

# Financial Framework: LDES Window 1 Cap and Floor regime

Publication date:	19 <sup>th</sup> June 2025
Response deadline:	17 <sup>th</sup> July 2025
Contact:	Long Duration Electricity Storage Team
Team:	Low Carbon Infrastructure
Email:	LDES@ofgem.gov.uk

We are consulting on the proposed Financial Framework and related policies for Long Duration Electricity Storage (LDES) projects applying under Window 1 of the cap and floor regime. We are also publishing a draft of the financial model that will support this process.

We welcome responses from LDES developers applying in the <u>first window</u>, which opened on 8<sup>th</sup> April 2025. We also encourage feedback from other stakeholders and members of the public. Your feedback will help us develop a framework that protects consumers, attracts investment, and supports the objectives of the LDES scheme.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside our decision on this consultation on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

© Crown copyright 2025

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the <u>Open Government Licence</u>.

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at <u>www.ofgem.gov.uk</u>. Any enquiries regarding the use and re-use of this information resource should be sent to: <u>psi@nationalarchives.gsi.gov.uk</u>

# Contents

Fin	ancial Framework: LDES Window 1 Cap and Floor regime	. 1
Exe	ecutive summary	. 5
	What's included	5
	Next steps	6
1.	Introduction	. 7
	What are we consulting on	7
	Background	7
	Risk considerations for LDES Window 1	8
	Financial Framework design principles	9
	Next steps	10
	Related publications	11
2.	Approach to C&F levels setting for LDES	12
	Questions	12
	Returns under the C&F model versus the network model	12
	Role of competition in setting certain C&F parameters	13
	Cap and floor setting: competition framework	13
	Mitigating risk of strategic bidding	16
	Approach to selection - administrative vs. competitive	16
	Additional changes in C&E approach: Interconnectors versus LDES	17
~	Additional changes in Col approach. Interconnectors versus EDES	1/
3.	Downside protection – designing the floor mechanism	21
	Questions	21 21
	Approach to floor setting	21 21
	Setting the administrative floor level	21
	Setting the floor level for project finance debt	24
	How does this work with the broader C&F competitive approach	25
Δ	Designing the can mechanism	27
т.	Questions	27
	Role of cap in the LDES regime	27
	Approach to cap setting	27
	Setting the administrative cap level	28
	Setting the competitive cap level	30
	Sharing the upside: Designing the soft cap	30
5.	Capital costs	31
	Questions	31
	Capital costs	31
	Treatment of opex	35
	Cost assessment reopeners during the operational phase	36
6.	Cost and delivery incentives	37
	Questions	37

#### OFFICIAL

Consultation -	Financial	Framework:	LDES	Window	1 Ca	p and	Floor	regime
----------------	-----------	------------	------	--------	------	-------	-------	--------

	Policy objectives	37
	Cost incentives mechanism	37
	Delivery incentive mechanisms	40
	Treatment of delays and force majeure	41
7.	Financial resilience	42
	Questions	42
	Policy objectives	42
	LDES: A distinct risk class	42
	Capital structure controls	43
	Asset ringfencing provisions	43
	Early warning and reporting requirements	44
8.	C&F payments and charging mechanisms	45
-	Ouestions	45
	Policy objectives	45
	How C&F payments are made and recovered	45
	Key considerations	46
9.	End of regime arrangements	47
	Ouestions	47
	Policy objectives and framework for post C&F regime period	47
	Treatment of depreciation and financing of residual value	48
	Cost and delivery incentives	48
	Post-regime arrangements for LDES C&F Window 1 projects	48
10.	Cap and floor financial model (CFFM)	50
	Ouestions	50
	Policy objectives	50
	Approach to financial calculations	50
	Model and handbook governance	52
11.	Your response, data and confidentiality	53
	Consultation stages	53
	How to respond	53
	Your response, your data and confidentiality	53
	General feedback	54
	How to track the progress of the consultation	55
Anı	nex 1: List of consultation questions	56
Δn	nex 2 - Privacy notice on consultations	57
<i>-</i> \	Personal data	57

#### OFFICIAL

# Consultation - Financial Framework: LDES Window 1 Cap and Floor regime

# **Executive summary**

This consultation sets out Ofgem's proposed financial parameters and related policy details for the first application window of the Long Duration Electricity Storage (LDES) cap and floor (C&F) regime. The proposed framework is designed to enable the timely rollout of LDES technologies, which are essential for meeting the government's Clean Power 2030 target and long-term net zero goals.

We are asking for views on the detailed design of the financial parameters that will support the regime. This includes how C&F levels are set, how capital and operational costs are treated, and how incentives and protections are built into the regime to ensure good value for consumers while enabling investment in new LDES assets.

This consultation builds on the <u>Technical Decision Document</u> (TDD), published in March 2025, and supports the delivery of <u>Ofgem Forward Work Programme 2025/26</u>, which prioritises enabling a flexible, decarbonised energy system.

# What's included

The consultation covers the following key areas:

- How the cap and floor levels are set, including the role of competition, the choice between administrative and competitive approaches, and how these might influence risk management and project investability.
- How the floor works, providing downside protection for projects via minimum revenue to support bankability and financing.
- How the cap works, making sure consumers take a share of the upside when project revenues are high, while still allowing projects to benefit from strong performance.
- How capital and operating costs are treated, including development costs, spares, decommissioning, and interest during construction.
- Incentives for cost control and timely delivery, to encourage efficient construction and operation.
- Financial resilience measures, to help projects stay financially stable throughout the regime.
- > What happens at the end of the regime, including how any residual value is handled and how projects move into the post-regime period.
- The Cap and Floor Financial Model (CFFM), and its accompanying handbook, which explain how revenue levels are calculated and how project bids are assessed.

Each section includes specific consultation questions to gather stakeholder feedback.

5

# **Next steps**

This consultation is open until **17 July 2025**. We invite all stakeholders - industry participants, investors, developers, and other interested parties, to share their views by responding to the specific questions set out in each section.

In addition to answering the consultation questions, we also welcome **general feedback** on how we've progressed with the development of the LDES cap and floor scheme since the publication of our open letter in December 2024. Your insights on the direction, clarity, and pace of our work so far will help ensure the regime is fit for purpose and aligned with stakeholder needs.

All feedback received will play a key role in shaping the final version of the Financial Framework, which we aim to publish in **Q3 2025**. This will mark a major milestone in launching the first application window for LDES projects under the cap and floor scheme.

# **1. Introduction**

# What are we consulting on

- 1.1 This consultation details Ofgem's proposed Financial Framework and related policies for LDES projects awarded a C&F regime in the first application window. The framework is designed to ensure developers can raise the necessary financing in a timely manner, minimise potential market distortions, and protect consumer interests.
- 1.2 The consultation positions we have set out build on experience from the interconnector C&F regime and our other regulatory regimes but are tailored for LDES. The framework combines administrative and competitive elements, allowing projects to bid parameters suited to their technology.
- 1.3 We are seeking views on how we have designed the framework and how risks are allocated between projects and consumers.
- 1.4 We are especially keen to hear your views on the methodology for calculating financial parameters, the variables open to competition, and the financial model used to determine C&F levels. Your input will help ensure the regime is fair, effective, and fit to support the next generation of LDES.

# Background

- 1.5 In October 2024, the government introduced a C&F scheme to encourage investment in LDES, following a policy consultation. The LDES C&F scheme builds on the electricity interconnectors model, but with some changes to ensure it fits the needs of LDES technologies.
- 1.6 Given Ofgem's experience in managing the interconnector C&F regime, the government asked Ofgem to oversee the LDES scheme. Legislative provisions supporting the scheme are being progressed through the <u>Planning and Infrastructure Bill</u>.
- 1.7 In March 2025, Ofgem and DESNZ jointly published a <u>Technical Decision</u> <u>Document</u> (TDD), which outlined key design features of the scheme and provided an indicative implementation timeline. On 8 April 2025, the first application window ("Window 1") for LDES projects was opened.
- 1.8 On 28 May 2025, we published our <u>Consultation on LDES Project Assessment</u>. In that consultation, we noted that the outcome of this Financial Framework consultation will feed into the Project Assessment process. This consultation builds on both the TDD and the ongoing Project Assessment consultation.

# **Risk considerations for LDES Window 1**

- 1.9 One of the main areas we have considered carefully in preparing this consultation is the underlying exposure of LDES operators to different risks, and how these risks are treated under the C&F regime.
- 1.10 Our consultations and analysis suggest that LDES projects are likely to face a distinct set of risks, some of which are higher or additional compared to those typically seen in other C&F regulated assets, while others may be lower. Risk levels can also vary across different LDES technologies. Ultimately, the residual risk under a C&F regime will depend on the exact design of the regime and how much risk is transferred from projects to consumers.
- 1.11 We have considered the risk exposure of LDES assets in comparison to point-to-point (P2P) electricity interconnectors and <u>Offshore Hybrid Assets (OHAs) cap</u> and floor pilot scheme. Both of these regimes use a C&F that is the basis for the LDES regime. We have considered these risks both with and without a C&F regime in place. We find that:
  - a) LDES assets are likely to be subject to greater **revenue risk** relative to P2P interconnectors, given there is greater reliance on stacking multiple uncertain revenue streams and greater exposure to revenue cannibalisation from other competing assets. As with P2P interconnectors and OHA, the C&F scheme provides a degree of protection against revenue risk through the floor.
  - b) The level of **programme risk** during construction for LDES projects depends on the type of technology. For example, PSH involves major and sometimes complex civil engineering. However, LDES projects do not require sub-sea or offshore construction, face no cross-border complexities, and usually have lower integration risks compared to OHAs.
  - c) While some LDES technologies may not yet be widely deployed at scale, the Window 1 eligibility criteria require all projects to be at Technology
    Readiness Level 8 (TRL 8). This means the technology must be fully developed and proven in real-world conditions. As such, we do not consider them first-of-a-kind (FOAK), and no FOAK risk premium should apply.
  - d) LDES projects may still face similar or slightly higher operational risks due to their complexity and limited large-scale deployment (except PSH).
    However, the TRL 8 requirement mitigates this by ensuring the technology has been tested at a meaningful scale (at least 1MW), with established deployment and operational processes.

8

- 1.12 Overall, we consider that some LDES assets may carry slightly higher risks than other assets under a C&F regime, but the regime itself helps offset some of this. After accounting for any residual risks, our view is that the overall risk profile of LDES broadly aligns with that of P2P interconnectors and OHA.
- 1.13 This consultation brings together insights from stakeholder engagement and analysis by Cambridge Economic Policy Associates (CEPA) to inform how LDES risks should be addressed in the Financial Framework. The goal is to ensure that the framework is robust, proportionate, and supports investment in a range of LDES technologies.

# **Financial Framework design principles**

- 1.14 Given the wide variation between established technologies like Pumped Storage Hydro (PSH) and emerging LDES technologies, as well as the number of new technologies and the scale of required investment, the Financial Framework must be adaptable. It should accommodate diverse business models, financing structures, technologies, and risk profiles.
- 1.15 As with the financial framework in other C&F schemes, the LDES C&F Financial Framework must balance investor confidence with delivering value for money for consumers. Given our conclusions on the risk profile of LDES assets being broadly similar to other assets when overlaid with the C&F regime, we have adopted the same core design principles. However, we are adapting the framework to reflect the unique characteristics of LDES.
- 1.16 For this LDES scheme, we also see competition as a way to give flexibility to projects and support different technologies, while also helping to deliver better outcomes for consumers. We received 171 project applications for window one across a broad range of technology types which suggests to us that there is strong appetite from investors in the LDES C&F regime. As such we continue to consider that using competition to set key regime parameters is likely to be in consumers interests.
- 1.17 The following principles are proposed to guide the development of a Financial Framework for LDES:
  - a) Technology neutrality: The framework should be flexible enough to accommodate the LDES technology range (at TRL 8 & 9) without favouring any specific approach.
  - b) Cost efficiency and consumer value: The framework should maintain incentives on developers to ensure efficient delivery, cost control and innovation.

