

# Code Administrator Meeting Summary

## Meeting name: CMP420: Treatment of BSUoS Revenue Recovery and creation of a BSUoS Fund Workgroup Meeting 3

Date: 20/02/2024

### Contact Details

Chair: Jonathan Whitaker, National Grid ESO [jonathan.whitaker@nationalgrideso.com](mailto:jonathan.whitaker@nationalgrideso.com)

Proposer: Damian Clough, SSE [Damian.Clough@sse.com](mailto:Damian.Clough@sse.com)

## Key areas of discussion

The aim of Workgroup 4 was to review the draft legal text and discuss the updated proposal.

### Timeline

The Chair shared the timeline with the Workgroup and confirmed the updated timeline would be presented to the March CUSC Panel. The new timeline includes an additional Workgroup before Workgroup Consultation which has moved out the Workgroup Report from April to June.

Workgroup members discussed CMP420's implementation date and the impact of CMP292 being approved (i.e. charging modifications that require an implementation date of April 2025 would need to be sent to the Authority by September 2024). A Workgroup Member confirmed that a request for special consideration would be asked of the Authority as a delay in implementation (i.e. April 2026) would mean that any interest could not be paid back to consumers in a timely manner and would create difficulty for the ESO including that interest in future tariff periods. The Chair took an **Action (6)** to amend the implementation date to April 2025 on the timeline.

The Proposer confirmed they would be aiming for an implementation date as soon as possible.

### Terms of Reference

The Workgroup had no comments on the terms of reference.

### Actions Logs

The Workgroup reviewed the outstanding actions and agreed to close Action 4 as this was no longer relevant. The Proposer and the ESO agreed to keep action 5 open and continue to work together to develop the legal text.

### Proposer's Solution

The Chair shared the Proposer's solution slides with the Workgroup which can be found *here*.

### Legal Text

The Workgroup were informed the Proposer and ESO had met offline to refine the proposal that was sent out after the last workgroup. The initial legal text that the proposer brought forward focused on changing the word "any" to "all" and the inclusion of both forecasted and

actual over/under recovery. The ESO outlined the reasoning as to why the proposal was restrictive, removing flexibility when setting tariffs and could increase the risk of tariff resets mid fixed period. The Workgroup had no objections to this.

A Workgroup member queried the first part of the solution, which looks at the inclusion of interest and why an amendment to the CUSC is required when the Licence deals with interest. It was explained to the Workgroup that the Licence contains a capital 'K' which is calculated interest, CUSC does not currently have reference to the capital 'K' but instead contains a lowercase 'k' which deals with the principal amount. The licence calculates an interest charge, the CUSC only specifies how things will be charged out to customers. Without adding this to the code it is not possible to charge or return the interest that is calculated in the licence to anybody.

### Analysis

A Workgroup member shared with the Workgroup slides where analysis was provided to reinforce how the proposal to include all over/under recovery both forecasted and actual could be problematic and how the current methodology allows ESO the flexibility it needs to set tariffs to reduce the risk of a tariff reset. The analysis looked at the impact on BSUoS Fixed Tariffs and ESO cash position if all forecasted over-recovery (from Fixed Tariff 1 and Fixed Tariff 2) had been included within Fixed Tariff 3 (published June 2023). This was compared to published tariffs, where Fixed Tariff 3 included over-recovery up to the end of Fixed Tariff 1 only. The analysis showed under the alternative method, there were larger fluctuations in final tariffs between different tariff periods and there was also a forecasted negative cash position at the end of fixed tariff 3 which would have seen some utilisation of the ESO Working Capital Facility.

A Workgroup member commented that they believed providing analysis more regularly, such as over a longer time period could give them more visibility and clarity. However, wondered whether there would be any benefit due the accuracy likely to be lower but found it overall interesting analysis.

Another Workgroup member commented that it seems that if there is increased transparency with how tariffs are set, there is a loss of flexibility to the ESO which leads to an increase in risk of tariff resets mid fixed period.

