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Draft Final Modification Report															
<h1>CMP475:</h1> <h2>Amendment to the BSUoS tariff reset process</h2> <p>Overview: Amendment to the BSUoS Tariff Reset process as per CUSC. To enable NESO due to wider market conditions to reforecast the Fixed tariff Periods and if needed recover financial position of the BSUoS Working Capital Facility.</p>	<h3>Modification process & timetable</h3> <table border="1"> <tr> <td style="text-align: center;">1</td> <td>Proposal Form 15 April 2026</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Workgroup Consultation 19 May 2026 – 25 May 2026</td> </tr> <tr> <td style="text-align: center;">3</td> <td>Workgroup Report 16 June 2026</td> </tr> <tr> <td style="text-align: center;">4</td> <td>Code Administrator Consultation 23 June 2026 – 29 June 2026</td> </tr> <tr> <td style="text-align: center;">5</td> <td>Draft Final Modification Report 10 July 2026</td> </tr> <tr> <td style="text-align: center;">6</td> <td>Final Modification Report 10 July 2026</td> </tr> <tr> <td style="text-align: center;">7</td> <td>Implementation 31 July 2026</td> </tr> </table>	1	Proposal Form 15 April 2026	2	Workgroup Consultation 19 May 2026 – 25 May 2026	3	Workgroup Report 16 June 2026	4	Code Administrator Consultation 23 June 2026 – 29 June 2026	5	Draft Final Modification Report 10 July 2026	6	Final Modification Report 10 July 2026	7	Implementation 31 July 2026
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<p>Have 5 minutes? Read our Executive summary</p> <p>Have 30 minutes? Read the full Draft Final Modification Report</p> <p>Have 60 minutes? Read the full Draft Final Modification Report and Annexes.</p>															
<p>Status summary: The Draft Final Modification Report has been prepared for the recommendation vote at Panel.</p>															
<p>Panel recommendation: The Panel will meet on 10 July 2026 to carry out their recommendation vote.</p>															
<p>This modification is expected to have a: This modification will have a high impact on anyone who is impacted by BSUoS, primarily Suppliers.</p>															
Governance route	Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)														
Who can I talk to about the change?	<table border="0"> <tr> <td style="vertical-align: top;">Proposer: Alex Curtis, NESO alex.curtis@neso.energy</td> <td style="vertical-align: top;">Code Administrator Chair: Robert Hughes robert.hughes3@neso.energy</td> </tr> </table>	Proposer: Alex Curtis, NESO alex.curtis@neso.energy	Code Administrator Chair: Robert Hughes robert.hughes3@neso.energy												
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Contents

What is the issue?.....	5
What is the defect the Proposer believes this modification will address?.....	5
Why change?	6
Workgroup considerations	6
Workgroup Consultation Summary	12
Post Workgroup Consultation Discussion.....	17
Terms of Reference Overview	20
What is the solution?	21
Proposer’s Original solution.....	21
Legal text.....	22
What is the impact of this change?.....	22
Proposer’s assessment against CUSC Charging Objectives	22
Proposer’s assessment of the impact of the modification on the stakeholder / consumer benefit categories.....	24
Workgroup Vote	25
Code Administrator Consultation Summary	26
Panel Recommendation vote.....	29
When will this change take place?	29
Interactions	29
Acronyms, key terms and reference material	30
Annexes.....	30

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Executive Summary

CMP475 proposes changes to the Balancing Services Use of System (BSUoS) tariff reset process to allow National Energy System Operator (NESO) to reopen Fixed Price Periods and apply a top-up tariff so it can recover the working capital facility (WCF) back towards a neutral position. It has been raised because recent market volatility and higher balancing costs mean the current fixed-tariff arrangements and reset mechanism are insufficient to manage cash flow risk and could threaten NESO’s ability to operate the system securely.

What is the issue?

The issue is that NESO needs sufficient and stable cash flow to fund balancing actions, but recent market volatility has caused the BSUoS WCF to come under pressure. While the current tariff reset mechanism can adjust tariffs to prevent further deterioration, it does not allow over-recovery to return the fund towards a neutral position, risking repeated resets and cash flow instability.

What is the solution and when will it come into effect?

Proposer’s solution: Amend the Connection and Use of System Code (CUSC) to allow one or both fixed BSUoS price periods to be reopened where the WCF is forecast to be exceeded. It also introduces a “top-up tariff” so NESO can begin recovering the fund back towards a neutral position with minimal market disruption.

Implementation date: 31 July 2026

What is the impact if this change is made?