9

- c) Risk-based returns: Investors should earn returns broadly consistent with the level of risk in the sector, considering the risk reduction offered by the LDES C&F scheme. This ensures efficient capital allocation and avoids overcompensation.
- d) Enable investment: The framework should help projects secure financing at competitive rates and move forward with investment decisions on time, in line with the UK's Clean Power 2030 goals and broader net zero targets.
- e) **Regulatory clarity and stability**: The LDES C&F policy should be easy to understand and consistent over time, helping to attract long-term investment and giving confidence to developers, investors, and lenders.

# **Next steps**

- 1.18 Due to the large number of stakeholders involved, we do not expect to be able to engage directly with individuals during the consultation period. We will hold a workshop in the 3<sup>rd</sup> week of the consultation period to provide an opportunity for clarification of anything in this document.
- 1.19 We kindly request that, where possible, attendance at this workshop is limited to relevant trade bodies, representative groups, and applicant projects. We will contact all stakeholders who attended the workshops on 29 April and 18 June to confirm the details of this session. Other relevant stakeholders who did not attend both workshops but are interested in this one should email us at LDES@ofgem.gov.uk so we can ensure they receive an invitation.
- 1.20 Please kindly submit all consultation responses by 11:59 PM on 17 July 2025. See Section 11 of this document for details on how to respond. The final LDES Financial Framework decision is expected in Q3 2025, depending on consultation feedback. Project approval decisions are anticipated in Q2 2026.
- 1.21 We want to hear from anyone interested in this consultation. Please submit your response as a PDF on headed paper, clearly showing the name and details of the responding organisation or individual. Email your response to <a href="https://www.lbcs.org">LDES@ofgem.gov.uk</a> using the subject line:

#### **Financial Framework Consultation Response from**

## [company/individual name]

- 1.22 We have included specific questions throughout this document. Please respond to each one as fully as you can.
- 1.23 We will publish non-confidential responses on our website at <u>www.ofgem.gov.uk.consultations</u>.

#### OFFICIAL

# **Consultation** - Financial Framework: LDES Window 1 Cap and Floor regime

# **Related publications**

- 1.24 Links to related publications are provided below:
  - <u>Consultation on LDES Project Assessment</u> (May 2025)
  - <u>Decision on 2025-26 Interest During Construction rates for offshore</u> <u>transmission projects and C&F interconnectors</u> (May 2025)
  - Further detailed regime parameters for the Offshore Hybrid Asset pilot scheme: decision (April 2025)
  - Long Duration Electricity Storage: C&F application window 1 (April 2025):
  - Long Duration Electricity Storage: Technical Decision Document (March 2025):
  - Long Duration Electricity Storage Response to DESNZ Request: Q1 and Q2 (2025):
  - Future Energy Pathways Guidance (2025):
  - Ofgem's Forward Work Programme 2025/26:
  - <u>Ofgem's Open Letter: A call for input LDES C&F regime</u> (December 2024):
  - Clean Power 2030 Action Plan (December 2024)
  - <u>Decision on parameters of the C&F regime for Window 3 electricity</u> <u>interconnectors.pdf</u> (December 2024)
  - Long duration electricity storage consultation: Government Response (October 2024)
  - Long duration electricity storage consultation (January 2024)
  - Annex 5 of the Planning and Infrastructure Bill Impact Assessment (2025)
  - <u>UKRN guidance for regulators on the methodology for setting the cost of</u> <u>capital.pdf</u> (March 2023)

# 2. Approach to C&F levels setting for LDES

In the TDD, we proposed an approach to setting C&F levels for LDES projects. This section outlines how our thinking has evolved in response to feedback. Our aim is to use competition to offer investors greater flexibility while encouraging innovation and cost efficiency. We are seeking views on key aspects of this approach, including: the scope of competition and truth-telling incentives, treatment of different project types, and the handling of tax and inflation.

## Questions

- Q1. What are your views on our proposal to move beyond focusing solely on project return rates at the C&F levels, towards a more flexible approach that allows projects to tailor key parameters to the needs of their LDES project archetype?
- Q2. How well does the proposed competitive framework accommodate the differing risk profiles of various LDES technologies? Are there any technology-specific considerations that should be better reflected?
- Q3. How can Ofgem best ensure comparability between bids given the bespoke nature of the proposed parameters? Are there specific normalisation techniques or benchmarks you would recommend?
- Q4. What are your views on the proposed truth telling incentives? Do you think these will effectively discourage inflated or strategic bidding?

# Returns under the C&F model versus the network model

2.1 While the proposed C&F regime for LDES shares some features with other regulatory models, like offering downside protection and providing minimum revenue, it works quite differently from the way returns are typically set for large regulated utilities (like electricity and gas networks).

## **Expected versus Allowed returns**

- 2.2 In a typical network model, Ofgem sets a fixed allowed return based on an estimate of the Weighted Average Cost of Capital (WACC), giving investors certainty and protecting them from most market risks. This approach is central to the RIIO framework, which is designed for large, regional network monopolies like DNOs and TOs, and includes strong incentives for innovation and efficiency.
- 2.3 However, C&F projects are typically single-asset, long-term investments, with funding secured once for that purpose. In the LDES C&F regime, developers are expected to submit their proposed return levels through a competitive bidding process, which are then compared to Ofgem's administrative benchmarks.

2.4 A project's expected return depends on how it performs over time. Strong performance may lead to returns near the cap, while underperformance may result in returns closer to the floor. This creates a direct link between delivery and reward, encouraging efficiency and innovation while still offering a level of revenue certainty to support investment.

# Role of competition in setting certain C&F parameters

- 2.5 As we explained in the TDD and in our decision to open LDES Application Window 1, we believe that competition should be used to set some regime parameters and give projects more flexibility. This can lead to better outcomes for consumers by allowing projects to propose C&F terms suited to their technology type, encouraging innovation and efficiency. LDES projects vary widely, some face higher construction or operational risks, and their economic lifespans can differ significantly.
- 2.6 We have done more work to shape a competitive approach to setting the C&F levels, which is better suited to the needs of LDES projects.

# Cap and floor setting: competition framework

## **Bid parameters**

- 2.7 Under this competitive model, our proposal is to require projects to submit a bid package for the Project Assessment stage that includes five key parameters:
  - a) Target rate of return at both the cap and the floor (these are rates of returns that will apply to the Regulatory Asset Value (RAV)) The RAV is a way for Ofgem to measure the efficient value of a project's assets when deciding how much money the project is allowed to earn. It includes the approved costs of building, maintaining, and decommissioning the project, which are recoverable through the C&F revenue levels. The floor sets the minimum revenue allowed, while the cap sets the maximum. For the competitive process, Ofgem's proposed administrative benchmark for the cap return is **7.31% CPIH-real** and for the floor return is **4.47% CPIH-real**.
  - b) Proposed residual value of the project at the end of the regime (expressed as the proportion of upfront capex). This would be excluded from the RAV used to calculate cap and floor levels. Ofgem's benchmark for this will be a residual value of **zero**.
  - c) Developers must propose a regime length of at least 20 years. There is no fixed maximum to allow flexibility for different LDES technologies. However, if a project proposes a term longer than **25 years (Ofgem's benchmark)**,

the developer must explain how the project will remain financeable over that extended period.

- d) Target Interest During Construction (IDC) rate (%<sub>real</sub>). Ofgem's benchmark IDC rate will vary depending on the length of the construction period, rather than being fixed for all projects.
- e) Estimated decommissioning cost (as percentage of capex). Benchmarked by Ofgem based on its assessment of what is considered efficient and economic.
- 2.8 This approach gives projects the flexibility to tailor their bids to the specific needs and characteristics of their technology type. We expect this to enable applicants to make informed trade-offs in pursuit of the most competitive bid.
- 2.9 We expect projects to work closely with their financial advisors and providers of capital when preparing their bids. This approach enables them to design proposals that are both financeable and grounded in market competition, ultimately delivering greater value to consumers. Ofgem will assess these proposals against its administrative benchmarks.
- 2.10 Where the proposed parameters lead to lower C&F levels than using the administratively set parameters, we will apply the lower C&F levels provided we think doing so is in consumers' interests.
- 2.11 Ofgem will determine administrative C&F levels for each project using the final Cap and Floor Financial Model (CFFM), to be published in Q3 2025. These administrative levels will be compared to the project-specific bid C&F levels, which are based on each project's inputs across the five parameters using the same model. The percentage difference between the bid-based and administrative C&F levels will then be assessed for each project.
- 2.12 Also, the bid based C&F levels will be used in the Financial Assessment component of the Multi-Criteria Assessment (MCA) framework, provided this approach is confirmed following the outcome of the <u>Consultation on Project</u> <u>Assessment for LDES Window 1</u>.

## Technology-specific risk considerations

2.13 LDES projects use a range of technologies - like Pumped Storage Hydro (PSH), Battery Energy Storage Systems (BESS), or Compressed Air Energy Storage (CAES) / Liquid Air Energy Storage (LAES). Each technology comes with its own set of risks. PSH may face delays due to complex construction and planning, while newer technologies may carry greater performance uncertainty. We are

considering whether the LDES C&F regime can accommodate these differences while remaining technology neutral.

2.14 The competitive bidding process allows projects to propose bespoke financial parameters - such as regime length, decommissioning costs, and target returns - based on their own needs and risks. This flexibility is particularly important for technologies which may require longer regimes or different assumptions about residual value. By enabling projects to align their bids with their specific risk and cost structures, the regime enables more accurate risk pricing and encourages broader participation, including from technologies that might not perform well under a uniform administrative model in the Financial Assessment component of the Project Assessment.

# Truth telling incentive

- 2.15 Ofgem aims to design a framework that encourages projects to bid truthfully proposing C&F levels that reflect their actual investment needs, while still making the project attractive to both equity and debt investors.
- 2.16 Since projects that bid truthfully may receive lower C&F levels than Ofgem's administrative benchmarks, strong reward incentives are necessary to encourage honest bidding. We propose a framework based on two principles:
  - a) Enhanced revenue sharing for most competitive bids: Projects in the top 25% of bids, based on the biggest percentage cut from the administrative C&F levels set by Ofgem, will receive an enhanced sharing rate on revenue above the cap. This means they keep a higher percentage of any extra revenue, instead of the 10% offered under the default regime. We are initially considering doubling the sharing rate for these projects, subject to further analysis and consultation responses.
  - b) Bid evaluation in the Financial Assessment: The competitiveness of bids will be assessed as part of the Financial Assessment under the Project Assessment framework (currently under consultation). Generally speaking, we would expect that the most competitive projects would be likely to score higher in this assessment, and therefore be more likely to receive a C&F regime. We will also have an opportunity to consider the underlying financial deliverability of projects through this process.
- 2.17 We welcome views on the likely effectiveness of these incentives, or whether there are any alternative approach that may work better.

# Mitigating risk of strategic bidding

- 2.18 The competitive bidding model offers greater flexibility, targets lower C&F levels than those set administratively by Ofgem, and maintains technology neutrality. However, it also introduces risks that must be carefully managed. A key concern is strategic bidding, where projects may understate costs or overstate performance to appear more competitive. This can lead to delivery failures.
- 2.19 To address this, Ofgem will require robust evidence for all bid parameters. Where appropriate, this may include third-party validation from supply chain partners and potential debt and equity advisers or providers. This helps ensure that aggressive bids aimed solely at securing a C&F regime do not undermine the project's investability or deliverability.
- 2.20 A further challenge is reduced comparability between bids, due to the bespoke nature of the five bid parameters. This can make it harder to assess value for money across projects. While we recognise that comparing each bid like for like may not always be straightforward, projects will be assessed in the round as part of the Project Assessment, including by developing suitable comparator metrics. Where sensible, this may include like-for-like comparisons, such as PSH with PSH, and BESS with BESS.

## Approach to selection - administrative vs. competitive

- 2.21 Ofgem will apply a simple principle when deciding whether to use the administrative or competitive C&F levels for a given project for the purposes of calibrating the C&F levels. If a project's bid exceeds the administrative C&F levels, the administrative levels will act as a ceiling and be applied instead. This protects consumers from taking on unnecessary risk.
- 2.22 Conversely, if all project bids fall below the administrative levels, the competitive bids will be used. This approach encourages innovation and strengthens the role of competition in driving better outcomes for consumers.

