







CUSC Modification Proposal Form		At what stage is this document in the process?												
<h1 style="color: #00a651; margin: 0;">CMP285</h1> <h2 style="margin: 0;">CUSC Governance Reform – Levelling the Playing Field</h2>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">01</td> <td style="border: 1px solid #ccc; border-radius: 5px; background-color: #00a651; color: white; text-align: center; font-weight: bold;">Proposal Form</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">02</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Workgroup Consultation</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">03</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Workgroup Report</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">04</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Code Administrator Consultation</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">05</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Draft CUSC Modification Report</td> </tr> <tr> <td style="border: 1px solid #ccc; border-radius: 5px; width: 30px; text-align: center; font-weight: bold;">06</td> <td style="border: 1px solid #ccc; border-radius: 5px; text-align: center; font-weight: bold;">Final CUSC Modification Report</td> </tr> </table>		01	Proposal Form	02	Workgroup Consultation	03	Workgroup Report	04	Code Administrator Consultation	05	Draft CUSC Modification Report	06	Final CUSC Modification Report
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06	Final CUSC Modification Report													
<p>Purpose of Modification: This modification seeks to reform CUSC governance to enhance the independence and diversity of Panel members and ensure wider engagement from CUSC signatories.</p>														
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> Proceed as a Standard CUSC Modification assessed by a Workgroup <p>This modification was raised 20 July 2017 by UK Power Reserve Ltd and will be presented by the Proposer to the Panel on 28 July 2017. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>													
	<p>High Impact: All CUSC signatories will be impacted on an enduring basis.</p>													

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5	Solution	11	 Michael.Jenner@UK PowerReserve.Com
6	Impacts & Other Considerations	11	 07860 958 089
7	Relevant Objectives	13	National Grid Representative:
8	Implementation	15	Insert name
9	Legal Text	16	 email address.
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Timetable			
The Code Administrator recommends the following draft timetable:			
Initial consideration by Workgroup		w/c 18 September 2017	
Workgroup Consultation issued to the Industry		27 November 2017	
Modification concluded by Workgroup		15 January 2018	
Workgroup Report presented to Panel		26 January 2018	
Code Administration Consultation Report issued to the Industry		05 February 2018	
Draft Final Modification Report presented to Panel		22 March 2018	
Modification Panel Recommendation Vote		30 March 2018	
Final Modification Report issued the Authority		9 April 2018	
Decision implemented in CUSC		23 May 2018	

Proposer Details

Details of Proposer: (Organisation Name)	UK Power Reserve Ltd
Capacity in which the CUSC Modification Proposal is being proposed: (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Michael Jenner UK Power Reserve Ltd 07860 958 089 Michael.Jenner@UKPowerReserve.Com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Alessandra De Zottis UK Power Reserve Ltd 07392 198 474 Alessandra.DeZottis@UKPowerReserve.com
Attachments (Yes/No): No	

Impact on Core Industry Documentation.

Please mark the relevant boxes with an "x" and provide any supporting information

BSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
STC	<input type="checkbox"/>
Other	<input type="checkbox"/>

(Please specify)

Summary

Defect

The current CUSC Panel composition and voting process to select Panel members is not able to deliver a sufficiently diverse and independent Panel. It is failing to represent the industry as a whole and, consequently, to guarantee the best outcomes for consumers.

What

Currently, some large industry players are able to exercise overwhelming dominance when voting for CUSC Panel members. Through registering a large number of subsidiary enterprises as CUSC signatories, some ultimate parent companies have been able to secure a significant number of votes in the CUSC Panel election (one CUSC signatory can cast one vote).

This has led to some large industry players securing overwhelming and insurmountable dominance during the CUSC Panel voting process and has allowed them to repeatedly place a candidate from their company on the Panel. In many cases it is difficult to determine how many votes an ultimate parent company has under its control given the limited information that is provided on the CUSC signatory register.

Although Panel members are elected by the CUSC signatories, which are subject to the code, this does not necessarily mean they are representative. The reason is twofold:

- substantially different resources within companies can lead to incumbency domination
- most smaller companies are not exercising their right to vote for Panel members. This is adding to the voting distortion in favour of those many CUSC signatories under their control.

Therefore, the voting system is not functioning correctly, is not transparent and is granting larger companies unfair influence and control over the selection of CUSC members.

Why

It is crucial that the CUSC Panel voting process is transparent, fair and representative of the views of the wider industry. These changes will ensure that the CUSC Panel is - and is perceived to be – composed of truly independent industry experts seeking to work for the interests of consumers.

Without reform, the functioning of the CUSC Panel will remain opaque and risks being less independent, less representative of the diverse energy industry and less able to deliver the best outcome for consumers.