CMP475 is expected to have a positive impact by making BSUoS charges more cost-reflective of current market conditions, improving cash flow stability for NESO and supporting the secure operation of the electricity system. Overall impacts are assessed as positive or neutral across the CUSC Charging

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Objectives and stakeholder categories, with benefits in system reliability and quality of service, and no identified negative consumer or environmental impacts.

Workgroup conclusions: The Workgroup concluded by majority that the Baseline better facilitated the Applicable Objectives than the Original.

Code Administrator Consultation: The Code Administrator Consultation received 8 non-confidential responses 2 confidential responses.

Panel recommendation: Panel will meet on 10 July 2026 to carry out their recommendation vote.

Interactions

The Workgroup considered that there was some interaction with [CMP474](#). The Workgroup considered the discrete objectives of each modification, the key differences and the overlaps between the two.

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What is the issue?

What is the defect the Proposer believes this modification will address?

One of NESO's roles is to maintain the National Electricity Transmission System (NETS) Security and Quality of Supply Standard (SQSS) standards and as such it needs to be able to take regular balancing actions to do this. NESO therefore must have adequate cash flows in order to procure services from market participants. NESO has a maximum available headroom of -£300m in its WCF allocated to BSUoS.

CMP408¹ Allowed consideration of a different notice period for BSUoS tariff settings and CMP415² amending the Fixed Price Period from 6 to 12 months amended the BSUoS process from 01 April 2025. The BSUoS tariff is now fixed for 12-months, with two seasonal tariffs (April – September and October – March) and that tariffs will be fixed with 3-months' notice. The volatility over the last 6 weeks has demonstrated that this methodology is no longer appropriate.

There is the option available to NESO for a tariff reset as drafted in CUSC S14.31. This applies to the current and published forecast tariff periods. However, this does not allow an over recovery, to enable the NESO WCF to be able to return to a cash neutral position (£0m). It only amends the forecast to hold the fund at whatever level it is at when the reset was triggered.

For example, if the WCF forecast (due to unforeseen changes in the market) moves to -£301m, NESO could trigger a reset to amend the BSUoS tariffs. In this case, the CUSC methodology would only allow NESO to recover the under-recovery amount. This means that the Facility would remain at the same level as at the start of the Tariff period. This would not allow the WCF to be recovered

¹ <https://www.neso.energy/industry-information/codes/cusc/modifications/cmp408-allowing-consideration-different-notice-period-bsuos-tariff-settings>

² <https://www.neso.energy/industry-information/codes/cusc/modifications/cmp415-amending-fixed-price-period-6-12-months>

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back towards £0. Currently, the only way this can be achieved is when an updated set of tariffs come into effect.

If the market conditions, then change again, NESO could be forced to reset the tariff again.

Why change?

The electricity market pricing in GB has become increasingly volatile due to the impact of global energy pricing. Consequently, NESO’s balancing actions to manage the NETS have been more expensive than anticipated. The Proposer has seen a significant increase in balancing costs over the past 6 weeks due to the conflict in the Middle East. If this volatility continues, it may mean that NESO needs to be able to amend its BSUoS charges more frequently in order to maintain necessary cash flows.

The Original Proposal form can be found in **Annex 01**.

Workgroup considerations

The Workgroup convened 07 times to discuss the issue as identified by the Proposer within the scope of the defect, develop potential solutions, and evaluate the proposal in relation to the Applicable Code Objectives.

Workgroup Discussion ahead of the Workgroup Consultation

Current Challenges with Tariff Reset

The Proposer described how the current process only allows tariff resets when the working capital fund is forecast to breach its limit, which does not permit recovery to restore the fund to neutrality, leading to potential repeated resets during periods of volatility.

- **Market Volatility and Impact:** The Proposer explained that recent events such as the COVID-19 pandemic, geopolitical crises, and increased constraints have made the electricity market more volatile, increasing the

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difficulty and cost of balancing actions and necessitating more frequent tariff adjustments.

- **Proposed Solution Details:** The Proposer shared that the proposal proposes allowing NESO to open one or both fixed periods for tariff resets before a breach occurs and introducing a top-up tariff to enable over-recovery, aiming to return the working capital fund towards neutrality within the fixed tariff cycle.

Constraints Cost Increases and Forecasting Challenges

The Workgroup asked for more details about this. Proposer and NESO Subject Matter Expert (SME) responded to questions about the significant rise in constraints costs, attributing changes to updates in the constraints model, weather events, increased renewables, and Transmission Owner (TO) outages, and discussed the timing and integration of these factors into tariff forecasts.

