Public

CMP475: Amendment to the BSUoS tariff reset process

Workgroup 2, 07 May 2026

Online Meeting via Teams

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WELCOME

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Agenda

Topics to be discussed	Lead
Introductions	Chair
Objectives and Timeline	Chair
Proposer presentation	Proposer
Terms of Reference	All
Any Other Business	Chair
Next Steps	Chair

Expectations of a Workgroup Member

- Contribute to the discussion
- Be respectful of each other's opinions
- Language and Conduct to be consistent with the values of equality and diversity
- Do not share commercially sensitive information
- Be prepared - Review Papers and Reports ahead of meetings
- Complete actions in a timely manner
- Keep to agreed scope
- Email communications to/cc'ing the .box email

Your Roles

- Help refine/develop the solution(s)
- Bring forward alternatives as early as possible
- Vote on whether or not to proceed with requests for Alternatives
- Vote on whether the solution(s) better facilitate the Code Objectives

Workgroup Membership

Role	Name	Alternate	Company
Proposer	Alex Curtis	Martin Cahill	NESO
Workgroup Member	Damian Clough	Andy Colley	SSE
Workgroup Member	Gareth Evans	Andrew Green	Waterswye Associates (nominated by Corona Energy)
Workgroup Member	James Knight	Gregory Edwards	Centrica
Workgroup Member	Karl Maryon	Paul Youngman	Drax Energy Solutions Limited
Workgroup Member	Louise Hellyer	William Cartwright	TotalEnergies Gas And Power
Workgroup Member	Pawel Czarnowski	Komal Brown	Scottish Power
Authority Representative	Ghulam Haider	David Tooby	Ofgem

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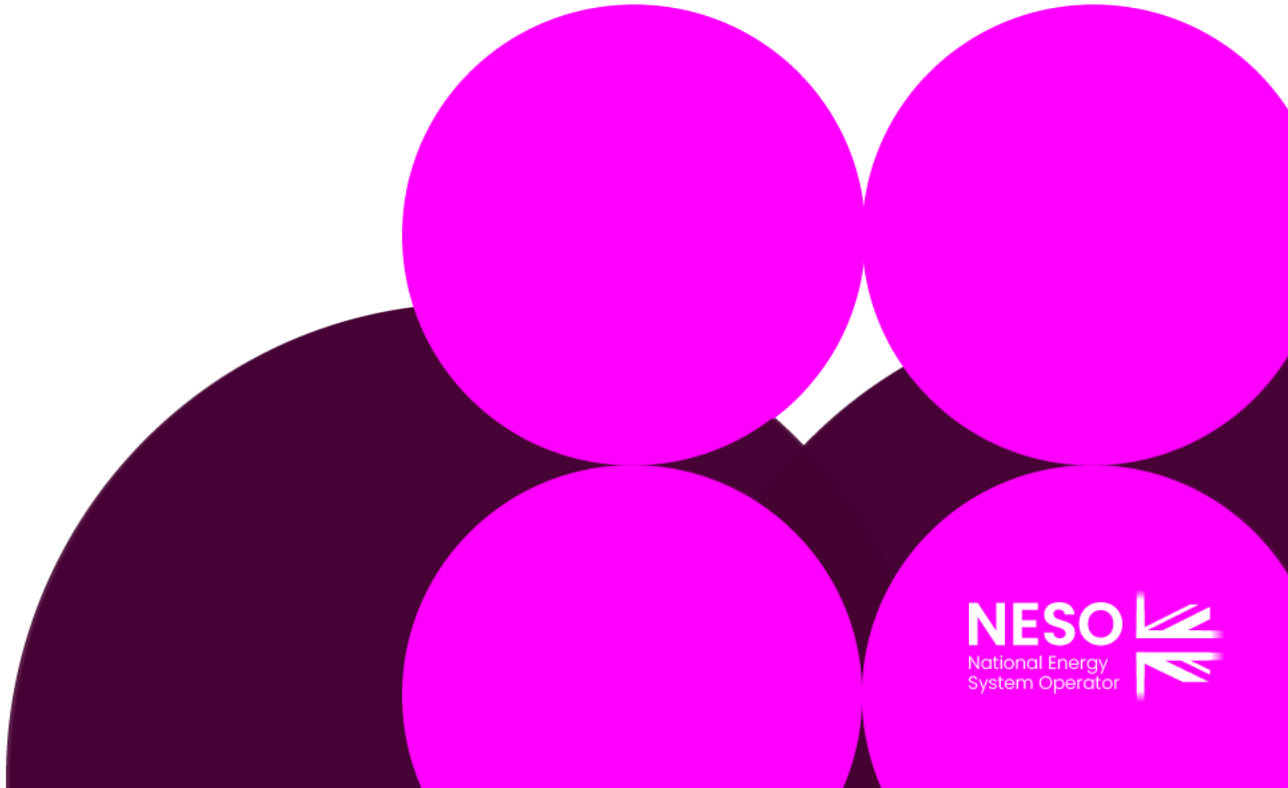
Objectives and Timeline