# Recap of general approach to C&F levels calculation

- 2.23 Cap and floor levels will be calculated based on four cost building blocks, as set out in the LDES Cap and Floor Financial Model (CFFM) and its accompanying handbook, both published alongside this consultation.
  - a) Operating expenditure (opex) and Decommissioning costs are estimated as annual operating costs and end-of-life decommissioning costs, common to both cap and floor levels.

16

- b) Depreciation of the Regulatory Asset Value (RAV) represents the runoff of the RAV, which is built from development expenditure, capital expenditure, interest during construction, spares, and transaction costs, and adjusted for replacement expenditure during operations.
- c) **Return on the RAV** will be tailored to the returns suitable at the cap and the floor. These rates of return are discussed in Sections 3 and 4 below.
- d) **Tax** will be calculated on nominal, notional pre-tax revenue ex-ante, then deflated to real terms for consistency with the other C&F building blocks.

# Additional changes in C&F approach: Interconnectors versus LDES Inflation indexation

- 2.24 In the TDD, we proposed using outturn CPIH to adjust C&F levels under both the administrative and competitive models. This aligns with Ofgem's regulatory precedent and reflects CPIH's inclusion of owner-occupiers' housing costs, offering a more comprehensive and forward-looking inflation measure.
- 2.25 While we consider it may be necessary to provide a degree of inflation protection in the LDES C&F regime, we no longer consider it appropriate to mechanistically index C&F levels to outturn inflation as it risks creating unfair outcomes for consumers. Instead, we propose partially or fully indexing the C&F levels to *forecast* long term inflation rather than actual *outturn* inflation.
- 2.26 **Rationale for indexation approach:** Through Ofgem's <u>Call for input on the</u> impact of high inflation, we identified what we term "the leverage effect". When regulated infrastructure is financed by fixed rate debt and outturn inflation exceeds the Bank of England's long-run assumption (typically 2%), this generates windfall returns for equity investors. This occurs because inflation compensation is captured in full through the indexation of their RAV to outturn inflation, but higher inflation will only increase costs to investors where companies use index-linked debt. While our Call for Input was focused on regulated revenue streams, a similar concern exists for the C&F regime.
- 2.27 To address this issue in <u>RIIO-3</u>, we have decided to implement a hybrid indexation approach where the cost of debt allowance for fixed rate debt will be provided on a nominal rather than real basis, while maintaining real returns for index-linked debt and equity. Under this approach, the portion of RAV corresponding to the notional fixed rate debt assumption will be delinked from outturn inflation to avoid over-compensation. This solution addresses the inflation leverage effect by linking investors' compensation for inflation to typical

proportions of different financing options: nominal returns for fixed rate debt and inflation-protected returns for index-linked instruments.

- 2.28 It is not possible to directly adopt the approach taken for RIIO-3 for indexing the C&F levels, as the setting of the C&F involves an annuitisation step to keep the C&F levels constant in real terms. To maintain intergenerational equity between current consumers and future consumers, we consider it appropriate to continue to annuitise the C&F so that they remain broadly constant in real terms. As such, we consider there to be two options for addressing the inflation leverage effect in the context of the LDES C&F regime:
  - a) Adapting the RIIO-3 approach by splitting the cap and floor into a stylised debt-financed component and equity-financed + opex + decommissioning costs component. Both would be estimated in real terms and annuitised separately. The debt-financed component would be indexed to forecast inflation, using a 2% long-run inflation assumption (i.e. the same inflation assumption used to convert the nominal cost of debt benchmark into a real estimate), while the remainder would be indexed to outturn CPIH inflation.
  - b) Adopting a fully nominal regime where the C&F levels are fully indexed to forecast inflation. Under this approach, equity investors would bear inflation risk on the capital invested into projects throughout the duration of the C&F, and projects would be subject to some inflation forecast risk in relation to opex and decommissioning costs, particularly in instances where outturn inflation is significantly higher than forecast inflation. However, we consider that the opex reopener would provide mitigation against this risk.
- 2.29 The floor is primarily intended to ensure debt serviceability. As most project debt is fixed, indexing the floor would misrepresent actual financing costs. Keeping the debt portion nominal avoids overcompensating for inflation risk not borne by the project. This approach is consistent with the semi-nominal WACC outlined in <u>RIIO-3 SSMD</u>.
- 2.30 **Minded-to position:** Our proposal is to adopt a fully nominal regime where:
  - a) Initial C&F levels are estimated in real terms, where nominal cashflows are converted to real cashflows using our long-term inflation assumption of 2%.
  - b) C&F levels are then adjusted each year by our long-term inflation assumption of 2%.
- 2.31 We consider this approach is easier to implement than the RIIO-3 style approach, as it can be applied to the cap and the floor and requires no assumption around the underlying capital structure of a project. This approach

also prevents any potential unintended consequences from the administrative floor diverging from a competitive floor level set based on actual debt costs.

2.32 This proposal reflects a broader regulatory shift away from full inflation indexation. Under this structure, while the C&F levels still increase every year in nominal terms, projects are exposed to the risk that inflation is higher or lower than the long-run inflation assumptions. However, they gain the revenue stability essential for securing long-term LDES financing. Given typical asset lifespans and the 25-year regime duration, this approach provides a stable, predictable framework for both investors and consumers.

## Taxation

- 2.33 The C&F regime is designed to cover efficient and economic project costs, including taxes paid. We are considering two approaches to taxation: providing a broadly notional ex-ante tax allowance or allowing actual tax paid to be treated as a pass-through cost.
- 2.34 **Minded to position:** We propose aligning with the interconnector C&F regime by adopting an ex-ante approach. For Window 1 projects, the applicable tax allowance will be based on the UK corporate tax rate announced by the Treasury in the same year the cap and floor regime awards are made, and technologyspecific assumptions around capital allowance expensing rates. This includes rates set for that year or for future years, as long as the announcement is made within the same calendar year as the award.
- 2.35 **Rationale:** Adopting an ex-ante approach provides projects with greater certainty around the tax allowance, enabling more effective planning and optimisation. It also reduces the administrative burden on Ofgem by limiting the number of items requiring annual assessment. We welcome views from developers whether an ex-ante allowance is sensible, or whether it introduces undue risk given the possibility of changes to the corporate tax rate.

## Regime duration and residual value

2.36 The TDD sets a default regime duration of 25 years with no residual value at the end. We propose allowing projects to bid for their preferred regime duration (no shorter than 20 years and potentially longer than 25) and to submit a proposed residual asset value at the Project Assessment stage. A longer regime duration, all else being equal, would lower C&F levels by spreading costs over a longer period, making consumer payouts less likely. In most cases, such tailored bids should result in lower C&F levels than those based on default parameters.

#### OFFICIAL

# **Consultation** - Financial Framework: LDES Window 1 Cap and Floor regime

- 2.37 Any residual value bid should reflect the expected economic value of the project beyond the C&F term (whether 25 years or the length bid by developers), based on reasonable assumptions about asset life, future market conditions, and ongoing operational viability.
- 2.38 While Ofgem will apply a default assumption of zero residual value in its administrative model, bidders may propose a higher value, as this would lead to lower C&F levels and, ultimately, reduce any potential consumer payout if support is needed by the project.
- 2.39 It is important to note that the regime will conclude at the end of its awarded duration whether that is 25, 35, 40 years, or otherwise as specified in the project's C&F regime licence provisions. Any residual value beyond this point is at the developer's risk, with there being no obligation on Ofgem to provide a new C&F regime for the LDES asset. However, we expect that if assets are technically capable of still operating, developers would be likely to have ongoing routes to market on a 'merchant' basis.
- 2.40 This approach allows projects that last a long time and provide benefits over many years to reflect their full lifecycle value, while ensuring that the additional residual value proposed by the bidder, above Ofgem's default assumption of zero, is grounded in realistic and transparent assumptions.

# 3. Downside protection – designing the floor mechanism

The C&F regime is designed to provide a minimum revenue floor to help projects secure necessary financing. This section outlines three floor-setting approaches.

# Questions

- Q5. What are your views on our proposed approach to floor setting?
- Q6. What are your views on our proposed performance-linked measures to access the floor and incentives below floor?

# **Role of floor in LDES regime**

- 3.1 The floor is the minimum amount of revenue a project under the C&F regime can earn each year during the life of the regime, as long as certain conditions are met (floor payments will only be made if the project meets the minimum availability level set out in its C&F licence conditions).
- 3.2 In this context, revenue means the total amount the project is allowed to earn to cover its efficient and economic investment (as shown in the RAV), earn a return on that investment, and pay for approved operating and other costs.
- 3.3 This C&F scheme is designed to attract investment in LDES projects that might otherwise struggle to get funding due to unpredictable market revenues. The floor is key to making projects bankable, while ensuring that any consumer support remains fair, proportionate, and limits potential market distortion.

# Approach to floor setting

- 3.4 In the TDD, we outlined a choice between two approaches to setting the floor:
  - a) **Administrative floor**: under this approach, we set the floor using a standardised, Ofgem-determined benchmark that reflects a notional cost of debt. This provides predictability and is particularly well-suited to balance sheet-financed projects, where the financing is more integrated with the sponsor's wider corporate arrangements.
  - b) **Actual cost of debt (ACOD) floor**: This approach is tailored for projectfinanced based project. It sets the floor to cover only debt obligations based on project-specific, competitively secured financing. While it better reflects market conditions, it requires additional oversight to protect consumers.
- 3.5 As set out in section 2.7, we are now considering a more flexible model for setting both the C&F levels. In this model, all projects can bid across the five different parameters to set their own floor, as long as it stays below the

administrative floor set by Ofgem. This gives projects more control over managing their risks, while still capping consumer exposure.

- 3.6 The administrative floor will be calculated using the four building blocks defined in the LDES CFFM:
  - a) Operating expenditure and Decommissioning cost
  - b) Depreciation of the RAV
  - c) Return on the RAV
  - d) Tax.
- 3.7 The variable that determines the level of the administrative floor relative to the administrative cap is the return on the RAV. At the floor this will be set at the lower of the Ofgem-determined administrative floor rate of return or the project's bid rate of return. These are discussed in the sections that follow.

# Setting the administrative floor level

- 3.8 In the TDD, we said we would undertake further work to define the methodology for calculating the administrative floor. This includes determining the specific cost of debt benchmark to apply, identifying when the return at the floor will be calculated, and clarifying whether it will be the initial or final RAV. We also said the floor will be fixed in real terms for the regime duration.
- 3.9 To facilitate investment in a range of LDES technologies, we have chosen to set the administrative floor level in a manner consistent with the approach we took for <u>Offshore Hybrid Assets (OHAs)</u> and for project-financed interconnectors.
- 3.10 Minded to position: We propose to set the administrative floor rate of return using the iBoxx index of BBB rated GBP non-financial corporate bond yields of 15+ years remaining maturity, in line with the OHAs pilot C&F regime. The cost of debt benchmark will be the average yield over the 20 trading days up to 8 April 2025. This floor rate of return will apply to the entire RAV, in line with established approaches for electricity interconnectors and the OHAs pilot.
- 3.11 The firm iBoxx is a provider of financial market data. We (and other UK and international regulators) use its indices to benchmark the prevailing cost of particular categories of debt.
- 3.12 We are proposing to use a bond index with a long-dated maturity of over 15 years, as this is likely to better match the expected long-term debt structure given the 25-year default length of the LDES C&F regime. To express nominal index yields in real terms, we will deflate them using the Bank of England's 2% CPI inflation target as a proxy for CPIH.

