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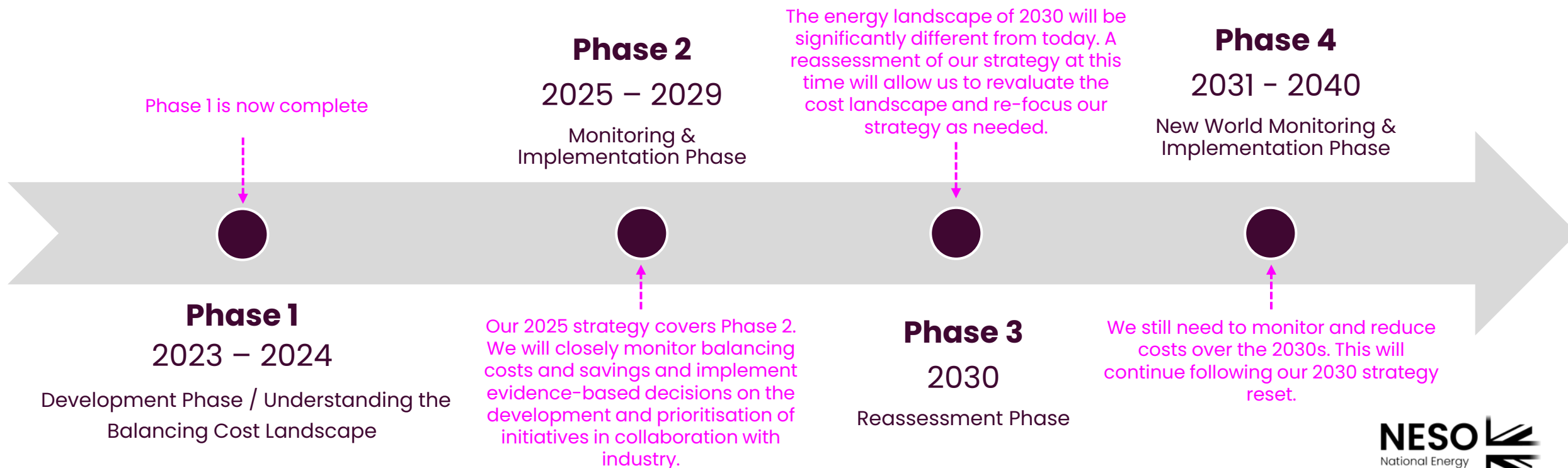
# Balancing Costs Strategy

2025

# Strategy Roadmap

Our Balancing Cost Strategy will need to adapt over time to meet the needs of an evolving energy landscape. We are now coming to the end of Phase 1 of the strategy (Development Phase) where we have mapped the balancing costs landscape and built NESO capabilities to deliver cost reductions.

This document recaps our Phase 1 strategy and introduces our Phase 2 strategy (Monitoring and Implementation Phase), starting from 2025. We also consider how this strategy will need to evolve over the longer term to accommodate the future power system.