Robert Hughes – NESO Code Administrator

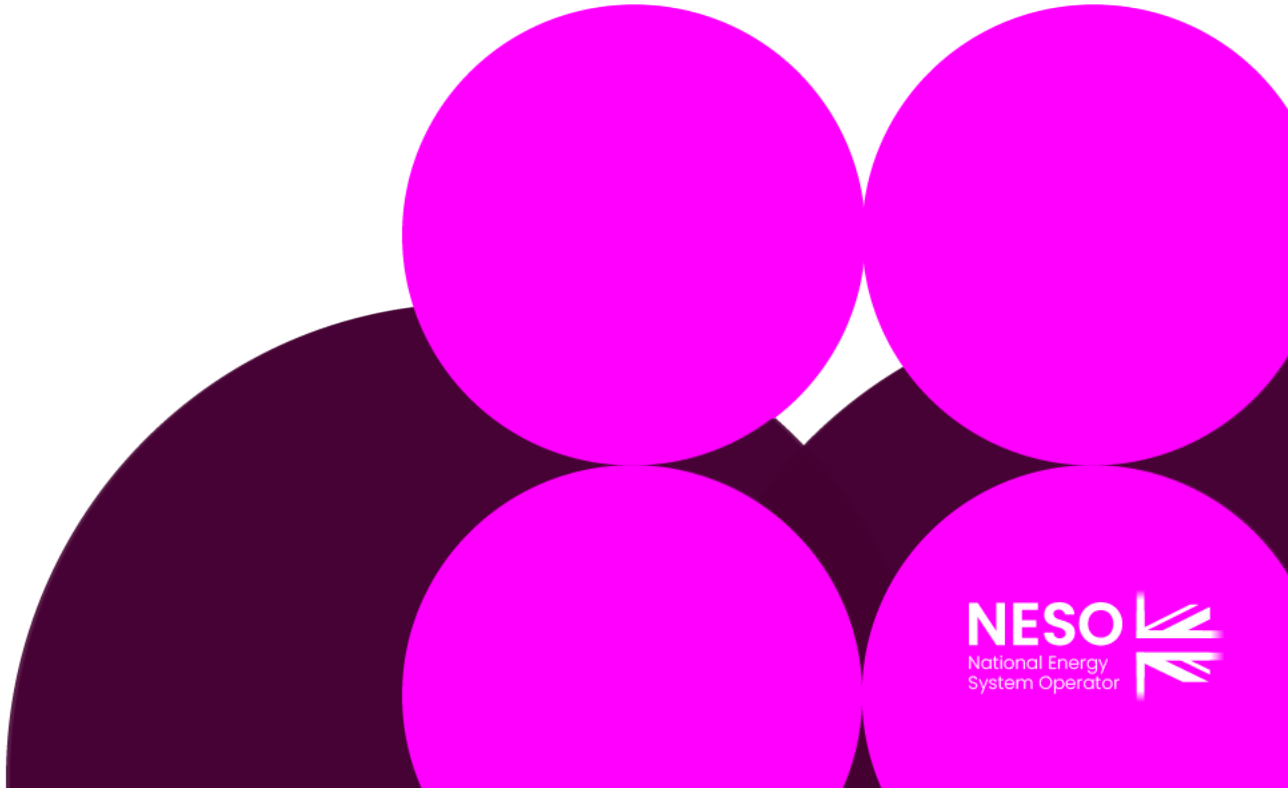


Urgent Timeline for CMP475 as at 21 April 2026

Milestone	Date	Milestone	Date
Modification presented to Panel	21 April 2026	Workgroup report issued to Panel	16 June 2026
Workgroup Nominations (4 Business Days)	21 April 2026 to 27 April 2026	Panel sign off that Workgroup Report has met its Terms of Reference	19 June 2026
Ofgem grant Urgency Ideally maximum of 3 Business Days from date presented to Panel	27 April 2026 (5pm)	Code Administrator Consultation (4 Business Days)	23 June 2026 to 29 June 2026
Workgroup 1	30 April 2026	Draft Final Modification Report (DFMR) issued to Panel	07 July 2026
Workgroup 2	07 May 2026	Panel undertake DFMR recommendation vote	10 July 2026
Workgroup 3	11 May 2026	Final Modification Report issued to Panel to check votes recorded correctly	10 July 2026
Workgroup 4	15 May 2026	Final Modification Report issued to Ofgem	10 July 2026
Workgroup Consultation (4 Business Days)	19 May 2026 to 25 May 2026	Ofgem decision	17 July 2026
Workgroup 5	28 May 2026	Implementation Date	24 July 2026
Workgroup 6	02 June 2026		
Workgroup 7	05 June 2026		
Workgroup 8	10 June 2026		

Proposer's presentation

Alex Curtis – NESO



Responses to Questions from WG1

07 May 2026

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Explain why this is a longer-term solution and not just a short-term fix

- Proposed changes under this Modification will allow NESO the ability to manage cash flows in line with the current market conditions and react accordingly
  - This applies to both volatility and longer-term trends in the electricity market
  - The current CUSC methodology is designed to protect the Working Capital Facility but due to multiple factors it does not adequately do this now