- **Drivers of Constraints Cost Changes:** The Proposer explained that recent increases in constraints costs are due to changes in the constraints model, weather variables, more renewable generation, and TO outages, all of which impact the BSUOS forecasting model.
- **Forecasting Model Adjustments:** The NESO SME described how the constraints forecast is updated monthly and incorporates various models and variables, with recent tweaks leading to significant cost changes that were not fully anticipated.
- **Timing and Alignment Issues:** One Workgroup member questioned whether model changes could be aligned more closely with tariff setting to avoid late surprises. The NESO SME acknowledged the challenge, noting that timing of data inputs and model updates can limit early visibility.

NESO Modification Rationale and Long-Term Solution

The Proposer and the NESO SME responded to Workgroup members questions on these issues. They explained that the proposed modification aims to provide NESO with better tools to manage cash flow in response to both market volatility

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and long-term trends, as the current methodology no longer adequately protects the WCF.

- **Need for a Long-Term Solution:** The Proposer clarified that the modification is not just a short-term fix but is intended to address ongoing challenges in the electricity market, including increasing costs and volatility, which the current methodology cannot manage effectively.
- **Engagement with Stakeholders:** The Proposer stated that NESO is actively engaging with Ofgem and Department of Energy Security and Net Zero (DESNZ) and other government departments regarding how changes to the WCF could occur but does not view increasing the facility size as a standalone solution due to uncertainties around appropriate sizing of the revised facility and approval timescales.
- **Forecasted Cost Growth:** The Proposer noted that forecasts indicate continued growth in costs, particularly due to constraints ahead of network build completion, making a robust and flexible solution necessary.

Recovery Level, Over-Recovery, and Pendulum Risk

Workgroup members explored the implications of targeting zero versus partial recovery, the risk of rapid swings between under- and over-recovery, and the need for mechanisms to avoid repeated resets and ensure fair treatment of Suppliers and consumers.

- **Target Recovery Level:** One Workgroup member questioned whether aiming for zero within one tariff period is appropriate, given the potential for large cash movements, the NESO SME and Proposer clarified that the aim is to return to neutrality over the Fixed Tariff Period, where reasonable, but the exact timeframe may vary.
- **Pendulum Swing and Stability:** The Workgroup discussed the risk of rapid swings between under- and over-recovery, with suggestions to model the effects of different recovery targets (e.g., zero vs. 50%) and consider mechanisms to smooth the impact on Suppliers. The Proposer's view was

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that the solution should be flexible rather than having pre-defined thresholds to allow consideration for the current scenario being faced at that point.

- **Returning Over-Recovery:** Several Workgroup members suggested that over-recovery should be returned more quickly to Suppliers, rather than only through future tariffs, to avoid unfairness and instability, with the NESO SME noting the need to balance certainty and responsiveness.

Reset Value Options and Supplier Impact

The Workgroup discussed the implications of resetting the WCF to values other than zero, considering Supplier recovery challenges, market volatility, and the need for flexibility in the solution.

- **Partial Versus Full Reset:** The Proposer presented the pros and cons of resetting to a value less than zero (e.g., 50%), which could smooth costs for Suppliers but increase exposure to volatility and reduce predictability for the industry.
- **Supplier Concerns and Recovery Periods:** Several Workgroup members raised concerns about the feasibility of recovering large sums over short periods, the fairness of cost allocation, and the need for the solution to adapt to changes in WCF size.
- **Future Proofing and Flexibility:** The NESO SME emphasised the importance of using percentages rather than fixed amounts to ensure the solution remains effective as market conditions and facility sizes change.

Consideration of Working Capital Facility Size and Tax Implications

Several Workgroup members raised questions about increasing the WCF, the statistical basis for its size, and the tax implications of maintaining surplus funds, with NESO SME explaining the challenges and ongoing discussions with stakeholders.

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- **Increasing the Working Capital Facility:** One Workgroup member asked whether simply increasing the WCF would solve the issue, the NESO SME explained that a larger facility would provide more leeway but would require agreement among multiple stakeholders and a robust statistical basis. Whilst a large WCF would reduce the risk, it would still be possible to exhaust the WCF and therefore this solution was needed as a backstop.
- **Statistical Basis for Facility Size:** The NESO SME explained that the current £300 million figure is not statistically derived and that future increases in system costs may necessitate a higher facility.
- **Tax Implications of Over-Recovery:** The Workgroup discussed the possibility of NESO maintaining a buffer above zero, the NESO SME clarified that over-recovered funds are treated as profit and subject to corporation tax, making this approach unattractive and had previously been discussed and looked at but the 'fund' concept had been dismissed.

