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Determinations for NESO1 Business Plan - Octopus Energy Response

Sent by email to: nesoregulation@ofgem.gov.uk

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About Octopus

The Octopus Energy Group is the UK's largest domestic electricity supplier and a global leader in innovative smart tariffs and products that harness and reward consumer demand flexibility. With over half a million customers on smart tariffs and exponential growth, we are pioneering the future of energy.

Introduction

We welcome the opportunity to respond to the determinations for NESO1 Business plan and Performance Objectives. We support Ofgem's objective of strengthening regulatory oversight in line with NESO's expanding remit and system importance. We can confirm that we are happy for our response to be published.

We broadly agree with the majority of outcomes and associated success measures. However, we note that some success measures are too vague and we advocate for more detailed targets and interim milestones. Improving transparency and accountability is essential. Providing stakeholders with clearer metrics for evaluating NESO's performance will enhance confidence across the industry in the credibility of the performance framework.

Success measures must be more specific, measurable and time bound, as set out in the [Ofgem Business Plan Guidance \(May 2025\)](#). Examples of specific success measures and KPIs we would like to see are:

- The number of settlement periods in which fossil fuel plants are the marginal unit in the BM.
- Technology specific 'skip rate' targets, at an industry agreed 'level' in the skip rate methodology.

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- Consumer saving potential from both BM skips and not dispatching in the the Local Constraint Market (LCM) and the Demand Flexibility Service (DFS) in terms of both £/MWh and emissions.
- Volume of Consumer Led Flexibility in NESO markets (linked to the 12GW Clean Power 2030 target).
- Carbon intensity of balancing services.
- Number of hours and cost of Wind curtailment.
- Clear delivery timelines for connections reform.
- NESO and DNO interactions include timely resolution of market barriers, such as primacy rules and data sharing.
- Specific delivery dates for new markets and services, with interim milestones identified where appropriate.

We also propose that senior NESO members present their performance against these metrics, along with other agreed success measures, in a public Town Hall. This forum would allow industry stakeholders to ask questions and directly hold NESO accountable.

The stakes in Business Plan 3 (BP3) are exceptionally high. Achieving the Government's Clean Power 2030 objective will require a fundamental shift in how the system is planned and operated. Delivering 12GW of consumer-led flexibility is a core part of that transition and will not be achieved if the current pace of change and weak accountability mechanisms persist. BP3 must do more to hold NESO accountable for repeated delays, including by accelerating the scaling of successful innovations and removing outdated market rules that block progress.

Overarching views on NESO's Performance Objectives

Question 1: Do you agree with our assessment that NESO's six Performance Objectives, alongside Ofgem's additional Performance Objective allows for comprehensive assessment of NESO's performance?

We broadly agree with the six performance objectives outlined by Ofgem. We believe them to be comprehensive and broad enough to cover NESO's key activities. However, we would like to ask how NESO intends to incorporate these into their business plan. For example, will they be expected to republish to incorporate the final determinations?

We would like to see NESO provide clearer evidence of how the lessons learned from RIIO-2 and the broader business planning process are being incorporated to strengthen their decision-making and future strategy. It is critical that they

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demonstrate their capability to meet planned objectives, maintain energy security, and reduce costs, thereby providing the necessary assurance to both industry stakeholders and consumers.

We also note that many of the success measures are too vague. We support more specific, measurable KPIs for NESO. In our July 2025 and January 2026 consultation responses, we strongly recommended that Ofgem require the publication of clear KPIs linked to each Performance Objective. This would significantly enhance transparency, improve accountability, and provide stakeholders with a clearer basis for assessing NESO's progress.

We seek additional clarification regarding how NESO's performance against the stated Success Measures will be assessed and subsequently integrated into performance incentives. Specifically, the connection between this assessment and performance-related pay for identified senior NESO personnel needs to be made clearer.

Ofgem Expectations for outcomes and Success Measures

Performance Objective A: Planning a Clean Energy Future

Question 2: Do you agree that this sets a comprehensive set of Ofgem Expectations for the Planning a Clean Energy Future Performance Objective?

Yes we broadly agree with the objectives outlined. However, we believe this could go further with specific KPIs around carbon intensity and the number of hours of wind curtailment.

In terms of network requirements, NESO should be required to provide evidence to support the work they are doing to "*shape the future of energy by defining the energy infrastructure requirements across Great Britain*". This is a fundamental aspect of NESO's role, and it should carry the responsibility of maintaining the evidence base that reinforces decisions made on direction setting and strategic planning.

