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Workgroup Consultation Response Proforma

CMP475: Amendment to the BSUoS tariff reset process

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 cust.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 cust.team@neso.energy

| Respondent details | Please enter your details | |
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| Respondent name: | James Doig | |
| Company name: | E.ON UK | |
| Email address: | james.doig@eon-uk.com | |
| Phone number: | n/a | |
| 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)

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

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☐ **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

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| 1 | Do you believe that the Original Proposal and/or any potential alternatives better facilitate the Applicable Objectives versus the current baseline? | Mark the Objectives which you believe each solution better facilitates than the current baseline: | |
| | | Original | <input type="checkbox"/> d <input type="checkbox"/> e <input type="checkbox"/> f <input type="checkbox"/> g <input type="checkbox"/> h <input checked="" type="checkbox"/> None |
| | | <p>We do not believe the proposal better facilitates any of the Applicable Objectives, nor the wider consumer interest.</p> <p>The proposal should be understood primarily as a risk transfer mechanism, rather than a solution to underlying volatility or forecasting challenges.</p> <p>It moves the financial consequences of volatility, model changes, and forecast error from NESO (which has the greatest information and control) to BSUoS payors with unclear framework and governance.</p> <p>The proposal assesses the impacts on the Applicable Objectives far too narrowly and therefore overlooks the wider impacts on consumers and industry that are likely to result from the proposal. In particular:</p> <p>Objective d) Effective competition</p> <ul style="list-style-type: none"> Negative impact. A change in BSUoS tariff at short notice would most likely mean that | |

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| | | <p>suppliers would face significant unrecoverable costs due to commercial and regulatory arrangements. Suppliers would not have included additional risk premia in the supply contract prices agreed with customers. Domestic suppliers with default tariffs would be unable to increase their prices beyond the maximum charges defined by Ofgem in the Default Tariff Cap. Suppliers with fixed-price contracts, which cover most of the market, would be unable to recover the increased costs.</p> <ul style="list-style-type: none"> Such changes are unlikely to have been factored into Ofgem's supplier financial resilience requirements¹ or into supplier capital planning. Hence, given the likely materiality of any change and its coincidence with other financial pressures, there could be significant short-term resilience impacts on some suppliers, with consequently negative impacts on effective competition and the ability of different business models to emerge. The impact of the reset implied by the proposal is material. If NESO seeks to recover a forecast BSUoS cash shortfall of £754m² over six months (Oct'26-Mar'27), the indicative impact on suppliers would be potentially unrecoverable costs of |
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¹ Decision on introducing a minimum capital requirement and ringfencing customer credit balances by direction | Ofgem (20 September 2023)

² CMP475 Workgroup 1 paper (30 April 2026)

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| | | <p>c.£6.03/MWh or c.£9.21 per typical domestic household. This is equivalent to c.35% of Ofgem’s most recently reported average dual-fuel EBIT per customer³. See supporting annex for more details.</p> <p>Objective e): Cost reflectivity</p> <ul style="list-style-type: none"> • Negative impact. The Original Proposer’s assessment focuses on the tariff being “more reflective of the <i>current</i> market situation”. We do not question NESO’s right to recover efficiently incurred costs. However, the timescales being proposed are disproportionate, and are misaligned with industry cost recovery. • From a narrow NESO cost recovery perspective, the proposal appears neutral as NESO would still cover its costs. From a broader market perspective, however, the proposed short-notice recovery mechanism has a negative impact on cost reflectivity because it transfers material unrecoverable cost risk to suppliers / customers (which will drive higher BSUoS risk premia) and undermines the predictability intended by fixed BSUoS tariffs. |
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³ [Financial resilience transparency report | Ofgem](#) (May 2025)