Furthermore, a lack of reform will reduce consumer perception of the independence of the Panel which in itself could bring the industry into disrepute.

How

A raft of changes should be made to the CUSC Panel election process to enhance CUSC Panel members' independence and encourage greater diversity in industry background and experience amongst Panel members.

The voting process should be made transparent so it is clear how many votes each ultimate parent company has under its control. The number of votes of ultimate parent companies should be limited to increase fairness.

Measures should be taken to increase the participation of all CUSC signatories in the voting process, particularly from smaller companies.

Proposals to achieve these objectives are set out in section 5.

Governance

Justification for Normal Procedures

It is too late to influence the 2017 CUSC election process. These proposed changes would take effect for the 2019 voting process.

Requested Next Steps

This modification should:

- be assessed by a Workgroup

Why Change?

It is crucial that the CUSC Panel voting process is transparent, fair and representative of the views of the wider industry. These changes will ensure that the CUSC Panel is - and is perceived to be – composed of truly independent industry experts seeking to work for the interests of consumers.

Voting Data

Following a Freedom of Information request to Ofgem, UKPR obtained the following information on the last two CUSC Panel votes:

- in 2015 a total of 104 first preference votes were cast.
- in 2013 no votes were cast as votes are only cast when the number of nominees exceeds the number of CUSC Panel seats and this did not occur in 2013.

This demonstrates that the total number of votes cast represents only around 20% of all CUSC signatories eligible to vote. The working group should discuss how CUSC signatories can be incentivised to use their votes and to put forward Panel members for election.

In addition, UKPR has conducted a review of the public list of CUSC signatories which indicates that some parent companies have registered a significant number of subsidiary companies that they control.

Since each CUSC signatory has one vote in the CUSC Panel election, this means that some parent companies have an undue influence over the CUSC Panel voting process relative to the rest of the industry. Given the limited information provided on the public CUSC register it is sometimes difficult to ascertain whether a company is a subsidiary of an ultimate parent company.

However, initial UKPR analysis of the public CUSC register suggests that some large industry players have a significant share of the votes. Furthermore, the influence of these votes is much greater when the limited voter turnout is taken into account.

This may explain why the members of the current CUSC Panel reflect the majority of the companies listed in the table below. However, we cannot be certain on this point as CUSC signatories voting choices are confidential.

	Centrica	SP	SSE	EDF	RWE /NPower	E.On / Uniper	Total CUSC Panel election votes
Number of CUSC signatories eligible to vote for CUSC Panel	15	11	22	18	25	12	103

UKPR analysis suggests that the 2017 number of CUSC signatories under the control large incumbent companies amounts to 103.

Assuming all these large companies cast all their votes in the 2015 CUSC election, it is would be evident that the incumbents dominated the 2015 election process as only 104 votes were cast¹.

A similarly low CUSC voter turnout in the 2017 elections would mean these large companies would again dominate the election process if they used all their votes.

The table below shows the composition of the elected members of the CUSC Panel since 2007.

	Year					
	2007-2009	2009-2011	2011-2013	2013-2015	2015-2017	2017-2019
	Garth Graham	Garth Graham	Garth Graham	Garth Graham	Garth Graham	
	Paul Jones	Paul Jones	Paul Jones	Paul Jones	Paul Jones	
	Simon Lord	Simon Lord	Simon Lord	Simon Lord	Simon Lord	
	Malcolm Taylor	Paul Mott	Paul Mott	Paul Mott	Paul Mott	
	Bob Brown	Bob Brown	Bob Brown	Bon Brown	Kyle Martin	
	Simon Goldring	Barbara Vest	Barbara Vest	James Anderson	James Anderson	
	Tony Diccico	Tony Diccico	Fiona Navesey	Michael Dodd	Michael Dodd	

Five out of seven Users Panel Members have been in office for between 8 and 10 years.

UKPR recognises that its initial analysis may be inaccurate given the opaque nature of the ultimate ownership of many CUSC signatories. The analysis could be an underestimate or overestimate of CUSC signatories under the control of large incumbent companies. Therefore, the above data serves as an example only, and the working group should fully investigate the facts around ultimate control of all CUSC signatories as part of its work.

Reform Needed

¹ The 2015 total number of CUSC signatories eligible to vote for the CUSC Panel was 486
<file:///ukprfs01/FolderRedirection/Alessandra.DeZottis/Downloads/Copy%20of%20CUSC%20Schedule%201%20-%202020%20June%202015.pdf>

It is unacceptable for any part of the industry to have a greater ability to select these independent members relative to other industry parties. Failure to reform the CUSC governance process could lead to reduced Panel independence, particularly if some parties can use their large number of CUSC signatory subordinate companies to repeatedly secure a CUSC place for one of their employees.