We seek to see improved coordination in network planning and development, including:

- Participation and representation across relevant societal, environmental, geospatial, and advisory groups.
- Endorsement of plans established by government.

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- Number and quality of SEP datasets provided across the RESP, CSNP and SSEP.
- Use of third party datasets (e.g. for RESPs) with up to date data used e.g. on battery costs.
- Sticking to timeframes set out and going through lessons learned exercise where there are delays (for example CSNP delayed by 6 months).
- Greater transparency over triggers and justifications for the projects in the CP30 pipeline and beyond.
- Cost reporting across the RESP, CNSP and SSEP.
- Flexibility and non network solutions should be integrated into network planning e.g. RESP and CSNP via early pathfinders.

We would also like to see greater competition and innovation in network development including:

- The number and quality / fit of potential projects for competitive delivery identified; including number and quality projects of both early pathfinders and later stage competition.
- Assessment and implementation of non-network solutions (flexibility).
- Tender process stages run in line with expectations in line with SOP.
- Appropriate level of market interest at relevant stages.
- Market readiness, including mock tenders or other engagement.
- Clear timeframes outlined.

Question 3: Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

We would like to see carbon intensity of balancing services with targets around this. Linked to this we would like to see KPIs around the amount of wind being curtailed.

Performance Objective B: Operating an Intelligent, Real-Time Grid

Question 4: Do you agree that this sets a comprehensive set of Ofgem Expectations for the Operating an Intelligent, Real-Time Grid Performance Objective?

We agree with the expectations and success measures set out. We would like to see specific KPIs related to technology specific skip rates and dispatch transparency in particular.

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We would also welcome further information on *'improved operational planning and forecasting'*. Whilst we welcome improvements to real time operability, Octopus Energy also believe there is also a role for NESO to take actions ahead of time to reduce the number of high cost actions left until the last minute in the Balancing Mechanism, when other, potentially cheaper, options are no longer available. For example, had NESO instructed the LCM and DFS services (ahead of time), how much could they have saved vs taking actions in the BM. This success measure should be designed with a value for money outcome in mind.

Question 5: Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

We broadly agree with the success measure set out by Ofgem. However we request that they are underpinned by clear numerical targets - for example skip rates as mentioned above.

Given the relatively high price of electricity in Great Britain, it is important that the operational choices made within the BM are considered as part of efforts to reduce overall system costs. The BM plays a central role in price formation across the electricity market, as the imbalance price is derived from the volume-weighted marginal MWh of energy accepted in the BM. As a result, whenever the marginal action in the BM is provided by fossil fuel generation, this directly sets the imbalance price for that settlement period.

It is important to recognise that the influence of the BM extends well beyond balancing. Participants in intraday markets actively anticipate the likely BM and imbalance prices when trading. If market participants expect the imbalance price to be higher than available intraday prices for a particular settlement period, they may purchase energy in intraday markets and allow that position to settle at imbalance. This arbitrage behaviour causes intraday prices to converge towards expected BM prices. In turn, intraday price signals influence day-ahead market pricing, as traders arbitrage differences between day-ahead and intraday markets. This chain of price formation means that marginal pricing outcomes in the BM can ultimately influence prices across the wider wholesale market and forward contracting.

Given this strong price-setting role, NESO should be required to set out in its Business Plan how operational changes could reduce the frequency with which fossil fuel generation sets the marginal price in the BM. This could include

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reforms to operational practices, improvements in dispatch optimisation, or the development of new mechanisms, such as ex-ante flexibility markets/ locational constraints markets, that enable flexible demand, storage, and low-carbon resources to respond earlier in the market timeline.

In addition, NESO should track and publish a transparent metric showing the number of settlement periods in which fossil fuel plant are the marginal action in the BM and set the imbalance price. This reporting would improve visibility of when fossil generation is driving price outcomes and provide a useful indicator of progress in reducing reliance on fossil marginal actions.

Where fossil fuel generation sets the marginal price in periods where the balancing volume required is relatively small (for example, below 750MW), NESO should also publish analysis identifying whether alternative actions, either by NESO or by market participants, could plausibly have avoided gas being on the margin. This could include, for example, the potential contribution of demand-side response, storage, or other flexible assets. Such transparency would help identify operational improvements and support the development of market arrangements that allow low-carbon flexibility to more effectively displace fossil fuel balancing actions.

Performance Objective C: Enabling Smarter, Cleaner Markets

Question 6: Do you agree that this sets a comprehensive set of Ofgem Expectations for the Enabling Smarter, Cleaner Markets Performance Objective?