# Phase 1 (Recap)

Development Phase /  
Understanding the  
Balancing Cost Landscape

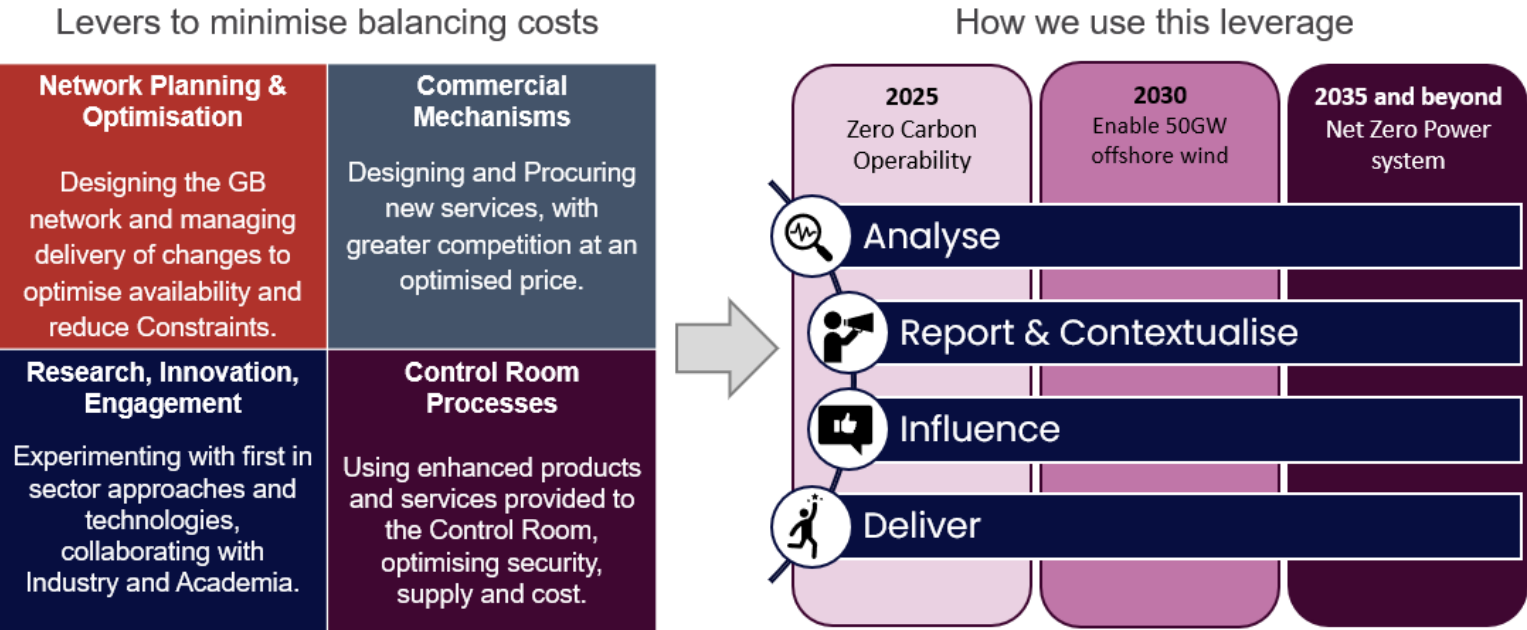


# NESO 2023 Balancing Costs Strategy

In 2023 we set out our first dedicated Balancing Costs Strategy. This outlined four key levers to minimise balancing costs and plans to utilise this leverage to deliver cost savings across a strategic timeline, while also increasing visibility of balancing costs through enhanced reporting and analysis.

Since this strategy was developed, we have made significant progress towards these goals, having established a dedicated Balancing Costs Team within NESO that provides a voice and advocacy to spearhead cost initiatives and contextualise balancing cost. Over the BP2 period we have progressed a significant number of initiatives, some of which are already delivering large savings in balancing costs. Through our enhanced analysis capabilities, we are now also able to more closely track savings delivered by these initiatives, providing strategic insight for further savings development.

## 2023 Balancing Costs Strategy



### How have we delivered change across BP2?

Our work on PN Inaccuracy improvements provides an example of how we have progressed change for balancing costs:

*(PN Inaccuracy causes significant operational risk and adds to balancing costs due to BM payments being misaligned to delivered output)*

<b>Analysis</b>
Analysis of FPN data to quantify misalignment and associated impact on balancing costs
<b>Engagement</b>
Discussions with Ofgem and DESNZ, and engagement with industry via OTF and WAG on issue and proposed solutions
<b>Solution development</b>
Establish acceptable threshold for PN Inaccuracy based on Control Room needs and generator capabilities
<b>Change</b>
Guidance Note published on 'Good Industry Practice' in August 2024 in relation to FPN accuracy in accordance with the Grid Code

# Delivery across Phase 1

## Balancing Costs Analysis

Phase 1 has supported the development of NESO's understanding and expertise of Balancing Costs. Analysis completed over Phase 1 includes:

- Detailed analysis on outturn balancing costs and trends across cost categories
- Drivers of balancing costs
- Savings calculations for cost savings initiatives, including Network Service Procurement (NSP) projects, DFS, reductions to inertia requirements, outage optimisation, and trading.

