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Workgroup Consultation Response Proforma

CMP474: Fixed Balancing Services Use of System Price revision mechanism

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@neso.energy by **5pm** on **25 May 2026**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact cusc.team@neso.energy

Respondent details	Please enter your details	
Respondent name:	James Doig	
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Which best describes your organisation?	<input type="checkbox"/> Consumer body <input type="checkbox"/> Demand <input type="checkbox"/> Distribution Network Operator <input type="checkbox"/> Generator <input type="checkbox"/> Industry body <input type="checkbox"/> Interconnector	<input type="checkbox"/> Storage <input checked="" type="checkbox"/> Supplier <input type="checkbox"/> System Operator <input type="checkbox"/> Transmission Owner <input type="checkbox"/> Virtual Lead Party <input type="checkbox"/> Other

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I wish my response to be:

(Please mark the relevant box)

☒ **Non-Confidential** (*this will be shared with industry and the Panel for further consideration*)

☐ **Confidential** (*this will be disclosed to the Authority in full but, unless specified, will not be shared with the Panel or the industry for further consideration*)

Standard Workgroup Consultation questions

1	Do you believe that the Original Proposal better facilitate the Applicable Objectives versus the current baseline?	Mark the Objectives which you believe the original solution better facilitates the current baseline:	
		Original	<input checked="" type="checkbox"/> d <input checked="" type="checkbox"/> e <input type="checkbox"/> f <input type="checkbox"/> g <input checked="" type="checkbox"/> h <input type="checkbox"/> None
		E.ON strongly supports CMP474. The proposal addresses a clear defect in the current arrangements: fixed BSUoS tariffs are intended to provide predictability, but the current reset process leaves suppliers and customers exposed to material in-period changes with limited formal notice, limited codified information requirements and insufficient alignment with the Default Tariff Cap timetable. The proposal improves the baseline by codifying an objective, transparent, and proportionate process for any Fixed BSUoS Price revision. In our view it has a positive impact on the Applicable Objectives:	

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		<p>Objective d) Effective competition</p> <ul style="list-style-type: none"> • Positive impact. Significantly reduces unpredictability and “operator discretion risk”. Reduces need for risk premia in customer pricing. <p>Objective e) Cost reflectivity</p> <ul style="list-style-type: none"> • Slight positive impact. Does not prevent NESO from recovering efficiently incurred costs but improves the timing and governance of any revision so that cost recovery is more capable of being reflected in customer pricing arrangements. This supports cost-reflective charging without creating unnecessary short-notice volatility. <p>Objective h) Efficiency</p> <ul style="list-style-type: none"> • Strongly positive. Codifies process as required by Ofgem. Reduces administrative and reactive decision-making. <p>The Workgroup clearly identified that the risks faced by NESO and suppliers are not symmetric. NESO has a Working Capital Facility (WCF) designed to manage timing differences, whereas suppliers face potential unrecoverable profit losses where revised BSUoS costs cannot be reflected in the relevant price cap period (domestic) or recovered from fixed-term contract customers (domestic and non-domestic).</p>
2	Do you support the proposed	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

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	implementation approach?	<p>The implementation is proportionate and pragmatic:</p> <ul style="list-style-type: none"> • Relies on codifying an existing process. • Introduces minimal system change requirements. • Can be delivered within urgent timelines. <p>We particularly support:</p> <ul style="list-style-type: none"> • Alignment with price cap cycles. • Use of clearly defined thresholds rather than discretion. <p>We recognise that a longer notice period may require NESO to make decisions earlier and with less certainty than under a five-business-day reset process. However, we consider the proposed balance appropriate because the alternative exposes suppliers and customers to material unrecoverable costs and bill shocks (as would more likely be the case under CMP475).</p> <p>Crucially, the proposal does not remove NESO's ability to revise tariffs; it places appropriate governance around that ability.</p>
3	Do you have any other comments?	<p>We consider CMP474 important in the context of CMP475. While the two modifications address related but distinct defects, CMP474 provides the governance framework that should apply where fixed BSUoS prices are revised: early information, objective utilisation parameters and price cap-aligned notice. By contrast, any mechanism that allows wider recovery flexibility without equivalent safeguards would undermine the predictability that fixed BSUoS tariffs were intended to provide.</p>

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		<p>a) This modification is essential for market stability</p> <p>Without CMP474:</p> <ul style="list-style-type: none"> • Suppliers face unbounded in-period cost risk. • Retail pricing becomes more volatile. • Risk premia rise, leading to higher consumer bills. <p>CMP474 directly reduces this by:</p> <ul style="list-style-type: none"> • Improving predictability. • Enabling forward pricing decisions. <p>b) Recognising the asymmetry of risk</p> <p>We strongly agree with the Workgroup identification that:</p> <ul style="list-style-type: none"> • NESO has a working capital facility to manage timing risk. • Suppliers face P&L risk with no recovery mechanism. <p>The risks are not symmetric, and the framework must reflect this.</p> <p>c) Cap on extreme movements</p> <p>While we support the proposal, we note there is currently no cap on £/MWh increase during a reset. This remains a material and potentially significant exposure for suppliers and customers.</p> <p>We do not propose a hard cap at this stage (given NESO funding constraints), but:</p> <ul style="list-style-type: none"> • This risk should be actively monitored • A future modification may be warranted if volatility persists
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		<p>d) Over-recovery treatment</p> <p>We note Workgroup discussions on:</p> <ul style="list-style-type: none"> • Lack of mechanism for downward adjustment. • Over-recovery flowing into future periods. <p>While we agree this should not delay CMP474, there is a fairness case for symmetrical treatment. This should be explored in a subsequent modification.</p> <p>In short, CMP474 preserves the benefits of fixed BSUoS by constraining exceptional tariff revisions; CMP475, unless similarly constrained, risks undermining those same benefits.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<p><input type="checkbox"/> Yes (the request form can be found in the Workgroup Consultation Section here)</p> <p><input checked="" type="checkbox"/> No</p> <p>n/a</p>
5	Does the draft legal text satisfy the intent of the modification?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Yes, subject to final drafting clarity reflecting that:</p> <ul style="list-style-type: none"> • 50% notification threshold is <u>informational</u> and does not create an automatic reset trigger. • 50% and 75% utilisation levels operate as <u>constraints on recovery</u>, not fixed targets.

