on balance as an industry improvement does not believe either of the proposals better facilitate the objectives when compared to the current 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)
Andy Colley– SSE Generation Ltd.						
Original	Y	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
Voting Statement:						

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)
Karl Maryon - Drax						
Original	Y	-	-	-	-	Y

WACM 1	Y	-	-	-	-	Y
<p>Voting Statement:</p> <p>We believe the Original is the best option. It better facilitates CUSC Charging Objective(a). As TNUoS tariffs are published with a notice period of only 2 months, Suppliers are vulnerable to the short notice period and are reliant on forecasting TNUoS tariffs many months ahead to provide their customers with the fixed price contracts they require. If implemented, this modification will give more certainty to Suppliers with Costs that market participants cannot forecast, thereby making the costs that customers pay more reflective of the final charge and consequently reduce the risk premia charged by suppliers. This will reduce the price distortions in the competitive market thereby facilitating effective competition in retail energy supply.</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)
Richard Woodward - NGET						
Original	N	N	N	-	N	N
WACM 1	N	N	N	-	N	N

<p>Voting Statement:</p> <p>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 7 of 7 [objective A] for those suppliers who have already navigated this issue (if/when it is encountered).</p>						
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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 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 NGESO.						

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	-	-	-	-	Y
WACM 1	Y	-	-	-	-	Y
Voting Statement:						

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	5
WACM1	5

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)
Stephen Dale	National Grid ESO	Baseline	n/a
Andy Colley	SSE Generation Ltd.	Original	a)
Karl Maryon	Drax	Original	a)
Simon Vicary	EDF Energy	Original	a) and e)
Richard Woodward	NGET	Baseline	n/a
Robert Longden	Cornwall Energy	Original	a)