- NESO is actively engaging with OFGEM / DESNZ / UKGI and HMT about the Working Capital Facility change process and current sizing of the BSUoS and NESO WCF as a whole, but we do not believe that any potential increase is a solution on its own.
  - Forecast Size of fund?
  - Timescales to approve?
- The longer-term forecast for BSUoS is that costs will grow over the coming years, particularly the cost of constraints ahead of the network build out having a positive impact on these, this is regardless of price shocks creating additional expense and greater volatility.

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What are the possibilities/issues arising if the reset was to a different figure other than zero, e.g. 50% of WCF?

In this scenario we assume that NESO only passes on 50% of the reset value that would get the WCF back to £0

Positive

- Soften / smooth the reset values to be passed onto Suppliers
- Spread the cost (risk) between affected parties

Negative

- NESO's WC Facility is more open to further volatility and so NESO could trigger further resets as does not have the value recovered back to £0
- Less predictability for industry, for what NESO may need to recover
- Would a 50% split still cause Supplier recovery concerns

What would be industries preference? In this scenario

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More information on why constraints costs are an important issue beyond the political/social challenges and what are indicative numbers for this?

NESO Clarification –Work Group were asking for more information on constraints and why the numbers had changed as significantly as they had? NESO not been able to see this coming?

Reasons for this are-

- Changes to Plexos constraints model
- Weather variables
- Increased renewable generation on the network
- TO outages

- These constraints feed into the BSUoS forecasting model as a blend with other modelling techniques, we therefore do not see the full impact of any increase in constraints within the BSUoS forecast.

