

# Arenko Response to Ofgem's Call for Input on Options to address high balancing costs

5<sup>th</sup> December 2022

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## About Arenko

Arenko is in pursuit of a zero-carbon grid worldwide and was established in 2014 to enhance the value of energy storage assets. We have been operating large scale battery assets since 2016 and now focus on developing our Software Platform 'Nimbus'. Arenko's Nimbus Platform is a product ecosystem that maximises portfolio performance at scale. Our modular products are founded on our experience controlling assets and provide proven technology that standardises, controls, dispatches and optimises energy storage assets. These products are built with a philosophy of openness & extensibility at their core so that our customers can master their own innovation. Whether via access to our trusted pool of third-party developers or through personal usage of the Product APIs, our customers have the freedom of choice.

We currently have over 210 MW of battery storage operational on our platform with a contracted pipeline in excess of 1.2 GW of stand-alone and co-located battery assets. We are active players in the Balancing Mechanism (BM) and lead on the BM Reserve from storage trial with National Grid ESO in 2021<sup>1</sup>.

We would like to thank Ofgem for this opportunity to input into this Call for Input. Arenko are eager to work with Ofgem and other industry stakeholders to help create efficient markets that prove affordable for customers, help improve grid management and contribute towards our Net Zero ambitions.

**1. Do you agree that our preferred option will effectively prevent the behaviour that caused last winter's high balancing costs? Please provide reasons for your answer.**

Arenko agrees with the rationale behind the Licence Condition change. We understand that increasingly high balancing costs are impacting consumers at a time of extraordinary pressure on energy bills. Arenko welcomes changes being made to lower energy bills for consumers as we continue to navigate unpredictable and volatile global gas prices.

However, we do have some concerns that the Licence Condition, as drafted, risks unintended consequences that will damage the market signals that encourage new flexible technologies to operate in an optimal way that supports grid management and the transition to net-zero. For example, the current drafting of paragraph 2a (see below) is incorrectly capturing the behaviour of assets whose normal operating procedure involves submitting zero MW Physical Notifications (PNs). Batteries and other storage technologies that are 'energy limited' do this to reflect re-positioning that represents a more optimal use for the system.

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<sup>1</sup>[https://data.nationalgrideso.com/plans-reports-analysis/covid-19-preparedness-materials/r/trial\\_review\\_-\\_reserve\\_from\\_storage\\_in\\_the\\_bm](https://data.nationalgrideso.com/plans-reports-analysis/covid-19-preparedness-materials/r/trial_review_-_reserve_from_storage_in_the_bm)

## Paragraph 2a

*' 2. The licensee shall be considered to have obtained an excessive benefit from electricity generation in respect of a Settlement Period if: a. the licensee has submitted a Physical Notification of zero MW to the system operator in respect of that Settlement Period within the same Operational Day as that Settlement Period'*

We would strongly encourage Ofgem to reconsider the inclusion of this paragraph. It would be illogical to penalise energy limited assets for changing their plans to better reflect system needs.

Instead, we believe that Ofgem should focus on being incredibly clear on what the definition of **'excessive benefit'** is and tackling behaviour that is leading to high balancing costs through that avenue. We believe this should be the focus of the Licence Condition Change, as opposed to prohibiting OMW PNs within the same operational day as the settlement period in question.

In addition to this, we note that REMIT obligations already describe some of the tools that could be used to prevent certain behaviour with PNs. It would be useful to understand why Ofgem do not consider these tools, especially around physical withholding, to be effective in this scenario?

### Other factors for high balancing costs

We understand that Ofgem is looking to intervene in the market to protect the interest of consumers and is considering action which addresses market participant behaviour seeking to gain excessive benefit. However, Arenko strongly believes that this Call for Input should also consider how ESO's own actions contribute to higher balancing costs.

We would like to take the opportunity to highlight inefficiencies in the market that are not aligned with the interest of consumers and creating higher than necessary balancing costs. Namely this comes down to the lack of transparency from NGESO on their approaches balancing the system. This lack of information (for example, not knowing where assets will fall in merit order, or what volumes will be offered) limits market participants' ability to operate generating assets in the most efficient way possible, which therefore increases system costs and consumer costs. The assumption to be drawn from this is that the Control Room IT capabilities continue to struggle to effectively call on assets in merit order. As a result of this, smaller, cheaper, lower carbon units are skipped over and larger, more expensive and more carbon intensive units are selected by the ESO instead. Arenko operate relatively small, flexible units and have experienced consistently being overlooked in the BM despite being the cheapest option available to the Control Room.

Whilst we appreciate ESO's intention to address the high 'skip rates' (how often a plant is not dispatched in merit order) via the Strategic Balancing Capabilities Review Workstream, we note that work in this space has been delayed several times. Arenko believe that this issue also requires urgent examination by Ofgem to help address balancing costs. We would be happy to provide further evidence and analysis for Ofgem on our own experience with 'skip rates' in the BM on a bilateral basis.

### **2) Is the proposed licence condition drafting in Annex 1 sufficiently clear? Are there any drafting edits or additions that you would encourage us to consider?**

Before the Licence condition can be implemented, Ofgem should first clarify several points in the drafting:

The following terms require explicit definition in the text of the Licence Condition:

- **“Excessive benefit/amount”** – what is meant by 'excessive', what is the benchmark for a benefit to be considered excessive, what data will be used to assess this? over what timeframe will excessive benefit be considered?
- **“Submitting a Physical Notification of zero MW”** – we are not clear whether this means setting as zero PN or changing to zero PN. This should be made explained more fully if not taken out altogether.
- Guidance: The text of the licence condition and guidance should be very clear about the scenarios and the conditions under which it would apply to avoid incorrectly targeting assets which submit zero PNs in normal operating procedure.

As mentioned above, a particular concern from our perspective is around the current drafting of paragraph 2a, which could unfairly penalise the behaviour of assets whose normal operating procedure involves submitting zero MW PNs, including batteries and energy limited assets.

Again, we would strongly encourage Ofgem to consider removing paragraph 2a to avoid unintended consequences. We therefore suggest that Ofgem instead focus on defining 'Excessive Benefit'. Specificity is key given the risk of unintended consequences of market intervention.

**3) Do you agree with the initial list of factors to consider when assessing excessive behaviour? Are there any other factors that would encourage us to consider?**

See our response to Questions 1 and 2.

We consider that all factors set out by Ofgem require detailed explanation and expansion to ensure that generators can readily interpret and comply with the Licence Condition.

**4) Is there any specific information you would like to see in the accompanying guidance related to interpretation and enforcement of the new licence condition?**

If Ofgem go ahead with the implementation of the proposed licence condition, we suggest Ofgem clarifies the following factors in any accompanying guidance:

- The clear definition of what Ofgem deem as gaining '*excessive benefit*'
- An explanation of the data against which '*excessive benefit*' will be assessed and the rationale for looking at this data.
- How this licence condition would work in practice
- The scenarios and conditions in which it would apply would be useful, in line with TCLC guidance.

If you have any further questions regarding Arenko's response, please do not hesitate to contact me on the details below.

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