#### OFFICIAL

#### Consultation - Financial Framework: LDES Window 1 Cap and Floor regime

- 3.13 **Rationale:** The iBoxx index for BBB-rated bonds reflects a lower average credit rating than the blended average used for P2P interconnectors, which combines iBoxx A-rated and BBB-rated indices. We chose this lower rating to reflect our expectation that LDES projects applying in Window 1 are likely to have higher credit risk than typical P2P interconnectors that operate under a more established framework. However, following CEPA's advice that, to maintain the strength of operational incentives, the corridor between the cap and floor should be set as wide as possible, we are not including the 'First of A Kind' (FOAK) risk premium or the 'Pilot NSI' uplift that were added to the NSI floor rate of return. Additionally, projects now have the flexibility to bid competitive floor levels.
- 3.14 Stakeholder feedback from the project-financed electricity interconnector regime indicated that setting the floor solely on a notional capital structure and cost of debt can differ significantly from actual financing arrangements. This mismatch introduces basis risk that lenders may be unwilling to bear, potentially affecting project bankability. Since enabling a broader range of financing options can help attract more capital to support LDES, we consider it appropriate to allow a variant to address these risks, without giving project finance developers an unfair advantage. As outlined in the TDD, we therefore propose allowing a project finance variant to use an Actual Cost of Debt (ACOD) floor option for project-financed LDES, similar to the interconnectors approach.
- 3.15 We propose using 8 April 2025 (the date Window 1 applications opened) as the reference date for collecting financial data. This date is not tied to project-specific milestones such as Final Investment Decision (FID) or Financial Close (FC), but instead aligns with the decision to open the Window 1 application round. This early reference point reflects the urgency of delivering projects in time to meet CP 2030 goals. By locking in regime parameters early, we aim to provide clarity and encourage timely progression toward FID.

#### Parameter calculation and illustrative estimates

3.16 On 8 April 2025, the **20-day average yield** on the proposed cost of debt index, the iBoxx GBP Non-Financials 15+ BBB index, was **6.56% nominal**, equivalent to **4.47% in CPIH real terms**. This follows the approach used in the Window 3 C&F regime, where Ofgem also used a 20-day trailing average to smooth short-term volatility and reflect prevailing market conditions (see paragraph 3.51 of the <u>Window 3 decision</u>. As we plan to use CPIH as the deflator, it is worth noting that CPI and CPIH forecasts can diverge, as seen in recent OBR projections. More detail on the 'inflation metric' is provided from paragraph 3.16 of the Window 3 decision.

- 3.17 The use of the iBoxx GBP Non-Financials index aligns with Ofgem's established method for estimating the notional cost of debt. As in Window 3, this index is seen as a reliable benchmark for long-term debt costs faced by infrastructure investors. For OHA, a BBB credit rating with 15+ year maturity was used, while for P2P Window 3 Interconnectors, a 50:50 weighting of A and BBB rated debt of the same duration was applied (see paragraphs 3.26–3.51).
- 3.18 We also follow the same deflation methodology used in the Window 3 regime and the <u>OHA pilot scheme's</u> C&F, converting nominal yields to real terms using CPI forecasts. CPI was retained in the Window 3 and OHA decisions as a suitable proxy until CPIH-based estimates become more reliable.
- 3.19 The illustrative yield estimate of 4.47% CPIH real is therefore comparable to the OHA pilot scheme's cost of debt estimate, which was 4.13% CPI real based on a similar 20-day average to 28 February 2025 (see Figure 4 of the OHAs decision). The higher figure here reflects market movements since then, highlighting the importance of anchoring parameters to a fixed reference date.

# Setting the floor level for project finance debt

- 3.20 In the TDD, we outlined a 'project finance' variation that allows projects to temporarily receive floor payments based on an Actual Cost of Debt (ACOD), reflecting actual, competitively raised debt costs. Under this approach, the ACOD covers only the project's debt obligations. We also committed to developing a debt raise oversight framework for the process, with a consumer protection backstop, either the administratively set floor or the competitively bid floor, whichever is lower. This approach is designed to meet the needs of project finance lenders by leveraging competition among lenders. Allowing this expands financing options and supports investment across a broader range of funding models, potentially enabling more LDES projects to move forward.
- 3.21 As with the interconnector C&F model, if the ACOD floor ends up higher than the administratively set floor (or the competitively bid floor), the project must repay the difference to consumers before any equity distributions can be made. This ensures fairness between balance sheet–funded and project-financed projects.
- 3.22 We also said that the ACOD floor rate for project-financed projects will be set according to each project's debt-raising timeline. Ofgem will work with projects to develop a framework that aligns with each project's financing process. This framework will be based on the Debt Funding Competition (DFC) model described in <u>Appendix 1</u> of the TDD, which draws on the approach used for C&F regime project-financed interconnectors.

- 3.23 We expect each project to lead its DFC, with Ofgem taking a light-touch role and intervening only when necessary to preserve the intended risk allocation of the C&F regime. If a project commits to a DFC outcome that results in a lower floor than its Project Assessment bid or the administrative benchmark, whichever is lower, our oversight will be minimal. The floor will be fixed in real terms for the full 25-year regime (or longer, if proposed by the project) and indexed to the Bank of England's 2% inflation target.
- 3.24 **Minded to position:** For the project finance variant, the ACOD floor will be set to match the competitively determined debt obligations to lenders, under a process overseen by Ofgem as outlined in Appendix 1 of the TDD. As this floor is intended to cover only debt obligations (plus opex and decommissioning costs), and most project debt is fixed or floating rate rather than index-linked, no inflation indexation will apply to the debt obligations. For further details, see the section on "Inflation Indexation" (Section 2.24).
- 3.25 Detailed calculations will be worked through with each project to ensure that the ACOD-based floor reflects its specific financing arrangements, as agreed with Ofgem. Eligible costs supporting the ACOD floor can either be fixed at the time the C&F regime is awarded (by Q2 2026) or aligned with the project's debtraising timeline. These costs will be used to calculate the floor level based on the financial terms secured at financial close. Final project costs at financial close must stay within the range submitted during the Project Assessment stage. If they do not, and the project has received floor payments, those payments may need to be repaid post regime. More details are provided in Section 6.
- 3.26 To clarify, the floor level will be set using either the Ofgem administrative process or the project's competitive bid, whichever is lower.

## How does this work with the broader C&F competitive approach

- 3.27 When a project wants to use project finance (borrowing where the loan is repaid only from the project's future income), it still needs to bid a cap level and a floor level. The floor is the price it offers to deliver the project and sets the maximum amount consumers might have to pay if the project underperforms.
- 3.28 However, the floor set by that bid might not always be enough to reassure lenders that the project can repay its loans, especially since these loans will be secured after Ofgem sets C&F levels for all projects in Q2 2026, and will depend on market conditions at that time. In such cases, the project can request an ACOD floor, a safety net based on actual obligations to lenders, as this gives lenders greater confidence.

- 3.29 So for projects using limited or non-recourse project finance, there are two floors:
  - i. The competitive floor (from the project's bid), which limits how much consumers are exposed to.
  - ii. The ACOD floor, which helps the project secure debt financing.
- 3.30 If the ACOD floor is higher than the competitive floor, the project must repay the difference to consumers from future revenues on an NPV-neutral basis. Repayments must begin as soon as revenues exceed the ACOD floor and must be fully cleared before any equity distributions. This ensures consumers are not worse off and supports fairness for balance sheet developers, while preserving the integrity of the competitively set floor process.

# Performance-linked floor access: Minimum Availability Target (MAT)

- 3.31 To ensure that floor payments are linked to genuine operational performance, projects must meet a MAT to be eligible for the floor. This is set individually for that project, ensuring that consumers are not exposed to financial support for underperforming assets.
- 3.32 The MAT will be set to reflect a reasonable level of technical availability, determined either by an independent expert appointed by Ofgem or by reference to system stress events. It will exclude planned outages and force majeure events. This approach is intended to provide a stronger incentive for LDES operators to maintain high operational readiness, especially during critical periods for the electricity system. The detail approach will be developed as part of the LDES C&F licence provisions expected to start in Q3 2025.

# Implications for floor eligibility

- 3.33 If a project falls below the MAT in a given year, it may become ineligible to receive floor payments for that period. This approach ensures that floor support is linked to genuine operational delivery and incentivises high availability.
- 3.34 However, recognising the financing needs of project-financed LDES, similar to the approach used for project-financed interconnectors, Ofgem may allow these projects to retain floor eligibility for a limited period, even if availability falls below the MAT. This flexibility is there to derisk the project for debt providers.
- 3.35 In such cases, any floor payments received while below the MAT will be subject to clawback. These must be repaid to consumers, either once revenues exceed the ACOD floor or, if revenues remain insufficient, after the regime end, before any equity distributions.

# 4. Designing the cap mechanism

In this section, we explain how the cap mechanism is designed to balance investor incentives with consumer protection. Details of the soft cap are also set out.

#### Questions

- Q7. Does the proposed cap design provide the right balance between incentivising efficient operation and sharing upside with consumer?
- Q8. What are your views on the use of the CAPM and the proposed input assumptions (e.g. equity beta, RFR, TMR) for calculating the cost of equity for LDES? Are there refinements or alternatives you would recommend?

# Role of cap in the LDES regime

4.1 The cap sets an upper limit on the revenue a project can earn annually under the C&F regime. When market revenues exceed a certain threshold, the cap provides for a portion of the excess to be returned to consumers. This mechanism is essential for maintaining fairness and affordability, in the context of a regime in which investors benefit from the protection of a revenue floor, particularly in high-revenue scenarios. It nevertheless still allows projects to benefit from upside potential and accommodates incentives for efficient operation and innovation.

# Approach to cap setting

- 4.2 In the TDD and the <u>Consultation on Project Assessment for LDES Window 1</u>, we outlined two primary approaches to setting the cap level:
  - a) Administrative cap is a general cap level set by Ofgem using benchmark return assumptions evaluated at a notional capital structure. This gives projects predictability and can work well for both balance sheet-financed and project-financed LDES assets. However, the benchmark rate of return is inherently unobservable and relies on judgement, particularly in selecting appropriate comparators. As a result, it may not fully capture the unique characteristics of different LDES project archetypes. Therefore, we are also considering the use of a competitive process, which offers greater flexibility to account for each project's specific risks and financing needs. This approach also has the potential to deliver better outcomes for consumers.
  - b) Competitive cap is a project-specific cap level set based on competitively bid parameters. This approach is particularly relevant for the diverse range of LDES technologies and business models. It allows projects to optimise

their cap level using a tailored mix of five competitive bid parameters, provided the proposed cap remains below the administrative cap ceiling set by Ofgem.

# Setting the administrative cap level

- 4.3 The administrative cap is calculated using the same four building blocks used for the floor, as defined in the LDES Cap and Floor Financial Model (CFFM), except for the return on the RAV, which follows the method described in Section 4.5.
- 4.4 The cap for P2P interconnectors is designed to ensure that a project can recover its costs and earn an upside return proportionate to the cost of equity for a basket of assets operating in the same sector. This equity return is estimated using the Capital Asset Pricing Model (CAPM). To calculate the maximum allowed revenue at the cap, the equity return is applied to the full value of the RAV.

# Minded to position:

- 4.5 We propose to set the administrative cap rate based on a notional cost of equity calculated using the CAPM applied to 100% of the RAV. The CAPM is a widely used method for estimating the cost of equity and requires three key inputs;
  - a) Equity beta ( $\beta$ ): Measures how volatile the asset is vs. the overall market.
  - b) Risk-free rate (RFR): Typically based on the return of government bonds.
  - c) Equity risk premium (ERP): The expected return of the market above the risk-free rate (calculated as the Total Market Return (TMR) minus the RFR).
- 4.6 These inputs are combined using the following formula:

Benchmark return =  $RFR + \beta(TMR - RFR)$ 

4.7 We propose that the CAPM inputs for LDES projects be aligned with those used in the <u>Window 3 interconnector C&F regime</u>, using a reference date of **8 April 2025** – the date applications for Window 1 opened.

## Rationale

4.8 The approach applied for P2P interconnectors is well established and widely understood. The calculation method for the rate of return, and in particular the use of the CAPM, is aligned with Recommendation 2 of the UK Regulators Network (UKRN) guidance. Applying the rate of return benchmark to the entire RAV is a straightforward way to set a maximum limit on investor returns. This creates a broad corridor between the cap and floor, providing strong incentives for projects to maximise revenue.

