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CUSC Modification Proposal Form

CMP474: Fixed Balancing Services Use of System Price revision mechanism

Overview: Inclusion in the Connection and Use of System Code (CUSC) of a clear process for when the Balancing Services Use of System (BSUoS) will be reset by the National Energy System Operator (NESO).

Modification process & timetable

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

Status summary: The Proposer has raised a modification and is seeking a decision from the Panel on the governance route to be taken.

This modification is expected to have a: High impact on Suppliers and a **High impact** on Transmission System Operators

Proposer's recommendation of governance route	Urgent modification to proceed under a timetable agreed by the Authority (with an Authority decision)
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Who can I talk to about the change?	Proposer: Gregory Edwards Gregory.edwards@centrica.com	Code Administrator Contact: cusc.team@neso.energy
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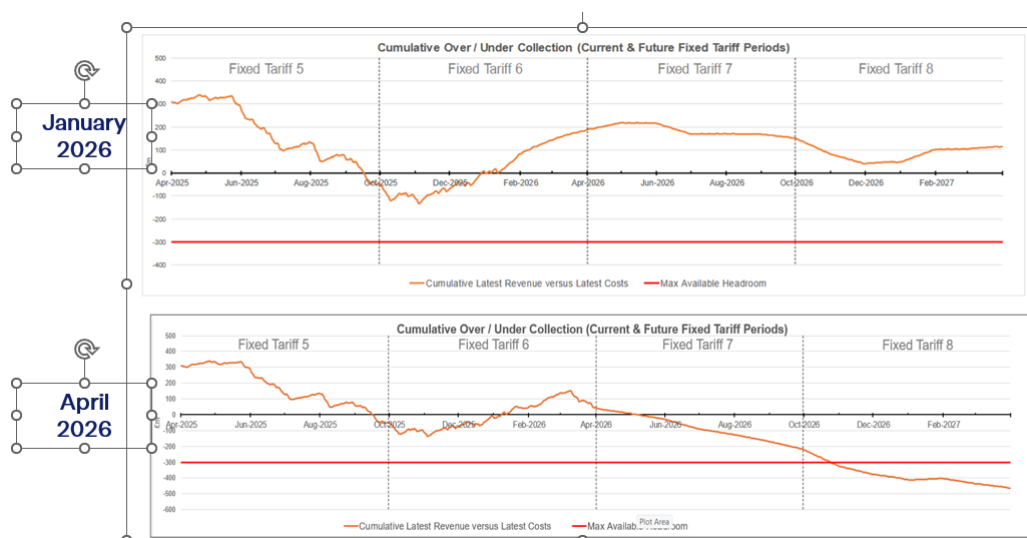
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What is the issue?

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 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:



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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 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

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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-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 the BSUoS Working Capital Facility could be exhausted in Fixed Tariff Period 7 (April to September 2026). This increases the possibility 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.

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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 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).

What is the Proposer's 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.

[Note the figures in square brackets are for discussion, but the Proposer believes they are prudent in setting a robust process. However, the Proposer is not party to the NESO's working capital arrangements and any associated rules that NESO must comply with.]

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

Whenever NESO forecasts it will under-recover by more than **[75%]** of its working capital for any month that a fixed tariff applies, it must publish a notice within five working days of first becoming aware of the shortfall, detailing the working capital assumption and 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 **[75%]** of its working capital or the requirement in the following paragraph is met.

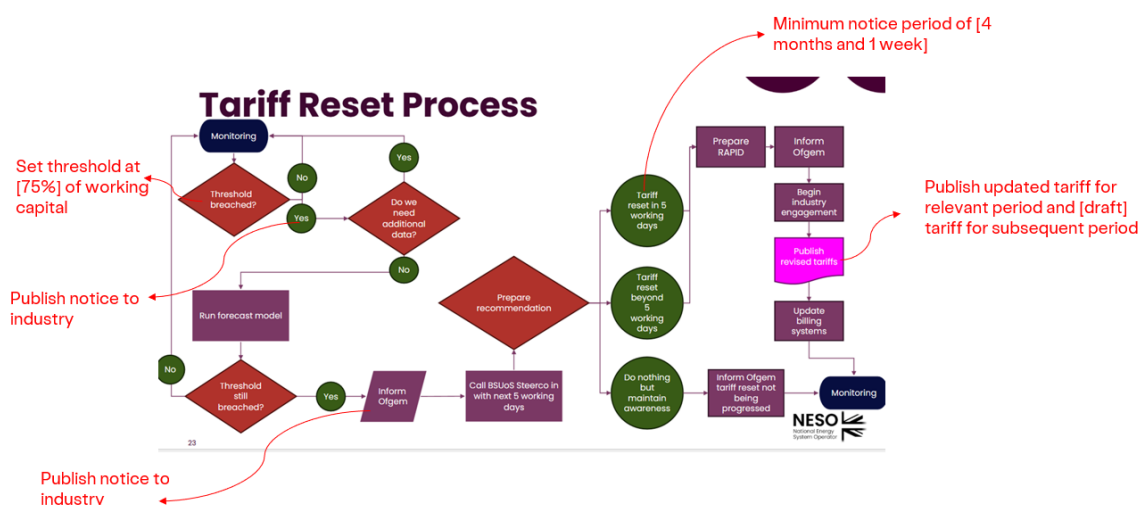
Whenever NESO forecasts it will exhaust its working capital for any month that a Fixed BSUoS Price applies, it must publish and circulate a notice within five working days of it first becoming aware of the shortfall, including:

- when it expects working capital will be exhausted;
- the indicative Fixed BSUoS Price for the relevant fixed period;
- the additional costs to be recovered in that period; and
- the indicative Fixed BSUoS Price for the subsequent fixed period.