What happens if over-recovery happens in the short-term? How do you avoid pendulum swings and frequent resets from under to over recovery and back again

- Currently if NESO over recovers we return the money in the next Fixed tariff cycle, by reducing the tariff.
- So meaning any increases and or decreases are slowed down (softened)

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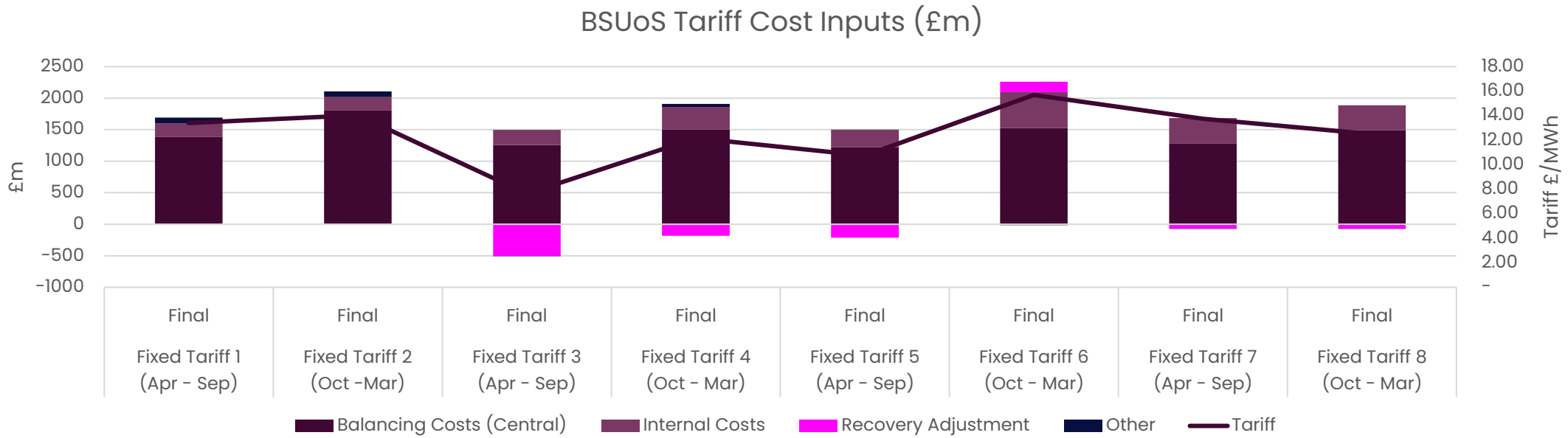
Historic Fixed Tariff Inputs



	2023/24		2024/25		2025/26		2026/27	
All values £m unless stated	Fixed Tariff 1 (Apr - Sep)	Fixed Tariff 2 (Oct -Mar)	Fixed Tariff 3 (Apr - Sep)	Fixed Tariff 4 (Oct - Mar)	Fixed Tariff 5 (Apr - Sep)	Fixed Tariff 6 (Oct - Mar)	Fixed Tariff 7 (Apr - Sep)	Fixed Tariff 8 (Oct - Mar)
Balancing Costs (Central)	1,387.00	1,803.00	1,259.30	1,502.51	1,225.5	1,528.0	1,285.2	1,489.8
Internal Costs	215.95	215.95	236.43	359.17	271.9	569.7	400.0	397.8
Recovery Adjustment			-504.20	-182.00	-215.0	164.3	-69.8	-69.5
Other	87.50	87.50	-0.03	46.70	4.3	-13.8	-6.1	-6.1
Total BSUoS Costs	1,690.45	2,106.45	991.50	1,726.38	1,286.6	2,248.2	1,609.3	1,812.0
Tariff (£/MWh)	13.41	14.03	7.63	12.17	10.74	15.69	13.74	12.49

Consider the potential solution of true-up through RF settlement runs, once the actual numbers are known (currently 14 months after settlement day, but will change with MHHS). How does this impact suppliers and consumers?

