

25 June 2025

Dear Ofgem

LDES Project Assessment Consultation Response from Gresham House

This is the response on behalf of Gresham House to Ofgem's LDES Project Assessment Consultation (the **Consultation**).

As you will be aware, Gresham House is one of the UK's largest investors in BESS. Our operational and in construction portfolio already exceeds 1GW. Our near-term LDES pipeline exceeds 1.5GW in 16 different projects which have been submitted to Window 1. This makes us well-placed to comment on the vitally important role of BESS in energy security, resilience and net zero targets. It is from this informed perspective that we are very concerned about the process for introducing the LDES cap and floor mechanism as well as, based on our current understanding of it, the substantive design. The Consultation itself is yet a further step in a very concerning direction of travel from the perspective of BESS.

These concerns follow on from our open letter of 18 April 2025, sent jointly with other BESS investors. We are concerned about significant consumer detriment arising from the cap and floor support mechanism. The open letter was supported by a robust report prepared by LCP Delta which identified consumer costs of more than £2 billion. In sending that letter, we had hoped that our evidence-led approach would enable us to have constructive engagement about these important issues. This important evidence has not impacted on the design of the mechanism and, regrettably, we remain uncertain as to whether this work has even been properly considered in line with Ofgem's functions under the Electricity Act 1989 (**EA89**) and other applicable legislation. Ofgem should consider the LCP Delta report – which is already available to it – alongside this consultation response (enclosed for convenience).

The timing of the Consultation has been a significant concern. Steps which would ordinarily and logically be run consecutively have been run in parallel instead. For example, Ofgem's decision to open the application window for window 1 (8 April 2025) prior to starting the Consultation on 28 May 2025. The relatively short window for responses – of 4 weeks – has overlapped considerably with the time period for submission of applications. This places BESS developers like us at a real practical disadvantage as compared to other technology projects and obviously impacts on the scope for engagement with the consultation.

As outlined below, the Consultation raises significant issues which warrant further detailed consideration by Ofgem. In our opinion a further consultation is necessary to enable proper consideration of the issues raised by stakeholders such as us, particularly in light of the significant limitations and restrictions imposed by Ofgem on engagement throughout the consultation period.¹ Within the constraints, we have had to focus our responses on key areas of concern with the current direction of travel, and necessarily have had to provide

¹ For example, we note the following limitations referred to expressly in the Consultation document at paragraph 1.11: "*Due to the large number of stakeholders involved, we will not be able to engage directly with individuals during the consultation period. We will hold a workshop in the 3rd week of the consultation period to provide an opportunity for clarification of anything in this document. We request that representation at this workshop is limited to trade bodies or other representative groups where possible. We will make contact separately with all stakeholders that attended the workshop on 29th April to confirm the details of this workshop.*"

our comments to Ofgem in summary form. We expect that Ofgem will follow-up with us if there are areas which they consider warrant further clarification or where it considers further information is required.

We note that Ofgem has included a number of specific questions in the Consultation. We have endeavoured to answer those in the Annex to this response. Approaching the document directly, however, risks missing more fundamental issues about Ofgem's approach. We address these below.

The approach set out in the Consultation contains almost no explanation of how the approach to decision-making reflects the legal framework applicable to Ofgem's decision making and functions under the EA89. The only mention is of Ofgem's Growth Duty, which we address below in more detail. We are concerned therefore about the lack of transparency, with transparency being a key principle under Ofgem's "better regulation" duty, both in relation to the Consultation document itself but also the decisions taken under the proposed assessment framework.

We have a particular concern about the role that the "Strategic Assessment" will play in Ofgem's overall decision-making. Taking an example under one of the headings in that section "Technological Diversity", Ofgem says this (at paragraph 4.1):

We recognise that it may be in consumers' interest to have a diverse technological mix within the portfolio of LDES assets. For example, a diverse technology mix may mitigate technology-specific risks, prevent over-reliance on any single technological solution, and foster innovation across multiple LDES pathways. Furthermore, a diverse technology portfolio may provide valuable insight into the relative performance of different LDES solutions under actual operational conditions.
[emphasis added]

The highlighting emphasises how – as we understand it – Ofgem is very uncertain about key assumptions and appears to be intending to exercise a high degree of discretion. For example, what is an appropriately diverse technological mix? What technology-specific risk is it concerned about? Without Ofgem being transparent about these points in its consultation, it is impossible for us to input into its thinking or address any concerns. Even if such risks did exist, it is not clear how much weight Ofgem considers should be given to addressing them, relative to the costs of doing so – please see the LCP Delta report in this regard.

