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Code Administrator 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 **29 June 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:	Gregory Edwards	
Company name:	Centrica	
Email address:	Gregory.Edwards@centrica.com	
Phone number:		
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

I wish my response to be:

(Please mark the relevant box)	<input checked="" type="checkbox"/> Non-Confidential (<i>this will be shared with industry and the Panel for further consideration</i>)
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	<input type="checkbox"/> Confidential (this will be disclosed to the Authority in full but, unless specified, <u>will not be shared</u> with the Panel or the industry for further consideration)
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For reference the Applicable CUSC (charging) Objectives are:

- d) *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;*
- e) *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 C11 requirements of a connect and manage connection);*
- f) *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 and the ISOP business*;*
- g) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency **; and*
- h) *Promoting efficiency in the implementation and administration of the system charging methodology.*

* See Electricity System Operator Licence

**The Electricity Regulation referred to in objective g) 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.

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For reference, (for consultation question 4) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) *fostering effective competition, non-discrimination and transparency in balancing markets;*
- b) *enhancing efficiency of balancing as well as efficiency of national balancing markets;*
- c) *integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) *contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*
- e) *ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*
- f) *facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) *facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

What is the EBR?

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The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the NESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.

Please express your views in the right-hand side of the table below, including your rationale.

Standard Code Administrator Consultation questions		
1	Please provide your assessment for the proposed solution against the Applicable Objectives against the current baseline.	Mark the Objectives which you believe the proposed solution better facilitates than the current baseline:
		Original <input 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
		<p><u>Applicable charging Objective d: Positive</u></p> <p>The Proposal better facilitates ACO d by better facilitating competition in the retail market (both the sale and the purchase of electricity).</p> <p>In particular, the introduction of a clear process for revising the Fixed BSUoS Price, together with greater transparency, enhanced information provision and a longer notice period, should:</p>

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		<ul style="list-style-type: none"> • reduce distortions in the retail market arising from the current uncertainty and limited transparency regarding whether, when, and how the Fixed BSUoS Price may be revised; • help to ensure that concerns that the retail market is uninvestible are not worsened, by reducing the risk of Suppliers not being able to recover additional costs linked to the sudden revision of the Fixed BSUoS Price; • reduce inefficiencies in the retail market caused by Suppliers incorporating risk premia into customer pricing to manage the possibility of a disorderly revision of the Fixed BSUoS Price; • provide a means for Suppliers to better manage the risks associated with the revision of the Fixed BSUoS Price (which otherwise cannot be hedged in the ways that, for example, wholesale costs can be hedged); and • provide a means for Suppliers and relevant customers to better enabled to manage the negative impact of market volatility on balancing costs (and poor costs forecasts). <p><u>Applicable charging Objective e: Positive</u></p> <p>The Proposal better facilitates ACO e because it ensures a more accurate reflection of costs by permitting cost recovery within the relevant price cap periods and provides timely mechanisms for other customer contracts. This more responsive</p>
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		<p>approach to cost recovery allows pricing to better mirror actual market conditions, which benefits both Suppliers and customers.</p> <p><u>Applicable charging Objective h: Positive</u></p> <p>The Proposal better facilitates ACO h by improving efficiency in the implementation and administration of the system charging methodology.</p> <p>The creation of a clear process for revising the Fixed BSUoS Price fulfils an Authority requirement. In its decision on CMP 415 (<i>Amending the Fixed Price Period from 6 to 12 months</i>), the Authority required NESO to incorporate a clear process for revising the Fixed BSUoS Price into the CUSC to provide greater certainty for all parties. NESO has not fulfilled the Authority’s requirement. As a result, the Proposal has been developed to provide that greater certainty.</p> <p>The clear process for revising the Fixed BSUoS Price, increased transparency, increased information provision and increased notice period should reduce the collective amount of resource that</p>
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		<p>industry would have to otherwise commit to attempting to forecast:</p> <ul style="list-style-type: none"> • when NESO may revise the Fixed BSUoS Price; • how NESO may revise the Fixed BSUoS Price; • balancing costs; • when the BSUoS Working Capital Facility might be exhausted; and • (potentially) the size of the BSUoS Working Capital Facility.
2	Do you support the proposed implementation approach?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
		The modification can be implemented as soon as the Authority confirms approval
3	Do you have any other comments?	<p>Analysis provided by NESO’s should be treated with extreme caution:</p> <p><u>NESO ‘illustrative’ analysis of the potential frequency of information notices being published does not reflect any plausible scenario:</u></p> <p>On page 30 of the consultation, NESO presents analysis that information notices triggered by the utilisation of the BSUoS Working Capital Facility exceeding 50% would have been published 39</p>

