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Workgroup Consultation															
<p>CMP474: Fixed Balancing Services Use of System Price revision mechanism</p> <p>Overview: Inclusion in the Connection and Use of System Code (CUSC) of a clear process for when the Fixed Balancing Services Use of System (BSUoS) Price will be reset by the National Energy System Operator (NESO).</p>	<p>Modification process & timetable</p> <table border="1"> <tr> <td style="text-align: center;">1</td> <td>Proposal Form 14 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 19 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 24 July 2026</td> </tr> </table>	1	Proposal Form 14 April 2026	2	Workgroup Consultation 19 May 2026 – 25 May 2026	3	Workgroup Report 19 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 24 July 2026
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<p>Have 5 minutes? Read our Executive summary</p> <p>Have 60 minutes? Read the full Workgroup Consultation</p> <p>Have 120 minutes? Read the full Workgroup Consultation and Annexes.</p>															
<p>Status summary: The Workgroup are seeking your views on the work completed to date to form the final solution to the issue raised.</p>															
<p>This modification is expected to have a: High impact on Suppliers and a High impact on Transmission System Operators.</p>															
<p>Proposer's recommendation of governance route</p>	<p>Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)</p>														
<p>Who can I talk to about the change?</p>	<table border="1"> <tr> <td style="vertical-align: top;"> <p>Proposer: Gregory Edwards Gregory.edwards@centrica.com</p> </td> <td style="vertical-align: top;"> <p>Code Administrator Contact: Catia Gomes catia.gomes@neso.energy</p> </td> </tr> </table>	<p>Proposer: Gregory Edwards Gregory.edwards@centrica.com</p>	<p>Code Administrator Contact: Catia Gomes catia.gomes@neso.energy</p>												
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<p>How do I respond?</p>	<p>Send your response proforma to cusc.team@neso.energy by 5pm on 25 May 2026</p>														

Public Contents

Executive Summary	3
What is the issue?.....	5
Why change?	6
What is the Proposer’s solution?	8
Proposer’s Original Solution	8
Workgroup considerations	10
What is the impact of this change?	24
Original Proposer’s assessment against Code Objectives	25
Proposer’s assessment of the impact of the modification on the stakeholder / consumer benefit categories	27
When will this change take place?	27
Date decision required by.....	28
Implementation approach	28
Interactions	28
How to respond	28
Acronyms, key terms and reference material	29
Annexes	30

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Executive Summary

CMP474 proposes to codify in the CUSC clear criteria and a defined process for when, and how, NESO may revise the Fixed BSUoS Price during a Fixed Price Period. This includes specifying the minimum information NESO must publish, setting working capital utilisation floors, and increases the minimum notice period for revision of the Fixed BSUoS Price (to support alignment with the retail price cap timetable). The modification has been raised because the current CUSC provisions do not provide objective reset criteria and rely instead on a “reasonable endeavours” consultation, potentially with as little as five business days’ notice. Given recent volatility and higher balancing cost forecasts—including NESO forecasting that the BSUoS Working Capital Facility will be exhausted—a revision is increasingly likely and would create material, largely unhedgeable risk for suppliers and, ultimately, customers. Codifying an industry-agreed mechanism is intended to reduce uncertainty, improve market confidence, and mitigate the risk of sudden bill impacts arising from short-notice tariff changes.

What is the issue?

The CUSC lacks a clear, objective mechanism for mid-period Fixed BSUoS Price revisions, allowing NESO to change the Fixed BSUoS Price with minimal consultation and as little as five business days’ notice—creating significant, largely unhedgeable cost risk for suppliers and customers.

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

Proposer’s solution: Introduce a codified CUSC revision mechanism for Fixed BSUoS Prices, requiring NESO to publish within 5 Business Days the defined minimum information and trigger notices when forecast working capital utilisation threshold is met. NESO must publish the required information when it is forecasting that more than 50% of BSUoS Working Capital Facility will be utilised. If deemed necessary, NESO can revise a tariff to reduce BSUoS Working Capital Facility utilisation to no less than 75% (50% if the revised price applies for 2 or 3 quarters) and would be subject to a minimum notice period (3 months before the start of a price cap period) to support inclusion in the retail price cap process.

Implementation date: 24 July 2026

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What is the impact if this change is made?

Codifying clear triggers, information requirements and notice periods for any mid-period Fixed BSUoS reset would reduce uncertainty and cash-flow/credit risk for suppliers, improving hedging and pricing decisions. It should support more stable retail pricing (including better alignment with the domestic price cap) and reduce the likelihood of abrupt bill impacts arising from short-notice tariff changes.

Interactions

[CMP474](#) and [CMP475](#) both address the treatment of working capital utilisation when the Fixed BSUoS Price is revised; however, CMP474 introduces explicit utilisation floors, whereas CMP475 addresses similar issues without prescribing numerical thresholds. As the modifications target distinct defects, they should be considered separately.

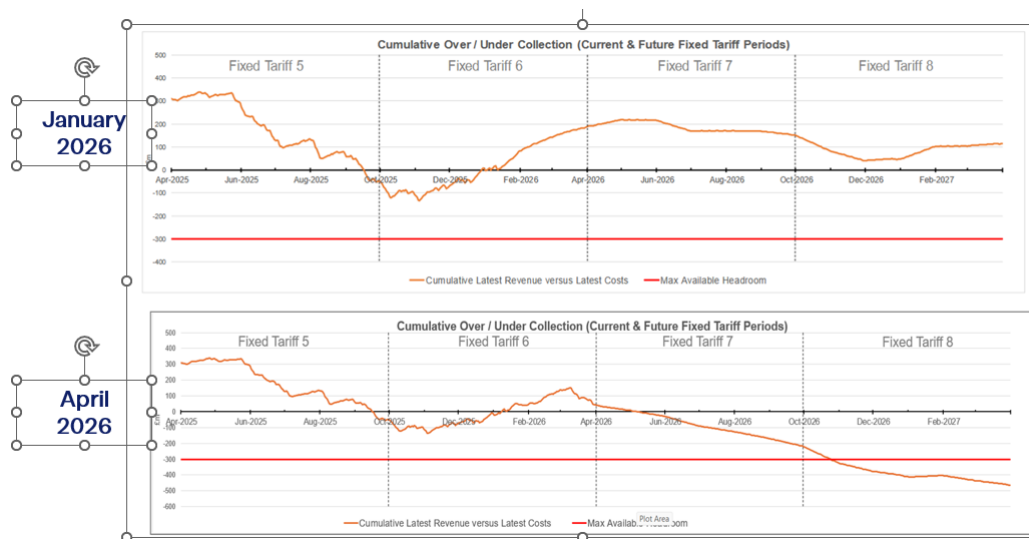
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What is the issue?

The Connection and Use of System Code (CUSC) does not set out the criteria for when, or the process by which, the Fixed Balancing Services Use of System (BSUoS) Price can be revised if The Company (NESO) forecasts that it will neither recover sufficient funds through BSUoS Charges nor will it hold sufficient funds in the BSUoS Working Capital Facility. The Company is simply held, under paragraph 14.31.16, to a ‘reasonable endeavours’ standard to consult prior to giving five Business Days’ notice to revise the Fixed BSUoS Price for the remainder of the Fixed Price Period.

