Fixed Tariff 6 (Oct 26 – Mar 27) BSUoS Tariffs Webinar

Q&A Summary – 15/01/2025

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Purpose	To summarise the questions asked as part of the Fixed Tariff 6 (Oct 26 – Mar 27) BSUoS Tariffs webinar and the answers provided by the presenters.
Date	15/01/2025

Introduction

A webinar was held on 15 January 2025 to outline NESO's Fixed Tariff 6 BSUoS tariffs for October 2026 to March 2027.

You can download the slide deck from this webinar **HERE**
You can view a recording of this webinar **HERE**

The following questions were asked, and answers provided during the webinar Q&A session:

#	Questions	Answers
1.	As your cost forecast is dipping well into the WCF, what is the forecast P level that would require a tariff reset?	The decision to reset tariffs will be dependent on several factors, including, but not limited to, our forecast cash position and the time scale of the potential tariff reset. Therefore, it is quite difficult to provide an absolute P level that would result in a tariff reset. Our latest revenue vs cost report (16 January 2025) shows our lowest forecast cash position to be - £147m on 30 November 2025. Therefore, there would need to be an increase in our balancing costs of circa £153m for us to exceed the WCF at this point. This is, roughly, the equivalent of two months out-turning at P90 of our February 2025 forecast. We are looking to perform more analysis over the coming months in terms of the P levels and impact

		this would have on tariff reset, in order to inform the tariff reset methodology to be set out in CUSC.
2.	Can you please give more details on changes to macro economic factors giving rise to the additional £158m	The additional £158m as shown on slide 12 is predominantly from capex costs, for projects such as the control room upgrade, digital architecture and connections reform. Macro-economic factors account for c £20m of the £158m, from inflation updates and the impact of the change in employer NI from the latest budget.
3.	If the forecasted under recovery by the end of FT5 breaches the £300m headroom at some point prior to the end of March 25, is there any potential that the FT5 rate could be altered? From the weekly NG update last week, we can see that the latest under recovery view at the end of FT5 has now risen to c.£182m hence the question.	There does remain the risk of a tariff reset if the forecast under-recovery exceeds the working capital facility to support the BSUoS charge. The decision to reset tariffs will be dependent on both the timescale of the forecast under-recovery and the drivers behind the under-recovery. We are working on further details regarding the tariff reset process which will be incorporated into CUSC.
4.	Your graph of Balancing Costs shows increased balancing/constraint costs for Fixed tariff 4, 5 and 6. Do you expect this increased level of cost to continue?	The two key drivers for balancing costs within our BSUoS forecasting model are the wholesale market price, and the proportion of demand met by renewables. Since our November interim update, we saw an increase in the forecast wholesale market prices which resulted in the increase in the forecast Balancing Costs. Therefore, our future 24-month BSUoS forecasts will be influenced by the latest wholesale market prices (on average, a 20% change in wholesale market prices results in a 10% change in the balancing cost forecast).
5.	Can you explain the rational for the methodology change to the recovery position?	Our forecast cash position as of tariff setting showed that we were due to be under-recovered by £160m by the end of Fixed Tariff 5. If we had continued to use the same methodology in previous tariffs, we would have made no adjustment for this forecast under-recovery, and our forecast cash position would have remained between £160 - £230m under-recovered throughout Fixed Tariff 6. It was felt this

		would have increased the risk of a tariff reset within Fixed Tariff 6.
6.	Slide 13 says NESO has received winter security of supply request? but value remain zero. Just seeking clarification. Thank you	NESO had received requests regarding Winter Security of Supply in previous winters, however we have not received a request relating to 2024/25 or 2025/26, therefore we have not included a value for Winter Security of Supply in Fixed Tariff 6. We have amended the wording on slide 13 to clarify this point, thanks for highlighting this.
7.	Will this new over/under recovery methodology apply to future tariffs?	Our methodology for over/under-recovery is dependent on our forecast cash position at the point of tariff setting, as we are trying to balance consistency of methodology with protecting our working capital facility to try and reduce the risk of a tariff reset. We will provide an update as part of our Initial, Draft and Final Tariff publications.

Document Revision History

Version Number	Date of Issue	Notes
1.0	03 February 2025	Fixed Tariff 6 BSUoS Tariffs Webinar Q&A