- 4.9 Although our approach is the same as the one used for interconnectors, this does not mean that we think LDES projects face an identical risk profile. Analysis by CEPA shows that LDES projects may in some respects face slightly higher risks than point-to-point (P2P) interconnectors, and that LDES projects may place slightly greater weight on potential upside returns.
- 4.10 Despite this view of higher risk, we believe it is reasonable to use the same benchmark for the cap rate of return for the following reasons:
  - a) Unlike the interconnector regime, LDES revenues above the cap are shared rather than fully capped, thereby offering developers more upside potential.
  - b) As revenue is assessed cumulatively over the full C&F period on an NPVneutral basis, short-term revenue spikes are not immediately capped, which increases the effective cap level for LDES projects.
  - c) We are proposing a higher floor rate of return for LDES projects than for P2P interconnectors, providing greater downside protection. This is in addition to the more general effect of the floor on mitigating risk exposure.

## Parameter calculation and illustrative estimates

- 4.11 We propose to apply the approach and estimates to **beta** that we used for <u>Window 3 interconnectors</u>. We benchmarked the cap rate of return for interconnectors to six listed comparators: Drax, SSE, Iberdrola, Ørsted, RWE, and National Grid. We do not see any reason to depart from this comparator set in order to benchmark the cap rate of return for LDES projects.
- 4.12 Any estimate of beta is statistical in nature and inherently uncertain. Because of this, they may vary over time both because of fluctuations in the underlying equity beta measurements and because of changes in capital structure. Given the recency of our review of the evidence base for Window 3 interconnectors, we judge those estimates themselves to remain a reasonable forward-looking view for the cap rate of return for LDES projects.
- 4.13 We therefore propose applying an **equity beta of 1.125 for Window 1 LDES projects**. We consider this value to fairly reflect the sector comparators. We will keep this under review and may adjust it for future application windows if there is a material and sustained change in the underlying evidence base.
- 4.14 Aligned with our latest methodology decisions for the RIIO price controls and Window 3 interconnectors, we propose to benchmark the **RFR** to the 20-day average of 20-year index linked gilts (ILGs). Since ILGs are linked to the Retail Price Index (RPI) measure of inflation, we convert these to CPIH-real terms by applying a 'wedge'. We apply no further adjustments to this number.

- 4.15 At the time of our Window 3 interconnector decision, we estimated the RPI-CPIH wedge at 26 bps. We will review updated evidence and consultation responses, particularly regarding the CPI-CPIH difference, before finalising this figure.
- 4.16 As the **TMR** is a market-wide parameter, we propose to align it with Ofgem's latest methodology for the RIIO price controls at the time of making our decision. Ofgem's most <u>recent estimate</u> provided for a CPIH-real TMR range of 6.5% to 7.0% with the midpoint of **6.75%**. However, any new evidence on this matter or updates to our position in the RIIO-3 draft determination for transmission and gas distribution will be reflected in our final decision.
- 4.17 We have chosen **8 April 2025** as the reference date for collecting data. This is not linked to the Final Investment Decision (FID) or Financial Close (FC) dates for projects. Instead, it supports the CP 2030 delivery target, encouraging projects to reach FID as soon as possible to stay on track for timely delivery.
- 4.18 We propose to confirm two of the parameters beta and TMR now at the levels indicated above in paragraphs 4.13 and 4.16. On 8 April, the 20-day average yield on 20-year ILGs was 1.99%. Combined with our current estimate of the inflation wedge of 26 bps, this would give a RFR estimate of **2.26%**. Combined with our beta and TMR estimates, this would give an estimate of **7.31%** for the cap rate of return in CPIH real terms.

# Setting the competitive cap level

4.19 The competitively set cap level will follow the same process as set out in Section 3 for "Setting the floor level via competitive bidding".

# Sharing the upside: Designing the soft cap

- 4.20 In the TDD, we proposed introducing a 'soft cap' mechanism. This would allow projects to retain a small percentage of revenues earned above the cap. The sharing factor above the cap is a tool to help balance risk and reward under the C&F regime while also ensuring that LDES operators continue to have an incentive to efficiently operate the asset once their revenues exceed the cap.
- 4.21 Minded to position: Based on advice from CEPA, we propose that projects retain 10% of revenues above the cap. This level is considered sufficient to maintain operational incentives while ensuring most excess returns are passed back to consumers. We also propose to account for any marginal cycling costs such as variable maintenance costs associated with cycling the asset in the definition of costs under the regime. CEPA's advice was that, if marginal cycling costs are accounted for, a 10% sharing factor above the cap is likely to be sufficient to preserve operational incentives.

#### OFFICIAL

# **Consultation** - Financial Framework: LDES Window 1 Cap and Floor regime

# **5.** Capital costs

This section sets out the key capital costs under the LDES C&F regime and how they are treated in calculating the RAV and setting C&F levels. These costs are included in the CFFM to ensure the regime reflects the cost of delivering and operating LDES assets.

#### Questions

- Q9. What are your views on the proposed capital cost components for determining the RAV and C&F levels, including the equity and debt transaction cost allowances?
- Q10. Do you agree with limiting reopeners during the operational phase to opex (after 10 years) and decommissioning (if there's a legal change)?
- Q11. What are your views on the treatment of decommissioning costs and IDC particularly around timing of recovery, project delays, and legislative changes?
- Q12. What are your views on the proposed IDC rate approach and the option for projects to bid their own rate? Should riskier technologies receive a different rate?

# **Capital costs**

- 5.1 The capital cost base for LDES projects includes the following components:
  - a) Development expenditure (devex) Costs incurred during the preconstruction phase, including planning, design, and permitting.
  - b) Construction capital expenditure (capex) The main build costs of the asset, including equipment, installation, and commissioning.
  - c) Spares strategic spare parts required to ensure operational resilience.
  - d) Replacement expenditure (repex) Anticipated mid-life replacements or refurbishments during the operational period.
  - e) Decommissioning cost End-of-life costs for safely dismantling the asset.
  - f) Interest During Construction (IDC) Financing costs incurred during the construction period.
  - g) Transaction costs Costs associated with raising debt and equity finance.
- 5.2 The LDES CFFM and its handbook explain how costs are combined to set the C&F levels. These costs are capitalised into the RAV and depreciated over the regime period, forming the basis for calculating both depreciation and returns.

## **Treatment of devex**

5.3 Devex will be treated as a capital cost within the regime and is therefore eligible for recovery through the C&F levels. This includes costs incurred during the planning and development phase, such as permitting and licensing. It will form

part of the RAV. Ofgem will assess it to ensure it is economic and efficient as part of the cost assessment process.

# Treatment of capex:

5.4 Construction capex will be included in the opening RAV at the start of the operational period. Projects must provide robust cost estimates during the Project Assessment phase. Ofgem will assess capex to ensure it is both economic and efficient. Ofgem's cost assessment decision for the specific project will be incorporated into the C&F levels set for that project.

# **Treatment of spares**

5.5 Spares are treated as part of the capital cost base and included in the RAV.Projects must justify the level of spares required, ensuring they are proportionate to the technology type and operational risk profile.

# Treatment of repex

5.6 Repex is included in the RAV as a forecasted cost during the operational period.It is expected to be incurred at defined intervals and will be subject to review to ensure it reflects efficient lifecycle asset management.

# Treatment of decommissioning cost

- 5.7 These are the costs involved in safely shutting down and dismantling the project at the end of its operational life. As explained in the TDD, we do not think it is fair to consumers to set C&F levels that cover the full cost of decommissioning, especially for projects likely to keep running after the regime ends.
- 5.8 In the interconnector regime, decommissioning costs are included in the RAV and recovered over the regime period. These costs are forecasted at the outset, with recovery spread evenly across the asset's operational life to prevent revenue spikes. The TDD noted that if the law changes and requires a stricter (or more relaxed) decommissioning process, a reopener could be triggered to adjust the expected costs accordingly.

## Minded to position

- a) We propose that projects estimate their full decommissioning cost as a percentage of capex. Projects may then bid to recover any proportion of this estimated cost, ranging from 0% to 100%, through the C&F levels.
- b) Since the decommissioning cost (as a percentage of capex) will be competitively set, any future decision on reopeners will reflect the proportion of decommissioning cost the project originally bid for recovery. For example, if the full decommissioning cost estimated at Project Assessment was 5% of

capex, but the project bid to recover only 3.5% through the C&F levels, then only 70% (i.e.,  $3.5\% \div 5\%$ ) of any future increase in decommissioning cost would be eligible for recovery through the C&F levels from that point on.

c) We propose using capex (excluding devex), as submitted for C&F level setting closer to Q2 2026, as the basis for estimating and assessing decommissioning costs.

## Rationale

- 5.9 The proposed approach is more realistic and transparent than using the RAV or fixed values, as capex reflects the actual upfront cost of building the asset. This is particularly relevant for LDES projects which often involve high initial costs and diverse technologies. A capex-based method also improves comparability and clarity for bidders.
- 5.10 Under our proposal, projects would estimate decommissioning costs as a percentage of capex but bid to recover only a portion through the C&F levels. The proportion bid would cap the amount recoverable if future costs increase.

# **Interest During Construction (IDC)**

5.11 The IDC allowance ensures developers are fairly compensated for financing costs incurred during the construction phase. It also serves as the mechanism through which development risk is reflected in the RAV, and ultimately in the C&F levels, promoting both fairness and cost efficiency.

## Methodology and timing for IDC rate determination

- 5.12 We propose to align our <u>overall approach to IDC with that applied to</u> <u>interconnectors</u>. Where appropriate we will apply adjustments (or select a point estimate from within a range) consistent with the risk exposure and construction duration specific to LDES assets.
- 5.13 The benchmark IDC rate will be calculated using a WACC approach. The cost of equity will be derived using the CAPM, consistent with the approach to determining the cap rate of return, albeit with different parameter assumptions.

#### Minded to position

- 5.14 In our interconnector IDC methodology, the yield on the **cost of debt** is set based on A-rated and BBB-rated iBoxx GBP bond indices. For interconnectors, we refer to the index with a 3-5 year tenor. The two indices produce a range, from which for interconnectors we apply the midpoint.
- 5.15 The construction duration for LDES projects may differ from that assumed for interconnectors. We propose to refer to an index of comparable tenor to the

construction duration for each type of project. We do not, however, propose to 'fine-tune' this comparison by, for instance, carrying out further analysis to interpolate or extrapolate yields at different tenors.

- 5.16 Consistent with our assessment of overall risk in support of the administrative floor rate of return, we propose to use the iBoxx index of BBB-rated GBP non-financial corporate bond yields of suitable remaining maturity. We will deflate nominal index yields to real terms using the same approach as for the administrative floor return. We will set the rate based on a weighted average, with two-thirds weighting on the spot yield and one-third weighting on the one-year average yield.
- 5.17 We will also adjust our interconnector IDC approach to the **RFR** based on the construction duration of LDES projects. We will use the nominal gilt yields of a comparable tenor to the construction period without further adjustment. We will deflate nominal index yields to real terms using the same approach as for the administrative floor return. We will set the rate based on an average of the spot, 20-day average up to 8 April 2025 and 1-year average yields.
- 5.18 We will apply the same **TMR** as in our administrative cap rate of return benchmark.
- 5.19 We judge the **asset beta range of 0.50-0.90** in our interconnector IDC methodology to encompass a suitable assumption for LDES projects. We do not propose to modify this range, but may select a point estimate other than the midpoint if there is evidence that it would be required.
- 5.20 The range of 0.50-0.90 accommodates a wide range of risk profiles. At the low end, an asset beta of 0.50 is consistent with an uplift to regulatory determinations for even the most construction intensive phases for fully regulated network assets. At the high end, an asset beta of 0.90 is consistent with construction companies that are exposed to market valuations of their projects and assets.
- 5.21 We are currently minded to applying the midpoint of this range to produce our IDC estimate. This midpoint is higher than that used in benchmarking the cap rate of return, and is therefore consistent with a premium for the construction phase relative to the group of comparators used to benchmark the cap.
- 5.22 We see no reason to depart from the interconnector IDC gearing assumption of37.5%, which will be applied to each year's expenditure. While developers may draw on different financing sources at various construction phases, the project is

exposed to equity risk once construction begins. Therefore, we do not see a clear-cut case for applying different gearing rates across years.