These factors create unpredictability about the revision of the Fixed BSUoS Price in-period and, therefore, result in a significant risk for Suppliers and their customers. The unpredictability and the potentially short notice of the revision of the Fixed BSUoS Price erodes the expected benefits associated with the CMP408 and CMP415 decisions (e.g. Suppliers not needing to include risk premia in customers contracts to manage the unpredictability and volatility of ‘floating’ BSUoS tariffs). The revision of the Fixed BSUoS Price without sufficient notice would also be likely increase concerns that the retail market is uninvestible.

The instability in the Middle East since February has caused a sudden and considerable spike in the NESOs’ forecast of 2026–27 balancing costs:



Source: NESO

Crucially, the NESO has forecast that it will exhaust funds recovered through BSUoS Charges in May/June 2026 and that the BSUoS Working Capital Facility will be exhausted in October/November 2026. NESO has published these forecasts and has highlighted escalating costs (e.g. via The Company’s Operational Transparency Forum which not all

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Suppliers attend). The escalating costs, coupled with the unpredictability of how Fixed BSUoS Prices can be revised, create an unmanageable risk for Suppliers, which also cannot be hedged.

Why change?

An industry-agreed revision process has not been developed:

The Company has developed and published an internal process and governance by which it may utilise to revise the Fixed BSUoS Price. The process and governance have not been agreed with the industry. The Company is not formally obligated to adhere to that process and governance and is not formally obligated to seek industry approval to change either. The Company's process could expose Suppliers and customers to very short notice increases in Fixed BSUoS Prices, with potentially only five business days' notice given before the change.

The Company has not codified the process and governance in the CUSC despite Ofgem's requirement that The Company should incorporate a clear mechanism into the CUSC by which the Fixed BSUoS Price would be reset mid-period (see Ofgem's [CMP415](#) decision).

From [CMP415](#):

Fixed BSUOS tariff reset mechanisms

The tariff stability anticipated from the arrangements approved in CMP408 & CMP415 should be complemented by clear tariff reset mechanisms adopted by NESO. We expect NESO to incorporate these mechanisms into the CUSC to provide greater certainty for all parties.

The fact that the process and governance have not been codified in the CUSC and have not been agreed with the industry worsen the uncertainty and the subsequent risk described above to Suppliers and customers. The current revision process could expose Suppliers, and some of their customers, to very short notice of increases in Fixed BSUoS Prices, with potentially only five Business Days' notice given before the change.

There is significant market uncertainty:

In its [CMP408](#) decision, Ofgem recognised that there could be significant market uncertainty and volatility similar to that experienced in 2022 as a result of the Russia-

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Ukraine war. Ofgem also suggested that further CUSC modifications may be a way in which future significant market uncertainty and volatility could be mitigated. The current instability in the Middle East is causing similar market uncertainty and volatility. This means that an urgent solution is required.

From [CMP408](#):

Future market conditions

As stated in the CMP408 & CMP415 decision letters, approved changes to the fixed BSUoS tariff structure are preferable to the Baseline because current market conditions have evolved since CMP361 & CMP362 decisions. However, future market developments could introduce similar levels of uncertainty as those experienced by industry in 2022. In such cases, it will be open to parties to raise CUSC modification proposals, which we would evaluate based on their merits.

The spike in wholesale energy prices and, hence, BSUoS costs make it far more likely that a revision will be required mid-period in the immediate future (in either Fixed Tariff Period 7 (April to September 2026) or 8 (October 2026 – March 2027)) and so a clear reset methodology is needed as soon as possible.

The CUSC currently limits The Company to recovering additional costs if the Fixed BSUoS Price is revised. If the current market instability and volatility worsen, there is a risk that that the BSUoS Working Capital Facility could be exhausted in Fixed Tariff Period 7 (April to September 2026). This increases the possibility that that none of BSUoS Working Capital Facility will be available for Fixed Tariff Period 8 (October 2026 – March 2027). The Company could seek to revise the Fixed BSUoS Price to also reduce the utilisation of the BSUoS Working Capital Facility to zero in a very short space of time. There is no indication of the scale of the revision of the Fixed BSUoS Price to accommodate the BSUoS Working Capital Facility being replenished.

Codification of the process for and governance of revising Fixed BSUoS Prices is beneficial:

Whilst Suppliers are required to forecast BSUoS costs as part of their price setting, the recent increase in BSUoS costs experienced since the last calculation of the Fixed BSUoS Price could not have been incorporated in current forecasts by a prudent operator. If NESO had seen the increase coming it would have set the charge higher as well.

Codification would provide certainty to Suppliers and the rest of the industry about how a revision of the Fixed BSUoS Price would occur. A clearly defined, industry-agreed

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process would protect Suppliers from having to attempt to forecast when The Company would revise the Fixed BSUoS Price, how The Company would revise the Fixed BSUoS Price and the increase in the Fixed BSUoS Price that The Company would seek to implement.

Whilst such a process would be beneficial under normal market conditions, the spike in wholesale energy prices and hence BSUoS costs make it far more likely that a revision will be required mid-period in the immediate future (in either Fixed Tariff Period 7 (April to September 2026) or 8 (October 2026 – March 2027)) and so a clear reset methodology is needed as soon as possible.

Were there to be a mid-period reset, which may result in a significant £/MWh increase, Suppliers would be unable to recover these costs because of the potential short notice. For domestic customers, Suppliers would have to bear the cost until and if the price cap methodology fully catches up. For non-domestic customers on fixed price contracts (i.e. with no BSUoS pass-through), Suppliers may be unable to recover these additional costs without market disruption (e.g. re-opening customer contracts).

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

What is the Proposer's solution?

Proposer's Original Solution

It is proposed to include in the CUSC a clear reset mechanism to be followed by The Company governing the potential resetting of the Fixed BSUoS Price. There are three key aspects to the proposed solution.

Specify the minimum information that NESO must publish ahead of resetting tariffs:

Whenever NESO forecasts it will under-recover by more than 50% of its working capital for any month that a fixed tariff applies, it must publish a notice within 5 Business Days of first becoming aware of the shortfall, detailing the working capital assumption and if/when it expects that its working capital will be exhausted. The notice must be publicised to Suppliers particularly via, at a minimum, The Company's weekly updates and in its BSUoS market updates¹. NESO must continue to publish these notices monthly until the forecast under-recovery falls below 50% of its working capital or the requirement in the following paragraph is met.