Managing Over-Recovery and Tariff Adjustments

Following Workgroup member questions, the Proposer and NESO SME detailed NESO's approach to handling over-recovery by adjusting tariffs in subsequent periods, aiming to avoid pendulum swings and provide industry with advance notice of changes.

- **Tariff Adjustment Mechanism:** The NESO SME explained that over-recovery is addressed by reducing tariffs in the next Fixed Price Period, which helps to smooth out increases or decreases and minimize market shocks.
- **Lead Time Reduction:** The NESO SME noted that previous modifications have reduced the lead time for setting tariffs, which should help avoid large swings and improve the accuracy of recovery adjustments.

True-Up via Reconciliation Final (RF) Settlement and Feasibility

A Workgroup member asked about the potential for a true-up mechanism using RF settlement runs, considering the impact of upcoming market-wide half-hourly

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settlements, price cap implications, and whether this approach fits within the current modification's scope.

- **RF Settlement Timing Changes:** The Proposer explained that the move to market-wide half-hourly settlements will reduce the RF timing from 14 months to 4 months, potentially enabling quicker true-ups.
- **Supplier and Price Cap Implications:** Several Workgroup members raised concerns that retrospective tariff changes could undermine the fixed tariff principle and create complications with the price cap, possibly requiring corrections in future periods rather than the current one.
- **Feasibility and Scope Considerations:** The Chair and the NESO SME agreed that while the true-up idea is interesting, it may be too significant a change for the current urgent modification and could require a separate modification or at least an alternative proposal.
- **Cash Flow Versus Loss Risk:** One Workgroup member suggested that a true-up could convert a loss into a cash flow risk for Suppliers, which may be preferable for some but not all, depending on their circumstances.

Notice Periods and Price Cap Implications

One Workgroup member raised the issue of whether the default five Business Days' notice period for tariff resets is sufficient, especially for Suppliers with price-capped domestic customers, and suggested considering longer notice periods to allow cost recovery.

One Workgroup member argued that a longer notice period (e.g., four months) would better align with the price cap methodology and allow Suppliers to recover costs from domestic customers. The Workgroup discussed the rationale for the current five Business notice Days' notice period for tariff resets, noting that while it protects NESO's working capital, there are ongoing concerns about customer and Supplier impacts, which may be better addressed in a separate modification.

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The Proposer stated that the five Business Days' notice period was intentionally set to protect NESO's WCF, with longer periods potentially increasing the need for resets during volatile conditions.

One Workgroup member acknowledged ongoing concerns about the short notice period's impact on customers and Suppliers but agreed that this issue is more appropriately addressed in a different modification focused on notice periods.

Clarification of System Security and Safety Impacts

Following a presentation from the Proposer, the Workgroup discussed the CUSC Panel's term of reference to consider whether the proposed modification affects security and safety of the system. The Workgroup agreed to explicitly state in the Workgroup Consultation report that the modification does not impact the security and safety of the system.

- **Discussion of NESO Actions and Cash Flow:** One Workgroup member questioned whether NESO would ever compromise system security due to insufficient funds. The Proposer and NESO SME clarified that system balancing actions are always taken as needed, independent of cash flow, and that CMP475 is intended to ensure sufficient funds are available for settlements.
- **Context of Panel Concerns:** One Workgroup member provided context, noting that the CUSC Panel's concern arose from NESO's presentation, which referenced a potential risk to system security under current arrangements, and that Ofgem's urgency decision letter also addressed this point.

Workgroup Consultation Summary

The Workgroup held their Workgroup Consultation between 19 – 25 May 2026 and received 2 confidential responses and 6 non-confidential responses. The full responses and a summary of the responses can be found in **Annex 05**.

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Objective facilitation:

- One respondent agreed that the Original solution better facilitates objective (d)
- Three respondents did not provide a response to objectives (e), (f), (g), and (h)
- Three respondents believed that the Original solution did not better facilitate any of the Applicable Code Objectives

Implementation approach: Three respondents supported it and three respondents did not support it.

Legal text: Three respondents believe it meets the intent of the modification, and Three respondents do not believe this.

