brook green supply

BSUoS and the Cost of Balancing Britain's Power System

The energy market continues to face a period of heightened uncertainty, shaped by global instability, ongoing volatility in wholesale markets, and the steady rise of policy and network-related costs. Against a backdrop of geopolitical tensions in the Middle East and increasing pressure from non-commodity charges, businesses are navigating an increasingly complex energy landscape.

As the industry enters the new BSUoS tariff period from April 2026, we've provided some insight into how BSUoS costs could evolve over the coming years and what this may mean for customers.

Current market conditions indicate that BSUoS costs may see a significant increase in future tariff periods, or potentially a reopener of current tariffs, driven by higher balancing costs, continued market volatility and the recovery of accumulated under-recovery through subsequent charges. For customers, this remains an important area to monitor, with potential implications for delivered electricity costs, budgeting and forward procurement decisions.

What is BSUoS?

Balancing Services Use of System (BSUoS) charges recover the costs incurred by the National Energy System Operator (NESO) to balance the GB electricity system in real time. These costs arise from actions taken in the Balancing Mechanism and ancillary services markets to manage short-term mismatches between electricity supply and demand, as well as to resolve transmission constraints across the network.

Why balancing costs are increasing

In recent years, balancing costs have increased as the system has operated under tighter and more volatile conditions. Higher wholesale electricity and gas prices have raised the cost of dispatching flexible generation, while increased price volatility has led to more frequent and more expensive interventions. Sharp intraday price movements have also made real-time balancing more costly, particularly when the system relies on marginal units with higher short-run costs.

Recent market events have reinforced these pressures. Disruptions to global gas supply, geopolitical tensions and unplanned outages across generation and infrastructure have contributed to rapid shifts in wholesale prices and system conditions, increasing both the likelihood and cost of balancing actions as NESO responds to less predictable supply-demand dynamics and tighter operating margins.

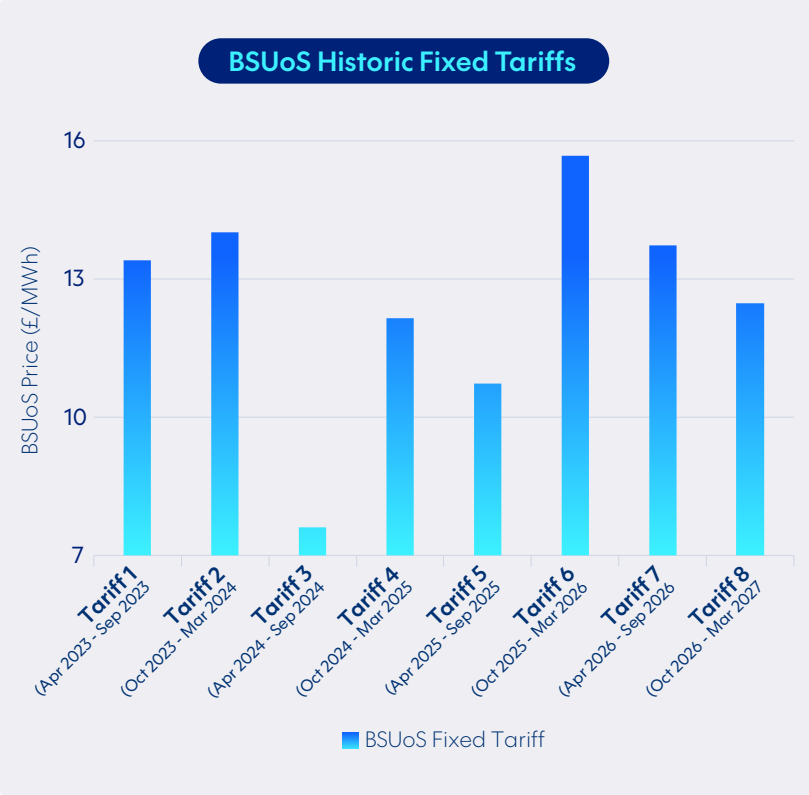
At the same time, structural factors such as network constraints and the geographic mismatch between generation and demand have increased reliance on redispatch actions, further raising costs recovered through BSUoS. Constraint costs in particular have become a more significant component of balancing expenditure as the system adapts to changing generation patterns.

The impact of the energy transition

The transition in the generation mix is also contributing to these dynamics. As intermittent renewable generation grows, the system requires more active balancing to manage variability and forecast error. This increases both the volume of balancing actions and exposure to short-term market prices, reinforcing cost pressures and greater variability in outturn costs.

How the current tariff framework works

Under the current fixed tariff methodology, BSUoS charges are set in advance based on forecast costs. As actual system conditions evolve, differences between forecast and outturn costs can emerge. Where balancing costs exceed expectations, an under-recovery position develops. This is carried forward and recovered through subsequent tariff periods, creating a lag between when costs are incurred and when they are reflected in charges.