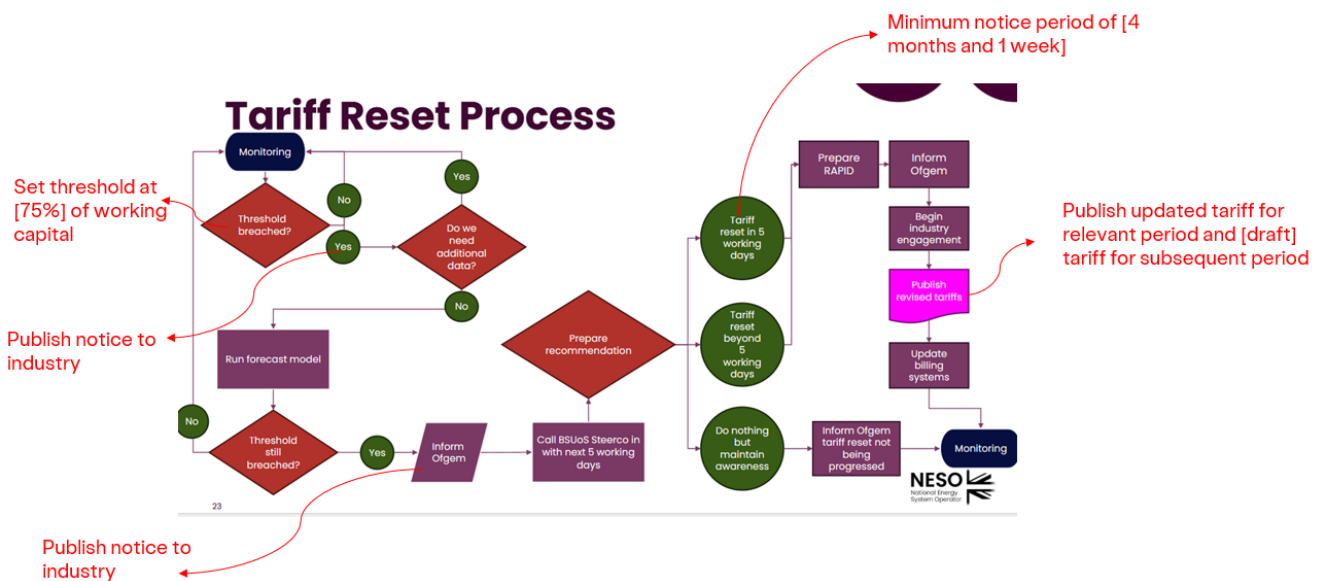
¹ See example here: subscribers.neso.energy/t/d-e-ghlhuil-dikljrdkk-h/

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Whenever NESO forecasts it will exhaust its working capital for any month that a Fixed BSUoS Price applies, it must publish and circulate a notice within 5 Business Days of it first becoming aware of the shortfall, including:

- The forecast utilisation of the BSUoS Working Capital Facility at the time of publication of the notice and the point at which the 50% utilisation threshold is forecast to be exceeded
- Assumed size of the BSUoS Working Capital Facility and if/when it expects working capital will be exhausted
- the indicative Fixed BSUoS Price for the relevant fixed period
- the additional costs that would be recovered if NESO forecasts that working capital will be exhausted; and
- the indicative Fixed BSUoS Price for the subsequent Fixed Price Period.

The modification improves the NESO's internal process governing tariff resets that it presented to the industry, as shown below:



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Specify the minimum notice period for resetting tariffs:

Specify a minimum notice period of 3 months before the start of a price cap period to allow revised Fixed BSUoS Price to be included in the quarterly energy price cap calculations, and a minimum of two months for the October–December 2026 price cap. This will allow sufficient time for the revision to be taken into account by Ofgem for setting the next retail price cap BSUoS allowance and by Suppliers for pricing customer contracts. This notice period does not affect the current three-month notice period for giving notice of the Fixed BSUoS Price.

Specify working capital utilisation floors if a tariff reset is needed:

Specify that when NESO issues a revised Fixed BSUoS Price, it should be set at a value that will reasonably be expected to result in a reduction of the utilisation of the BSUoS Working Capital Facility to no less than 75% if the revised Fixed BSUoS Price encompasses a single price cap period or no less than 50% if the revised Fixed BSUoS price encompasses two or three price cap periods.

The presentation on the Original Solution can be found in **Annex 05**.

Workgroup considerations

The Workgroup convened 4 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

Trade-Off between NESO and Supplier cashflow risks

The Workgroup discussed the trade-off between ensuring NESO has sufficient working capital to continue paying its costs and protecting Suppliers and customers from sudden bill impacts and unrecoverable losses. Workgroup members recognised that NESO needs enough flexibility to respond when balancing costs rise sharply, and there was little appetite for a solution that would prevent it from recovering necessary funding.

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The Workgroup considered the consequences for Suppliers if BSUoS prices are reopened at short notice. Several Workgroup members noted that, where an increase cannot be reflected in the relevant Ofgem price cap for domestic customers, Suppliers may not simply face a timing issue but a permanent loss. The discussion also broadened beyond domestic customers on the default tariff to include domestic customers on fixed contracts and non-domestic customers on both fixed and pass-through contracts, with Workgroup members stressing that short-notice changes could create significant bill shocks across the wider market. In this regard, the risk faced by NESO and Suppliers is not symmetric. NESO has a working capital facility that was designed to bridge timing differences. Suppliers, by contrast, have no equivalent mechanism for managing in-period BSUoS shock impact on fixed-price contracts, and there is no true-up in the price cap once it is published.

Many larger non-domestic customers will operate on “pass-through” contract where network costs, including BSUoS charges, will be levied directly by the Supplier as a separate line item. This means that such customers are exposed to any variation in BSUoS rates. If such rates are increased at short notice, these customers are exposed to these costs which will negatively impact their cashflow. Whilst Energy Intensive Industry customers have most of these costs reimbursed, most customers do not qualify for such support.

The Workgroup considered whether CMP474 deals with cash-flow timing or whether it is driven by interactions with the energy price cap, noting that Suppliers are not made whole when BSUoS price changes occur after the price cap has been set. Discussions on whether recovery through later price cap periods could address this, or whether the primary concern is ensuring that BSUoS price resets are reflected in the relevant price cap period to avoid unrecovered costs. The Proposer explained that under current arrangements, any BSUoS price change implemented after the price cap is set results in unrecoverable costs for Suppliers, as there is no automatic true up or reconciliation in subsequent price cap periods. Automatic recovery in a later price cap period would only be possible if Ofgem were to change its price cap methodology, which is outside the scope of CMP474.

The Proposer clarified that CMP474 focuses on aligning BSUoS price resets with the price cap timetable to minimise unrecovered costs, rather than addressing cash-flow impacts alone. A Workgroup member stated that the practical impact on Suppliers is that without notice period alignment with the Price Cap, any BSUoS reset uplift taking place after the Price Cap has been set falls on Suppliers’ Income Statement, with no recovery mechanism.