## Industry Engagement

Throughout Phase 1 we have provided training, context, and upskilling to key industry players to better understand the causes of high costs. We are also expanding our coverage of balancing costs at industry events, including the Operational Transparency Forum and delivery of specific industry webinars and workshops on balancing costs. Our expanding suite of Balancing Cost reports additionally aims to provide the industry with greater transparency on balancing costs and the work we are doing at NESO to reduce costs.

## Initiative Support

In Phase 1 we prioritised and gave a spotlight to the most effective initiatives to reduce costs. Some of the initiatives directly supported over this period include:

- PN Inaccuracy Improvements
- Reactive equipment network outages
- Demand Flexibility Service
- Local Constraints Market
- Balancing Reserve
- Constraints collaboration project

During Phase 1 we have developed our reporting capabilities and now deliver a suite of external publications supporting transparency on Balancing Costs and NESO's work to reduce costs

## Reporting delivered in Phase 1

### [Metric 1A Incentives Reporting](#)

- Monthly reporting on outturn balancing costs

### [Annual Balancing Costs Report](#)

- Our first Annual Report covering historic Balancing Cost trends and future projections

### [Balancing Costs Reduction Portfolio](#)

- Portfolio of initiatives to cut expenses in our balancing cost strategy

### [Seasonal Balancing Cost Reports](#)

- Summer and winter reports providing details of outturn balancing costs and associated market dynamics from the preceding 6-month period

### [Balancing Costs in Consumer Bills Dashboard](#)

- A visualisation of balancing costs in a typical household electricity bill and how these costs have changed over time