Related to this, we note the "Need for Cap and Floor Support" heading. This says:

4.11 Under this criterion, we intend to take a view on whether an LDES project genuinely requires C&F support to proceed, or whether it could potentially be developed on a purely merchant basis without regulatory intervention.

4.12 We will examine evidence regarding each project's commercial viability under different scenarios. Projects that demonstrate a clear investment gap between expected merchant revenues and the returns required to secure financing, despite offering significant system benefits, will score favourably under this criterion. Conversely, projects that appear capable of securing investment on a merchant basis, may receive lower scores in this category. [emphasis added]

Taken at face value this appears to be saying that those projects that require more support, and therefore give rise to higher costs for consumers, are more likely to receive support. It is unclear to us how this is consistent with Ofgem's principal objective – to protect the interests of consumers. We recognise Ofgem has a choice over whether to do so by promoting competition or by other means. There are no reasons, however, to explain how and why Ofgem has formed its judgment that this approach – of effectively rewarding those projects which may be inefficient and uncompetitive – is appropriate here. It seems likely that BESS will be

negatively and detrimentally affected by such an approach. We are also unclear what evidence Ofgem plans to assess under this criterion, how it plans to decide if something is “genuine”, and what “taking a view” really means. At face value, it seems to imply something other than – and distinct from – the sorts of robust financial assessments which we undertake as investors.

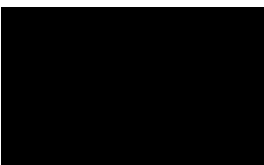
The lack of predictability creates an approach which could be perceived as permitting “picking winners”. This, together with the lack of transparency overall, undermines the stable and predictable regulatory environment which investors require. We recognise that there is a role for Ofgem exercising regulatory judgment in many of the other decisions it takes but, in our view, it is not appropriate for it to have this level of discretion in deciding which projects will benefit from support and which will not. Such an approach here, arising in relation to operators in a competitive wholesale energy market (which is of course a relevant difference compared to the interconnector cap and floor regime) carries a very real risk of Ofgem creating or exacerbating distortions of competition.

Another example of our concerns is the way Ofgem approaches its Growth Duty. This, in our view, has undue prominence in the document as compared to other duties. It is unclear how this will be applied in practice. The approach is opaque, such as in relation to how Ofgem might weigh competing factors and different time horizons. For example, the possibility of the jobs being created and sustained through an 8-year civil engineering projects for a PSH project against the costs identified by LCP Delta report which would increase electricity prices and damage growth.

In the time available, we have restricted in our ability to suggest specific amendments to the approach set out in the Consultation. In light of the matters set out above, we consider the Strategic Assessment aspect of the approach requires considerable revision both at a macro level (i.e. how the factors under the heading may be applied) and at a micro level (i.e. the role it plays in overall decision-making). We envisage a considerably narrowed role (if any) once the comments set out above have been taken into account. We consider it essential for Ofgem to reconsult on its revised position.

There is no confidential information set out in this response, and we are content for Ofgem to publish it in full on its website.

Yours faithfully,



Annex 1

Q1. Do you have any views on our overall approach to the MCA, including specifically the proposal to assess the three main areas set out in 2.2?

We strongly disagree on the use of Economic or Strategic Criteria. This wider approach is fundamentally flawed. It should be limited to the financial impact on consumers, as the goal is to minimise the cost to consumers. Therefore only the Financial Assessment is relevant.

If the wider MCA approach is found to be lawful and required, then there needs to be greater transparency in how all criteria are weighted — particularly how qualitative factors within the Strategic Assessment will influence final outcomes, and how this aligns with Ofgem’s statutory duties, especially the duty to protect consumers.

As set out above, we are very concerned about the negative impact on consumers arising from the role of the Strategic Assessment. We consider this area requires substantive reconsideration by Ofgem. Without clear and consistent application of defined criteria, there is a risk of excessive discretion, which may distort competitive outcomes and undermine investor confidence.

More broadly, the proposed methodology risks under-representing beneficial characteristics of certain technologies — such as high dispatchability, modular scalability, and rapid deployment — within long-term, centralised system models. These models are well suited for bulk energy optimisation but may miss key flexibility and resilience attributes that are essential to real-world system performance.

To address this, we suggest incorporating consideration of:

- Deployment lead time
- Delivery risk scoring
- Stress-test sensitivities for volatility or delayed infrastructure
- Ability to deliver early (i.e. before 2030) which enables stakeholder learning as well as de-risking delivery

These additions would support a more balanced and evidence-based assessment and ensure that projects contributing most effectively to consumer value are appropriately recognised.

Q2. Do you have any views on our proposed in-the-round assessment that will rank projects based on NPV and then adjust with non-monetary impact will provide a robust result?