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		<p>times since the Fixed BSUoS Price regime was implemented. The analysis materially overstates the number of information notices that would be published under any remotely plausible scenario. The analysis is misleading because it is based on 'illustrative' Fixed BSUoS Prices that were never set or levied on market participants.</p> <p>The 'illustrative' analysis is based on the assumption of neutral recovery in every period since the Fixed BSUoS Price regime was implemented i.e. NESO perfectly forecast costs and revenues. This assumption is not credible - NESO's cost forecasting performance shows that significant improvement is required. <u>The variance between forecast costs used to set tariffs (normalised for over-/under-recovery, etc.) and actual costs has ranged between -26% and 12% for Fixed Tariffs 1 -6.</u> It would be prudent for NESO to review how its methodology for forecasting balancing costs can be improved.</p> <p>Additionally, NESO's assumption relating to perfect forecasting contradicts NESO's position that it needs the ability to re-open the Fixed BSUoS Price if costs are different from forecast and contradicts NESO's proposal to give itself more flexibility if it re-opens the Fixed BSUoS Price (CMP475). Indeed,</p>
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		<p>NESO’s assumption relating to perfect forecasting contradicts the need for the fixed price regime.</p> <p><u>Net revenue recovery is not indicative of risk of the Fixed BSUoS Price being revised:</u></p> <p>NESO requested that the chart on page 22 of the consultation be included. That chart shows how the net revenue recovery position changes over time i.e. the revenue it received vs the costs incurred. We emphasise that the chart does not show NESO’s cashflow profile over time. This is important as it is the <u>cashflow position instead of the net recovery position this will influence decisions about the potential revision of the Fixed BSUoS Price.</u> Net recovery is only one factor that influences cashflow. Other factors include the timing of payments to service providers, the timing of revenue receipts, ‘opening’ balance, etc. NESO has not provided this analysis.</p> <p>Research published by Ofgem in May 2026 highlights difficulties that pricing unpredictability creates for non-domestic customers:</p> <p>Research conducted for Ofgem provides evidence of the negative impacts of sudden price increases on non-domestic customers and why it is</p>
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		<p>necessary that those customers are given adequate opportunity to adjust to new pricing levels.</p> <p>The “<u>Businesses’ experiences of the energy market 2025</u>” prepared for Ofgem discusses some of the difficulties that pricing unpredictability create for non-domestic customers, including:</p> <ul style="list-style-type: none"> • Challenges linked to high or unpredictable costs, complex billing, and the time required to understand charges. • Volatile pricing was viewed as a barrier to growth, making budgeting more difficult. • Price stability was identified as a priority and the importance of predictable and affordable costs to help support future planning and investment decisions was emphasised. <p>Research conducted by Centrica also highlights difficulties that pricing unpredictability create for non-domestic customers:</p> <p>These themes listed above are also consistently reflected in longitudinal surveys that Centrica conducts with non-domestic customers that focus</p>
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		<p>on their experiences of and attitudes to general market/industry events and impacts.</p> <p>Q3 2023: <i>Sudden price rises create financial harm, emotional stress and long-term distrust, not just short-term dissatisfaction.</i></p> <ul style="list-style-type: none"> • Non-domestic customers explained that sudden rises push them into defensive decisions (e.g. fixing at unfavourable rates). • Energy prices were reported as a major driver of business distress - non-domestic customers linked sharp increases directly to budgetary strain, reduced profitability and the risk of closure. <p>July - October 2024: <i>Sudden price rises don't just hurt affordability - they damage long term customer relationships.</i></p> <ul style="list-style-type: none"> • Sudden increases often push non-domestic customers into debt unexpectedly. <p>May 2025: <i>Unforecastable energy costs are operational risk and not just a pricing issue.</i></p> <ul style="list-style-type: none"> • Unpredictable pricing was viewed as a key risk for financial planning.
