

NESO Business Plan 3 – Ofgem consultation

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Electricity Storage Network

The [Electricity Storage Network \(ESN\)](#) is the industry group and voice for grid-scale electricity storage in GB. The ESN has 100 members who have a mission to promote the use of energy storage and flexibility to support the net-zero transition. The ESN membership includes clean energy developers, owners, investors, optimisers, and academic institutions. This includes representation from publicly listed specialist funds focusing on storage and independent developers that have raised several billion pounds to invest in this new technology.

This response is based on extensive practical experience, input from our members involved in developing grid-scale electricity storage projects in GB, and feedback received via our Markets and Revenues working group.

About Regen

Regen manages the ESN. Regen provides independent, evidence-led insight and advice supporting our mission to transform the UK's energy system for a net zero future. We focus on analysing the systemic challenges of decarbonising power, heat and transport. We know that a transformation of this scale will require engaging the whole of society in a just transition.

Regen is also a membership organisation that manages the Regen members' network and the Electricity Storage Network (ESN). We have over 200 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups, academic institutions, and research organisations.

Continuing engagement

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Summary and recommendations

Our response is focused on the key policy area of Balancing Mechanism skip rates. We welcome further engagement on this and other topics with the Ofgem NESO regulation team.

Our recommendations are listed below:

Recommendation: The ambition should be for low-carbon assets to be skipped at a comparable level to high-carbon assets (e.g. CCGTs) and for specific targets to be set based on stage 0/1 NESO skip rate data. Ofgem should add this to the performance objective and success measures.

Recommendation: Ofgem should prioritise the development and publication of the skip rate consumer bill (materiality) analysis as part of the performance objectives and success measures.

Recommendation: Ofgem should add publication of the NESO skip rate root cause analysis once completed as a success measure concerning Balancing Mechanism transparency.

Recommendation: Add a requirement to set a skip rate target in collaboration with industry within the performance objectives and success measures for NESO.

Recommendation: Ofgem to ask NESO to report on constraint/system actions, separately to energy actions.

Recommendation: NESO's methodology for quantifying the impact of skip rates on consumer bills should be transparent, reproducible and involve a third party for credibility. It should be explicit in any tender that the methodology must be transparent.

Recommendation: The Reported Metrics framework should ensure that skip rates are reported at Stage 0/1 as well as Stage 5, ideally side by side, include data on the cost implications of skips and making public NESO's root cause analysis on skips.

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Responses to questions

Question 2

Do you agree with our proposal that the Performance Objectives comprise an ambitious one-year plan and sufficiently cover the key outcomes for the energy system and consumers during BP3? Are there additional key areas or outcomes that NESO should focus on for BP3?

No

ESN broadly accepts that NESO's Performance Objectives comprise an ambitious one-year plan that covers key outcomes for the energy system and consumers. However, regarding the "Operating the Electricity System" Performance Objective, ESN has concerns about the approach to Balancing Mechanism skip rates. While the objective includes transforming capabilities to enable secure zero-carbon operation, ESN believes it lacks sufficient specificity and ambition regarding reducing skip rates. The Performance Objective should explicitly prioritise decarbonising the Balancing Mechanism, alongside other key markets/services in line with the government's Clean Power 2030 objectives.

Recommendation: we recommend that the ambition should be for low-carbon assets to be skipped at a comparable level to high-carbon assets (e.g. CCGTs) and for specific targets to be set based on stage 0/1 NESO skip rate data. Ofgem should add this to the performance objective and success measures.

Skip rates have significant cost implications for consumers. When NESO skips lower-cost, lower-carbon assets in favour of higher-carbon alternatives, this directly increases balancing costs that are ultimately passed through to consumers. We were disappointed to see that the work done by LCP Delta, alongside the new skip rate methodology on the materiality or cost of skip rates to the consumer, has not been published. We are pleased to see a recent commitment to update this work and publish some new analysis. It is very important to industry that this piece of work is delivered and acted on.