EBR impacts: None identified

Key benefits of the Original proposal were cited by some respondents:

- The proposal improves management of the WCF and better facilitates objectives under increasingly volatile market conditions.
- The top-up mechanism provides necessary flexibility to maintain WCF neutrality in exceptional circumstances.
- The implementation builds on the existing CUSC Tariff Reset process, making it practical, proportionate, and low risk.
- Increased flexibility to trigger resets and introduce top-ups is considered operationally sensible.
- The Proposal enhances resilience by reducing the risk of repeated tariff resets.

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Responses to specific questions asked by the Workgroup

Q7 - 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 back towards neutral?

Two out of six respondents expressed support for the proposal, mainly recognising the value of a top-up mechanism in maintaining stability within the WCF and managing volatility. They saw it as a useful tool, but only when applied in exceptional and carefully assessed circumstances. They agreed with the principle, provided that clear governance structures, risk mitigation measures, and consideration of industry impacts are firmly defined.

However, there were reservations about the current adequacy of WCF levels. They emphasised that any reset of the mechanism must strike a balance between realism and affordability, ensuring that it does not create sudden financial pressures for either customers or Suppliers.

Four out of six respondents did not support the proposal in its current form. Their opposition focused on the lack of defined limits, insufficient notice periods, and the risk of significant and immediate cost recovery, which could negatively impact both Suppliers and consumers.

These respondents also argued that the mechanism undermines existing arrangements and shifts too much forecasting and volatility risk onto the market. They highlighted concerns about the discretionary nature of the approach, unclear triggers, and weak transparency, which could lead to over-correction and instability. Some indicated they might support the concept if it were redesigned with stronger safeguards, including caps, smoothing mechanisms, clearer governance, improved notice, and enhanced consumer protections.

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Q8 - 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 back towards neutral? In what circumstances would the above not be an appropriate approach?

One respondent indicated that there were no clearly foreseeable situations where the approach would be inappropriate, except potentially on a case-by-case basis if it were implemented too close to the end of a six-month tariff period. In such cases, timing constraints could limit the ability to recover costs effectively.

Other respondents identified several circumstances where the approach may not be suitable. They noted that applying it at short notice or near the end of a tariff period could amplify financial impacts on Suppliers and customers, particularly if costs cannot be recovered in a manageable way. Concerns were also raised about scenarios where recovery is overly concentrated within a single period, leading to sharp price increases rather than being smoothed over time.

Additionally, some respondents stressed that the mechanism should not be used to address structural issues, such as the size of the WCF, or routine forecasting errors, as these require longer-term solutions. They also highlighted that unclear triggers, lack of transparency, and insufficient evidence could result in disproportionate interventions. Finally, some respondents felt that the approach was seen as unnecessary in stable market conditions or where less disruptive alternatives are available.

Key concerns raised by respondents were:

Several respondents raised concerns that the proposal may be worse than the baseline, arguing it increases supplier risk, introduces unpredictable and open-ended cost recovery, and distorts competition and cost reflectivity. It was widely viewed as shifting volatility and forecasting risk from NESO onto

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suppliers and consumers, rather than addressing underlying structural issues such as the adequacy of the WCF.

Views on implementation were mixed. While some respondents did not object to the mechanics themselves, they opposed progressing due to concerns with the Proposal’s design. Others highlighted significant uncertainty around governance, thresholds, and notice arrangements, suggesting the mechanism is insufficiently developed and requires further refinement before being considered viable. Concerns about timescales reinforced this, with many indicating that the level of uncertainty is too high to justify near-term implementation.

A key issue identified was the combination of short notice periods—such as five Business Days —and potentially large cost uplifts. Respondents argued this would be difficult to hedge and recover under existing price cap constraints, increasing financial strain on Suppliers and likely leading to cost pass-through to consumers. This was linked to broader concerns about increased volatility, in-period changes, and the risk of bill shocks, highlighting the need for longer notice periods and/or more gradual cost recovery mechanisms.

Some respondents felt there was a lack of clear trigger criteria, limits on NESO discretion, and transparency in decision-making. The Proposal was seen as lacking adequate safeguards, recovery controls, and Supplier impact assessment. Many concluded that the top-up mechanism, as drafted, lacks sufficient predictability and proportionality to gain support. However, some acknowledged that, if refined—with clearer thresholds, limits, and protections—it could improve transparency and be useful in less predictable circumstances.

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Post Workgroup Consultation Discussion

CMP474 and CMP475 Modifications Interaction

The Proposer presented a comparison of CMP474 and CMP475, highlighting their distinct approaches to working capital utilisation, the Workgroup confirmed their understanding of the differences and overlaps between the two modifications.