- 5.23 We propose to apply the following calculation mechanics for IDC:
  - a) IDC will be calculated based on the annual expenditure in year  $t_{\rm 0}$  and capitalised at the beginning of year  $t_{\rm 1}$
  - b) The final IDC allowance (in £) will be based on the final RAV determined at the PCR (Post Construction Review) stage. The allowance based on the initial RAV at the Project Assessment stage will be considered provisional.
  - c) IDC may be adjusted or excluded during delays caused by the project.
- 5.24 A full range of IDC rates at relevant tenors will be provided taking into account responses received to this consultation.

# **IDC in project bids**

5.25 Developers will have the flexibility to propose their own IDC assumptions as one of the five bid parameters outlined in section 2.7, making the IDC rate a strategic variable that interacts with other bid elements to shape the overall C&F levels. Each project will receive the IDC rate it bids, provided the full bid package results in competitive C&F levels relative to the administrative benchmark set by Ofgem. If not, the administrative IDC rate will apply.

# **Financial transaction costs**

- 5.26 We propose including allowances for financial transaction costs associated with raising both equity and debt finance, in line with the P2P interconnectors and OHAs C&F regimes. We welcome views on whether these levels are appropriate.
- 5.27 For equity transaction cost, we propose an allowance of 5% of the opening RAV at the start of the operational period to reflect the costs incurred in raising equity finance, such as legal and advisory fees.
- 5.28 For debt transaction cost, we propose an allowance of 2.5% of the opening RAV at the start of the operational period to reflect the costs of raising debt finance such as arrangement fees, legal and due diligence costs.

# **Treatment of opex**

- 5.29 Although not a capital cost, annual opex is added to the depreciated RAV. It covers the routine costs of operating and maintaining the LDES asset and must be forecasted realistically, with expectations for efficiency gains over time.
- 5.30 As set out in the TDD, this includes:
  - a) Controllable opex regular operational and maintenance costs.

- b) Baseline uncontrollable opex / Pass-through costs defined as a very limited set of cost elements outside the project's control, such as GB licence fees and property fees, where applicable.
- c) Corporation tax provided separately as an ex-ante allowance.
- 5.31 We also need to consider whether 'marginal cycling costs' are better treated as controllable operating expenditure (opex) or as a pass-through cost. Marginal cycling costs refer to the additional expenses incurred each time the storage system is charged and discharged.

# Cost assessment reopeners during the operational phase

5.32 We expect cost reopeners during the operational phase to follow a similar approach to the interconnector C&F regime. This means that reopeners would only be allowed in limited cases, mainly for decommissioning cost and opex, to keep the regime stable while still allowing for necessary updates.

## 5.33 Minded to position:

- a) For opex, a reopener may be triggered by either Ofgem or the project, but not earlier than 10 years into the regime and no more than once every 10 years thereafter. This approach is also suitable for longer regimes (e.g. 40 years). Any changes would take effect from the date the decision is published and would remain in place until the next reopener is triggered.
- b) **For decommissioning**, a reopener may be triggered if there's a change in law that significantly affects the expected cost of decommissioning.
- 5.34 **Rationale:** Reopeners are a useful tool to deal with uncertainty over a long period. By limiting them to specific areas like opex and decommissioning, we aim to keep the regime flexible without making it unpredictable. This helps developers manage the challenge of estimating costs over a 25-year period and has worked well for interconnectors.
- 5.35 The proposed approach for LDES differs from the interconnector regime, where only a single opex reopener is allowed. In that model, the reopener can be triggered by either party no earlier than 10 years into the regime, and once exercised, no further reopeners are permitted. The variation for LDES reflects the potentially different cost profiles and greater operational uncertainty over longer timeframes.

# 6. Cost and delivery incentives

As outlined in the TDD, strong cost and delivery incentives are essential for LDES projects under the C&F regime. This section sets out our proposed approach to help ensure these projects are delivered on time and within budget.

## Questions

- Q13. What are your views on the types of cost efficiency and delivery performance incentives included in the regime?
- Q14. What is your preferred approach to cost incentives (e.g. cost sharing vs. outturn comparison), and how should these be appropriately calibrated?

# **Policy objectives**

- 6.1 Big infrastructure projects that are not well managed often go over budget and face delays. To help avoid these issues and keep costs down for consumers, we propose putting in place incentives that encourage projects to be delivered on time and within budget.
- 6.2 We want to strike the right balance between protecting consumers and supporting efficient project delivery. By setting out the process now, projects will understand the rules from the outset and be able to plan accordingly. This clarity will help reduce uncertainty. To further support this, we will publish detailed cost assessment guidance for LDES C&F Window 1 projects in Q3 2025.

# **Cost incentives mechanism**

6.3 We are consulting on two approaches and will implement one of them after careful consideration of stakeholder feedback. Both options are explained below.

# **Option 1 - RAV adjustment approach**

- 6.4 We are proposing a cost efficiency incentive that would adjust C&F levels by modifying the RAV either upwards or downwards. This aims to encourage cost control by rewarding efficient delivery and ensuring that C&F levels only cover efficient and economic costs.
- 6.5 The benchmark for this incentive may be the midpoint or upper end of the cost range submitted by the project at the Project Assessment stage. If the project's final costs are lower than this benchmark, the RAV, will be reduced at the Post Construction Review stage. If final costs are higher, the RAV may be increased, but only if those additional costs are assessed as efficient and economic. Any efficient costs above the benchmark will be subject to a 50:50 cost-sharing.

6.6 We believe this approach strikes a fair balance. It ensures that developers, who are best placed to estimate and manage project costs, share the financial impact when actual costs significantly exceed expectations (i.e., surpass the upper bound of the estimated range). It also acknowledges the uncertainty in setting C&F levels before most projects reach Final Investment Decision by proposing from the midpoint up to upper end of the submitted cost range as the benchmark. We welcome stakeholder views on this.

# **Calibration and implementation considerations**

- 6.7 The successful implementation of the RAV adjustment approach requires careful calibration to ensure that incentives remain effective, proportionate, and aligned with policy objectives. Key considerations include:
  - a) Benchmarking methodology, where we establish robust and transparent benchmarks for each project at the Project Assessment stage. These benchmarks should reflect efficient delivery costs based on market evidence, historical data, and expert judgment.
  - b) We propose setting materiality thresholds below which RAV adjustments would not be triggered – potentially where cost increases stay within the range provided at the Project Assessment stage. This ensures that only significant cost variances are subject to incentive mechanisms.
  - c) Where outturn costs exceed benchmark levels, a clear and objective efficiency test will be applied to determine whether the additional costs are eligible for RAV inclusion. This test will consider factors such as scope changes, external market conditions, and evidence of prudent cost control.
  - d) The process for assessing costs and applying RAV adjustments will be set out in the LDES cost assessment guidance we expect to publish in Q3 2025.
- 6.8 To clarify, this would not apply to the ACOD floor, which would remain unchanged and continue to be based on actual financing costs to support financeability. Debt is raised through a competitive process, where we expect lenders will carry out their own due diligence on project costs before offering finance. Ofgem oversees this process to ensure it is fair and transparent, as explained in <u>Appendix 1 of the TDD</u>.

#### 6.9 Worked example: Application of the RAV adjustment approach.

**Table 1**: Illustration of how the RAV adjustment mechanism would operate inpractice, using a simplified example

#### OFFICIAL

## **Consultation** - Financial Framework: LDES Window 1 Cap and Floor regime

Item	Scenario A: Cost underrun (£million)	Scenario B: Cost overrun (£million)
Upper range of benchmark cost	500	500
Actual project cost	450	550
Cost variance	50 underrun	50 overrun
Efficient portion of overrun	N/A	30 (i.e. 60%)
Developer share	25 (50% retained as incentive)	15 (50% incurred as risk share)
Consumer share	25 (50% reflected in RAV reduction)	15 (50% added to RAV)
RAV adjustment	Downward by <b>25</b> (consumer share of savings)	Upward by <b>15</b> (consumer share of efficient overrun)
Treatment of inefficient costs	N/A	20 excluded from RAV (borne by project)
Impact on C&F levels	Reduced (due to lower RAV)	Increased (due to higher RAV)

## **Option 2 - Outturn cost comparison approach**

- 6.10 We also propose an alternative to the RAV adjustment mechanism. Under this model, cost increases beyond the range submitted at Project Assessment, if deemed efficient and economic by Ofgem, can be added to the RAV. A key feature of this approach is a conditional clawback mechanism:
  - a) If a project receives floor payments under the C&F regime, these payments may be subject to repayment after the end of the C&F regime.
  - b) If no floor payments are received, no clawback will apply.
- 6.11 This alternative approach is designed to be straightforward while preserving strong incentives for cost efficiency. It offers flexibility by allowing efficiently incurred cost increases to be added to the RAV, reducing the risk of significant disallowances that could affect project investability. At the same time, it protects consumers through a post-regime conditional clawback of any floor payments the project received during the regime period.

## 6.12 Worked example: Outturn cost comparison approach

Table 2: This provides a simplified example of how this might work.

#### OFFICIAL

#### **Consultation** - Financial Framework: LDES Window 1 Cap and Floor regime

Item	Value / Description (£million)		
Benchmark cost (Project Assessment)	500		
Outturn cost (at Post Construction Review)	550		
Efficient cost overrun	40 (added to RAV)		
Inefficient cost overrun	10 (not added to RAV - borne by project)		
Floor payments received?	Scenario A: No Scenario B: Yes (£30 million)		
Clawback triggered?	Scenario A: No Scenario B: Yes		
Clawback amount (NPV neutral)	30 (repayment of floor payments received)		
Implied RAV adjustment outcome	Scenario A: £540 million (RAV covers efficient cost overrun) Scenario B: £500 million (RAV excludes efficient cost overrun; £30 million floor payment fully recovered post-regime)		

# **Delivery incentive mechanisms**

6.13 LDES projects already have built-in incentives to avoid delays, as delays can reduce their income. To support this, we propose two additional incentives to encourage strong project management and fair risk-sharing between developers and consumers.

## **Incentive mechanism: Graduated levers**

6.14 We propose a set of graduated levers that adjust based on how quickly a project is delivered. These are designed to give clear financial signals while staying flexible to suit different project situations:

#### Direct adjustment to the IDC rate

- a) If a project is delivered on time or ahead of schedule, the IDC rate would increase. Conversely, if a project is delayed, the IDC rate would decrease.
- b) The increase / decrease in IDC would apply to the whole construction phase.
- c) Our initial view is that the incentive should be symmetric, with the same reward or penalty applying to early or late delivery. We consider that an increase or reduction of **25 basis points for each year**, pro-rated for partial years, would be an appropriate level at which to set this incentive.

6.15 A 25 basis point adjustment provides a clear financial signal without adding significant risk. It is a familiar unit in financial settings and offers a practical starting point for consultation, with room to adjust based on feedback.

# Alternative approach: Clawback mechanism

- 6.16 Another option is to use a clawback approach. Since delays often lead to higher costs, this method looks at whether a project ends up needing floor payments. If a delayed project does not receive floor payments, no clawback would apply. But if it does, those payments may need to be repaid after the regime ends.
- 6.17 We welcome views on which approach best balances project investability with timely delivery. To clarify, significant delays may trigger a new Project Assessment to determine whether continued support remains appropriate.

# Treatment of delays and force majeure

- 6.18 A key part of fair risk-sharing is clearly identifying which delays are within a developer's control and which are genuinely outside of it. It is important to protect consumers from the costs of inefficient delivery, while also ensuring developers are not penalised for events they could not reasonably prevent. This approach supports fairness and helps maintain investor confidence.
- 6.19 As set out in the TDD, we plan to include both pre-operational and operational phase force majeure (FM) arrangements in LDES C&F regime licence provisions. During the pre-operational period, Track 1 and Track 2 projects, due by 2030 and 2033, may request deadline extensions to 2032 and 2035, respectively, if delays are caused by FM events and are supported with clear evidence.
- 6.20 For the operational period, LDES projects will have FM provisions similar to those used in the C&F interconnector regime. These will cover events and circumstances beyond the reasonable control of LDES operators that occur after the regime start date (as defined in each project's C&F licence provisions). We note that during the operational phase, C&F regime interconnectors may trigger the Income Adjusting Event mechanism and the Exceptional Event mechanism (as set out in the special conditions of the interconnector licence). Force majeure events or circumstances form part of these two mechanisms.
- 6.21 The detailed policy and related licence provisions will be developed as part of Ofgem's work on the wider licencing framework and specific licence conditions for LDES Window 1 projects. Ofgem will publicly consult on FM related licence provisions (both for pre-operational and operation periods) and stakeholders will be able to provide their feedback on these proposals.