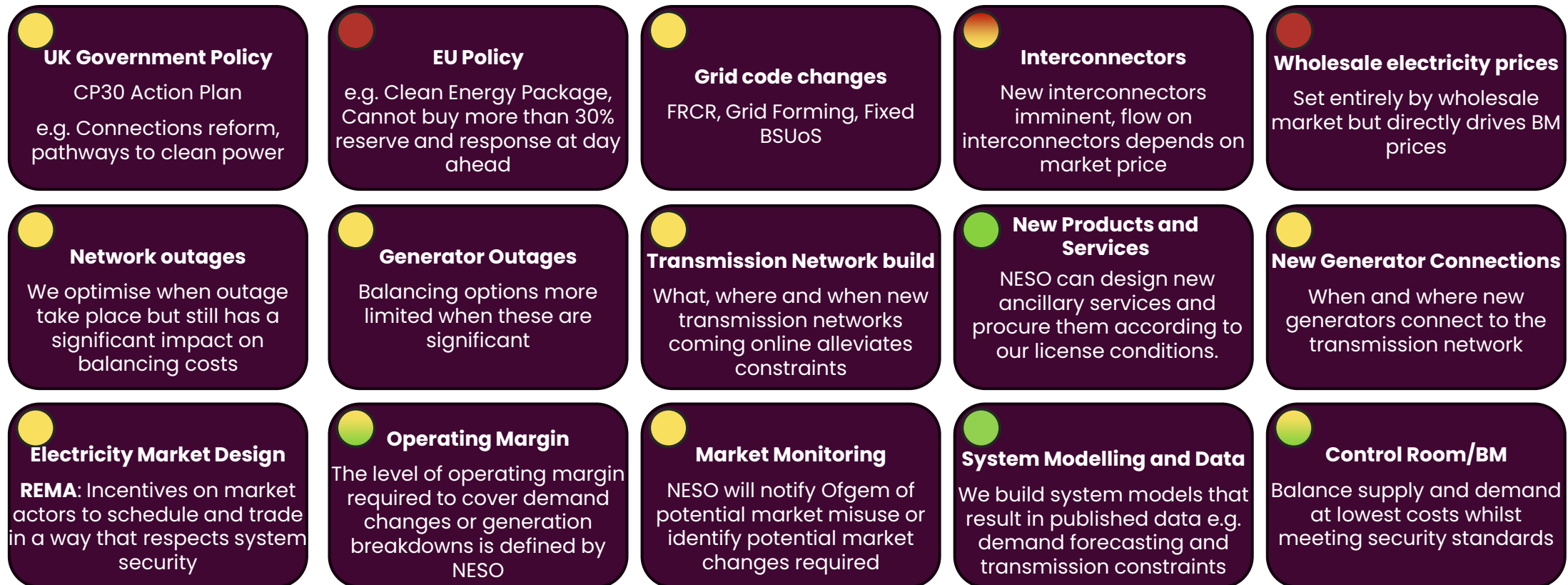
# Phase 2

Monitoring &  
Implementation Phase



# Factors that impact Balancing Costs with influence level NESO has over these factors

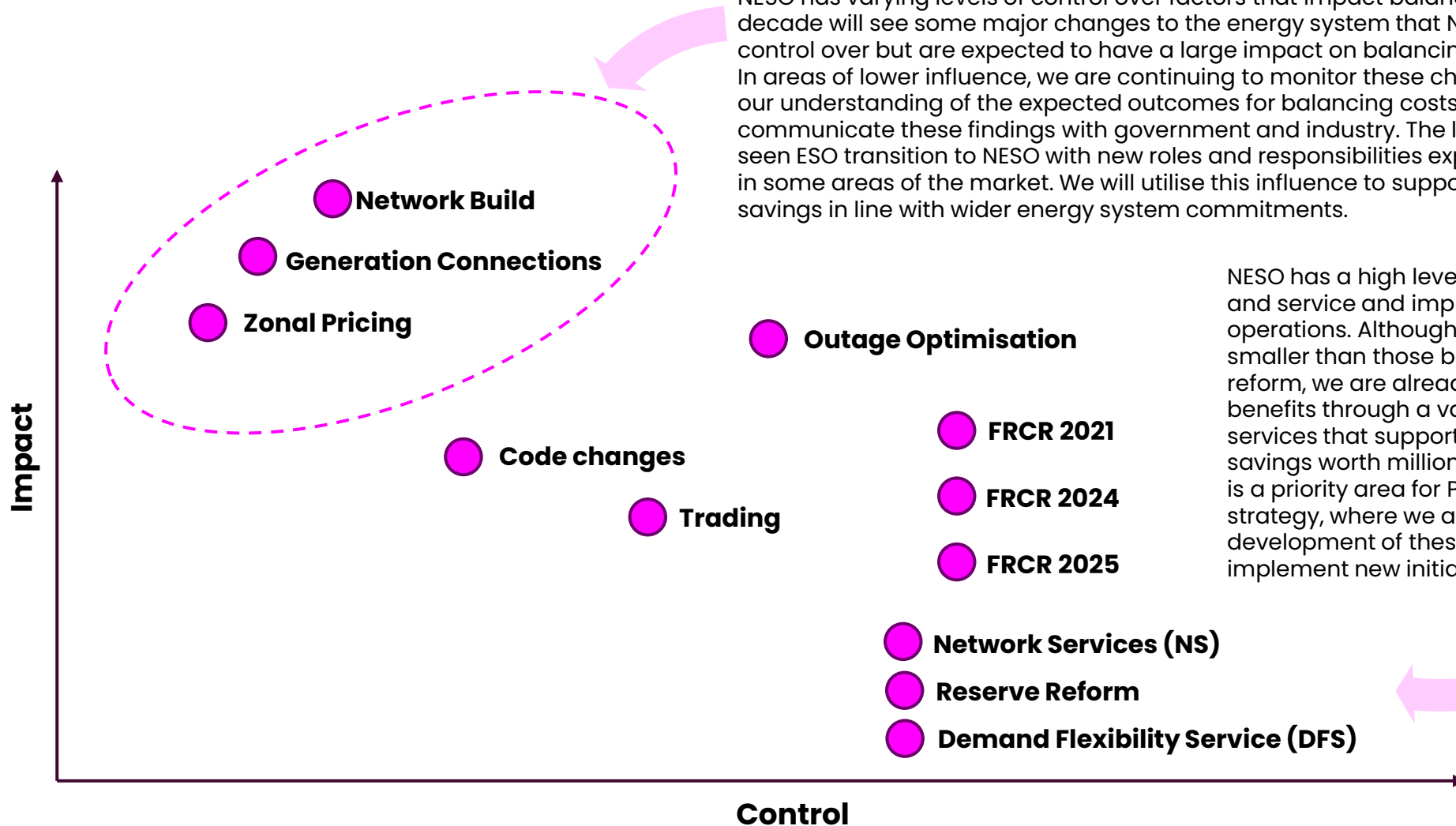
- These 15 factors are not mutually exclusive; they directly or indirectly influence each other
- NESO has different levels of influence on these factors
- The level of influence may change as NESO develops into new roles