- **Distinct Objectives of Modifications:** The Proposer explained that CMP474 and CMP475 both address working capital utilisation but target different defects:
 - CMP475 provides NESO with flexibility to manage the working capital facility as needed,
 - while CMP474 introduces a longer notice period and sets thresholds for information provision.
- **Key Differences and Overlaps:** The Proposer outlined the main differences in notice periods, information provision, reopening of tariffs, and maximum recovery positions, using a table to clarify that while both modifications allow reopening of tariffs, their mechanisms and thresholds differ significantly.

Modification	Notice Period	Information Provision	Reopening multiple tariffs	Max recovery Position
CMP474	3 months ahead of price cap period	50% WCF	Both 6 month tariffs can be revised	75% WCF if revised price is for a single price cap period, 50% if revised price encompassed 2 or 3 price cap periods
CMP475	No change (5 days)	No change (none)	Both 6 month tariffs can be revised	To Neutral

The Workgroup agreed that the Proposer’s graphical comparison accurately reflected the modifications. There were no objections with no further questions.

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CMP475 Interaction with Energy Price Cap and Consumer Bill Impact

The Proposer led a discussion on how CMP475 interacts with the energy price cap and its potential effects on consumers.

- **Notice Period and Price Cap Timing:** The Proposer clarified that CMP475 does not alter the existing five- Business Days notice period so there is no direct interaction of the modification with the price cap. However the Proposer acknowledged that the existing process means NESO could reset tariffs after price caps are set, posing significant cash flow risks for Suppliers, especially if resets occur with minimal notice. The Proposer added that NESO would look to provide a longer notice period where possible, with the 5 Business Days notice period acting as a worst case scenario. It was acknowledged that a reset has never happened to date, with the flexibility in the current methodology allowing NESO to avoid doing so
- **Consumer Segmentation and Impact:** Several Workgroup members raised the importance of distinguishing between domestic and non-domestic consumers, noting that non-domestic customers, particularly those on pass-through contracts, are more vulnerable to bill shocks from short notice changes.
- **Seasonality and Cash Flow Risks:** One Workgroup member highlighted that the timing of resets, especially during high consumption periods like winter, could exacerbate cash flow impacts for larger customers, the Proposer agreed to ensure these factors are captured in the reporting.
- **Supplier and Customer Risk Transfer:** The Workgroup discussed how risks are transferred depending on contract type: for pass-through contracts, the risk is passed directly to customers, while for fixed contracts, Suppliers bear the cash flow risk, given the domestic market is more exposed due to the prevalence of price-capped contracts.

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Trade-Offs Between NESO and Supplier Cash Flow Risks

The Proposer and Workgroup examined the balance between NESO's need for WCF and the risk of sudden bill impacts or over-recovery, including the implications for tax treatment and the operational challenges of tariff resets.

- Top-Up Recovery and Risk Transfer:** The Proposer explained that CMP475 allows NESO to recover additional amounts towards a neutral position, which could reduce the need for future tariff resets but may transfer more risk to Suppliers, as highlighted in consultation responses. However it was also clarified that NESO would not always look to utilise the top-up element, and this would only be considered when it would reduce the risk of future tariff resets. The Proposer's view was that CUSC should have provisions to manage a wide range of scenarios, while NESO should always look to take appropriate steps to mitigate impact on Suppliers and other parties as much as possible
- Impact on invoices:** The Workgroup clarified that while the proposed BSUoS top-up could technically be shown either as a separate invoice line or embedded within the existing fixed BSUoS tariff, Supplier representatives on the Workgroup strongly preferred it to be embedded to avoid system changes, validation issues and customer confusion. Workgroup members also noted that any mid-period reset could result in two BSUoS rates applying within a single billing period, creating practical challenges for bill validation, customer explanations and pass-through contract arrangements, particularly for non-domestic customers and SMEs
- Tax Treatment Concerns:** One Workgroup member questioned the implications of aiming for a neutral or positive working capital position, raising concerns about potential tax liabilities if NESO consistently over-recovers. The NESO SME clarified that while aiming for neutral working capital position is standard, over-recovery may expose NESO to tax risks. It was discussed that, while it is a different process, there is already a risk of

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over-recovery in the standard BSUoS tariff setting process. NESO always aim to finish a fixed tariff at a neutral position which presents a risk of the actual result being above this.

- **Operational Challenges of Tariff Resets:** The Workgroup discussed the practical difficulties of implementing mid-month tariff changes, especially for non-domestic customers on pass-through contracts, noting potential billing system issues and increased customer complaints.
- **Risk Premium and Consumer Disbenefit:** One Workgroup member pointed out that the uncertainty introduced by possible tariff resets could increase the risk premium suppliers build into bills, ultimately disadvantaging consumers.