### Updated Proposal

A Workgroup member explained an updated proposal to increase transparency which looked to increase obligations of reporting on the ESO. They explained, however that the ESO have BSUoS reporting obligations within Section 3 of the CUSC and if the Workgroup would like to codify an increase in that reporting obligation, they would need to assess whether this increase in reporting obligations is to be included within Section 14 or if a consequential modification would need to be raised for the change to Section 3. Discussion arising out of the suggested options as noted on the slides, were:

- The Proposer expressed their concern with not codifying regular reporting, then this obligation could fallaway i.e. lack of resource;
- It was queried by another Workgroup member whether the proposed solution, met the defect. Workgroup members discussed topics which were discussed at the TCMF Subgroup which included codifying the tariff reset process, addressing the parameters that may trigger a tariff reset and how it would impact future BSUoS Charging.
- It was suggested that increased forecasting to increase transparency of costs further out could be a compromise. A Workgroup member responded that if a tariff is fixed further into the future (the current published draft tariff is effectively 15 months in advance), the

draft tariff and actual tariff for period 4 are currently a long way from each other and voiced concerns that any tariff setting further into the future would likely not hold much value.

- Discussions continued around whether a weekly report including additional text with a projection warning of any tariff resets would be helpful. An **Action (7)** arose for a Workgroup member to look into the option of a guidance note with an obligation on ESO to provide a weekly report on fixed tariff revenue vs cost and look into the tariff reset process, which will be taken to a future TCMF for engagement.

After discussions the Workgroup decided that Option 3 would be the preferred way of moving forward with the suggestion not to codify the weekly reporting of comparing Fixed Tariff Revenue vs Costs but instead introduce a guidance note outlining the process the ESO follows under a tariff reset scenario and the agreed increased reporting obligations. This would give ESO flexibility in tariff settings but offer industry clarity on the process of a tariff reset scenario.

Therefore, CMP420 Workgroup would progress with the interest part of the solution only.

**Workgroup Consultation**

Workgroup members suggested that an additional question be included in the Workgroup Consultation querying whether industry believed an obligation on the ESO to report forecasting of comparing Fixed Tariff Revenue vs Costs reporting should be codified under Section 14 of the CUSC.

The Workgroup wanted to note within the Workgroup consultation that a decision was made not to codify regular reporting but that industry do value ESO producing the weekly reporting.

**AOB**

None.

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**Next Steps**

- Chair to present updated timeline with the CUSC panel;
- ESO to produce a guidance note and engage with industry for their views at TCMF;
- Chair to update Workgroup Consultation and share with the Workgroup.

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**Actions**

For the full action log, click [here](#).

Action number	Workgroup	Owner	Action	Comment	Due by	Status
4	Workgroup 2	Proposer	Proposer to design a timetable to assist with cross referencing when certain charges are set and forecasted to align and provide clarity when under and over recovery applies to which period.		Workgroup 4	Closed

5	Workgroup 2	Proposer	Proposer to work with ESO to draft Legal Text and share with the Workgroup	Workgroup 4	Open
6	Workgroup 4	Chair	Amend the implementation date to April 2025 with CMP420 requesting special consideration from Ofgem	ASAP	Open
7	Workgroup 4	AT	Look into a guidance note with an obligation on ESO to provide a weekly report on fixed tariff revenue vs cost and an outline of the tariff resetting process which will be taken to TCMF for engagement.	ASAP	Open

**Attendees**

Name	Initial	Company	Role
Jonathan Whitaker	JW	Code Administrator, ESO	Chair
Tammy Meek	TM	Code Administrator, ESO	Tech Sec
Damian Clough	DC	SSE	Proposer
Alice Taylor	AT	ESO Representative	Observer
Craig Bell	CB	National Grid	SME
Katie Clark	KC	ESO	SME
Mark Field	MF	Sembcorp Energy (UK) Ltd	Workgroup Member
Niall Coyle	NC	Eon	Workgroup Member
Paul Youngman	PY	EDF Energy	Workgroup Member
Pedro Arcain	PA	Ofgem	Authority
Robert Longden	RL	Cornwall Insight	Workgroup Member
Simon Vicary	SV	EDF Energy	Workgroup Member