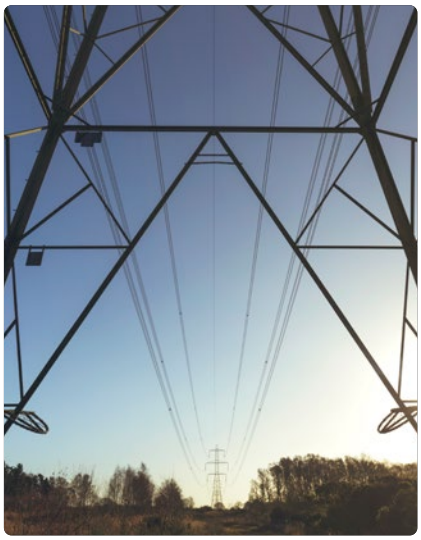


Potential tariff reopeners and cost recovery

Recent forecast updates indicate that balancing costs are tracking above the assumptions used to set current tariffs, resulting in a developing under-recovery position. On current estimates, this may require Tariff 7 and Tariff 8 to be reopened under the reset framework, with indicative uplifts of approximately £3.17/MWh for Tariff 7 and £2.92/MWh for Tariff 8.

Any remaining deficit is then likely to place further upward pressure on future BSUoS charges from April 2027 before easing over time as planned network and market reforms begin to reduce balancing costs.

NESO manages the cashflow implications of this process through a Working Capital Facility (WCF), which provides short-term liquidity to cover timing differences between costs and revenues. This supports operational stability but does not reduce the overall cost recovered through BSUoS, as any under-recovery is ultimately reflected in future charges.



Proposed industry changes: CMP474 and CMP475

Two industry code changes are now being progressed to strengthen the framework when the WCF comes under pressure.

CMP474 – earlier market notifications and controlled resets

The first proposal (CMP474) would introduce a defined pre-breach control mechanism requiring NESO to issue a market notification when WCF utilisation is forecast to reach 50% of the £300 million facility limit.

This would include:

1. The projected date of facility exhaustion
2. The indicative revised tariff for the impacted period
3. The additional costs to be recovered
4. An early view of the following tariff period

It would also introduce a minimum lead time of three months and one week for any revised tariff, with resets calibrated to return utilisation below the 50% threshold.

CMP475 – faster recovery and greater flexibility

The second proposal (CMP475), raised by NESO, focuses on improving recovery flexibility and strengthening balance sheet resilience.

It would allow one or both fixed tariff periods to be reopened where forecasts indicate that the WCF limit is likely to be exceeded. This would enable tariff adjustments above the current minimum corrective level, supporting faster and more complete recovery of any accumulated deficit, with the reset calibrated to recover adequate costs and the WCF amount for the remainder of the tariff setting year. The proposal also introduces a Top-Up Tariff mechanism, designed to gradually restore the WCF towards a neutral position over time.

Implementation lead time

The final modification confirms a minimum notice period of three months before any new price cap can take effect. As price caps are applied quarterly, tariff changes must align with this cycle – for example, a decision made by 30 June would allow implementation from October.

Industry debate around cost recovery

In practice, these proposals pull in different directions. The first prioritises forward visibility, governance discipline and an orderly adjustment process. The second prioritises accelerated cost recovery and liquidity protection through more responsive in-period tariff interventions.

While both proposals are intended to strengthen the framework, our view is that the industry is not well served by sudden retrospective cost shocks, particularly where suppliers have already committed to fixed-price customer contracts. A more stable and predictable recovery mechanism remains the preferable long-term solution.

Longer-term network and market reform

Looking forward, DESNZ, Ofgem and the wider industry are progressing a range of reforms aimed at addressing the structural drivers of balancing costs.

A key element of this is significant network investment under the RIIO-3 framework, with RIIO-ET3 focused on reinforcing and expanding the national transmission system, and RIIO-ED3 supporting investment across regional electricity distribution networks from April 2028. Together, these programmes are intended to increase network capacity, enhance system resilience, accelerate low-carbon generation connections and support growing electricity demand from electrification, EV uptake, battery storage and heat pump deployment.

The impact on network charges

While this investment is expected to place upward pressure on network charges such as TNUoS (implemented from April 2026) and DUoS (anticipated from April 2028) in the near term, the strategic objective is to deliver a more robust, intelligent and flexible energy system.

By reducing network congestion, easing constraint volumes and enabling more efficient power flows across the system, these upgrades should lower reliance on expensive balancing interventions and improve overall system operability over time.

Outlook for customers

BSUoS therefore reflects both short-term market dynamics and the longer-term evolution of the electricity system. In practical terms, current conditions suggest charges may remain elevated or increase in future tariff periods, while broader network costs may also rise temporarily to fund essential infrastructure investment.

However, these changes are designed to facilitate a more efficient, adaptive and decarbonised grid, with pricing expected to become more stable, competitive and sustainable over the longer term.

Brook Green Supply's view

At Brook Green Supply we continue to work closely with Government and Ofgem on the growth of policy and network costs. Ofgem is currently undertaking a Cost Allocation Review, while the Government committed to reviewing its approach to levies in the Autumn 2025 Budget. Major reforms to charging costs are also being discussed as part of DESNZ's Reformed National Pricing workstream.

We will continue to keep customers updated as these developments progress.

If you want more help understanding these changes, please **get in touch** – our team provides personalised policy and regulatory guidance to help customers understand market changes and their impact on energy costs and procurement decisions.

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