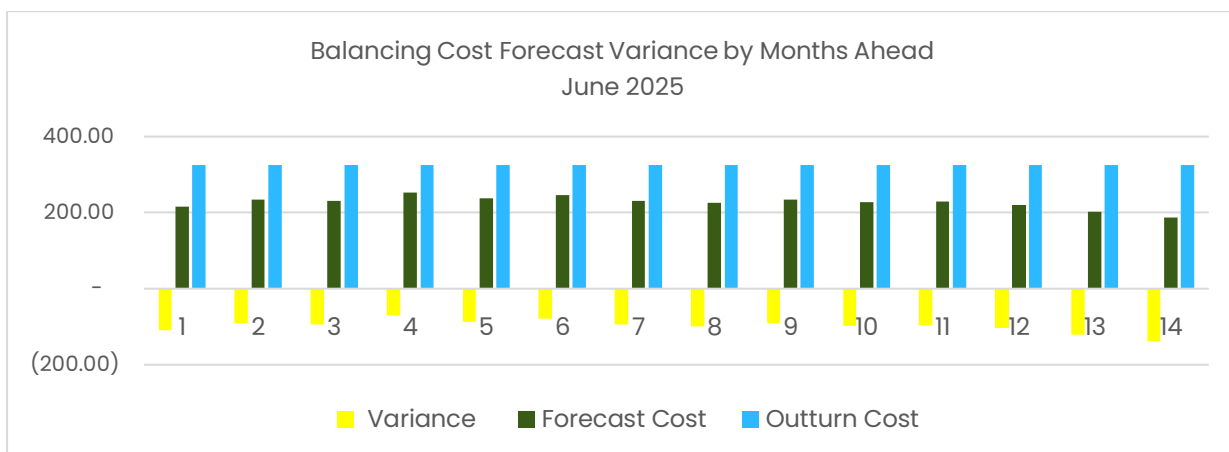
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The Proposer advised that Suppliers bear the cashflow and credit risk associated with BSUoS, and that abrupt tariff changes could exacerbate Supplier financial stress. The Proposer noted that a number of Suppliers currently do not meet minimum capital adequacy requirements. Increasing BSUoS prices under the current regime could trigger credit cover breaches and therefore earlier payment obligations, therefore compounding the negative effect of revising the Fixed BSUoS price. This reinforces the need for sufficient notice to mitigate market impacts.

The NESO Subject Matter Expert (SME) acknowledged that Suppliers ultimately bear the cashflow risk associated with BSUoS but pointed out that NESO also bears short term cashflow risk. This can be through managing over and under recovery and meeting payment obligations, with the working capital facility intended to manage this exposure. While the risks are different in nature, both Suppliers and NESO face financial impacts in the short term.

The Workgroup acknowledged that NESO cannot be in a position to become insolvent making the difficult choice whether the Suppliers then get the cash flow risk.

A Workgroup member suggested that analytical evidence would be helpful to support the proposal such as assessing the likelihood of tariffs needing to be reopened at different points in time (e.g. 3 months, 2 months, or shorter notice) potentially expressed in probabilistic terms. This could help illustrate the trade-offs and benefits of the proposed notice periods. The NESO Representative fed back that it wasn't possible to provide an accurate view of the percentage probability of tariffs needing to be reopened for different timeframes, but shared the following charts which showed the change in forecast view over a period, showing costs vs revenue:



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The Workgroup discussed that NESO hold all the risk for running the system, but the Transmission Owners and Distribution Network Operators have all the revenue and zero risk. Queried whether there was any potential of them holding the cash flow risk? This remains an open question.

Interactions with the energy price cap and impacts on consumers bills

The Workgroup discussed how CMP474 interacts with the energy price cap and how that, in turn, affects consumer bills. At the outset, Workgroup members generally considered that the main issue was not calculating a specific bill impact figure but understanding how BSUoS feeds through into the price cap process and what happens if a tariff reset occurs too late to be reflected in the relevant cap period.

The Workgroup considered if the focus on whether the reference to “consumer bills” in the Terms of Reference (e) should be read narrowly as applying only to domestic price-capped customers, or more broadly across the market. A Workgroup member asked whether the Terms of Reference should be clarified, after considerations the Workgroup agreed to retain the Terms of Reference (e) as suggested by Panel, however the issue should not be limited to domestic customers alone and that the term “consumer bills” should be interpreted as covering both domestic and non-domestic impacts, and that the report should distinguish between those segments where necessary.

The Workgroup noted that while alignment with the price cap may help Suppliers manage risks associated with domestic customers on the default tariff, it does not fully protect non-domestic customers or fixed-contract customers, who may still face sudden and material bill impacts. A Workgroup member emphasised that short-notice changes could have significant effects on non-domestic bills, and that the rationale for a longer notice period was therefore not only about domestic price cap customers, but also about reducing harm to wider customer groups.

The Workgroup discussed the importance in understanding how the proposed BSUoS price reset process aligns with the energy price cap timetable. They suggested working backwards from the price cap process to identify when information would need to be available, including establishing a clear “drop-dead date” by which any BSUoS price reset would need to occur in order to be reflected in the relevant price cap period.

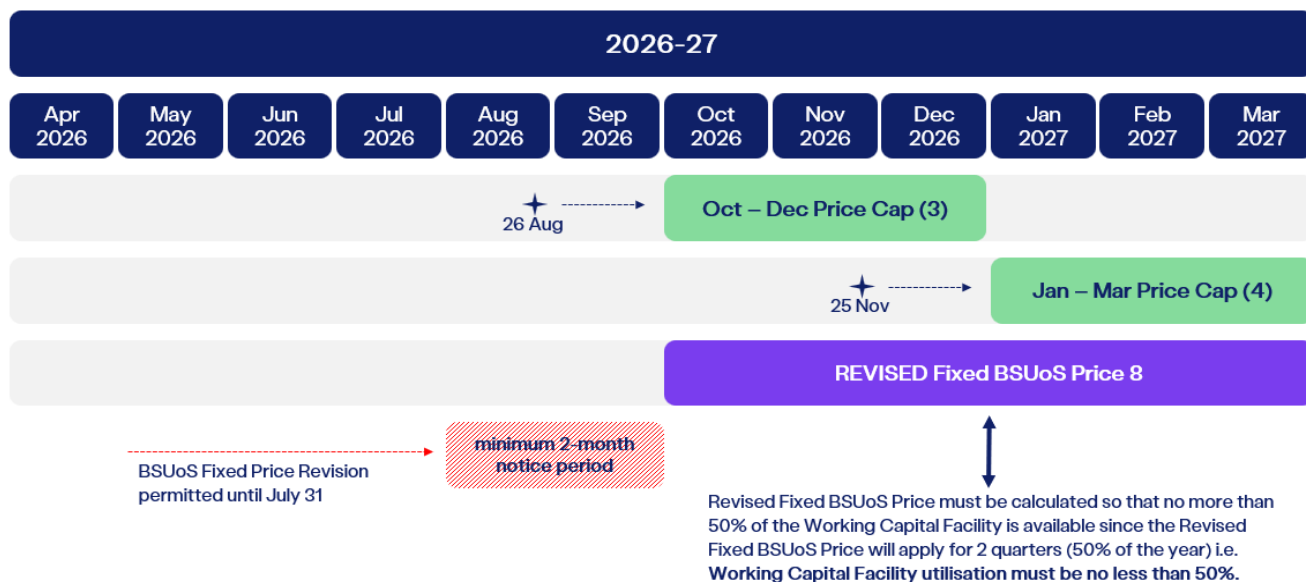
The Proposer explained that Ofgem publishes the default tariffs 25 days ahead of the start of the relevant price cap period, as set out in Suppliers’ licences. The 3-month notice period would ensure that the revised Fixed BSUoS price is included in the

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calculation of the default tariff. This notice period also allows Suppliers to update contracts, billing systems as needed and broker arrangements. The Proposer also noted that, ideally, the notice period would be longer than 3 months to take account of non-domestic contracting in particular. A two-month notice period was proposed for the October to December 2026 price cap period because of the expected timing of the Authority’s decision on the modification.