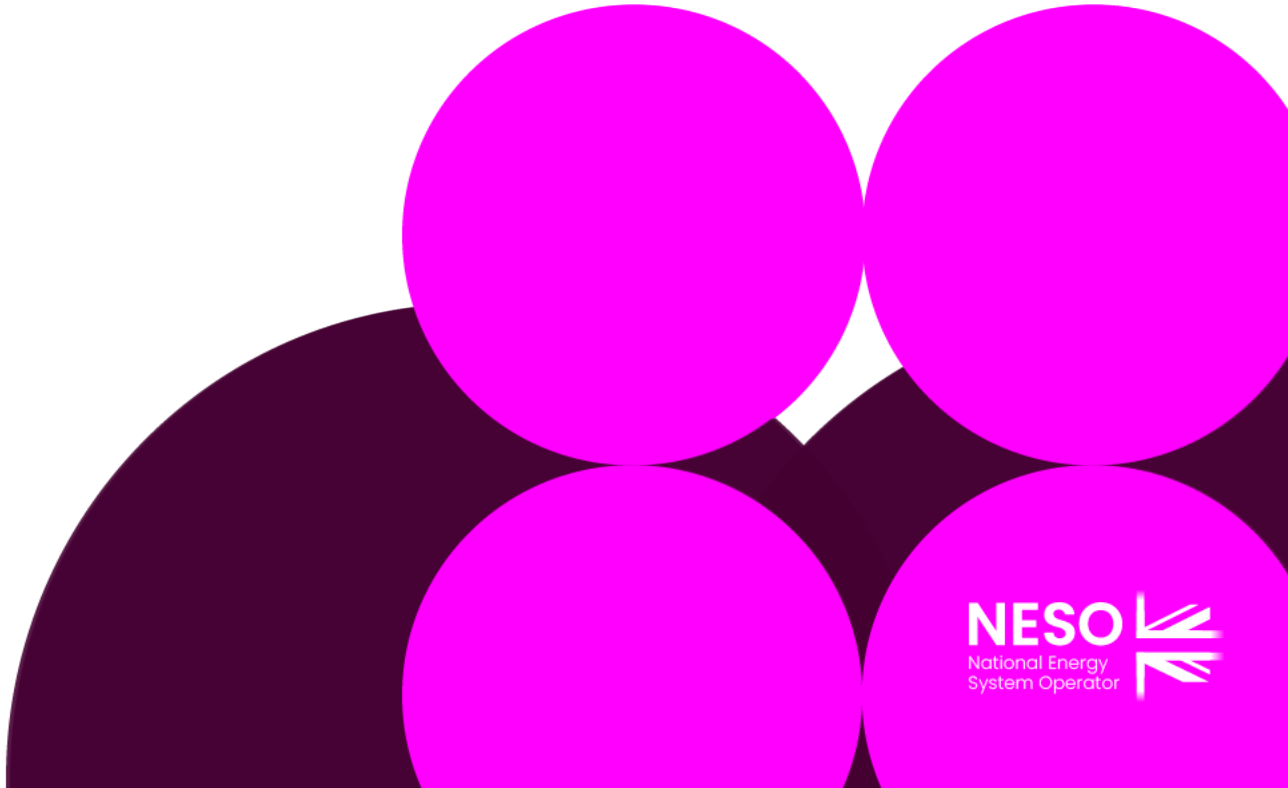
- NESO would still hold the cash flow risk.
- MHHS settlement will change the RF timing from 14 months to 4 months, from April 2027.
- Could be done a few different ways,
  - individual settlement period.
  - settlement day granularity.
  - or a fixed RF tariff for the same 6-month period as the original tariff.
- How would the timing work with the price cap? What are Industry views please?
- This could still necessitate a fixed tariff reset methodology in extreme circumstances, where the Working Capital Facility is likely to be breached before the RF run is reached.
- NESO could look at feasibility for how this might work?

What are the options for an alternative default notice period longer than the current 5-day notice? What are the issues, pros and cons?

- The minimum 5 day reset notice period that is in CUSC was included on purpose.
- It is designed to protect NESO's Working Capital Facility and significant thought was given to the minimum 5-day period.
- A longer notice period could increase the possibility of NESO having to trigger a reset to protect its WC Facility and also the frequency of resets.