We strongly disagree with this approach. The approach should be aligned with how Capacity Market contracts are awarded. The reason for this is that the goals of both LDES and the Capacity Market are the same, namely to ensure the UK has sufficient electricity capacity to meet future electricity demand. The CM aims to ensure the future security of our electricity supply at the lowest cost to consumers. It would be wrong for the LDES regime to have a goal which does not align with achieving the lowest cost to consumers.

The Capacity Market mechanism awards contracts in an auction process in a technology neutral way, awarding contracts based on price competitiveness. It **DOES NOT** award contracts based on anything else: not on how many jobs are created, not on technology diversity, not on supporting innovation or other criteria.

There is no need for LDES to consider additional criteria. Doing so would go beyond its remit.

In any case, the suggested approach goes above and beyond the well structured quantitative approach of

Interconnector Window 3.

If (which we strongly disagree with) adjustment for non-monetary impacts is found to be absolutely necessary, it must be clearly defined, particularly where a project delivers strategic flexibility, local system resilience, or technology diversification benefits not captured in system-wide modelling. These attributes can materially differentiate high-quality projects and should be clearly reflected in scoring criteria.

We also recommend that Ofgem clarify the weight given to the Strategic Assessment in the final ranking. Excessive discretion in applying non-monetary adjustments, without transparency or quantifiable benchmarks, risks undermining investor confidence, distorting the competitive dynamics of the scheme and above all causing detriment to consumers.

Q3. Do you have any views on using competitive bids - based on project-specific parameters - to inform the financial assumptions and C&F levels in each project's assessment? How might this approach work on a technology-neutral basis?

We strongly support the use of competitive bids based on project-specific parameters to inform financial assumptions and cap and floor levels. This approach rewards projects that can deliver system value at lowest cost and encourages commercial discipline - both of which are essential to securing value for money for consumers.

We acknowledge the consultation's emphasis on maintaining technology neutrality. However, it's important to recognise that technology neutrality does not mean equal outcomes for all technologies. If competitive bidding consistently highlights that one technology class can provide equivalent or greater value at lower cost, that outcome reflects market reality - not bias in the methodology. In this context, we believe that technology neutrality should be preserved at the process level (i.e., open access, consistent evaluation), not enforced at the outcome level.

Ofgem must also ensure that the use of project-specific parameters is applied in a consistent and transparent way, with clear criteria for how financial assumptions will be evaluated and scored. This is essential to maintain confidence in a non-discriminatory framework, as required under Ofgem's statutory duties.

There is an inherent contradiction in Ofgem's duty to treat all technologies equally and this consultation's idea that technology diversity might be a good thing. If two hypothetical projects using different technologies achieve the same system outcome, it cannot be in the consumer's best interest to choose the more expensive project, just because it is a different technology to other winning projects!

Q4. Do you agree that some revenue streams - such as from re-optimisation or ancillary services - cannot be fully captured in the Economic Assessment? How could NESO or Ofgem better account for or validate these in the assessment process?

These revenue streams offer significant upside to the commercial viability and system value of many LDES technologies, especially highly flexible ones. We encourage Ofgem and NESO to take steps to ensure that these services are not overlooked in the broader assessment, even if they are not directly monetised in the core cost-benefit analysis.

To support this, we recommend:

- Allowing applicants to submit evidence-based projections of ancillary service revenues (or similar) for qualitative review.
- Introducing a simple set of operability tags (e.g. fast response, black start, inertia) to identify projects capable of delivering critical system services, which can inform a strategic or scoring adjustment.

These additions would improve fairness, remain technology-neutral, and avoid complex modelling while ensuring valuable capabilities are recognised.

They would also support a more balanced assessment of technologies that contribute materially to operability, stability, and real-time balancing - all of which are consistent with long-term system value and consumer interest.

Q5. Are we considering the right impacts for the Economic Assessment, and have we correctly characterised both monetised and non-monetised impacts?

We strongly believe that the Economic Assessment is not suitable or fit for purpose and should be captured within the Financial Assessment.

Minimising extreme price volatility by responding rapidly to system stress events is a quantifiable system benefit that many storage technologies would (and should) be able to provide. This volatility-dampening function is more pronounced than in slower-acting storage technologies, and we encourage NESO to model volatility or scarcity pricing sensitivity.

The exclusion of embedded grid costs is reasonable, but benefits from deferred reinforcement in constrained zones should be noted in strategic scoring.

In addition, the treatment of price volatility - and the ability of storage technologies to mitigate it - should be tested under relevant sensitivity cases. This would provide a clearer link between flexibility and consumer cost protection.