We welcome NEO's proposed Performance Objective to '*evolve key market frameworks to enhance market signals, improve market access and make our data accessible. This will increase competition, reduce supply and price risks, support flexibility and innovation, and enable efficient market participation of new technologies and distributed resources.*' However, we are disappointed to only see two Ofgem Expectations set out under this objective. We believe there should be expectations around opening up markets or considering new market opportunities for consumer led flexibility with clear timelines set out.

Question 7: Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

We would welcome more information on the success measure '*quality/ coherence of market signals*' - what does 'good' look like here?

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We welcome a success measure around the NESO Routes to market review. This should also involve NESO committing to regular updates and having KPIs attached to removing market barriers. Currently, a large volume of low carbon flexible assets are unable to participate in flexibility services as a result of these barriers. A key success measure should be the volume of consumer led flexibility dispatched in NESO markets. This should also link up to the Clean Flexibility Roadmap and the associated CP30 12GW target for consumer led flexibility. Consequently, further success measures should also include engagement with Distribution System Operators and the Market Facilitator.

Performance Objective D: Delivering a Decarbonised, Operable Grid

Question 8: Do you agree that this sets a comprehensive set of Ofgem Expectations for the Delivering a Decarbonised, Operable Grid Performance Objective?

We agree with the stated expectations, however, we find D.3 insufficient to achieve a decarbonised grid. Given that decarbonisation is a fundamental tenet of NESO's agreed direction for the energy system and central to delivering Clean Power 2030, we require a more comprehensive outcome. This outcome must clearly detail NESO's specific actions to effectively decarbonise, going beyond a vague reference to 'low carbon technologies.'

We are also disappointed that Ofgem did not include co-location, microgrids, or flexibility as alternatives to network build as core, monitored expectations for achieving a decarbonised grid. Considering these viable alternatives is essential to prevent network overbuild and high consumer costs and must be integrated into both demand planning and connection reform.

We would also like to see:

- **Clear delivery timelines for connections reform:** The delivery timeline for connections reform should be clearly defined and monitored, as key milestones have already slipped. Implementation should remain aligned with the proposals set out in the End-to-End Connections Reform programme, with transparent reporting on progress.
- **Facilitating innovative connection models:** Success should be measured by the effective implementation of co-located and accelerated connections enabled through flexibility, ensuring projects that can support system

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needs are able to connect faster while maintaining system security.

- **Dynamic queue management:** The process for freeing up capacity when projects miss milestones must work effectively in practice. Spare capacity should be rapidly released and made available to developers that are ready to progress, enabling dynamic queue movement rather than allowing stalled projects to block viable ones.
- **Network planning and outage coordination:** NESO should play a stronger coordinating role with Transmission Owners to plan network outages in a way that minimises overall system costs and constraint costs, ensuring maintenance and upgrades are scheduled with whole-system impacts in mind.

Question 9: Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

We note that the Business Plan does not currently set out clear plans for how NESO will continue to engage with, and strengthen its engagement with, DNOs. Given the increasing importance of coordination across transmission and distribution, this would be a valuable area for further development.

Similarly, there may be an opportunity for Ofgem to consider whether the Success Measures could more explicitly capture NESO's role in improving engagement with DNOs and DSOs. Addressing the challenges surrounding the connections queue and associated delays will require a coordinated, whole-system approach. Transparent processes and strong collaboration across organisations will be essential to building confidence among stakeholders, and clearer direction at the Business Planning stage could help support this.

We also believe there is scope to improve transparency for customers in relation to connection offers. In our experience, the methodologies used to calculate connection timelines and costs can appear opaque, and developers often have limited visibility of why projects with similar characteristics may receive different offers.

Ofgem could therefore consider introducing an additional success measure focused on improving transparency and communication around connection timelines and cost calculations, including how NESO works with DNOs and communicates these decisions to customers.



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Performance Objective E: Driving Whole-System Resilience

Question 10: Do you agree that this sets a comprehensive set of Ofgem Expectations for the Driving Whole-System Resilience Performance Objective?

We concur with Ofgem's view that NESO must provide evidence of stakeholder engagement and actively work to enhance sector resilience. The proposed outcomes are adequate for evaluating NESO's performance.

We request that NESO are proactive in providing evidence supporting their decisions and assumptions. This transparency would allow stakeholders to better understand their position and facilitate the creation of an outcome that necessitates NESO's openness in developing and sharing its resilience planning.