Given these consumer cost implications and previous delays, ESN believes that the Performance Objectives should explicitly include consumer cost impact as a performance measure in managing skip rates. This would align the Performance Objective more completely with the "Consumer Value" strategic priority that NESO has identified for BP3 and create stronger accountability for operational decisions in the control room.

Recommendation: Ofgem should prioritise the development and publication of the skip rate consumer bill (materiality) analysis as part of the performance objectives and success measures.

NESO has committed to undertaking root cause analysis as part of its work to understand the reasons for skips in the Balancing Mechanism. We agree this should be a priority and welcome the focus on it. However, we would like to ensure that the root cause analysis that is carried out is shared with Ofgem and published to the industry for transparency.

Recommendation: Ofgem should add publication of the NESO skip rate root cause analysis once completed as a success measure concerning Balancing Mechanism transparency.

Question 3

Do you agree with our proposals for the individual Performance Objectives (and supporting Success Measures) as set out in this section? Are there any missing or incomplete Success Measures which Ofgem should set additional expectations for?

No

Our response is focused on the “Operating the Electricity System” Performance Objective and Success Measures, While ESN welcomes the increased transparency on skip rates data through NESO’s new reporting methodology. We also welcome the fact that skip rates are reducing. However, we have concerns about the measurement approach and that the current Success Measure lacks both clarity and ambition. In particular:

1. **Measurement methodology concerns:** There is a disconnect between how industry views skips (stages 0/1) versus NESO's approach (stage 5, with additional exclusions). This difference is one that is retained under the new methodology. We are concerned that it makes skip rates appear artificially low when NESO presents that data using stage 5 skip rate data and does not adequately represent the operational reality experienced by market participants. Ofgem should be aware of this difference when assessing success measures.
2. **Insufficient target specificity:** The expectation that NESO will "deliver a substantial reduction in skip rates that results in relative parity across technology types", lacks exactness. "Relative parity" is an unambitious standard when the fundamental goal should be to decarbonise the Balancing Mechanism in line with CP30, reduce the cost to the consumer of skips, and achieve absolute parity on skip rates across high-carbon and low-carbon assets. We are keen to work constructively with NESO and Ofgem to identify what that target should look like and the timeframes associated with it.

Recommendation: Add a requirement to set a skip rate target in collaboration with industry within the performance objectives and success measures for NESO.

3. **Constraint actions** – Constraint/system actions in the Balancing Mechanism should be reported on separately. Storage is well placed to provide constraint/system actions and the skip rates associated with this type of action have historically been much higher compared to energy actions.

Recommendation: Ofgem to ask NESO to report on constraint/system actions, separately to energy actions.

4. **Missing cost consideration:** The Success Measures should explicitly recognise the consumer cost implications of skipping low-carbon assets in favour of higher-carbon alternatives. This is a critical missing element that should be incorporated into measuring success. There is industry scepticism about whether Phase 3 of NESO's work on the cost impact of skip rates will produce meaningful outputs.

Recommendation: NESO's methodology for quantifying the impact of skip rates on consumer bills should be transparent, reproducible and involve a third party for credibility. It should be explicit in any tender that the methodology must be transparent.

Question 5

Do you agree with our proposal for Reported Metrics and the CMF?

No

The consultation states that "The new skip rate measure should be reported at the same frequency as RRE 1E was in BP2; monthly." While regular reporting is essential, to improve transparency and drive meaningful change, ESN believes the skip rates Reported Metric should:

1. Clearly show both industry's understanding of skips (stages 0/1) and NESO's methodology (stage 5) side by side to highlight the differences and prevent potential lack of clarity on performance.
2. Include data on the cost implications of skipping lower-carbon assets in favour of higher-carbon alternatives, providing transparency on the consumer bill impacts.
3. NESO is undertaking root cause analysis alongside its skip rate methodology to understand the key causes of skips. We would like to ensure this is published to the industry and transparent.

Recommendation: The Reported Metrics framework should ensure that skip rates are reported at Stage 0/1 as well as Stage 5, ideally side by side, include data on the cost implications of skips and make public NESO's root cause analysis on skips.