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Code Administrator Meeting

Summary

Workgroup Meeting 3: Fixed BSUoS Price Revision Mechanism

Date: 10 May 2026

Contact Details

Chair: Catia Gomes, catia.gomes@neso.energy

Proposer: Gregory Edwards, gregory.edwards@centrica.com

Key areas of discussion

The Chair set out the agenda which covered Actions, Proposer’s update of the Solution, Workgroup Consultation and Legal Text. Click [here](#) to view the slide pack.

Action Log Review

Action 5 – Closed. See below the NESO SME analysis provided to the Workgroup.

Action 6 – Closed. The NESO SME amended the worked examples following the Proposer’s updated solution. See [slides 22/23](#)

Action 7 – Open. Action updated to provide illustrative analysis based on cashflow.

Proposer’s Solution Update

The Proposer advised following feedback, the solution had been updated to include the level of working capital utilisation within the information NESO would provide ahead of any tariff reset. The working capital would operate under different scenarios where tariffs are reset partway through the year, NESO would no longer return to a neutral position but would apply a defined utilisation threshold. However, when the entire fixed tariff is reopened, a minimum utilisation level would apply rather than a full reset.

The Proposer emphasised that this approach does not change NESO’s underlying tariff-setting method, but instead places a cap on the proportion of working capital considered. Worked examples were presented to illustrate the application of the solution.

The NESO Rep suggested adding a line chart to clearly illustrate how much working capital can be utilised when tariffs are reset. Their concern was that anyone outside of the Workgroup may not understand the approach. The Proposer and the NESO Rep took an action to amend the slide to be annexed to the Workgroup Consultation. **(Action 8)**

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Worked Examples (Action 6)

The NESO Rep presented an updated worked example showing the forecast BSUoS balance position, taking into account the fixed price and forecast costs and illustrating how CMP474 solution would operate in practice. The transitional arrangements were explained noting that while the enduring solution includes a three-month notice period, a two-month notice period would apply initially, meaning the latest opportunity to reset Fixed Tariff 8 would be July if approved. An illustrative scenario was provided on [slide 22](#) where the tariff is reset for the remainder of the fixed period, with recovery limited to 50% working capital utilisation. It was highlighted that while current forecasts remain within the working capital limit, further adverse movements later in the period could present risk, particularly if they occur after the notice window for a reset has closed.

The NESO Rep presented a worked example illustrating the impact of resetting Fixed Tariff 8 for the full six-month period under CMP474. The reset would span two price-cap periods, the solution limits recovery to 50% working capital utilisation, equivalent to a £150m position. The example showed that resetting the tariff for the whole period would increase the fixed BSUoS price from £12.49/MWh to £16.39/MWh, an increase of £3.90/MWh. Due to forecast costs being more front-loaded, the balance could temporarily dip below the £300m working capital limit, although this may be possible to manage on a short term basis if there was an acceptable risk of using other non BSUoS assigned cashflow.

The Workgroup discussed that the scenario presented would not constrain NESO's ability to reopen Fixed Tariff 7 under either the current rules. CMP474 proposed changes apply from Fixed Tariff 8 onwards. It was highlighted that should working capital be exhausted earlier than forecast, existing arrangements already allow a tariff reopen, and CMP474 would not restrict this. Concerns were shared that the presented example could be misinterpreted as introducing additional operational risk or limitation. The NESO Rep added that this example had been to show what the considerations would have been if the notice period was already in place, and that this highlighted the trade-off between the benefit of having a longer notice period and the risk of not being able to reset a tariff if the forecast position worsens at a later date.

Worked Examples (Action 5 and 7)

The NESO Rep presented data comparing forecast BSUoS costs against actual outturn, showing that material variances persisted even close to delivery, with monthly differences of around £100m. These examples reinforced the volatility and forecast uncertainty inherent in BSUoS costs under fixed tariffs. The presentation concluded by showing a historic view of BSUoS costs, highlighting the increasing volatility over time, to illustrate why fixed prices can diverge significantly from outturn and why reset mechanisms are required.

The Workgroup discussed whether the examples presented sufficiently reflected NESO's cashflow position, rather than simply comparing forecast versus actual costs and revenues within a

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month. The Proposer questioned whether cost–revenue variance alone was appropriate for assessing liquidity risk, noting that settlement and payment lags mean cashflow impacts can differ materially from cost outturn. The NESO SME clarified that the examples shown were intended to illustrate cost–revenue imbalance, not cashflow.