Question 11: Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective F: Building a Digitally Connected Energy System

Question 12: Do you agree that this sets a comprehensive set of Ofgem Expectations for the Building a Digitally Connected Energy System Performance Objective?

We agree with the success measures detailed in the consultation.

We also note the significant investment in new IT systems to replace legacy systems, which is critical to ensuring our energy system is fit for the future. While we appreciate the scale and complexity of these projects, there must be robust governance and cost recovery mechanisms in place, especially where delays or failures occur. The £20 million expenditure on NESO's Electricity Open Balancing Platform (OBP) is a pertinent example where greater independent scrutiny would be welcomed. Particularly in the context of past failed IT upgrade programmes.

NESO's digitalisation efforts must deliver tangible improvements for industry participants. Legacy system issues have been cited repeatedly for years; robust governance and accountability must ensure that future IT investments genuinely resolve longstanding barriers to participation and market access.

Question 13: Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these

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Ofgem Expectations.

We would like to see a success measure around large IT projects, such as the Open Balancing Platform.

Performance Objective G: Providing Customers with a High-quality, Independent and Trusted Service

Question 14: Do you agree with our proposal to include this additional Performance Objective for NESO?

Yes we agree with this. However, to establish the “high degree of customer trust” required, NESO needs to look beyond inputs, such as stakeholder feedback and a Customer Trust Index, and develop a clear process of how to demonstrate its accountability. Octopus have consistently advocated for more public reporting mechanisms, such as Town Halls where NESO’s CEO and Executive Team report openly on progress, an important step to build trust and strengthen reputational incentives. In the battery storage space, skip rate tracking and the quarterly CEO round tables have been effective in improving the Balancing Mechanism for batteries. We would like to see a similar approach for consumer flexibility (both domestic and Industrial and Commercial) which is currently not being used effectively by NESO and faces multiple barriers to market entry.

Accountability on deliverables is critical because NESO holds significant market power and system influence. The governance framework must therefore go further in embedding transparency, external challenge and outcome-based accountability, including independent scrutiny of its activities and projects. Without this, there is a real risk that NESO becomes insulated from the impacts of its decisions on system costs, competition and innovation.

NESO must fulfil its intended purpose of strengthening independent, whole-system decision-making through proactive system leadership. To this end, NESO needs to take a more visible role in providing evidence-based advice and challenging both the government and the regulator. This is particularly crucial where existing policies or market arrangements are either creating avoidable system costs or impeding the necessary transition to a low-carbon energy system.

Question 15: Do you agree that the outcomes proposed under this Performance Objective are clear and comprehensive? Please provide any views for additional outcomes, if appropriate.

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Yes we agree. We would welcome further information on how NESO will meet these expectations.

Question 16: Do you agree that our proposed Success Measures can suitably identify the extent to which NESO has been successful in achieving the outcomes set?

As mentioned above, all success measures, when established, must be specific, measurable, and time-bound.

Value for Money

Question 17: Do you agree with our approach of requiring additional Value for Money reporting until sufficient information is provided by NESO such that we can perform a Value for Money assessment of this plan?

Yes we very much agree with this. Given that NESO is now a public body, it is critical that they are assessed on how money is spent and value for money, rather than just focusing on cost. We would like to see this more clearly reflected in NESO's Business Plan.

Reporting Requirements

Question 18: Do you agree that NESO should continue to report against these Metrics?

Yes we agree.

Question 19: Are there any additional metrics you would like NESO to regularly report against?

Additional metrics we would like to see included are:

- The number of settlement periods in which fossil fuel plants are the marginal unit in the BM.
- Technology specific 'skip rate' targets at an industry agreed 'level' in the skip rate methodology.

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- Consumer Saving potential from both BM skips and not dispatching in the the Local Constraint Market (LCM) and the Demand Flexibility Service (DFS) in terms of both £/MWh and emissions
- Volume of Consumer Led Flexibility in NESO markets (linked to the 12GW Clean Power 2030 target).
- Carbon intensity of balancing services.
- Number of hours and cost of Wind curtailment.
- Clear delivery timelines for connections reform.
- NESO and DNO interactions include timely resolution of market barriers, such as primacy rules and data sharing.
- Specific delivery dates for new markets and services, with interim milestones identified where appropriate.

Question 20: Do you agree with the proposed level of innovation funding for NESO?

Yes we broadly agree. However, given that consumers ultimately bear the cost of innovation funding, it is crucial to implement robust checks and balances. This is necessary to ensure that expenditure provides demonstrable system benefits and represents value for money.