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Code Administrator Meeting

Summary

Workgroup Meeting 1: CMP475: Amendment to the BSUoS tariff reset process

Date: 30 April 2026

Contact Details

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

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

Key areas of discussion

Workgroup 1 covered an overview of the Code Modification process, the CMP475 timeline, the Proposers presentation of the modification issues and solution, agreement of the Terms of Reference, and consideration of cross-code impacts.

Introduction

The Chair introduced the Workgroup process, explaining that the Code Administrator operates independently of NESO to facilitate fair, balanced, and structured industry discussion. The Chair clarified that CMP475 is distinct from CMP474 and should be considered on its own merits, even though they are being developed in tandem and have similar Workgroup membership. The Chair explained that Ofgem has granted urgency, requiring an accelerated timetable and focused engagement from Workgroup members.

Code Modification Process Overview

- **Overview of the code modification process:** The Chair outlined the CUSC modification process: proposal submission and Panel referral, Workgroup scrutiny to identify issues and refine solutions, potential development of alternatives, Workgroup consultation, and finally a Code Administrator Consultation before submission to Ofgem for decision. The Chair stressed the importance of adhering to the agreed scope of the modification, noting that while wider system issues may be recorded, they cannot influence the work of CMP475 if they fall outside the scope for consideration.
 - **Alternatives:** The Chair encouraged early submission of alternatives, particularly given the urgent timetable, and explained that the Code Administrator would support Proposers in writing compliant alternative solutions.
 - **Voting and participation requirements:** The Chair highlighted that Workgroup voting at the end of the process determines whether the baseline, original modification, or an alternative is preferred, and reminded members that voting eligibility requires attendance by the organisation (member or alternate) at a minimum of 50% of meetings.

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Objectives and Timeline

The Chair presented the timeline to the Workgroup.

- **Timeline and urgency:** The Chair emphasised that CMP475 is operating to an urgent timetable due to Ofgem granting urgency. The Chair highlighted that the target date for issuing the draft Final Modification Report to Panel in early July is effectively “very close”, given the volume of work required, indicating that the process would involve fast turnarounds and sustained engagement from the Workgroup.
- **Implementation:** The Chair noted that while the Workgroup timeline is fixed, the implementation date cannot be guaranteed as it depends on Ofgem’s decision. Given the urgent designation, Ofgem is being asked to make a decision within the compressed timeframe, but this remains outside the Workgroup’s control.

Terms of Reference (ToR)

The Chair outlined that the Workgroup report will be assessed by the Panel against its agreed Terms of Reference at the conclusion of the Workgroup stage of the process in mid-June. The Chair highlighted the key areas for consideration as: whether CMP475 has any Electricity Balancing Regulations (EBR) implications; whether the proposed change is achievable; the trade-off in cash-flow risk between NESO and suppliers; interactions with CMP475 and any other urgent BSUoS-related modifications; impacts on the energy price cap and consumer bills; and impacts on system security and safety. The Chair noted that while these topics do not all require standalone agenda items, the Workgroup must be able to evidence that they have been considered through the course of discussions. Formal review and agreement of the Terms of Reference was deferred until later in the meeting, following the Proposer’s presentation.

Proposer’s Presentation

The Proposer presented the background, issues, and proposed solution for the modification, focusing on NESO’s need for greater flexibility in managing the working capital fund and the introduction of a top-up tariff to address volatility and NESO cash flow risks.

- **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 over-recovery to 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.

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- **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.
- **Forecasting and Communication:** The Proposer detailed that NESO provides regular updates to industry and seeks input on what additional information would be helpful for greater visibility, emphasising the importance of clear communication and timely data for forecasting and decision-making.
- **Discussion of Tariff Reset Mechanisms and Alternatives:** Workgroup members discussed the drivers of recent cost increases, the timing and triggers for tariff resets, and potential alternatives such as partial recovery, longer notice periods, and retrospective adjustments.
 - **Drivers of Cost Increases:** The NESO SME clarified that recent increases in forecast costs were due to both market volatility and changes in outage projections, with constraints and wholesale prices both contributing.
 - **Tariff Reset Process and Notice Periods:** The Workgroup reviewed the internal NESO process for monitoring and triggering tariff resets, the rationale for the minimum five-day notice period, and the challenges of balancing timely action with industry needs for predictability.
 - **Alternatives to Full Recovery:** Suggestions from Workgroup members included recovering to a partial level (e.g., 50% of the working capital fund) to spread the impact over time and considering mechanisms for returning over-recovery to suppliers more quickly, rather than only through future tariffs.
 - **Retrospective Adjustments and Reconciliation:** One Workgroup member suggested the idea of retrospectively adjusting the top-up tariff through settlement runs if over-recovery occurred, prompting discussion on the feasibility, consumer and supplier impacts, and the complexity of such reconciliations.
- **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.
 - **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

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may necessitate a higher facility, potentially in the range of £1–1.5 billion, to match forecasted risks.

- **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.
- **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 cycle, 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.
 - **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.
- **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.
 - **Notice Period Adequacy:** 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.

Agree Terms of Reference (ToR)

The Chair presented the Terms of Reference asking the Workgroup whether there were any objections to the proposed Terms of Reference for CMP475, noting that the Panel would assess the Workgroup against them at the conclusion of the process. No objections were received from the Workgroup and the CMP475 Terms of Reference were agreed by the Workgroup.

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Cross Code Impacts

The Workgroup confirmed no cross-code impacts have been identified at this stage.

Any Other Business

None

Next Steps

The meeting summary to be circulated before the next meeting.

Actions (none identified at Workgroup meeting 1)

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

Action Number	Workgroup Raised	Owner	Action	Due by	Status
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Attendees

Name	Initial	Company	Role
Robert Hughes	RH	NESO	Chair
Andrew Hemus	AH	NESO	Tec Sec
Alex Curtis	AC	NESO	Proposer
Andy Colley	ANC	SSE	Workgroup member alternate
Andrew Green	AG	Waterswye Associates	Workgroup member alternate
Damian Clough	DC	SSE	Workgroup member
Gareth Evans	GE	Waterswye Associates	Workgroup member
Ghulam Haider	GH	Ofgem	Authority Representative
Gregory Edwards	GRE	Centrica	Workgroup member alternate
James Knight	JK	Centrica	Workgroup member

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Karl Maryon	KM	Drax Energy Solutions Limited	Workgroup member
Katie Clark	KC	NESO	SME
Louise Hellyer	LH	TotalEnergies Gas and Power	Workgroup member
Martin Cahill	MC	NESO	Proposer Alternate
Nick Everitt	NE	NESO	SME
Paul Youngman	PY	Drax Energy Solutions Limited	Workgroup member alternate
Pawel Czarnowski	PC	Scottish Power	Workgroup member
Ross Davidson	RD	Scottish Power	Workgroup member alternate
William Cartwright	WC	TotalEnergies Gas and Power	Workgroup member alternate