The NESO Rep noted that while historic positions can be influenced by starting balances and deliberate over or under recovery, the data shown demonstrated months where there had been significantly higher costs than forecast. The NESO Rep added that a high starting position had mitigated the risk of needing to reset tariffs historically, but months with a similar forecast v outturn position could have caused issues with a lower starting point.

The Workgroup agreed that a cashflow example could be informative but was not essential for Workgroup Consultation. The NESO SME advised given time constraints an illustrative example could be presented in Workgroup 5. On this basis Action 7 remained open and updated.

Legal Text

The Workgroup reviewed the draft legal text to confirm the track changes reflected the solution as intended and provided appropriate transparency to industry.

Workgroup discussions focused on:

- ensuring that notifications and tariff–reset decisions are based on the forecast NESO would use operationally, rather than being tied to a specific published report or format.
- that the obligation should be to issue a notification to industry, containing defined information, while allowing flexibility in how this is presented.
- text should require disclosure of actual working capital utilisation, not solely whether the 50% threshold is forecast to be exceeded and should apply on an ongoing basis while the threshold remains exceeded, rather than as a one–off publication.
- the need to clearly reflect the notice period arrangements, including transitional provisions and to review drafting on whether revised tariffs apply to the “remainder” or “part” of a Fixed Price Period.
- that the legal text should reflect minimum working capital utilisation floors, rather than fixed targets, when tariffs are reset.

Overall, the text was considered broadly aligned with the solution, subject to some refinements.

Workgroup Consultation

The Chair gave the Workgroup a high–level overview of the Workgroup Consultation document advising that this will be issued to industry on 19 May.

The Chair explained that the Workgroup Consultation should include specific, targeted questions to gather industry views on the proposed CMP474 solution.

The Workgroup is to consider what aspects of the proposal would benefit from external challenge or confirmation, such as the appropriateness of the 50% working capital threshold, the working

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capital utilisation floors, and the minimum notice period. The Chair advised that the questions should help test whether the solution achieves the intended balance between NESO operational resilience and supplier/customer impacts, and whether any unintended consequences had been overlooked. The Workgroup were invited to consider such questions ahead of the next meeting **(Action 9)**.

Next Steps

- Workgroup to review the Workgroup Consultation saved to the Collaboration Space.
- NESO SME to update Legal text.
- Next Workgroup is scheduled for Friday, 15 May.

Actions

For the full action log, click [here](#).

Action Number	Workgroup Raised	Owner	Action	Due by	Status
5	WG2	MC	Consider analysis of the likelihood of tariff reopening at different notice periods, to illustrate the trade-offs and benefits of the proposed approach.	WG3	Closed
6	WG2	MC	Rework the Worked Examples based on the Proposer's updated solution	WG3	Closed
7	WG2	NE	Provide illustrative analysis comparing fixed BSUoS recovery with actual balancing cost outturns since fixed tariffs were introduced, including the impact of operating in over recovery versus a neutral cash position. Update: Provide illustrative analysis based on cashflow	WG5	Open
8	WG3	GE/MC	Amend to simplify the illustrative example 'Enduring arrangements for the January – March 2027 price cap period onwards' which is to be	WG4	Open

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annexed to the Workgroup Consultation

9	WG3	All	Workgroup to review Workgroup Consultation on the Collaboration Space and consider additional specific questions.	WG4	Open
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Attendees

Name	Initial	Company	Role
Catia Gomes	GC	NESO	Chair
Tammy Meek	TM	NESO	Technical Secretary
Gregory Edwards	GE	Centrica	Proposer
Andrew Colley	AnC	SSE	Workgroup member Alternate
Claire Caple	CC	E.On	Observer
Damian Clough	DC	SSE	Workgroup member
David Tooby	DT	Ofgem	Authority Representative
Enmanuel Morales	EM	Brook Green Supply	Observer
Gareth Evans	GE	Waterswye	Workgroup member
Karl Maryon	KM	Drax	Workgroup member
Katie Clark	KC	NESO	NESO Representative
Louise Hellyer	LH	TotalEnergies	Workgroup member
Martin Cahill	MC	NESO	NESO Rep
Pawel Czarnowski	PC	ScottishPower	Workgroup member
William Cartwright	WC	TotalEnergies	Workgroup member alternate