# 7. Financial resilience

In the TDD, we proposed that LDES projects be required to demonstrate strong financial resilience as part of the C&F regime. This section provides more details.

# Questions

Q15. Does our proposed mix of gearing caps, ringfencing, and financial reporting strike the right balance between financial resilience and flexibility for LDES projects? If not, what would you change?

# **Policy objectives**

- 7.1 To ensure LDES projects remain financially resilient under the C&F regime, we propose proportionate controls, including gearing caps, ringfencing provisions, and regular financial reporting, to protect consumers and maintain system integrity. These measures aim to ensure that projects can withstand financial pressures and continue to deliver reliable service.
- 7.2 The objective is to safeguard consumers from the adverse consequences of financial distress which can include increased capital costs and potential impacts on service quality. Financial resilience is particularly important where distress could result in material costs to consumers or taxpayers, where the projects play a critical role in the energy system, or payments are owed to consumers.

# LDES: A distinct risk class

- 7.3 Unlike other regulated sectors, where financial resilience obligations are more extensive, the LDES sector presents a different risk profile. This is due to factors such as limited follow-on finance for projects, minimal contagion between different projects and no direct exposure or holding of consumer funds, except where project is subject to clawback mechanism to apply post regime period.
- 7.4 Nevertheless, the LDES sector has unique characteristics that require a tailored regulatory approach:
  - a) Circularity between debt and floor: The C&F regime, particularly the Actual Cost of Debt (ACOD) regime variation, introduces a direct link between the cost of debt and the floor. This creates a unique circularity risk concerning leverage. Excessive leverage could lead to increased debt costs, potentially affecting the floor level and undermining the regime's effectiveness. Therefore, the LDES framework's specific design necessitates careful consideration of gearing caps to prevent inflated floor payments.

- b) Limited additional capex requirement: LDES projects typically involve substantial initial capital expenditure followed by comparatively low ongoing capex. This limits the necessity for continuous debt financing throughout the asset's lifecycle, though we acknowledge a possibility of refinancing or some projects potentially needing to hold large replacement capex.
- c) **No direct exposure to consumer**: Unlike suppliers and retailers who have direct financial relationships with end-consumers, LDES projects will primarily function as grid infrastructure assets and will engage directly with the grid and other energy market participants rather than end-consumers.
- 7.5 Given these structural differences and potential interdependencies, we believe that modest protections to support financial resilience are needed, along with safeguards to uphold the integrity and credibility of the regime. These measures are necessary to manage the interaction between corporate structure, capital structure and floor calibration, and to minimise contagion risks that could undermine long-term investment in regulated energy assets.

# **Capital structure controls**

- 7.6 The link between debt levels, borrowing costs, and the floor mechanism creates specific challenges. To support long-term stability, we propose proportionate controls, starting with a cap on how much debt a project can take on.
- 7.7 We are **minded to introduce** a gearing cap for LDES projects, aligned with precedents in other regulated infrastructure regimes, such as the interconnector C&F regime for project-finance assets. This would serve as a safeguard against excessive leverage and help ensure that projects' financial structures are sound.
- 7.8 We welcome stakeholder views on the suitability of an 80% gearing cap and invite feedback on how such a threshold should be implemented and monitored.

# Asset ringfencing provisions

- 7.9 Without appropriate safeguards, there is a risk that equity holders could extract hidden value from regulated LDES assets, potentially undermining project viability and exposing consumers to financial risk.
- 7.10 To address this, we propose standard ringfencing provisions to isolate regulatory assets and protect the financial integrity of projects.
- 7.11 The proposed asset ringfencing provisions include:
  - a) Restriction on asset disposal without written approval from the regulator
  - Restriction on granting charges, liens, or other forms of security over regulated assets unless approved by the regulator

- c) Prohibition of inclusion of cross-default clauses in financing arrangements (and prohibition of incurring commitments incorporating a cross-default obligation), where default by an affiliate or any other relevant person could trigger a default by the LDES operators unless the written consent from the regulator has been provided.<sup>1</sup>
- 7.12 We invite stakeholder feedback on the scope, design, and enforceability of these proposed ringfencing provisions, particularly on how to ensure compliance and transparency while maintaining flexibility for developers.

# Early warning and reporting requirements

- 7.13 LDES assets are expected to operate over long-time horizons and may require refinancing, exposing them to interest rate volatility, credit market shifts, and macroeconomic risks. Strong financial foundations and early visibility of financial pressures are essential to help manage these factors.
- 7.14 To support this, we propose to introduce regular financial reporting requirements. These will help Ofgem monitor the financial health of LDES operators and identify potential issues before they escalate. This will be based on the RIIO model used for network companies and will provide transparency and enable proactive regulatory oversight.
- 7.15 We propose that LDES projects submit annual reports covering:
  - a) Key financial metrics such as cash flow, profitability, and liquidity;
  - b) Gearing levels and their forecasts;
  - c) Details of financing arrangements and anticipated refinancing events;
  - d) Dividend payments and equity movements, with justifications;
  - e) A narrative explanation of financial risks and how they are being managed.
- 7.16 These disclosures will provide a clear picture of each project's financial position and support a consistent approach to monitoring resilience across the sector.
- 7.17 By establishing these reporting requirements, we aim to enable timely and proportionate regulatory intervention where necessary. Early warning signals will allow Ofgem to engage with projects proactively and take steps to protect consumers and system reliability.

<sup>&</sup>lt;sup>1</sup> Stakeholders may wish to refer to the <u>Electricity Transmission Standard Licence Conditions 19 10 2021</u> and in particular to "Condition B9: Indebtedness" and "Condition E10: Indebtedness" as well as the definition of "cross-default obligation" in "Condition A1: Definitions and interpretation" to see how this matter is addressed for the onshore and offshore transmission licensees.

# 8. C&F payments and charging mechanisms

The TDD confirmed that network charges will be used to manage payments under the LDES C&F scheme. This section sets out key details for consultation.

# Questions

Q16. Which charges - TNUoS or BSUoS - do you consider more appropriate for funding cap and floor payments and receipts, and why?

# **Policy objectives**

8.1 The choice of how C&F payments are made and recovered (i.e. the charging mechanism) for the LDES scheme is guided by key policy aims. These include making sure costs are shared fairly, supporting system flexibility, minimising the impact on consumer bills, and making the scheme easy to deliver. The following paragraphs explain how the two charging options relate to these aims.

# How C&F payments are made and recovered

- 8.2 The charging mechanism determines how payments are made to LDES projects when actual revenues fall below the floor, and how excess revenues are returned to consumers when they exceed the cap. The choice of charging mechanism also affects how charges are applied to consumers, whether on a fixed basis (i.e. standing charge on the bill) or linked to volumetric usage.
- 8.3 As noted in the TDD, the government has committed to legislating for the LDES C&F scheme. While the draft legislation confirms that network charges will be used to manage payments, it does not specify which type. We are consulting on this matter to help us make a decision. Our initial preference is to use BSUoS (Balancing Services Use of System) charges, subject to the Bill's final passage.
- 8.4 While TNUoS (Transmission Network Use of System) charges are used in the context of the C&F regime for interconnectors, BSUoS better reflects the balancing role of LDES and offers a more efficient implementation route. This remains subject to the relevant LDES provisions of the <u>Bill</u> being enacted.
- 8.5 **TNUOS** charges were initially considered due to its use in the interconnector cap and floor regime and its established role in recovering transmission network costs. However, LDES technologies are not transmission assets - they provide balancing and flexibility services. Therefore, TNUoS are not well aligned with the nature of LDES. Implementation would also be more complex: Ofgem cannot directly initiate a code modification related to TNUoS, which must be brought forward by a third party through the CUSC (Connection and Use of System

Code) process. Additionally, TNUoS charges fall on standing charges, which may be less equitable for consumers compared to usage-based mechanisms.

8.6 **BSUOS** are more closely aligned with the role of LDES in supporting system balancing and flexibility. Unlike TNUOS, BSUOS charges are recovered through volumetric usage, meaning they reflect actual electricity consumption and do not fall on standing charges. Including C&F payments in BSUOS aligns with how other balancing and flexibility costs, like constraints and reserve services, are recovered from consumers. Given these shared policy aims, Ofgem's initial preference is to use BSUOS to manage payment flows.

# **Key considerations**

- 8.7 Role of National Energy System Operator (NESO) as Intermediary: The NESO will act as the central intermediary for managing LDES-related BSUoS payment flows. NESO will calculate, collect and distribute payments between suppliers and LDES projects. This mirrors its existing role in both balancing services and C&F arrangements for interconnectors, where it manages payment flows between interconnectors and consumes. This helps ensure operational efficiency, transparency, and alignment with the broader settlement framework.
- 8.8 **Payment flow timings:** We expect that payments will be reconciled annually, with settlement aligned to BSUoS charging periods. This ensures consistency with existing market processes and allows for efficient forecasting and recovery. Timing will reflect actual performance against the C&F levels, with adjustments made through future BSUoS charges to maintain balance across fiscal years.
- 8.9 **Payment flows between projects and NESO**: If a floor payment is due, NESO will collect BSUoS charges from electricity suppliers and directly connected transmission demand customers, then pass payments to LDES projects. If a cap payment is triggered, projects will return surplus revenues to NESO, which will credit suppliers and customers accordingly. These flows will be reconciled annually to align with BSUoS charging periods and ensure predictability. All transactions will be governed by licence conditions and reflected in BSUoS tariffs to ensure accountability and traceability.
- 8.10 **Cost recovery and supplier impact:** BSUoS charges are recovered from electricity suppliers, who may pass these costs on to consumers. To maintain financial stability, NESO may adjust BSUoS tariffs mid-year if actual cap or floor payments differ from forecasts. Any under or over-recovery is reconciled in future charging periods, ensuring that the scheme remains cost-neutral over time and supports predictable supplier billing.

# 9. End of regime arrangements

This section outlines our proposals for managing asset value post-C&F period, including recognising residual value, adjusting depreciation, clarifying potential clawbacks, and providing clear policy signals. These measures are intended to support project investability by offering guidance for the post-regime period.

#### Questions

- Q17. What are your views on including a residual value at the end of the cap and floor period, and how should this affect depreciation and investor returns?
- Q18. What policy mechanisms should be introduced to support investability now and post regime or recovery of residual value beyond the C&F period?

# Policy objectives and framework for post C&F regime period

- 9.1 The default C&F regime is designed to last for 25 years. However, we recognise that some LDES assets, such as PSH, can remain economically valuable for much longer. To reflect this, we are proposing some flexibility in regime length. This may help address the mismatch between asset life and regime duration, though projects may still need to find innovative ways to finance longer terms.
- 9.2 Even with this flexibility, we need to think about how to manage project value after the regime ends. Since projects can recover their full investment within 25 years, it may seem unfair if they continue to earn high returns afterwards, especially if they received floor payments. To address this, we are considering recovering a portion of post-regime revenues in specific cases, such as:
  - a) When incentives linked to cost and delivery (see Section 6) are triggered; or
  - b) When a project operated below the floor for much of the regime and relied on consumer support.
- 9.3 At the same time, we do not want to discourage investment in long-life assets.
  Post-regime arrangements should therefore be simple, minimise ongoing consumer involvement, and provide clear, predictable rules for investors.
- 9.4 There is also a risk that a long-lived project could bid at the administrative C&F levels and retain all of the project's economic value after year 25. We believe such a project would likely be uncompetitive and may not score well in the Financial Assessment, which forms part of the Project Assessment process.
- 9.5 To address this, we're considering applying a soft cap beyond year 25, based on the original cap and adjusted if needed. Revenue could be assessed cumulatively against the soft cap, potentially factoring in cap repayments made during the

regime. This would apply especially to projects bidding at administrative levels. We do not expect that a floor would apply after the regime ends or that any residual value (bid) would be regulated.