Terms of Reference

Robert Hughes – NESO Code Administrator

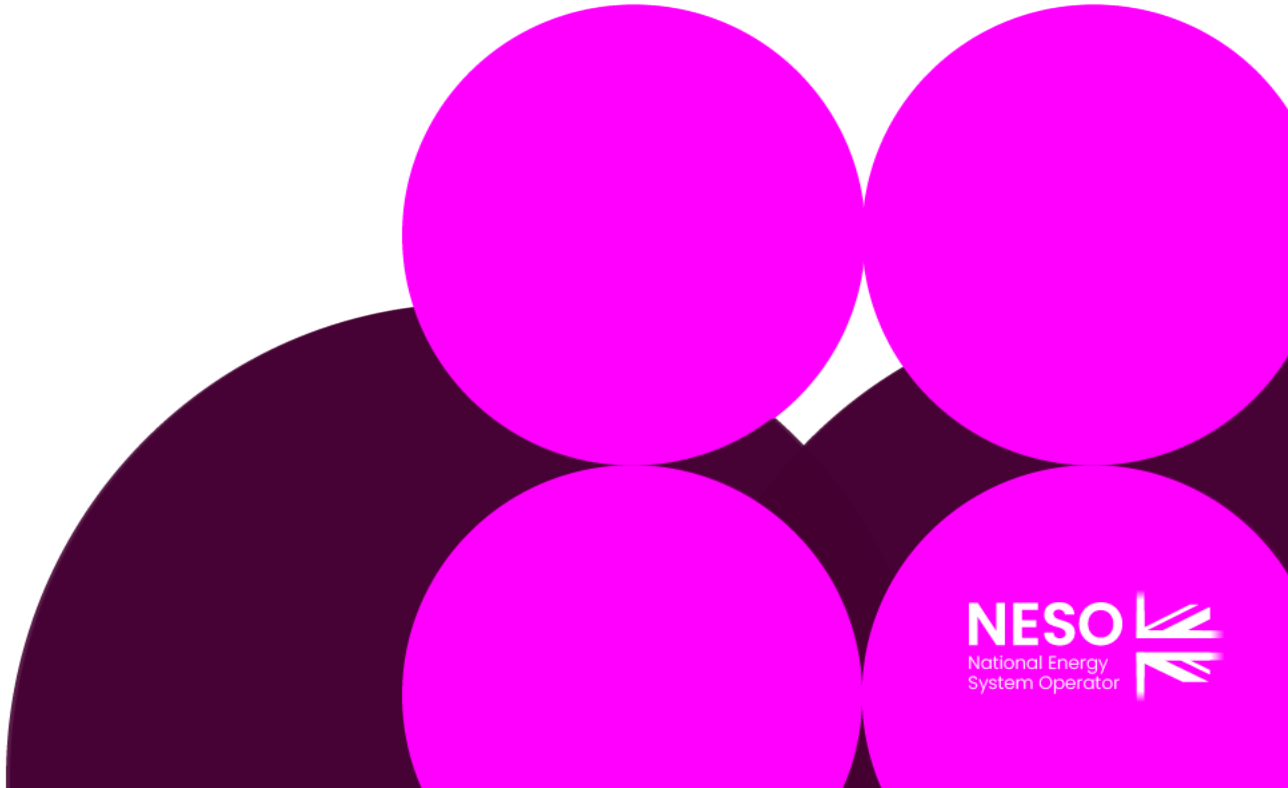


Terms of Reference

Workgroup Term of Reference
a) Consider EBR implications
b) Consider the scope of work identified and whether this is achievable within the timeframe outlined in the Ofgem Urgency decision letter.
c) Consider the trade-off between NESO and Supplier cashflow risks
d) Consider the interactions between CMP475 and any other in-flight urgent BSUoS mods
e) Consider how CMP475 interacts with the energy price cap and in turn how CMP475 will impact consumer bills
f) Consider the impacts on the security and safety of the system

Any Other Business

Robert Hughes – NESO Code Administrator



Next Steps

Robert Hughes – NESO Code Administrator