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

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

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

Specify that when NESO is required to issue 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 below **[75%]** for the period in which the revision is undertaken.

Specify the minimum notice period for resetting tariffs:

Specify a minimum notice period of **[4 months and 1 week]** to allow revised Fixed BSUoS Price to be included in the quarterly energy price cap calculations. This will allow sufficient time for the revision to be taken into account by Ofgem for setting the next retail price cap BSUoS allowance. This notice period would not impact the current three month notice period for giving notice of the Fixed BSUoS Price.

Draft legal text

To be developed by the Workgroup.

What is the impact of this change?

NESO, Suppliers and customers.

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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 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);	Neutral
(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

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(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 electricity (recast) as it has effect immediately before IP completion day as read with the modifications set out in the SI 2020/1006.

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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

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When will this change take place?

Implementation date:

10 Business Days after an Authority decision.

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.

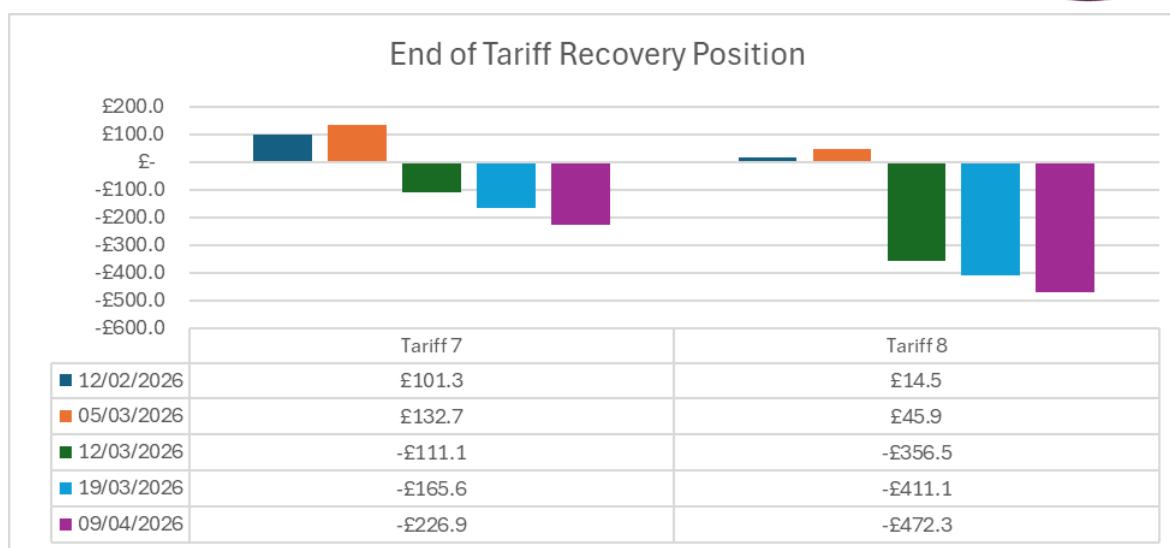
Proposer's justification for governance route

Governance route: Urgent modification to proceed under a timeline agreed by the Authority (with an Authority Decision)

The Proposer requests that the modification proposal is treated as Urgent because of the significant commercial impact on Suppliers and customers if the defect is not addressed urgently.

The war in Iran, and the subsequent impact of on energy prices, were unforeseen. NESO is reporting that it is rapidly depleting its working capital and therefore a BSUoS reset is becoming increasingly likely. As shown below, the NESO's forecasts of its under-recovery positions have significantly and steadily deteriorated since February 2026. The NESO's latest forecast suggest it will fully exhaust its working capital facility in October/November 2026.

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The spike in market prices has created a risk of a mid-period Fixed BSUoS Price revision.

If not quickly addressed, Suppliers will be exposed to costs they either cannot recover, or will be required to fund, until the domestic price cap catches up (if it does). This, in turn, could result in significant price increases for exposed customers, with little notice. This is a significant commercial risk for Suppliers and their customers.

Interactions

- | | | | |
|------------------------------------------|-----------------------------------------|--------------------------------|--------------------------------|
| <input checked="" type="checkbox"/> CUSC | <input type="checkbox"/> BSC | <input type="checkbox"/> STC | <input type="checkbox"/> SQSS |
| <input type="checkbox"/> European | <input type="checkbox"/> EBR Article 18 | <input type="checkbox"/> Other | <input type="checkbox"/> Other |
| Network Codes | T&Cs ¹ | modifications | |

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Acronyms, key terms and reference material

Acronym	Meaning
BSC	Balancing and Settlement Code
BSUoS	Balancing Services Use of System
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Regulation
GC	Grid Code
NESO	National Energy System Operator
SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
T&Cs	Terms and Conditions