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Workgroup Consultation

CMP475: Amendment to the BSUoS tariff reset process

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 Working Capital Facility.

Modification process & timetable

| | |
|---|-----------------------------------------------------------------------|
| 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 |

Have 5 minutes? Read our [Executive summary](#)

Have 30 minutes? Read the full [Workgroup Consultation](#)

Have 60 minutes? Read the full Workgroup Consultation and Annexes.

Status summary: The Workgroup are seeking your views on the work completed to date to form the final solution to the issue raised.

This modification is expected to have a: This modification will have a **high impact** on anyone who is impacted by BSUoS, primarily Suppliers.

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? | Proposer: Alex Curtis, NESO alex.curtis@neso.energy | Code Administrator Chair: Robert Hughes robert.hughes3@neso.energy |
| | | |

How do I respond? Send your response proforma to cusc.team@neso.energy by **5pm** on **25 May 2026**

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

Interactions

No interactions with other codes have been identified.

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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 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.

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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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. We have 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**.

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.
- 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.

Workgroup considerations

The Workgroup convened 04 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

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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 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 member 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 and long-term trends, as the current methodology no longer adequately protects the working capital facility.

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- **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 DESNZ and other government departments regarding how changes to the working capital facility 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 Proposers view is 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.

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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.

Consideration of Working Capital Facility Size and Tax Implications

Several Workgroup members raised questions about increasing the working capital facility, 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.

- **Increasing the Working Capital Facility:** One Workgroup member asked whether simply increasing the working capital facility 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.

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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 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-day 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.

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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-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.

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.

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, and to add a clear explanatory section for industry stakeholders.

- **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.

Draft legal text

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

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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; | Positive 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 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 | Neutral |

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| 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 | 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 than incurring a time lag. |

* 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 |

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|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 the accuracy of the charge will be significantly more reflective of the current market. |

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

☐ Grid Code ☐ BSC ☐ STC ☐ SQSS
☐ European Network Codes ☐ EBR Article 18 T&Cs¹ ☐ Other modifications ☒ Other

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

How to respond

Standard Workgroup Consultation questions

1. Do you believe that the Original Proposal better facilitate the Applicable Objectives versus the current baseline?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?
5. Does the draft legal text satisfy the intent of the modification?

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6. Do you agree with the Workgroup's assessment that the modification does/does not impact the European Electricity Balancing Regulation (EBR) Article 18 terms and conditions held within the Code?

Specific Workgroup Consultation questions

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 back towards neutral?
8. In what circumstances would the above not be an appropriate approach?

The Workgroup is seeking the views of CUSC Users and other interested parties in relation to the issues noted in this document and specifically in response to the questions above.

Please send your response to cusc.team@neso.energy by **5pm** on **25 May 2026** using the response pro-forma which can be found on the [CMP475 modification page](#).

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request, please fill in the form which you can find at the above link.

If you wish to submit a confidential response, mark the relevant box on your consultation proforma. Confidential responses will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

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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 |
| 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 |
| Annex 02 | CMP475 Terms of Reference |
| Annex 03 | CMP475 Authority decision on Urgency |
| Annex 04 | CMP475 Draft Legal Text |