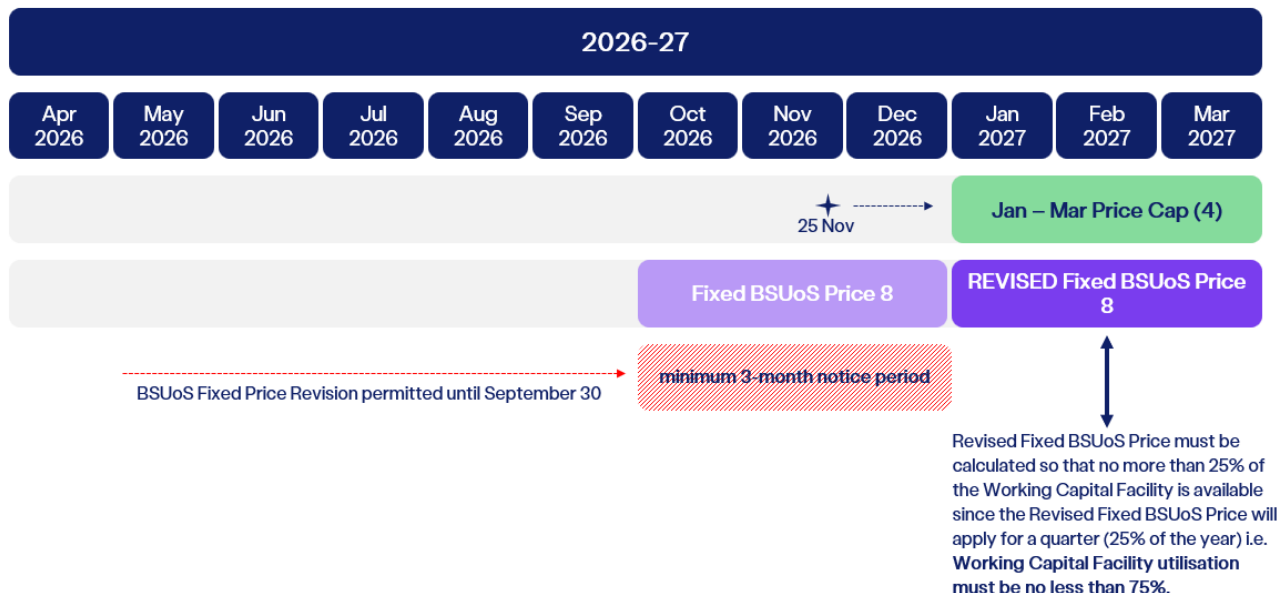
The Proposer took an action and provided the Workgroup with a worked example explaining a three-month period would be the latest point at which a BSUoS fixed price reset can be implemented from January to March 2027 and 2 months for October to December 2026. The 2-month transitional adjustment is specific to the October to December 2026 period, since, if this modification were to be implemented, October to December 2026’s normal notice period would have passed. Hence there is a shorter-than-standard notice for any reset effective October 2026.

Transitional arrangements for the October – December 2026 price cap period



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Enduring arrangements for the January – March 2027 price cap period onwards



The Workgroup discussed whether there was scope under CMP474 to consider reopening and reducing the fixed BSUoS rate in circumstances where costs are over recovered following a reset. Pointing out the potential of reopening events, a cautious reset could result in over recovery if cost pressures subsequently ease and questioned whether this scenario should be considered. The Proposer advised that the existing CUSC Section 14 is focused on increasing the fixed BSUoS rate where balancing costs rise, rather than reducing it where costs subsequently fall.

The Proposer provided clarity that CMP474 would place clearer expectations on NESO to provide timely and transparent market information where balancing costs are forecast to materially deplete working capital, including formal notification to the market. NESO would be expected to provide advance notice prior to any reset of the fixed BSUoS price, with the intention of improving predictability and aligning resets with the energy price cap timetable where possible. The approach is intended to allow NESO appropriate discretion when resetting the tariff, including flexibility over the level to which working capital is replenished, while continuing to monitor its financial position and ensuring it can meet payment obligations, within the existing CUSC.

Working Capital threshold for initial notification considerations

The Workgroup discussed whether a working capital threshold should form part of CMP474 and, if so, what role that threshold should play in the proposed reset

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mechanism. Workgroup members were clear at the outset that the Workgroup was not being asked to determine the “right” level of NESO’s working capital itself, as that remained a matter outside the Workgroup’s decision-making role.

The Proposer explained the proposed percentages in the Original solution and further distinguished between first, a threshold at which NESO would be required to formally notify the market that working capital was being materially eroded; and second, a threshold linked to the level to which NESO might be allowed to restore working capital if a reset took place. The Proposer emphasised that the initial threshold was not intended to trigger an automatic tariff reset, but rather to create a more formal and transparent warning process for market participants.

The Workgroup also discussed whether the notification threshold should be set earlier than the 75% (as per initial Original Proposal) in order to give Suppliers more visibility. A Workgroup member suggested that a lower trigger, such as 50%, could provide earlier warning that NESO’s position was deteriorating, even if that did not itself cause a reset. The Proposer decided on a 50% trigger for notification and indicated that the central aim of the first threshold was to ensure Suppliers received formal and timely information.

Clarification was sought on data information sharing when the capital utilisation will exceed 50%. The Proposer advised no additional forecasting was being proposed. Instead, the requirement was for NESO to publish a formal notice to the market when it forecasts that working capital utilisation will exceed 50%, clearly setting out specified information in that notice, as clarity and consistency in communication is needed. Existing market notice channels are sufficient such as email notices and website publication.

A Workgroup member suggested when market notice is issued, having the specific forecast level of utilisation, rather than a binary indication that the threshold had been exceeded could assist. There were concerns that the available published information might not have visibility of utilisation levels and that could affect market behaviour. It was also advised that the wording in the notice should clarify whether the working capital facility was expected to be exhausted or not and that this should be framed conditionally. It would be helpful to add “if” NESO expected the facility to be exhausted, as there could be scenarios where forecasts exceed the 50% utilisation trigger but then recover without the facility being exhausted. This would mean a tariff reset might not be required. The Proposer acknowledged the point and confirmed that the notice could include the forecast utilisation value, with updated information provided on a continuing basis while utilisation remained above the trigger, and that this could be incorporated into the proposed requirements.

