Zenobē's response to Ofgem's Business Plan 3 Draft Determinations – NESO

Background: Since 2023, Zenobē has been at the forefront of escalating industry concerns regarding battery skips in the Balancing Mechanism. As a founding member of the Battery Storage Coalition, we raised an open letter of 17th September 2024 highlighted the urgent need to address constraint 'skips'.[1]

In part, as a result of the Battery Storage Coalition's campaign, NESO pledged to improve battery use by delivering computer upgrades, providing extra control room staff and being more transparent.[2] Following further analysis, NESO has now also committed to provide a clearer definition of skips, work closer with industry, conduct a strategic review of dispatch processes and explore wider effects of skips.[3]

While these promises are welcome, NESO need clear and transparent deadlines, with enforcement action from Government and Ofgem to ensure delivery. We suggest a realistic deadline of end of 2025 for full resolution with gradual improvements being seen each quarter, as outlined in NESO's own timeline.

While we understand Ofgem's preference for aspirational goals focused on neutrality and continuous improvement, the absence of a clear target undermines the ability to measure success. This is particularly concerning given NESO's past performance, which highlights the need for a more robust and accountable approach.

Investor and developer confidence depends on having a clear pathway to resolution - this, in our view, requires a specific and measurable target. Without it, there is no firm signal of intent or accountability.

Additionally, there remains a lack of transparency around what level of progress is realistically achievable by NESO within the BP3 period. Without this clarity, it is difficult to assess whether the expectation of "relative parity across technology types" is credible or sufficient.

We have collated our feedback on Ofgem's Questions 2, 3 and 5:

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?

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?

Question 5

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

[1] Industry calls for urgent government action on battery storage to deliver 2030 target and cut household bills - Zenobē
[2] Battery storage | National Energy System Operator
[3] Microsoft Word - Defining, Measuring and Addressing Skip Rates.docx

Zenobē does not agree with Ofgem's proposals in respect of their approach to regulating NESO's improvements of battery skips.

The importance of a numerical target: Zenobē has concerns about the treatment of Balancing Mechanism (BM) skip rates within the "Operating the Electricity System" Performance Objective. While we support the objective's ambition to transform system capabilities for secure, zero-carbon operation, we believe it falls short in both specificity and ambition when it comes to reducing BM skip rates.

While aspirational goals are important, they are not enough to satisfy investors - particularly in light of NESO's historic inaction on this issue. Confidence among investors and developers hinges on a credible and timely route to resolution. NESO's publications and roadmaps are helpful, but industry and investors need clarity on what 'good' looks like for the market and consumers. Technology parity alone is insufficient if that parity is set at a level that remains unsatisfactory. In our view, this underscores the need for a concrete performance measure - specifically, a clear, time-bound target. Without it, ongoing uncertainty around Balancing Mechanism skips will continue to undermine investment decisions and hinder the transition to a low-carbon, flexible electricity system.

NESO's analysis and data publications: We acknowledge NESO's commitment to conduct root cause analysis to understand BM skips and welcome this as a necessary step. Disappointingly, NESO's current assessment of battery skips notably excludes "system actions" taken to manage network constraints. This omission limits transparency for industry, Ofgem and consumers by obscuring the full picture of why skips occur and the cost of these actions. At a time when curtailment costs are escalating, it is essential that Ofgem require NESO to include these system actions in both the analysis and reporting of skips to ensure proper oversight and accountability.

System actions are easy to solve and the expectation should be zero skips, as there are no operational trade-offs with conventional plant as they cannot absorb electricity like batteries can. Resolving these skips should be a near-term priority for NESO and Ofgem but continues to lack from their methodology.

Additionally, to ensure clarity and avoid potential misrepresentation of performance, NESO should present industry's understanding of skips - focused on stages 0 and 1 - alongside NESO's own methodology, which centres on stage 5. This side-by-side comparison would help highlight key differences and improve transparency. In addition, NESO should publish data on the cost implications of skipping lower-carbon assets in favour of higher-carbon alternatives, making clear the resulting impact on consumer bills.

While we welcome NESO's commitment to conducting root cause analysis alongside its skip rate methodology, it is essential that the findings are made publicly available. Regular and transparent publication of this analysis will allow the industry to better understand the underlying issues and collaborate on effective solutions.

In respect of Question 4: Section 4.43 of Ofgem's draft determinations outlines the need to "continue to reform our own markets to level the playing field and deliver value to consumers." However, NESO has already demonstrated a bias against batteries in the development of its Long-term Tender for stability services. While NESO has reserved bays for participating units, it has not allocated any associated capacity (i.e. no MWs reserved), effectively allowing only synchronous condensers to compete. This requirement has clearly excluded batteries, despite their proven cost-effectiveness in previous procurements and tenders.