Without reform, smaller companies will not be able to have any meaningful influence over the CUSC Panel selection process and this has perhaps led to the low turn-out amongst smaller players in the CUSC Panel elections. This is affecting the credibility of the CUSC Panel voting results with only around 20% of signatories choosing to vote.

This is particularly true of recently created smaller companies who are bringing new technologies to the market. The current CUSC Panel voting process does not ensure that the Panel includes an expert on these new technologies, many of which are and will be placed on the distribution system. Without reform, the CUSC Panel risks being less independent, less representative of the diverse energy industry and less able to deliver the best outcome for consumers.

Furthermore, a lack of reform will reduce consumer perception of the independence of the Panel which in itself could bring the industry into disrepute.

Code Specific Matters

Technical Skillsets

None required.

Reference Documents

CUSC signatory list and CUSC schedules

<http://www2.nationalgrid.com/uk/industry-information/electricity-codes/cusc/the-cusc/>

Solution

Proposed new CUSC Panel voting rules to be implemented increase independence, diversity and transparency:

Increased Transparency

- Ultimate parent companies must declare all CUSC signatories under their direct or indirect control. The names of all CUSC signatories under each parent company's control must be clearly declared and published as part of the public CUSC signatory list.
- The number of votes that an ultimate parent company can cast is limited to five.
- A public database must be maintained on the CUSC website of previous Panel elections and results.

Increasing CUSC Signatory participation

- The percentage of CUSC signatory votes required in order to make a CUSC Panel vote valid is 60%.

Independence and Diversity of Panel members

- Panel members cannot have consecutive terms on the CUSC Panel. This would be introduced immediately and retrospectively to prevent current members rolling over for another two years following this modification.
- At least three of the CUSC members must be independent and not in the employ of any CUSC signatory or any ultimate parent company of a CUSC signatory while they serve on the Panel. These independent Panel members will be remunerated for their time directly from the CUSC process.
- At least two positions on the Panel must be reserved for a representative with deep experience and knowledge of working in a distributed generation company.
- Alternate CUSC Panel members must fill any seat vacated by a full CUSC Panel member. Alternate CUSC members are no longer required to be asked to stand in for vacant CUSC members; this will occur automatically. If there are more alternate members than the number of vacant CUSC seats at any given CUSC meeting, a random process will determine which independent alternate CUSC member will fill the vacant position.

Independent review of Governance

- The working group should consider whether it is appropriate to commission a full independent review of the governance of the CUSC Panel.

Impacts & Other Considerations

There may be lessons to be learned from the governance of other industry codes, such as the Balancing Settlement Code, which already has independent members.

The BSC Panel is made up of:

- a Chairman (appointed by the Authority, via Ofgem)
- industry members (elected by Parties)
- a Transmission Company member (appointed by NGC)
- consumer members (appointed by the relevant consumer body)
- no more than two independent members (appointed by the Chairman)²

The BSC Panel reviewed its own governance in November 2014. The CUSC Panel should consider what lessons can be learnt from the BSC governance review and also whether a similar detailed independent review should be carried out for the CUSC Panel.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This modification will not impact an SCR or other significant industry change projects.

Consumer Impacts

Reform of the CUSC Panel will enhance the independence, diversity and transparency of the CUSC Panel voting process and of the CUSC decision making process itself. This will ensure that the CUSC Panel makes independent decisions in the best interest of consumers. Consumers will have an enhanced perception that the CUSC process is free and fair.

² For instance: the two independent members of the BSC are: Derek W. Bunn, Professor of Decision Sciences at London Business School; and Dr Phil Hare, Director at Pöyry Management Consulting.

Relevant Objectives

Impact of the modification on the Applicable CUSC Objectives (Standard):

Relevant Objective	Identified impact
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Positive

Impact of the modification on the Applicable CUSC Objectives (Standard):

Relevant Objective	Identified impact
(a) The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;	Neutral
(b) Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;	Neutral
(c) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency; and	Neutral
(d) Promoting efficiency in the implementation and administration of the CUSC arrangements.	Positive

The implementation of these proposals will enhance the independence, transparency and diversity of the CUSC Panel which will in turn enhance the ability of the Panel to strive for the best outcomes for consumers.

Implementation

This modification should be concluded and implemented by January 2019 in order for the necessary CUSC governance changes to be made ahead of the 2019 CUSC Panel elections. The implementation of these proposals will not entail any costs beyond any incidental expenditure in changes in the CUSC governance documents.

Legal Text

The working group will examine the process for formally submitting changes to the CUSC Panel voting procedures.

Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Normal governance procedures should apply
- Refer this proposal to a Workgroup for assessment.