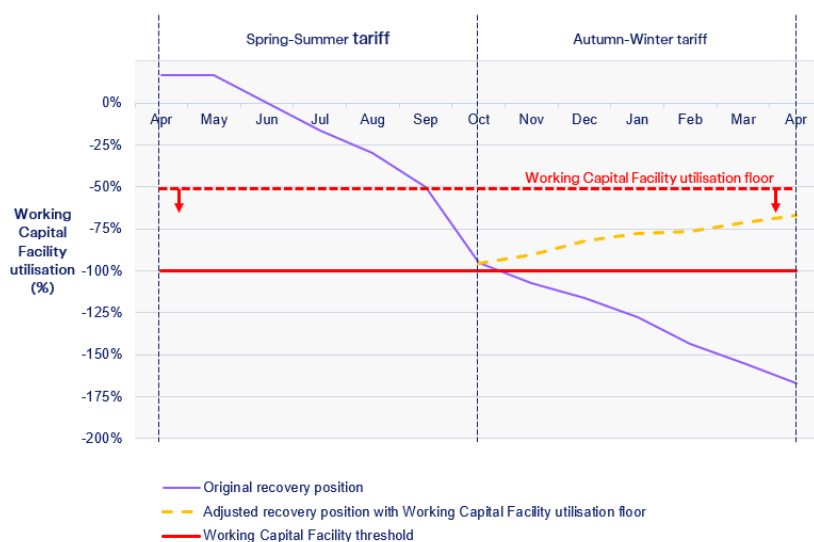
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BSUoS Working Capital Facility Utilisation Floor when revising tariffs

The Workgroup considered how far a reset should be allowed to restore working capital once triggered and recognised that there was a balance to strike. A lower recovery target could lead to a larger immediate increase in the BSUoS rate but might leave NESO in a stronger position for the remainder of the period. A higher target could reduce the immediate price shock but might leave NESO in a more stressed cash position and increase the likelihood of another reset being needed later.

The Proposer outlined that, where tariffs are reset, only a defined level of working capital utilisation should be recovered, ensuring NESO retains an appropriate buffer. The proposed reset should retain at least 25% headroom for a single quarter, and 50% headroom where tariffs are reset for a full fixed tariff period, to support resilience and avoid over-recovery.

Worked example: revising the whole Autumn-Winter tariff



Scenario details

- NESO forecasts that the Working Capital Facility will be exhausted in October.
- NESO revises the whole Autumn-Winter tariff, encompassing two price cap periods.
- The Working Capital Facility utilisation floor is 50%.
- NESO calculates the Autumn-Winter tariff to achieve Working Capital Facility utilisation of 67%.

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Worked example: revising the last three months of the Autumn-Winter tariff



Scenario details

- NESO forecasts that the Working Capital Facility will be exhausted at the start of January.
- NESO revises the last three months of the Autumn-Winter tariff, encompassing a single price cap period.
- The Working Capital Facility utilisation floor is 75%.
- NESO calculates the Autumn-Winter tariff to achieve Working Capital Facility utilisation of 75%.

The NESO SME highlighted that while the Workgroup can discuss the issue and provide views, it is not within the remit of the Workgroup to determine or set a specific working capital threshold in monetary terms, noting the role of the Workgroup is to consider the issue, discuss relevant factors. The Workgroup agreed that the approach would be to consider and document views on the working capital threshold without seeking to define or determine a specific value.

The Workgroup discussed whether the Original solution would include any cap or limit on the extent to which the fixed BSUoS price could be increased as part of a reset, noting the potential for significant cost movements over short periods. The Proposer concluded that while the option of a cap was considered, it was not included in the Proposal. Introducing a cap could constrain NESO's ability to recover costs outside its control and increase the risk of NESO being unable to meet its payment obligations. The intention is to ensure sufficient funding whilst providing Suppliers with greater notice. The absence of a limit on the size of an in-period £/MWh reset increase is an unbounded risk from a Supplier's perspective, where the entire £/MWh impact falls on Suppliers and customers particularly non-domestic customers on pass-through contracts

The Workgroup suggested some examples of scenarios where a very short notice period had been required, to better evidence the need for flexibility querying whether the existing £300m working capital facility remained adequate. If constraints persisted, tariff resets could become more routine rather than exceptional. The need for a solution that was workable for Suppliers and customers, particularly non-domestic customers who

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bear costs immediately, and stressed the importance of sufficient notice to allow engagement, system changes and customer communication. The Proposer pointed out that the proposal is not dependent on the £300m working capital limit, as it would remain applicable if the assumed level of working capital changed.

A Workgroup member queried whether there are alternative ways to address working capital pressures other than reopening the fixed BSUoS tariff noting Tariff re-opening can be disruptive. The Workgroup discussed the underlying issue that relate to the working capital facility but acknowledged this was out of CMP474 scope. The Workgroup recognised that broader discussions regarding working capital are likely to continue if there are issues with there not being enough buffer.

Minimum notice period considerations

The Workgroup discussed BSUoS price resets implemented at very short notice could have significant impacts on customer bills, particularly for non-domestic customers. Sudden changes may place customers under financial pressure and that bill impacts should be an important consideration alongside NESO's cash-flow requirements when assessing notice periods and reset arrangements. Following Workgroup discussions, the Proposer lowered the threshold from 75% to 50% for the information trigger. This could provide Suppliers with earlier visibility of a deteriorating working capital position and this level provides early, actionable information before material risk crystallises, while still avoiding unnecessary or noise-driven alerts.

The NESO Representative raised the possibility that longer notice periods and forward-looking triggers could mean NESO may need to act earlier and more cautiously on forecasts, potentially increasing the chance of a reset being initiated in circumstances that might later improve. This was contrasted with shorter notice periods, which allow more time to see whether conditions resolve, but create greater supplier and consumer bill risk if action is eventually taken at short notice.

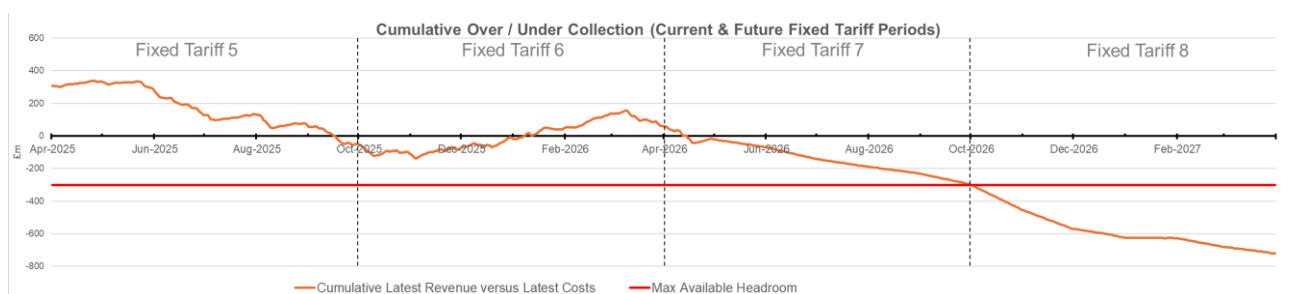
The Workgroup discussed adaption and Fixed BSUoS Price revision process that NESO Published and the working capital utilisation floor if a tariff reset it needed. A Workgroup member suggested a lower target would result in a larger immediate £/MWh impact following a reset, whereas a higher target could reduce the immediate bill impact but leave working capital under strain. The interaction between these percentage thresholds should be carefully considered.

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Worked Examples

The NESO SME provided some worked examples in Workgroup 2 which demonstrated possible tariff reset decisions based on the Original proposal if a 4 month and 1 week minimum notice period was in place, demonstrating the trade-offs between longer (earlier/less certain) and shorter (later/more certain) notice. These were updated in Workgroup 3 to reflect the updated notice period of 3 months before a price cap period.