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		<ul style="list-style-type: none"> • Non-domestic customers explicitly linked energy price unpredictability to difficulty in forecasting cashflow and margins. <p>June 2025: <i>Volatility reduces the ability to plan, invest, and make confident long-term decisions.</i></p> <ul style="list-style-type: none"> • Price volatility was identified as the key energy-related challenge which, in turn, negatively impacted financial stability and strategic decision making. • Budget certainty and fixed pricing were consistently ranked as a top priority, alongside lowest price. <p>2024 – 2026: <i>The negative impact of sudden price rises persists over time and shapes future behaviour.</i></p> <ul style="list-style-type: none"> • ~70% of businesses remain concerned about future energy price rises, even when wholesale prices stabilise. • Energy prices consistently rank among the top threats to business operations. • Non-domestic customers report being forced to pass on costs, reduce investment or reassess viability.
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		<ul style="list-style-type: none"> • Communication alone does not offset the harm caused by volatility and unpredictability. <p>We are happy to discuss the detailed findings of Centrica’s research with Ofgem.</p> <p>The Proposal should reduce the risk that domestic Suppliers fall foul of capital adequacy requirements because of a sudden increase in the Fixed BSUoS Price:</p> <p>Ofgem introduced the Capital Target regime in 2023, requiring domestic Suppliers have a minimum amount of capital at their risk to remain resilient and protect consumers from disruption and cost. The number of Suppliers that are not meeting the Capital Target increased by 67% between June and September 2025, as discussed in the <u>“State of the market report”</u>.</p> <p>Ofgem expects that Suppliers (whether they supply domestic customers, non-domestic customers, or both) will maintain capital and liquidity of sufficient amount and quality that they can meet their reasonably anticipated financial liabilities as they fall due in times of plausible financial stress. However, the baseline arrangements for the BSUoS Fixed Price regime do</p>
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		<p>not allow Suppliers to reasonably anticipate liabilities relating to BSUoS charges. For Suppliers to reasonably anticipate their financial liabilities due to BSUoS charges, Suppliers need to be able to forecast:</p> <ul style="list-style-type: none"> • balancing costs; • how NESO will revise the Fixed BSUoS Price; • when NESO will revise Fixed BSUoS Price; and • potentially, the amount of working capital available to NESO to manage balancing settlements: <p>This is infeasible, especially because the current arrangements do not promote the minimum necessary transparency.</p> <p>Besides the inherent difficulty described above, the risks associated with the revision of the Fixed BSUoS Price cannot be hedged in a manner that other costs such as wholesale energy costs can be hedged.</p> <p>A sudden and disorderly increase in the BSUoS Fixed Price could contribute a further increase in the number of domestic suppliers falling below the Capital Target, and could lead to a Supplier(s) falling below the Capital Floor.</p>
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		<p>The Proposal should provide an opportunity to Suppliers to adjust credit guarantee limits to avoid sudden ‘cash calls’:</p> <p>As specified in the CUSC, Suppliers are required to maintain an adequate level of credit cover to manage their liabilities associated with BSUoS and transmission use-of-system (TNUoS) charges.</p> <p>A sudden increase in the Fixed BSUoS Price suddenly increases Suppliers’ liabilities, which could exceed the existing credit guarantee limits. Suppliers would then be required to seek immediate uplifts in credit guarantee limits, which comes at a cost. If a Supplier is unable to obtain that uplift in a timely manner, that Supplier could be required to immediately pay BSUoS charges as soon as the liability is created instead of being able to make payments according to the standard payment terms. A Supplier may also be required to immediately pay TNUoS charges as soon as the liability is created since the credit cover requirements in the CUSC jointly cover BSUoS and TNUoS charges.</p> <p>The Proposal reduces the risk of credit guarantee limits being breached because of the Fixed BSUoS</p>
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		Price being revised since the NESO would be required to give Suppliers no less than three months' notice of the revision.
4	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
		Click or tap here to enter text.