# Treatment of depreciation and financing of residual value

- 9.6 For the purpose of setting the administrative C&F levels, our **minded-to position** is to continue assuming a residual value of zero at the end of the 25year regime. This reflects the challenge in determining a fair and consistent residual value across projects and technologies at this stage. However, we recognise that some projects may retain significant economic value beyond the regime period, and that this may be important for financing and investment decisions.
- 9.7 To address this, we will rely on the competitive approach, where projects will be required to bid five key parameters, including their proposed depreciation profile and residual value. This approach applies equally across all eligible technologies. Ofgem may benchmark proposed depreciation and residual value assumptions on a like-for-like basis (e.g. PSH against PSH, BESS against BESS) to ensure fairness and consistency.

# **Cost and delivery incentives**

- 9.8 We propose that if a project incurs cost overruns that push final costs beyond the range submitted at the Project Assessment stage, or faces delivery delays beyond 2032 for Track 1 and 2035 for Track 2, there may be a case for recovering floor payments received by the project. This is particularly relevant where such overruns or delays result in higher C&F levels and increased floor payments. Recovery would apply if the project subsequently performs well and generates strong returns after the regime ends.
- 9.9 Any such recovery mechanism would be applied transparently and only in clearly defined circumstances. It would aim to strike a balance between protecting consumers from covering the cost of inefficiencies and maintaining strong incentives for timely, cost-efficient delivery. We will continue to engage with stakeholders to refine the criteria and ensure that any post-regime recovery approach is proportionate, predictable, and aligned with the overall goals of the LDES C&F scheme.

# Post-regime arrangements for LDES C&F Window 1 projects

9.10 We are setting out a high-level approach to post-regime arrangements for LDES assets, following the initial C&F period. While detailed rules are not being finalised now, early clarity is important, especially for long-lived assets that may

operate well beyond the regime. For assets with a technical life under 25 years, decisions on detail post-regime arrangements will be deferred until closer to potential refurbishment or decommissioning, allowing flexibility to reflect future market conditions and consumer outcomes.

- 9.11 For longer-lived assets, such as PSH, which may continue operating for decades with relatively low refurbishment costs, there is a stronger case for setting out guiding principles and potential mechanisms in advance. Accelerated depreciation under the C&F regime may increase the likelihood of floor payments and reduce the chance of cap repayments, shifting risk to consumers.
- 9.12 While detailed post-regime rules will not be set now, Ofgem proposes to include high-level principles and potential mechanisms in C&F licences for Window 1 projects. These principles are:
  - a) Consumers should face similar risk across long- and short-lived projects;
  - b) Post-regime rules should not reintroduce investment risks the C&F regime is designed to reduce
  - c) Rules should not discourage further LDES investment, including refurbishment, where that makes the most sense;
  - d) Project lifetime returns should not be capped below the C&F regime return at floor return over the asset's full economic life.
- 9.13 We think it is important to start the conversation now. We welcome views on what it would be sensible to consider at this point. Our main goal is to get good LDES projects built and running in a way that delivers value for consumers.

# 10. Cap and floor financial model (CFFM)

This section sets out our proposed approach to the financial model and handbook that will be used to calculate cap and floor levels for LDES projects. The model is designed to be simple, robust, and flexible enough to work for both administrative and competitive processes as well as for the different LDES technologies.

#### Questions

Q19. What are your views on our proposed financial model and handbook? Do you have any suggestions for simplifying it while keeping it clear and robust?

# **Policy objectives**

- 10.1 We propose to use broadly the same Cap and Floor Financial Model (CFFM) and accompanying handbook for all LDES projects. This builds on the structure used for interconnector projects with modifications to ensure it will work for LDES. The model will be used to calculate C&F levels for projects under both the administrative and competitive C&F setting processes.
- 10.2 The model will support both:
  - a) **Administrative C&F levels setting**: where Ofgem sets C&F levels based on benchmarking.
  - b) Competitive C&F level setting: where C&F levels are derived from competitive bids submitted by developers.
  - c) Project Finance ACOD floor level setting: where the ACOD floor is taken as an input from the project's financial model at Financial Close, reflecting the competitive cost of debt raised.
- 10.3 The CFFM is built in a mechanistic way with transparent assumptions and clearly defined inputs. It is designed to be:
  - a) **Robust**, with the flexibility to work for the range of LDES technologies and business models;
  - b) Simple, to make the model accessible and easy to interpret;
  - c) **Usable**, supported by a well-organised layout and a comprehensive handbook to guide stakeholders in its application.

# Approach to financial calculations

10.4 The key elements of the CFFM are as follows:

a) Regulatory Asset Value (RAV):

50

#### OFFICIAL

## **Consultation** - Financial Framework: LDES Window 1 Cap and Floor regime

- i. Pre-operational RAV: Captures development and capital expenditure before the asset becomes operational.
- Operational RAV: Tracks the value of the asset during its operational life, including depreciation profile, replacement capex, decommissioning cost, indexation.
- b) Allowed C&F building blocks: These are used to calculate the annual revenue requirement under both the cap and the floor:
  - a. Return on RAV: Based on the allowed cost of capital.
  - b. Depreciation: Recovery of capital over the asset's life.
  - c. Operational expenditure (opex): Forecasted and actual costs of running the LDES asset.
  - d. Tax allowance: Based on taxable profits and applicable tax rates.

#### c) C&F levels:

- a. Cap level: The maximum allowed revenue, including incentives and adjustments.
- b. Floor level: The minimum allowed revenue, ensuring financial viability.
- 10.5 The treatment of inputs such as costs, IDC, and transaction costs are set out below in Figure 1.



## Figure 1: Building blocks of the CFFM

10.6 The flowchart shows how the LDES CFFM calculates the C&F level in real terms. It starts by adding together devex, capex, spares, IDC, transaction costs, and replacement costs. Using this total, it calculates the return on the RAV and RAV depreciation. It then adds operating and decommissioning costs to form the total pre-tax allowance in real terms. From this, the model calculates the pretax and tax allowances in nominal terms. Finally, it combines the real-term pretax and tax allowances to determine the C&F level in real terms.

# Model and handbook governance

- 10.7 Our proposed model is based on the interconnector version, with modifications to ensure it is well-suited to LDES. We welcome stakeholder views on how the model could be made simpler, clearer, and better tailored to LDES projects.
- 10.8 **Governance framework:** We propose a structured governance process for the CFFM and its handbook, drawing on established interconnector practices. Updates to set the C&F levels will be Ofgem-led. Similarly, updates to the model structure and key calculations will be Ofgem-led, but with stakeholder consultation for material changes. All key revisions will be version-controlled and published to ensure transparency and accountability.
- 10.9 **Change control and oversight:** Consistent with LDES C&F licence provisions, any modifications to the LDES CFFM will require Ofgem approval. Projects must use the latest approved version, and Ofgem may initiate updates to reflect policy, market, or technical developments. Stakeholders will be consulted ahead of any material changes.

# 11. Your response, data and confidentiality

# **Consultation stages**

The timelines laid out below are consistent with those in the <u>Technical Decision</u> <u>Document</u>.

Stage 1: 19<sup>th</sup> June 2025: Consultation opens.

**Stage 2**: 17<sup>th</sup> July 2025: Deadline for responses. Consultation Closed (awaiting decision).

**Stage 3**: Q3 2025: Final version of the Project Assessment MCA framework is expected to be published. Consultation closed (with decision).

# How to respond

11.1 We want to hear from anyone interested in this consultation. Please prepare your responses on a headed pdf document which clearly shows the details of the organisation or person who is responding. Please send your response to LDES@ofgem.gov.uk with the following <u>e-mail header:</u>

## Financial Framework Consultation Response from

# [company/individual name]

- 11.2 We have asked for your feedback on each of the questions throughout this document. Please respond to each one as fully as you can.
- 11.3 We will publish non-confidential responses on our website at <a href="http://www.ofgem.gov.uk/consultations">www.ofgem.gov.uk/consultations</a>.

# Your response, your data and confidentiality

- 11.4 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 11.5 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 11.6 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Annex 2.
- 11.7 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

# **General feedback**

- 11.8 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
  - a) Do you have any comments about the overall process of this consultation?
  - b) Do you have any comments about its tone and content?
  - c) Was it easy to read and understand? Or could it have been better written?
  - d) Were its conclusions balanced?
  - e) Did it make reasoned recommendations for improvement?
  - f) Any further comments?

Please send any general feedback comments to <a href="mailto:stakeholders@ofgem.gov.uk">stakeholders@ofgem.gov.uk</a>

#### OFFICIAL

# Consultation - Financial Framework: LDES Window 1 Cap and Floor regime

# How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit. <u>ofgem.gov.uk/consultations</u>



Would you like to be kept up to date with *Consultation name will appear here*? subscribe to notifications:

# Email\*



Submit 🔉

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > Open > Closed (awaiting decision) > Closed (with decision)

# Annex 1: List of consultation questions

Q1.	What are your views on our proposal to move beyond focusing solely on project return rates at the C&F levels, towards a more flexible approach that allows projects to tailor key parameters to the needs of their LDES project
Q2.	How well does the proposed competitive framework accommodate the differing risk profiles of various LDES technologies? Are there any technology-specific considerations that should be better reflected?
Q3.	How can Ofgem best ensure comparability between bids given the bespoke nature of the proposed parameters? Are there specific normalisation techniques or benchmarks you would recommend?
Q4.	What are your views on the proposed truth telling incentives? Do you think these will effectively discourage inflated or strategic bidding?
Q5. Q6.	What are your views on our proposed approach to floor setting?
Q7.	Does the proposed cap design provide the right balance between incentivising efficient operation and sharing upside with consumer?27
Q8.	What are your views on the use of the CAPM and the proposed input assumptions (e.g. equity beta, RFR, TMR) for calculating the cost of equity for LDES? Are there refinements or alternatives you would recommend?27
Q9.	What are your views on the proposed capital cost components for determining the RAV and C&F levels, including the equity and debt transaction cost allowances?
010.	Do you agree with limiting reopeners during the operational phase to opex
C	(after 10 years) and decommissioning (if there's a legal change)?
Q11.	What are your views on the treatment of decommissioning costs and IDC - particularly around timing of recovery, project delays, and legislative changes?
Q12.	What are your views on the proposed IDC rate approach and the option for projects to bid their own rate? Should riskier technologies receive a different rate?
Q13.	What are your views on the types of cost efficiency and delivery performance incentives included in the regime?
Q14.	What is your preferred approach to cost incentives (e.g. cost sharing vs. outturn comparison), and how should these be appropriately calibrated?37
Q15.	Does our proposed mix of gearing caps, ringfencing, and financial reporting strike the right balance between financial resilience and flexibility for LDES projects? If not, what would you change?42
Q16.	Which charges - TNUoS or BSUoS - do you consider more appropriate for funding cap and floor payments and receipts, and why?
Q17.	What are your views on including a residual value at the end of the cap and floor period, and how should this affect depreciation and investor returns?47
Q18.	What policy mechanisms should be introduced to support investability now and post regime or recovery of residual value beyond the C&F period?47
Q19.	What are your views on our proposed financial model and handbook? Do you have any suggestions for simplifying it while keeping it clear and robust? 50

# Annex 2 – Privacy notice on consultations

# Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

# **1**. The identity of the controller and contact details of our Data Protection Officer.

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at <u>dpo@ofgem.gov.uk</u>

# 2. Why we are collecting your personal data.

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

# 3. Our legal basis for processing your personal data.

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

## 4. With whom we will be sharing your personal data.

We may share your personal data with NESO and DESNZ.

# 5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the final publication of the Project Assessment MCA framework as outlined in Section 7.17.

## 6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

#### OFFICIAL

# Consultation - Financial Framework: LDES Window 1 Cap and Floor regime

- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the <u>ICO via their webpage</u> or by telephone on 0303 123 1113.

## 7. Your personal data will not be sent overseas.

# 8. Your personal data will not be used for any automated decision making.

**9. Your personal data will be stored in a secure government IT system.** (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

## 10. More information.

For more information on how Ofgem processes your data, please see <u>Ofgem privacy</u> <u>policy</u>.