Terms of Reference Overview

a) Consider EBR implications

The Workgroup noted that Article 18 of the Electricity Balancing Guideline (EBGL) is specifically about frequency restoration and replacement reserves, and the modification is not relevant to this. Therefore, there are no EBR implications. Pages 13 and 18.

b) Consider the scope of work identified and whether this is achievable within the timeframe outlined in the Ofgem Urgency decision letter.

The Workgroup has undertaken its work successfully in this timeframe. It has held 7 meetings. It has: identified specific issues for consideration; held a Workgroup Consultation; considered consultation responses; and, considered further issues relevant to the Terms of Reference of the Workgroup. Page 19.

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c) Consider the trade-off between NESO and Supplier cashflow risks

The Workgroup held a discussion on this point, where topics included: top-up recovery and risk transfer; tax treatment concerns; operational challenges of tariff resets; and, risk premium and consumer disbenefit. Pages 18 and 19.

d) Consider the interactions between CMP475 and any other in-flight urgent BSUoS mods

The Workgroup considered that there was some interaction with CMP474. The Workgroup considered the discrete objectives of each modification, the key differences and the overlaps between the two. Pages 16 and 17.

e) Consider how CMP475 interacts with the energy price cap and in turn how CMP475 will impact consumer bills

The Workgroup considered four specific issues with regard to this point: notice period and price cap timing; consumer segmentation and impact; seasonality and cashflow risks; and, Supplier and customer risk transfer. Pages 17 and 18.

f) Consider the impacts on the security and safety of the system

The Workgroup held a discussion on this point, covering NESO actions and cashflow. The Workgroup concluded that the modification does not impact the security and safety of the system. Page 12.

What is the solution?

Proposer's Original solution

NESO proposes to amend the CUSC legal text to:

- 1) Enable the Fixed Price Period to be reopened so that the Fixed BSUoS price can be amended, where NESO is forecasting that the WCF will be exceeded in either Fixed Price Period.

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- 2) Create a concept of a 'Top Up Tariff' or similar. This will allow NESO to start recovery of the WCF back towards a neutral position in the Current Fixed Price Period, if realistic and possible. NESO will always act in accordance with Good industry practice in doing this.

NESO believe that this is a simple, but effective CUSC change to enable NESO to undertake a Tariff Reset and aid recovery of the WCF with the smallest amount of market disruption possible.

Legal text

The legal text for this change can be found in **Annex 04**.

What is the impact of this change?

Original Proposer's assessment against Code Objectives

Proposer's assessment against CUSC Charging Objectives	
Relevant Objective	Identified impact
(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;	<p>Positive</p> <p>The revised approach will ensure that the Tariffs are more closely aligned to electricity market pricing. Ensuring that the Tariff is fair and realistic compared to the current market situation, unlike the current which could be 12+ months out of date. So, making the next</p>

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	Tariff period potentially feel unrealistic if the market has fallen back again but NESO needs to try recover working capital.
(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);	Positive The proposal improves cost reflective charging due to the tariff being more reflective of the current market situation, rather than a significant lag.
(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*;	Neutral
(g) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency **; and	Neutral
(h) Promoting efficiency in the implementation and administration of the system charging methodology.	Positive As stated above this will ensure that the Tariff is reflective of the current market situation rather

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	than incurring a time lag.
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* 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.

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	Positive NESOs requirement to balance the system needs equivalent cash flow to do this, so needs realistic BSUoS tariffs to be set and if needed updated. So, ensuring safe secure operation of the NETS and the optimum cost is achieved.
Lower bills than would otherwise be the case	Neutral
Benefits for society as a whole	Neutral
Reduced environmental damage	Neutral
Improved quality of service	Positive By the tariff being updated to be more cost reflective of the current situation, would mean that

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	the accuracy of the charge will be significantly more reflective of the current market.
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Workgroup Vote

The Workgroup met on 10 June 2026 to carry out their Workgroup Vote. The full Workgroup Vote can be found in **Annex 06**. The table below provides a summary of the Workgroup members view on the best option to implement this change.

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.*

The Workgroup concluded by majority (5 out of 7 votes) that the Baseline better facilitated the Applicable Objectives than the Original.