Very little influence  
 Some influence  
 Strong influence

# Impact / NESO Control Matrix

NESO has varying levels of control over factors that impact balancing costs. The next decade will see some major changes to the energy system that NESO has limited control over but are expected to have a large impact on balancing costs. In areas of lower influence, we are continuing to monitor these changes and develop our understanding of the expected outcomes for balancing costs and will continue to communicate these findings with government and industry. The last year has also seen ESO transition to NESO with new roles and responsibilities expanding our influence in some areas of the market. We will utilise this influence to support delivery of cost savings in line with wider energy system commitments.

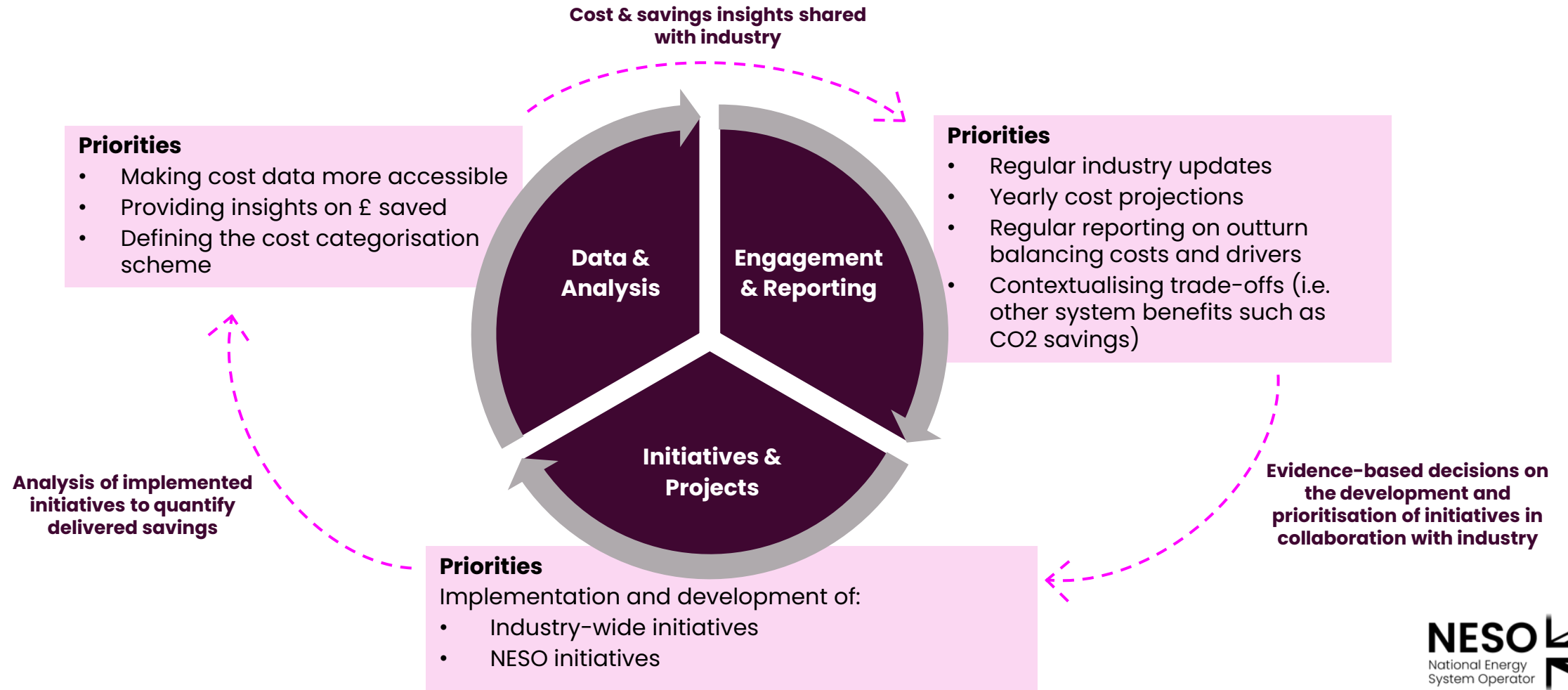


NESO has a high level of control over new products and service and improvements to system operations. Although these savings tend to be smaller than those brought about by wider system reform, we are already delivering significant benefits through a variety of initiatives and services that support system security and deliver savings worth millions of pounds each month. This is a priority area for Phase 2 of our balancing cost strategy, where we aim to support further development of these initiatives and design and implement new initiatives.



# Phase 2 Strategy

We have identified three key delivery commitments to our 2025 Strategy: **Data & Analysis**; **Engagement & Reporting**; and **Initiatives & Projects**. These components naturally support each other, providing flows of information and feedback to support ongoing improvements and adjustments to our delivery to meet evolving strategic needs.



# Phase 3 & 4

Reassessment & New  
World Monitoring and  
Implementation



# Changing energy landscape

The energy landscape of 2030 will be significantly different from today. Our long-term strategy will need to adapt to meet changing system conditions, which we will continue to track during Phase 2 of the strategy, with the aim to reevaluate and refocus our strategy for the post-2030 energy system.

## Clean Power 2030

**In 2024 Government outlined the ambition for Great Britain to be supplied with clean power by 2030. This will require significant and fast paced change for the energy system, with knock-on effects for balancing costs.**

What is changing?

- **Generation mix:** As more renewable, non-synchronous generation connects to the network and displaces synchronous generation, requirements to manage stability and voltage are expected to increase. Weather-driven generation and demand will also make balancing requirements more dynamic.
- **Locational balancing requirements:** New generation connections in constrained parts of the network can add to thermal constraints, especially as these outpace network reinforcement.
