<u>LDES Ofgem Consultation June 2025 Response</u>

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?

2.2 states that the Economic Assessment considers the overall SEW against a counterfactual. However, the fact that NESO has not seen the need to deploy – nor plan for in the near future – any kind of grid service that requires longer duration power delivery suggests that such a need is not high on their list of priorities and that as a consequence the SEW impact is low.

The Strategic Assessment is impossible to make given the current REMA uncertainty around zonal pricing. Until that is resolved a scheme such as this cannot be considered with a MCA design element.

Q.2 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?

Such an assessment will be pot luck give the fact mentioned above, that there are no services that specifically address LDES capabilities. So the NPV will be calculated according to existing wholesale markets (possibly about to change because of REMA), existing BM revenues (also about to change with the BMU / non BMU distinction due to be removed, thus bringing more supply onto the BM – try modelling that!) and existing ancillary service values which are highly changeable as the last 3 years show. So 'No' – this will not provide a robust result. It will produce results that will differ massively from future reality

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?

If this is Ofgem's preferred approach it should reserve the right not to allocate C&F funds should it decide that the bids/offers do not represent good value for money. This avoids the risk of large portfolio generators dominating the 'auction' and gaming their bids. We certainly hope that the Regulator will have formed a view as to what 'good' value C&F bids will look like before receiving the bids. So 2.19 of the consultation doc might better say 'Ofgem will not award a C&F regime to projects that are deemed undeliverable, poor value or not viable.'

Given the incomes contemplated in 2.11 of the consultation document, which are exactly the same as those that the existing UNSUBSIDISED BESS fleet has access to, we cannot see how a scheme like this can be deployed without prejudicing existing investments in BESS by creating a completely uncompetitive landscape in which subsidised LDES can undercut the existing fleet.

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?

Correct – it's very difficult to accurately forecast/estimate these in the Economic Assessment.

Most route to market providers have detailed revenue estimation models as a necessary part of their tendering process for the current BESS pipeline. Similarly a number of consultancies / specialist information providers have revenue forecasting models (Modo Energy, Aurora, Gridcog to name but a few). It would seem sensible for Ofgem to subscribe to one of those services so as to be able to do its own revenue forecasting, enabling it to sensibly validate submissions. Key to any of these forecasts are the assumptions inherent in them, so agreeing them *ex ante* will help ensure that 'apples are being compared with apples'.

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

There seems a very large omission in the impacts list and that is the impact on the existing fleet of BESS whose investments, and associated assessments, were made without any consideration of the fact that a subsequent scheme may come along and allow those investment decisions to be undercut, potentially leaving them with stranded assets i.e. assets that couldn't make the expected returns because of this exogenous risk factor. This impact surely has to be brought into play, otherwise it undermines the investment environment going forward.

Of the items listed, we would suggest that the item 'renewable support scheme costs' shouldn't be included /monetised because the benefit is very tangential and difficult to estimate. It may be that the LDES is helping nearby renewables not get curtailed. It may be that the LDES is simply storing power that came through the interconnector. Who knows? The problem the consultation thinks might be solved here is more a problem with the CFD scheme, and the risk is that fixing an imperfect mechanism with another imperfect mechanism is just likely to create more market distortion.

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?

With our energy system as it stands, it is very difficult to see what system level benefits might have been missed. We say this because we work on the assumption that NESO has the best overview of the system, and if they haven't deployed a service that needs longer duration storage, they probably don't need it. Nor is it on their 3 year roadmap, as unveiled in their summer Balancing Programme event on June 24th.

The system benefits listed in 3.14 of the consultation are not specific to LDES but are general storage benefits, so shouldn't really be highlighted in such a text.

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

No – this section makes some good points

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

As mentioned before, the strategic assessment should consider the impact on the existing unsubsidised BESS fleet and planned BESS projects.

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

There has to be some sense of projects' LCOE so as to ensure that the projects applying have comparable capital costs. Costs can be influenced also about the project's financing arrangements and the credit standing of the project implementer, so interest and financing costs should be taken out of any financial assessment. LCOE should be the ‘levelling’ influence.