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Code Administrator Meeting

Summary

Workgroup Meeting 2: CMP475: Amendment to the BSUoS tariff reset process

Date: 07 May 2026

Contact Details

Chair: Robert Hughes, robert.hughes3@neso.energy

Proposer: Alex Curtis, alex.curtis@neso.energy

Key areas of discussion

Workgroup 2 mainly covered questions raised in Workgroup 1, with the Proposer presenting their responses to the Workgroup.

Objectives and Timeline

The Chair presented the condensed timeline and process for the urgent modification. The Chair emphasised the need for all Workgroup members to contribute actively, complete actions promptly, and bring forward any issues or alternative solutions early to keep the process on track.

Proposer's Presentation

The Proposer and the NESO SME explained that the proposed modification aims to provide NESO with better tools to manage cash flow in response to both market volatility and long-term trends, as the current methodology no longer adequately protects the working capital facility.

- **NESO Modification Rationale and Long-Term Solution:** The Proposer and the NESO SME explained that the proposed modification aims to provide NESO with better tools to manage cash flow in response to both market volatility and long-term trends, as the current methodology no longer adequately protects the working capital facility.
 - **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:** NESO is actively engaging with Ofgem and DESNZ regarding changes to the working capital facility but does not view increasing the facility size as a standalone solution due to uncertainties around appropriate sizing 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.

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- **Reset Value Options and Supplier Impact:** The Workgroup discussed the implications of resetting the working capital facility 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 working capital facility 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.

- **Constraints Cost Increases and Forecasting Challenges:** The Proposer and NESO SME responded to questions about the significant rise in constraints costs, attributing changes to updates in the constraints model, weather events, increased renewables, and 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.

- **Managing Over-Recovery and Tariff Adjustments:** 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.

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- **True-Up via RF Settlement and Feasibility Discussion:** The Workgroup member discussed the potential for a true-up mechanism using RF settlement runs, considering the impact of upcoming market-wide half-hourly 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.

- **Default Notice Period for Tariff Reset:** The Workgroup discussed the rationale for the current five-day 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.
 - **Purpose of Five-Day Notice:** The Proposer stated that the five-day notice period was intentionally set to protect NESO's working capital facility, with longer periods potentially increasing the need for resets during volatile conditions.
 - **Concerns and Mod Scope:** 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.

Terms of Reference (ToR)

The Workgroup reviewed the Terms of Reference, with the Chair confirming that most points are being addressed except for f) Consider the impacts on the security and safety of the system, which NESO will cover in the next meeting.

Any Other Business

None

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Next Steps

Legal text to be presented for review at Workgroup 3 and a draft Workgroup Consultation report to be circulated to the Workgroup by the middle of next week for review ahead of Workgroup 4

Actions (none identified at Workgroup meeting 1 and 2)

Action Number	Workgroup Raised	Owner	Action	Due by	Status
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Attendees

Name	Initial	Company	Role
Robert Hughes	RH	NESO	Chair
Andrew Hemus	AH	NESO	Tec Sec
Alex Curtis	AC	NESO	Proposer
Andy Colley	ANC	SSE	Workgroup member alternate
Andrew Green	AG	Waterswye Associates	Workgroup member alternate
Damian Clough	DC	SSE	Workgroup member
Gregory Edwards	GRE	Centrica	Workgroup member alternate
James Knight	JK	Centrica	Workgroup member
Karl Maryon	KM	Drax Energy Solutions Limited	Workgroup member
Katie Clark	KC	NESO	SME
Louise Hellyer	LH	TotalEnergies Gas and Power	Workgroup member
Martin Cahill	MC	NESO	Proposer Alternate
Nick Everitt	NE	NESO	SME
Pawel Czarnowski	PC	Scottish Power	Workgroup member