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Option	Number of voters that voted this option as better than the Baseline
Original	2
Baseline	5

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on 23 June 2026 and closed 29 June 2026 and received 8 non-confidential responses and 02 confidential responses. A summary of the responses can be found in the table below, and the full responses can be found in **Annex 08**.

Code Administrator Consultation summary	
Question	
Do you believe that CMP475 Original Proposal better facilitates the CUSC Applicable Objectives?	<p>One respondent stated that the change would better facilitate objective (d)</p> <p>One respondent stated that the change would better facilitate objective (e)</p> <p>Five respondents stated that the change would not better facilitate any of the Applicable CUSC Objectives</p> <p>One respondent did not provide an answer to this question</p>
Do you support the proposed implementation approach?	One respondent supported the proposed implementation approach and seven respondents did not.
Do you have any other comments?	Respondents stated that maintaining the Working Capital Fund (WCF) is considered necessary to support BSUoS cashflow management, but stakeholders are

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	<p>concerned that reopening tariffs under the current methodology exposes non-domestic suppliers to significant financial risk because tariff changes can be implemented with only five days' notice.</p> <p>Suppliers argue that short-notice tariff resets create a risk of cost under-recovery, particularly for fixed-price contracts where additional charges cannot easily be passed through to customers. This could weaken supplier resilience and increase commercial uncertainty.</p> <p>Support for reopening tariffs to replenish the WCF is generally conditional on the implementation of CMP474. Stakeholders view CMP474 as a more targeted solution because it provides longer notice periods and clearer governance around tariff adjustments.</p> <p>Some respondents felt that longer notice periods under CMP474 would allow suppliers to better manage contractual and financial risks, reduce disruption from mid-contract tariff changes, and give non-domestic customers pass-through contracts more time to prepare for higher costs.</p> <p>Many respondents believe the underlying issue is the size of the WCF itself. They recommend reviewing and gradually increasing the fund to reduce the likelihood of depletion, minimise emergency interventions, and avoid frequent tariff</p>
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reopenings during periods of market volatility.

CMP475 would give NESO greater flexibility to reset tariffs and introduce a top-up tariff when forecasts show the WCF may be breached. NESO believes this could restore the fund to a neutral position and reduce the need for repeated tariff resets, while considering impacts on suppliers and customers.

However, the majority of respondents do not support CMP475. They argue it increases tariff volatility, shifts forecasting and cashflow risks from NESO to suppliers and consumers, provides insufficient notice, and lacks clarity around governance, trigger thresholds, reset methodologies, and implementation processes.

A major concern is the impact on non-domestic customers, particularly those on pass-through contracts, who could face significant and unexpected cost increases. Stakeholders have called for stronger safeguards, greater transparency, clearer trigger metrics, several months' notice for tariff changes, and consideration of alternative measures such as CMP474 and an increased WCF before CMP475 is approved.

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Legal text issues raised in the consultation
No Legal text issues were raised.
EBR issues raised in the consultation
No EBR issues were raised.

Panel Recommendation vote

The Panel will meet on 10 July to carry on their recommendation vote.

They will assess whether a change should be made to the CUSC by assessing the proposed change and any alternatives against the Applicable Objectives.

When will this change take place?

Implementation date: 31 July 2026

Date decision required by: 17 July 2026

Implementation approach: Limited IT changes are required prior to the implementation date.

Interactions

- | | | | |
|--|--|---|---|
| <input type="checkbox"/> Grid Code | <input type="checkbox"/> BSC | <input type="checkbox"/> STC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European
Network Codes | <input type="checkbox"/> EBR Article 18
T&Cs ¹ | <input type="checkbox"/> Other
modifications | <input checked="" type="checkbox"/> Other |

There could be an interaction with Suppliers licence requirements to recover and changes in BSUoS under the Ofgem price cap for consumers.

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Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
DESNZ	Department of Energy Security and Net Zero
EBR	Electricity Balancing Guideline
GC	Grid Code
ISOP	Independent System Operator and Planner
NETS	National Electricity Transmission System
RF	Reconciliation Final
SME	Subject Matter Expert
SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
TO	Transmission Owner
WCF	Working Capital Facility

Annexes

Annex	Information
Annex 01	CMP475 Proposal Form

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Annex 02	CMP475 Terms of Reference
Annex 03	CMP475 Authority decision on Urgency
Annex 04	CMP475 Legal Text
Annex 05	CMP475 Workgroup Consultation responses and summary
Annex 06	CMP475 Workgroup Vote
Annex 07	CMP475 Workgroup Attendance Record
Annex 08	CMP475 Code Administrator Consultation responses and Summary