The NESO Representative presented the following chart, showing a recent view of Cumulative Revenue vs Latest Costs:



The following comments were provided:

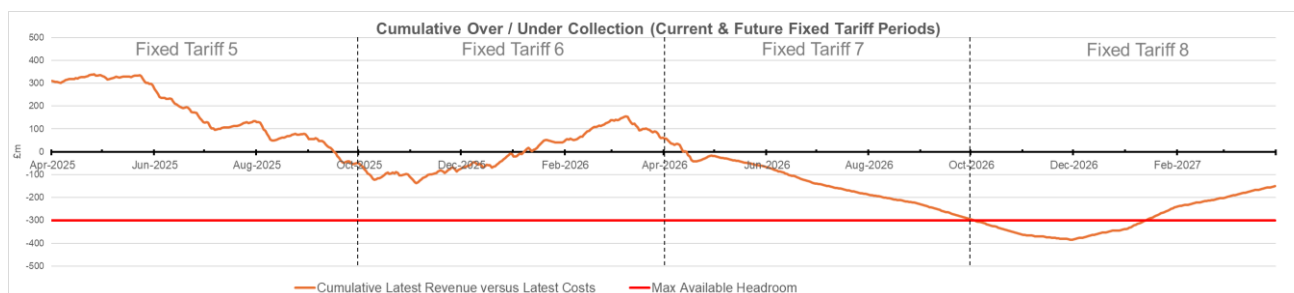
- If CMP474 is approved there will initially be transitional arrangements
- Transitional Arrangements give 2 month notice period, so last point for resetting tariff 8 will be July
- Update to show reset in July for whole of fixed tariff 8, recovered to 50% utilisation (as updating two price cap periods)
- While it Fixed Tariff Period 7 current forecast looks acceptable, a significant reduction in the actual balance compared to forecast could present a risk within that period. This was noted as an example of the trade-off between early notice and avoiding unnecessary tariff resets – for example if a similar scenario occurred with the enduring solution in place, there would be a decision to make before the reset deadline whether NESO reset a tariff when it might not be necessary, or risk being unable to reset when working capital has been exhausted and the deadline has passed

A further view was then shared to show what a revised tariff could look like for Fixed Tariff Period 8.

The Proposer stated even though the considerations in the point 4 above are valid the clarification doesn't seem to consider any extra capital available outside of the Working Capital threshold that could prevent a tariff reset if it were utilised. The NESO

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Representative added that even taking into account any additional capital above the amount available for BSUoS, costs increasing significantly after the notice period for resetting could present a risk of capital being exhausted. This may have to be taken into account when considering tariff resets, to build in a level of contingency across a period of months.



The following assumptions were provided:

Assumptions:

- Apply updated tariff for Fixed Period 8 for entirety of period
- Recovery position to 50% as spanning two price cap periods (BSUoS Working Capital Facility Utilisation Floor)
- Updated Fixed Tariff 8 = £16.39/MWh
- Original Fixed Tariff 8 = £12.49/MWh
- Increase = £3.90/MWh

Considerations on exceptional circumstances

The Workgroup discussed whether the Proposal allowed flexibility in exceptional circumstances to reset tariffs with a shorter notice period, with the Proposer noting that:

- the minimum notice period is intended to align BSUoS price resets with Ofgem's price cap timetable, so that any reset can be reflected in the relevant price cap period and suppliers are able to recover costs
- acknowledged that there could be scenarios where costs escalate rapidly and working capital is exhausted within a shorter timeframe. However, the Proposal is focused on avoiding resets that fall outside the price cap window
- costs incurred after the price cap is set cannot be recovered by Suppliers.

The Original solution proposed that the four month and one week period would maximise the likelihood of inclusion in the price cap, while recognising that the exact

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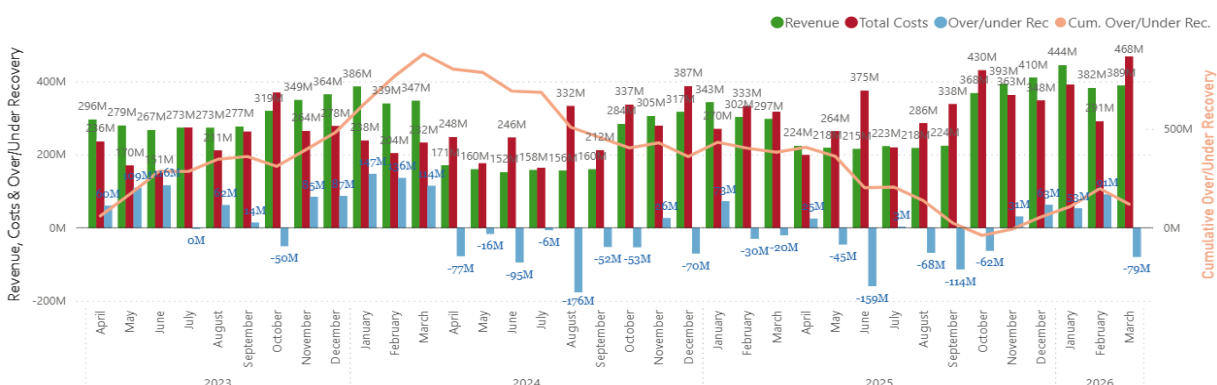
notice period and treatment of exceptional scenarios but following further consideration, this was now to be 3 months before the start of a price cap period.

The conversation highlighted that there is no perfect balance: more flexibility for NESO reduces its cashflow risk of utilising funds other than the BSUoS Working Capital Facility, but increases the risk of Supplier losses and customer bill impacts, whereas stronger Supplier and customer protection could leave NESO more exposed in rapidly worsening conditions. Workgroup members also raised whether any backstop should exist for extreme scenarios, but there was caution that such a mechanism could undermine the purpose of having a minimum notice period.

The Workgroup discussed how the proposed arrangements would operate in an extreme scenario where a very large, unforeseen cost event rapidly exhausted the working capital facility, querying whether the existing 5-day notice period was intended to address such situations.

The NESO SME explained that the 5-day notice provision was specifically designed as a backstop for extreme and unexpected events, noting that while it would not be used routinely, it provides protection against sudden, significant cost shocks. NESO has early visibility of costs through operational reporting ahead of settlement, allowing short term cashflow risks being managed. The 5-day notice was retained to ensure resilience in such exceptional circumstances. The Workgroup believed 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 would assist. The Proposer also noted that NESO does not face an immediate risk because of a high-cost day: Suppliers and the relevant Demand customers are invoiced 3 weeks after the relevant day while NESO generally pays for system actions beyond that period.

The following chart was shared with Workgroup showing Revenue from fixed tariffs, actual costs, and the cumulative recovery position across different months:



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Over-recovery if a tariff is reset

The Workgroup discussed the possibility of over-recovery arising if a tariff reset is made on a cautious forecast basis and the anticipated cost pressure later eases. The Workgroup members noted that, while much of the discussion had focused on under-recovery and Supplier and customer exposure to sudden increases, the reverse scenario also needed to be considered: namely, that a reset could result in more being collected than ultimately proved necessary.