Q6. Are there important system-level benefits from LDES that are not well captured in the Economic Assessment but could significantly impact outcomes? If so, what are they, and can they be consistently assessed across projects?

We strongly disagree with the use of a wider economic assessment.

The following key system-level benefits are underrepresented or not monetised in the assessment:

- Grid-forming capability
- Black start potential
- Ramp rates
- Embodied footprint
- Geographically distributed deployment and redundancy of specific technologies
- Construction timelines and track-record
- Ability to add extra storage capacity in future if needed, often in a short timescale (i.e. within 1-2 years)

These characteristics are particularly relevant for flexible, modular technologies like BESS and align closely

with both resilience and net zero objectives. Where these cannot be consistently modelled, they should be reflected through structured strategic scoring and qualitative evidence.

Q7. Do you have any views on the relevance, appropriateness and completeness of the impacts proposed in the Strategic Assessment?

We strongly disagree with the use of Strategic Assessment. As stated above, the assessment should be on the cost to the consumer.

As explained in our letter, we are unclear how Ofgem considers these matters to be relevant given its legal framework. Based on the information available to us, we do not consider them to be appropriate.

An additional area of concern, not addressed by the question directly, which is about the evidence on which Ofgem will make its assessment and how it will consider this. We do not consider the approach is either clear or robust.

The framework captures key elements, but we would recommend strengthening the following:

- Speed and certainty of deployment as a standalone strategic factor
- Modularity, replicability, and flexibility in duration – optimal duration requirements will change over time, projects with flexibility to change their characteristics to meet system needs are more valuable than assumptions on what the system *may* need in the next 30 years.
- Unlocking constrained renewables, particularly in high-CfD regions.

These strategic characteristics support long-term consumer protection and market efficiency and should be weighted transparently in line with Ofgem's duties under the Electricity Act.

Q8. Are there other impacts that we should be considering in the Strategic Assessment?

Firstly, we strongly disagree with the use of a Strategic Assessment.

A qualitative approach to settling on a specific technology mix risks favouring perceived balance over evidence-based outcomes, potentially locking in higher costs or lower reliability for consumers under the guise of diversification.

We recommend that any assumptions about technological diversity be supported by quantified analysis of their system-wide and consumer cost implications. In the absence of such analysis, we would be concerned that this factor becomes a discretionary tool that could distort competition - particularly when BESS may offer the most cost-effective route to delivering LDES objectives.

Q9. Do you have specific suggestions for how the Financial Assessment output should be considered alongside the Economic Assessment?

We disagree with the use of any "wider" criteria in the Economic Assessment. The cost to the electricity consumer needs to be minimised. The Financial Assessment can be expanded with any consumer cost criteria in the Economic Assessment.

Technologies like BESS will likely require reinvestment through repowering to account for degradation over the project lifetime. NESO should allow discounting for known cost-learning in established BESS supply chains.

This would ensure a fairer comparison across technologies with different lifecycle profiles. In addition, models should be flexible enough to accommodate revenue-sharing arrangements or performance-based optimisation contracts, which are increasingly used in the BESS sector and align incentives with consumer outcomes.

Q10. Do you agree with our proposal to assume that LDES projects will remain revenue neutral following balancing market actions?

No. While simplification is necessary, this assumption understates the material BM contributions that fast-responding and locationally diverse assets like BESS can deliver. A better approach would be to:

- Apply a partial adjustment or revenue range based on market evidence.
- Allow applicants to provide substantiated forecasts for BM participation, to be qualitatively scored.
- Evaluate and articulate the system action benefits of projects in specific locations or regions - ideally quantified, but if not possible at least supported by clear qualitative analysis.

Significant cost savings can be made for the consumer by calling LDES assets in the BM, both for energy actions and system actions.

The different impact which LDES projects will be able to make due to their location must be considered. Assets in different locations will add different levels of value for system actions in the BM.

Q11. Do you have any views on the proposed Marginal Additional method and whether it provides a robust basis for assessment?

This approach risks flattening project differentiation if the “typical”/archetypal notional LDES does not reflect the dispatch characteristics or flexibility value of actual projects (e.g., fast-cycling vs deep-storage). We recommend:

- Including flexibility to vary archetypes based on applicant technology class.
- Clarifying how outliers or atypical profiles will be evaluated

Q12. Do you have any views on the counterfactual to use for this assessment and sensitivities that we could use?

- Ensure the counterfactual reflects a system without excessive LDES saturation (to avoid underestimating marginal benefit).
- Adding sensitivities for high-renewable and high-constraint zones.
- Including a technology-specific sensitivity to test resilience of outcomes across different storage technology mixes.