

Long Duration Electricity Storage  
developers and interested parties

Email: LDES@ofgem.gov.uk

Date: 8 April 2025

Dear stakeholders,

## Opening of application window one for projects

On 11 March 2025, Ofgem and the Government published a Technical Decision Document (TDD)<sup>1</sup> on a cap and floor scheme for Long Duration Electricity Storage (LDES) projects, noting that the application window would open this spring. The application window for projects seeking this regulatory regime is now open, from 8 April 2025, with **a submission deadline of 9 June 2025**.

## Background

The Government has introduced a cap and floor scheme to encourage investment in LDES, ensuring a minimum revenue for projects and helping developers manage high capital costs and long build times. LDES technologies capture excess electricity from renewable sources like wind and solar when supply exceeds demand or store power when it is cheaper, such as at night. The stored energy can then be used during periods of high demand or low renewable generation, reducing reliance on fossil fuels and contributing to a more secure, cost-effective, and low-carbon energy future.

The Government's Clean Power 2030 Action Plan<sup>2</sup> sees a significant future role for LDES technologies. Government-commissioned studies<sup>3</sup> suggest that LDES could save the energy system and consumers up to £24 billion by 2050. Our 2025/26 Forward Work Programme supports the Government's mission to make Britain a clean energy superpower and achieve the Clean Power 2030 objectives.<sup>4</sup> We aim to establish a new cap and floor regime for LDES and expect to approve the first projects in Q2 2026.

## Eligibility stage

In the first phase of the application window we will evaluate projects against the six criteria contained in the TDD. Developers must provide the required evidence to be eligible for the first application window of the cap and floor scheme. The application guidance and the eligibility criteria assessment framework, reflecting stakeholder input, provides more

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<sup>1</sup> <https://www.ofgem.gov.uk/sites/default/files/2025-03/Long%20Duration%20Electricity%20Storage%20Technical%20Decision%20Document.pdf>

<sup>2</sup> <https://www.gov.uk/government/publications/clean-power-2030-action-plan>

<sup>3</sup> <https://assets.publishing.service.gov.uk/media/659be546c23a1000128d0c51/long-duration-electricity-storage-scenario-deployment-analysis.pdf>

<sup>4</sup> <https://www.ofgem.gov.uk/sites/default/files/2025-03/Forward-Work-Programme-2025-to-2026.pdf>

details. Applicants are required to fill in and submit the relevant application form as part of their submissions.<sup>5</sup>

The deadline for submitting applications is **9 June 2025**. After this date, applicants will not have an automatic right to update or expand their submitted applications. However, applicants must fully engage with any Ofgem requests for further information, and keep Ofgem informed about any significant changes affecting project deliverability.

### **Cost benefit analysis stage**

During the CBA stage, Ofgem will evaluate the potential benefits of eligible projects with support from National Energy System Operator (NESO). Starting this month, we will engage with stakeholders to develop our initial CBA framework, which will be open for consultation in Q2 2025. We expect to publish the final framework in Q3 2025. After publication of the framework, we will ask eligible projects to submit detailed cost information by Q3/Q4 2025 for assessment starting in Q4 2025. We will provide a cost template and guidance in Q3 2025 to assist with submissions.

As stated in the TDD, we may split the CBA assessment into two tracks, depending on the volume of eligible applications, prioritising assessment of projects deliverable by 2030. We expect to clarify whether or not we will be splitting the CBA assessment by delivery track when we inform developers on our decision on eligibility this summer.

### **Further clarifications for the LDES application window one**

Following the publication of the TDD, stakeholders have requested further clarification in some areas to better understand the LDES regime and plan their applications. Appendix 1 to the application guidance document provides further details on some areas.

We consider the additional information in the guidance document and eligibility assessment framework to be clear. We will continue to engage with developers through workshops and consultations to shape the CBA framework and cap and floor regime financial parameters.

### **Update on competition process for cap setting**

In the TDD we set out that we plan to continue to explore the role competition could play in setting the cap. We stated that we expected to ask developers to submit 'bids' on their required project rate of return when they apply for the LDES cap and floor scheme.

We are continuing to consider using competition to set the cap, but this may only be adopted if it appears to offer better value for money for consumers by potentially achieving a lower project rate of return (RoR) than our administratively determined RoR. We plan to consult in June 2025 on the Cap and Floor Financial Model and the details of the methodologies we expect to use to set the cap and floor rates of return. This will include our initial view on the administrative cap project RoR for public consultation.

For eligibility application we expect developers to propose their target project RoR at the cap, specific to their project, and justify its appropriateness. We expect to take these submissions into account in our decision on whether or not to use competition to set the cap. For example, if proposals/bids from applicants seem to fall below the RoR for a

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<sup>5</sup> The application form can be found in Appendix 3 to the application guidance document published alongside this decision letter.

merchant generator like Drax,<sup>6</sup> we may prefer the competition approach and put these bids/proposals to public consultation alongside our administratively determined RoR (without disclosing the names of the bidders). If the bids are higher, we might drop the competitive approach, explaining that the bids were not properly incentivised.

If we decide to use a competitive approach to set the cap, eligible projects going through to the CBA stage can revise their bids after the competitive approach incentives are published in June 2025. We would also expect to consult with stakeholders and potential applicants to enhance and clarify the incentives, aiming to motivate more competitive bids for the CBA stage. We expect to publish the final incentives framework for consultation in June 2025, and eligible projects for the CBA stage can revise their bids based on the updated incentives framework in Q3 2025.

### **Clarity beyond window one**

In Q3 2025, we expect to inform stakeholders about whether the projects that passed the eligibility assessment can provide the LDES capacity needed by 2035. These eligible projects will then go through a CBA process; not all eligible projects will necessarily pass the CBA assessment.

We recognise that investors need clear signals to keep investing. Therefore, we aim to inform stakeholders in Q1 2026 about the expected timing for opening application window two, based on advice from NESO. Our approach will be flexible, prioritising the alignment of window two with the SSEP. We may also consider a contingency plan to open window two independently if the targets for window one are not met.

### **Notification of intent to apply**

Interested parties should email [LDES@Ofgem.gov.uk](mailto:LDES@Ofgem.gov.uk) by **22 April 2025** to indicate their intent to submit applications in respect of their projects and specify their preferred track. A separate email should be used for each prospective application, with a subject heading "LDES SCHEME APPLICATION: [Project Name]". The email should include the project name, project location (postcode or geographical co-ordinates) and technology type of project.

By providing this information to us will allow us to estimate and plan for the number of applications, which in turn is important to ensure we can complete the assessment process in a timely manner. We are committed to delivering in line with our stated process, however doing so will require ongoing collaboration from stakeholders.

If you have any questions about this decision, please contact the LDES team, at [LDES@ofgem.gov.uk](mailto:LDES@ofgem.gov.uk).

Yours sincerely

Gordon Hutcheson

Deputy Director, Low Carbon RAB

*Signed on behalf of the Authority and authorised for that purpose.*

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<sup>6</sup> LDES projects with cap and floor support should not have a higher RoR than merchant generation projects, as the latter face higher market risks and therefore demand higher returns. A higher RoR could distort the market. This regime provides a baseline return to investors, justifying a lower cap rate compared to merchant projects.