The Workgroup discussed on whether CMP474 should include any mechanism to reopen or reduce rates if NESO appeared likely to over-recover. A Workgroup member noted that if the market is asked to absorb higher charges based on adverse forecasts, there is a corresponding question about what happens if those conditions do not materialise and collections exceed what is needed. Another Workgroup member, similarly, suggested that if the industry is expected to accept a difficult increase, there may be a case for a process that allows reforecasting and in-period adjustment if the position improves materially.

The Proposer noted that over-recovery is not new and that NESO has, in previous fixed tariff periods, over-recovered amounts that then flowed through into subsequent periods. On that basis, the Proposer suggested that some degree of over-recovery is already managed through the existing framework rather than through repeated in-period corrections.

The Proposer explained that if the concern is over-recovery relative to a quarterly domestic price cap period, that may be easier to address through subsequent price cap periods. However, if the concern is multiple resets or adjustments within a single six-month BSUoS fixed tariff period, that begins to move the discussion closer to repeated in-period tariff changes, which is not far from the type of volatility the modification is trying to reduce.

The Workgroup further discussed whether the current legal framework is directed primarily at increases rather than decreases. The Proposer noted that the relevant Section 14 text is framed around increases in balancing costs and the need to reopen tariffs to increase the fixed rate. On that basis, the current proposal was not designed around reducing rates mid-period, even though Workgroup members accepted that the logic behind discussing over-recovery was valid.

The Workgroup considered that if Suppliers and customers are expected to accept higher charges on the basis of forward-looking forecasts, there is a fairness question as to whether an improved position should also be reflected more quickly rather than

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simply flowing through into later periods. At the same time, there was recognition that introducing a formal downward reset process could add further complexity and potentially reintroduce the kind of frequent tariff movements the modification is trying to avoid.

Interactions with CMP475

The Proposer noted that there is some overlap between CMP474 and CMP475 in relation to how working capital utilisation is treated when tariffs are reset. CMP474 proposes explicit limits on the level of utilisation that may be factored into a reset tariff, whereas CMP475 considers this but without specifying numerical thresholds.

The Proposer highlighted that CMP475 seeks to create a “Top-Up tariff” and it is unclear how this will operate in conjunction with CMP474, the Proposer questioned if the “Top-Up tariff” would be subject to the same notice period, information publication and percentage targets as proposed by CMP474. Additionally, CMP475 seeks to have the ability to have a rate to allow recovery to zero whereas CMP 474 place specific floors.

Even though the Workgroup considered the interactions between the modifications, the Workgroup view was that while the modifications address related issues, they target different defects and should be considered separately.

Draft legal text

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

What is the impact of this change?

- **Suppliers** – This modification will allow time for Suppliers to react and manage their contracts effectively by protecting their customers and engage with them in a timely manner. It reduces the risk of unrecoverable costs, the risk of negative cashflow and consequently Supplier failure.
- **Domestic Customers** – These customers will be protected from funding carry-cost that Suppliers will incur if BSUoS cost increase is not aligned with the price cap setting process.
- **Domestic and non-domestic customers on fixed contracts** – This modification will reduce the risk of short notice increases in BSUoS will reduce the level of risk premia Suppliers will have to include into their price setting for customers.

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- **Non-domestic customers (pass through)** – This modification will give more notice to these customers, so giving them time to plan for increased operating costs and so reduce the negative impact on such customers.
- **NESO** – The Proposer stated that NESO is not exposed to same cashflow risk that Suppliers are or Profit and Loss (P&L) risk and doesn't face the risk of unrecoverable costs. This modification retains NESO's ability to revise the Fixed BSUoS Price if it is deemed necessary. The NESO Representative stated that even though it might not be the same level of cashflow risk currently, this modification will still present NESO with a risk increase as it prevents NESO to reset tariffs for a minimum of 3 months that could lead to NESO exhausting the Working Capital. A Workgroup member highlighted that with this modification NESO would be allowed to recover to a lower Working Capital utilisation when compared to the baseline, thereby reducing risk beyond the price reset.

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>Setting out clear criteria and notice period for when a mid-period tariff will occur will improve competition between Suppliers by removing unnecessary uncertainty, which should lead to efficiencies in consumer offerings.</p> <p>It will also reduce the cash flow risk to all Suppliers, protecting them from unforeseen risks or risks that cannot be hedged.</p>
(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	Neutral

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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*;	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.	<p>Positive</p> <p>In relation to BSUoS, having a clear, defined process would satisfy Ofgem's stated requirement for the Fixed BSUoS Price revision methodology to be incorporated into the CUSC. This modification would fulfil Ofgem's requirement.</p> <p>The more information and time for planning price changes that The Company can build in the more efficient the operation of the market should be.</p>

* 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

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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	Neutral
Lower bills than would otherwise be the case	Positive Reducing the potential for revisions to the Fixed BSUoS Prices at very short notice should reduce the risk of increases in customer bills since Suppliers may not need to include risk premia in place to manage the uncertainty of revisions of Fixed BSUoS Prices. If Suppliers start to experience significant changes in BSUoS, at short notice, that they cannot hedge then they will have to factor those risks into customer contracts, where they can. This is likely to lead to price increases for both domestic and non-domestic customers.
Benefits for society as a whole	Positive Fixed BSUoS Prices being as cost reflective as possible benefits both domestic and non-domestic customers because knowing how and when The Fixed BSUoS Price will adjust the tariff should allow reductions in risk premia included in bills. This helps with international competition and with those customers facing cost of living pressures.
Reduced environmental damage	Neutral
Improved quality of service	Neutral

When will this change take place?

Implementation date:

24 July 2026.

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Date decision required by

17 July 2026.

Implementation approach

Minor changes to CUSC to incorporate a process that The Company has to follow to when considering whether to revise Fixed BSUoS Prices and when revising those prices. The proposed process largely reflects The Company’s internal process.

Interactions

- | | | | |
|---|---|--|--------------------------------|
| <input checked="" type="checkbox"/> CUSC | <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 type="checkbox"/> Other |

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

Specific Workgroup Consultation questions

7. Do you agree with the proposed 50% threshold for the information notice?
8. Will publication the proposed information notice be helpful to industry?
9. Do you agree with the proposed Working Capital utilisation floor of 50% and 75%?

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10. Do you agree with the proposed enduring arrangements of 3 months' notice period for the tariff reset?
11. Do you agree that the enduring arrangements of 3 months' notice period for tariff reset will benefit the non-domestic customer on pass-through contracts when compared to the baseline?
12. Do consider that the proposed solution will expose NESO to further risks that cannot be reasonably managed?
13. Do you agree that the proposed solution will reduce the risk for Suppliers?

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 using the response proforma which can be found on the [CMP474 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.

Acronyms, key terms and reference material

Acronym	Meaning
BSC	Balancing and Settlement Code
CMP	CUSC Modification Proposal
BSUoS	Balancing Services Use of System
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation

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GC	Grid Code
NESO	National Energy System Operator
SME	Subject Matter Expert
P&L	Profit and Loss
SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
T&Cs	Terms and Conditions

Annexes

Annex	Information
Annex 01	CMP474 Proposal form
Annex 02	CMP474 Terms of reference
Annex 03	CMP474 Urgency letter
Annex 04	CMP474 Legal Text
Annex 05	CMP474 Original Solution Presentation