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| | | <p>Objective h): Promoting efficiency in implementation and administration</p> <ul style="list-style-type: none"> • Negative impact. The Original Proposer's assessment is that there are positive impacts from the BSUoS tariff being "reflective of the current market situation rather than incurring a time lag". On the contrary, in terms of efficiency, this proposal weakens the incentives for accurate forecasting and efficient operation. • The proposal reduces system efficiency, rather than improving it: <ul style="list-style-type: none"> ○ NESO has the information, tools and system visibility to manage these risks. ○ Suppliers do not, and must respond by applying risk premia or reducing competitiveness. ○ This results in higher overall system costs for consumers. <p>More widely than the Applicable Objectives, we see the consumer impact as the most important consideration. The proposal:</p> <ul style="list-style-type: none"> • Introduces unmanageable volatility for business consumers on pass-through contracts, directly impacting their ability to grow the economy. • Indirectly increases costs for other consumers through higher supplier risk premia. |
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| 2 | Do you support the proposed implementation approach? | <div> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </div> <div> <p>No, not without significant modification</p> <p>The current proposal insufficiently developed in three areas:</p> <p>a) Notice period</p> <ul style="list-style-type: none"> The current 5-day notice for tariff resets is fundamentally incompatible with supplier cost recovery frameworks. It does not align with: <ul style="list-style-type: none"> Default Tariff Cap (domestic price cap) determination cycles Billing system updates Customer communication requirements Workgroup discussions confirm that the 5-day notice period was intentionally designed to protect NESO's Working Capital Facility, rather than to ensure supplier or consumer recoverability. <p>We do not support implementation of CMP475 as drafted. If GEMA nevertheless considers that some form of additional reset/top-up mechanism is necessary, then implementation</p> </div> |
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| | | <p>should be conditional on the following safeguards:</p> <ul style="list-style-type: none"> • A minimum 3-month notice period for any material tariff adjustment (to align with the Default Tariff Cap); • Or if circumstances require more urgent action, where BSUoS tariffs are reopened within a cap period, there should be a corresponding obligation on Ofgem to consider an in-period adjustment to the Default Tariff Cap, to avoid systematic under-recovery and supplier financial stress. <p>A reset mechanism that allows material cost increases within a price cap period, without a corresponding adjustment mechanism, creates a structural mismatch that cannot be managed through normal commercial arrangements.</p> <p>b) Recovery trajectory controls</p> <ul style="list-style-type: none"> • The proposal allows flexibility in recovery towards neutrality but lacks guardrails. <p><i>We recommend:</i></p> <ul style="list-style-type: none"> • Consideration of partial recovery targets (e.g. 50%) to smooth impacts. <p>c) Supplier impact assessment</p> <ul style="list-style-type: none"> • The Workgroup notes supplier concerns but does not assess bill impacts, cashflow exposure, or bad debt implications. |
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| | | <p><i>We recommend inclusion of:</i></p> <ul style="list-style-type: none"> Scenario analysis for high volatility cases and rapid WCF depletion scenarios |
| 3 | Do you have any other comments? | <p>Terms of Reference</p> <p>The Workgroup Terms of Reference explicitly required consideration of:</p> <ul style="list-style-type: none"> the trade-off between NESO and supplier cashflow risks (item c), and impacts on the energy price cap and consumer bills (item e). <p>However, the Workgroup Consultation does not provide an assessment of these impacts despite them being a core part of the scope.</p> <p>Working Capital Facility</p> <p>The Workgroup heard that NESO's current £300m Working Capital Facility (WCF) is not statistically derived and may not reflect the scale of current or future BSUoS volatility. This raises a fundamental question of whether CMP475 is addressing the correct defect.</p> <p>Before additional volatility is imposed on suppliers and consumers, the process should transparently consider the extent to which NESO can manage short-term cashflow pressure using wider working capital arrangements (including existing, outside £300m WCF 'ringfence'), timing of payments / accruals, or other available mitigations, rather than relying solely on short-notice BSUoS tariff changes.</p> |

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| | | <p>Alternative mitigations</p> <p>We believe that consideration should be given to alternative mitigations to some of the fundamental issues that the proposal seeks to address:</p> <ol style="list-style-type: none"> 1. Workgroup discussions highlighted that recent cost increases are driven not only by market volatility but also by changes in constraint modelling, timing of model updates relative to tariff setting, and limited alignment between forecasting inputs and tariff setting. It is inappropriate for the consequences of such forecasting and modelling uncertainty to be transferred to consumers and suppliers through short-notice tariff changes. 2. NESO should also consider whether the timing of internal costs, payments, accruals, and other cashflow levers can mitigate the impact of BSUoS on consumers. <p>Risk of “pendulum swings”</p> <p>The Workgroup identified risks of rapid under/over-recovery cycles.</p> <p>From a supplier perspective, this is a major concern:</p> <ul style="list-style-type: none"> • Volatile BSUoS implies volatile customer costs. • Increased hedging uncertainty. • Higher consumer bills due to risk premia. <p>Interaction with wider reform</p> |
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| | | <p>CMP475 is a symptomatic fix, not a structural solution. We encourage alignment with:</p> <ul style="list-style-type: none"> • BSUoS volatility reduction work. • Constraint cost reform. • RNP market design reforms. |
| 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)</p> <p><input checked="" type="checkbox"/> No</p> |
| 5 | Does the draft legal text satisfy the intent of the modification? | <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Partially</p> <p>While we have not identified a fundamental misalignment with intent, we believe the legal text should:</p> <ul style="list-style-type: none"> • Clearly define triggers for reopening tariffs and the methodology for top-up calculation. • Include proportionality requirements and consumer / supplier impact considerations. • Avoid excessive discretionary interpretation. <p>In particular, the proposed trigger based on there being “a risk” that NESO forecasts they will not recover sufficient funds or hold sufficient funds is too broad unless accompanied by objective thresholds, evidence requirements and proportionality tests.</p> |

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| | | Forecast-based risk exists in almost all circumstances (as demonstrated in the volatility of this year's forecasts presented to the workgroup); the legal text should therefore define the level, timing and materiality of risk required before tariffs can be reopened. |
| 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