- **Transmission network:** Plans for network expansion will mitigate cost rises from new generation connections but takes time to deliver. Outages to enable access for network upgrade can also result in short term increases to balancing costs.

## REMA

**The outcome of Government's ongoing Review of Electricity Market Arrangements (REMA) is likely to result in some significant changes to the structure of the GB energy market. REMA is considering a wide range of reform options – some influential ones for Balancing costs are outlined below.**


What might change?

- **Zonal pricing:** Strengthening locational signals in the wholesale market. This could be achieved through making changes to the existing national pricing framework, such as by strengthening TNUoS, or by introducing zonal pricing. These reforms would reduce thermal constraint costs by incentivising market participants to operate and locate in a way that aligns with the physical needs of the system.
- **Dispatch arrangements:** Changes to dispatch arrangements could reduce the need for re-dispatch which would help to lower consumer costs.
- **Reforms to CfD:** Contracts for Difference (CfD) payments currently cause some distortions in the BM. Reforms to CfD arrangements could support better cost reflectivity in bid prices.

# The Bigger Picture

## How we look after balancing costs

- **Remove inefficiencies:** Removing inefficiencies in system operations, energy markets, and physical infrastructure can all reduce the volume of actions we need to take as the system operator and thus reduce balancing costs.
- **Incentives & disincentives:** Having the right market incentives can help us cost effectively support operations. This includes ensuring that we have the right distribution of generation and demand across the system and that we receive clear and accurate information from market participants to support control room decisions.
- **Industry engagement:** NESO has limited influence over some factors impacting balancing costs. By working with industry, we can expand the reach of our work to minimise costs.
- **Transparency:** Our work to provide more transparency on balancing costs and associated drivers supports strategic decision making for actions NESO, the government, and industry can take to reduce costs over the long term.
- **Innovation:** We are continuously assessing new ways we can operate the system. By experimenting with first in sector approaches and technologies and collaborating with Industry and Academia we are tackling the toughest problems faced by industry to deliver change at minimal cost.



Although the future energy landscape may look very different from today, our core principles for managing balancing costs will remain the same.



**If you have any questions or queries relating to Balancing Costs, please reach out to [box.nc.customer@neso.energy](mailto:box.nc.customer@neso.energy)**

For further information on NESO publications please visit: [neso.energy.com](https://neso.energy.com)