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		<ul style="list-style-type: none"> Notice periods are <u>enforceable</u>, not discretionary or merely matters for reasonable endeavours. <p>Notices should include the forecast utilisation level, not simply a binary statement that the threshold has been exceeded. The obligation to provide updates should continue while the threshold remains exceeded.</p>
6	Do you agree with the Workgroup's assessment that the modification does not impact the Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		n/a

Specific Workgroup Consultation questions

7	Do you agree with the proposed 50%	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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	threshold for the information notice?	<p>Yes, we strongly support the 50% utilisation trigger because it:</p> <ul style="list-style-type: none"> • Provides an early, actionable warning whilst avoiding unnecessary market noise. • Improves supplier/consumer visibility and planning. • Avoids “cliff-edge” information release. <p>The shift from a higher threshold (e.g., 75%) is appropriate and improves transparency.</p> <p>It is important that this notice is clearly framed as <u>informational only</u>. It should not imply that a reset is inevitable. The notice should include the forecast utilisation level and expected trajectory.</p> <p>The continued obligation to publish notification updates whilst the threshold is exceeded is vital for that transparency.</p>
8	Will publication the proposed information notice be helpful to industry?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Yes, we strongly support the proposed information notice, and it is one of the most valuable elements of CMP474.</p> <p>Benefits include:</p> <ul style="list-style-type: none"> • clarity on working capital trajectory. • improved forecasting inputs. • reduced reliance on informal or partial signals. <p>Formalised publication ensures:</p> <ul style="list-style-type: none"> • consistent information across market participants.

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		<ul style="list-style-type: none"> reduced information asymmetry.
9	Do you agree with the proposed Working Capital utilisation floor of 50% and 75%?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Yes, we support the principle of utilisation floors because they prevent a reset being used to recover the WCF fully back to neutrality where that would create unnecessary market disruption.</p> <p>This is a key advantage of CMP474 over more discretionary approaches: it allows NESO to retain appropriate headroom while limiting excessive recovery from suppliers and customers.</p> <p>However, the floors should not lead to repeated resets.</p>
10	Do you agree with the proposed enduring arrangements of 3 months' notice period for the tariff reset?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>The 3-month notice period for tariff reset is a critical feature of CMP474.</p> <p>This is not simply a matter of administrative convenience. It is necessary to ensure alignment with the Default Tariff Cap timetable, better enabling suppliers to recover costs, while recognising that residual recovery risk will remain, and reducing the risk of unrecoverable losses.</p> <p>Without adequate notice, BSUoS cost increases may fall outside of the relevant price cap update and lead to supplier losses, weakening supplier financial resilience, and increasing risk premia for customers.</p>

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		<p>If Ofgem were to consider changing the frequency at which the Default Tariff Cap is updated (e.g., back to six-monthly), then the notice period for any BSUoS reset should be revisited as part of that process.</p>
11	<p>Do you agree that the enduring arrangements of 3 months' notice period for tariff reset will benefit the non-domestic customer on pass-through contracts when compared to the baseline?</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>The proposal does not remove the cost impact for non-domestic pass-through customers, but it <u>materially improves their ability to plan for it</u>. This matters for budgeting, cashflow management, and customer engagement, particularly for businesses that do not receive support available to some energy-intensive users.</p>
12	<p>Do consider that the proposed solution will expose NESO to further risks that cannot be reasonably managed?</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>No. The proposal may increase NESO's short-term cashflow management risk relative to a five-business-day reset process, but we do not consider that this risk is unreasonable or unmanageable.</p> <p>NESO retains the ability to revise tariffs within a codified process, and the proposal includes utilisation floors designed to preserve working capital headroom.</p> <p>We agree with the Workgroup in recognising that the 5-business-day process remains relevant as an exceptional backstop for extreme and unexpected events. In those circumstances, Ofgem would also</p>

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		need to consider whether regulatory mitigations are required, including whether an in-period adjustment to the Default Tariff Cap is required.
13	Do you agree that the proposed solution will reduce the risk for Suppliers?	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>The proposal reduces unintended, unhedgeable, and asymmetric risk created by the current reset process, restoring supplier exposure closer to the level intended when fixed BSUoS tariffs were introduced.</p> <p>It should not be interpreted as eliminating supplier risk, nor as reducing the efficient level of risk suppliers face in serving customers. Suppliers will continue to bear material BSUoS-related risks, including forecast risk, volume risk, customer default risk, credit/collateral impacts, and residual exposure where costs cannot be fully recovered from customers.</p> <p>CMP474 therefore addresses a defect-driven risk that suppliers were not intended to bear under fixed BSUoS arrangements; it should not be read as evidence that supplier margins, EBIT allowances, or wider efficient risk allowances should be reduced.</p>