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| 7 | Do you agree with the ability for NESO to be able to make use of the proposed top up mechanism, to enable it to move the Working Capital Facility | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| | | <p>E.ON does not support CMP475 as drafted.</p> <p>While we recognise the issue NESO is seeking to address, the proposal would materially weaken the stability and predictability of BSUoS arrangements by allowing short-notice reopening of fixed tariff periods and unconstrained recovery of costs.</p> |

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| | back towards neutral? | <p>We consider that the proposal can only be supported if it is significantly modified to include clear constraints on recovery, appropriate notice periods, and safeguards for consumers and suppliers.</p> <p>We understand NESO's reasons for the proposed top-up mechanism:</p> <ul style="list-style-type: none"> • current arrangements cannot restore WCF neutrality, and • repeated resets create instability. <p>However, their use must be:</p> <ul style="list-style-type: none"> • Constrained: through caps or smoothing to mitigate the short-term impact on consumers. • Predictable: clear methodology with adequate notice for industry. • Proportionate: consumer impact considered. <p>As noted in response to Q5, the proposed drafting⁴ is very broadly worded in enabling NESO to set revised BSUoS tariffs if there is a "risk" that it will neither recover sufficient funds through BSUoS Charges nor will it hold sufficient funds.</p> |
| 8 | In what circumstances would the above not be an | <p>The top-up mechanism would be inappropriate where:</p> <p>a) Extreme cost recovery required in short timeframes</p> <ul style="list-style-type: none"> • Could lead to bill shocks for consumers. |

⁴ para 14.31.15

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| | appropriate approach? | <ul style="list-style-type: none"> Material losses for suppliers under the price cap and other commercial arrangements. <p>b) Insufficient notice provided</p> <ul style="list-style-type: none"> Prevents cost recovery. Leads to supplier financial stress. <p>c) Forecast uncertainty is high</p> <ul style="list-style-type: none"> Risk of over-recovery followed by rapid correction. Increased volatility (“pendulum effect”). <p>d) Where alternative mitigations are available</p> <ul style="list-style-type: none"> Where NESO can reasonably manage the issue through use of wider working capital arrangements, payment/accrual timing, or a more gradual recovery path. |
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Supporting Annex

- Supporting calculations based on NESO adjusting rates to recover its forecast shortfall of £754m cash reserves:

If recovered over October 2026 – March 2027:

| Item | Value | Source |
|---|-------------|--|
| National Demand Oct26-Mar27 (TWh) | 145.7 | |
| NESO cash to recover (£m) | 754 | CMP475 Workgroup 1 paper (30 April 2026) |
| BSUoS unit rate impact (£/MWh) | 5.18 | Calculation |
| Supplier unit rate impact (£/MWh) | 6.03 | Calculation (excl. VAT) |
| Based on: | | |
| Network losses | 11.32% | Ofgem price cap model annex 3 (v1.23) |
| EBIT | 1.4% | Ofgem price cap model |
| Headroom | 1.5% | Ofgem price cap model |
| Potential supplier under-recovery per typical domestic customer | 9.21 | Calculation (excl. VAT) |
| Based on: | | |
| Typical consumption (kWh) | 2,700 | Ofgem price cap model |
| Winter demand share | 57% | Ofgem price cap model |

Ofgem is expected to announce the level of the price cap effective from October in late August (around 26th). We understand that Ofgem's normal price cap update process would not necessarily allow an in-period BSUoS reset to be reflected until later cap periods. The network charge inputs are normally updated in its February announcement for rates starting in April. In any case, suppliers with existing fixed price contracts that cover most of the market would be unable to change their prices to account for the higher costs.

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If recovered over a year:

| Item | Value | Source |
|---|-------------|--|
| National Demand Oct26-Sep27 (TWh) | 262.5 | |
| NESO cash to recover (£m) | 754 | CMP475 Workgroup 1 paper (30 April 2026) |
| BSUoS unit rate impact (£/MWh) | 2.87 | Calculation |
| Supplier unit rate impact (£/MWh) | 3.35 | Calculation (excl. VAT) |
| Based on: | | |
| Network losses | 11.32% | Ofgem price cap model annex 3 (v1.23) |
| EBIT | 1.4% | Ofgem price cap model |
| Headroom | 1.5% | Ofgem price cap model |
| Potential supplier under-recovery per typical domestic customer <u>assuming price cap is adjusted Apr-Sep</u> | 5.11 | Calculation (excl. VAT) |
| Based on: | | |
| Typical consumption (kWh) | 2,700 | Ofgem price cap model |
| Winter demand share | 57% | Ofgem price cap model |

If NESO took a slower approach and recovered over a year, the risk exposure to suppliers is slightly reduced, assuming that the increase is eventually included in the Default Tariff Cap and new fixed-price contracts can be repriced to reflect the higher costs. However, higher costs for default tariff customers (before price cap change) and fixed-term contracts would be unrecoverable.

In the absence of definitive guidelines in the consultation around the level of adjustment, etc. there is uncertainty about the level of risk to which suppliers are exposed. The above values, and commentary, have therefore been provided on an indicative basis.