

Response to Ofgem: Selection of LDES projects for Window 1 Cap and Floor regime (June 2025)

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members – from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses. The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity.

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The consultation

The [consultation](#) invites views on the proposed Multi-Criteria Assessment (MCA) framework for assessing and selecting eligible LDES projects for the Cap and Floor (C&F) scheme.

It includes three key dimensions:

1. Economic Assessment: Consumer and producer welfare, system impacts, and wider economic benefits, including both monetised and non-monetised impacts.
2. Strategic Assessment: Technical diversity, system security, flex. & need for support.
3. Financial Assessment: Project revenues, costs, and financial parameters to ensure value for money for consumers and project viability.

Projects assessed using scenario-based modelling to capture a range of future system conditions. Includes counterfactual analysis and sensitivity testing. The first stage is the Eligibility Assessment which assesses applications against criteria listed in the Technical Decision Document (TDD). Projects that meet these criteria will then be assessed via the MCA process proposed in this consultation. The Financial Framework – outlines how the cap and floor levels will be set for Window 1 projects was published shortly before the consultation closed. It includes related policies (regime financial parameters, competition approach to setting the cap, and details such as project delivery and cost incentives) and includes a draft financial model and handbook to show how these levels are calculated.

Next Steps:

- This consultation closes 25 June, with the final methodology published Q3 2025.
- In Q2 2026, Ofgem publish regime documents, including the licence (a modified form of the Electricity Generation Licence with Standard and Special Conditions).

Energy UK response: summary

We thank the Ofgem and NESO teams for their work in this space and for their pace in delivering this work. We further note that developing a methodology to assess projects as heterogeneous as LDES is very challenging.

Overall, we support the Economic and Financial aspects as robust. There are, however, concerns (and some nervousness) at how the Strategic Assessment criteria will feed into the overall assessment. Members feel the Strategic Assessment is overly ambitious, and looking to cover too many factors. Members observed that it felt underdeveloped with some aspects too vague. In all, members agreed that this section adds unhelpful complexity and risks reducing the assessment transparency.

We recommend simplifying this section, and providing a detailed qualitative scoring matrix for the strategic assessment alongside with clarifying the relative weighting between the Strategic, Economic and Financial assessments.

Where additional information is requested, Ofgem should provide templates, word limits and clear instructions to ensure that it can compare inputs in an efficient and objective manner. Where decisions are obscure, it creates legal risk and undermines developer confidence. We note that Ofgem intends to provide templates for the revenue streams.

We note that information required for calculating costs and revenues (including on Capacity Market participation is still outstanding), and that the timing and timescales for responding to this consultation are challenging for industry.

Signalling future intent: It is important that Ofgem communicates as much information as possible at each stage of the process so that developers looking to submit applications in potential rounds understand the feasibility of doing so (by developing projects in GB, these developers will be foregoing opportunities elsewhere).

We look forward to Ofgem publishing the number of projects that will be taken forward to the assessment stage (in September) and further highlight that information on the total capacity and capacity by technology and location would support parties to tailor projects to future system needs.

Should the LDES target of up to 7GW be split into technology classes? (for example pumped hydro storage and BESS). In the June workshop, Ofgem asked for industry views here. In general, members would not support this. Whilst it would make comparison more straightforward, it would seem to undermine the policy objective of identifying projects that can deliver the system need at the best value for bill payers (apart from Stream 2 where there is an additional policy reason for diversity).

1. Views on overall approach, inc proposal to assess three main areas?

In general, Energy UK supports the approach of combining economic, financial and strategic aspects to assess projects in the round.

However, there is concern as to *how* the ranked elements (from the Economic and Financial Assessments) will be combined with both the non-costed aspects and other considerations (deliverability, balance of technologies, overall capacity) and the relative impact that non-quantitative aspects could have.

There needs to be a clear and transparent process for this to avoid perceptions of either cherry picking or political influence.

Members agree that it is vital for Ofgem to have a clear idea of what it is looking for and how different criteria (costed and non-costed) are weighted in advance – rather than using the received submissions to prioritise the criteria / parts.

2. Views on whether in-the-round assessment to rank projects based on NPV, then adjust with non-monetary impact will provide robust result?

As above, there needs to be a clear and transparent process to clarify the role that non-monetary factors will have, as well as the different weighting that will be applied to each factor here. Where such an approach cannot be formulated robustly, such a criterion should not be included.

Where Ofgem is seeking qualitative input, we recommend that a template is provided along with clear instructions (and word counts). This will ensure that data is more uniform and aid objective comparison.

3. Views on using competitive bids - based on project-specific parameters - to inform financial assumptions and C&F levels in each project's assessment? How might this work on a technology neutral basis

Energy UK will feed back member views here in the subsequent consultation (since the relevant information was only published days before the close of this consultation).

4. Agree that some revenue streams - such as from re-optimisation or ancillary services - cannot be fully captured in Economic Assessment? How could NESO or Ofgem better account for/ validate these?

In the industry workshops, there was some concern that the methodology values certain revenues streams over others (wholesale over BM and ancillary for example) and a view that this risked prioritising certain business models or asset classes. Members were divided on to what extent this is a limitation of the Plexos modelling tool as opposed the inputting assumptions/ methodology parameters.

Members agreed that the methodology should be able to compare different business models on an objective basis (rather than being limited to those that fit with the modelling capability). Whilst there was less concern about ancillary revenues (lower cost, shallow markets), BM and re-optimisation revenues are important revenue streams for storage.

Members further noted that undervaluing these revenues streams risks undervaluing the overall benefits that LDES projects/ types of LDES projects can bring. It is important to compare projects on a level playing field, considering total system benefit over the long-term.

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

Capacity Market revenue

Further clarity is needed here. Our understanding is that C&F projects would be eligible for 1-year contracts as price-takers rather than price-makers (as with interconnectors) but it is not clear whether C&F projects will be obliged to participate (we note that this would require rule change and a consultation). The consultation references some analysis conducted for the C&F scheme on the impacts of LDES on the CM. We request that this analysis is published if possible.

Cost estimates

The proposed approach of using the medium point of the cost range could negatively affect more mature projects with a more refined cost estimates (rather than giving attributing credit for lowering delivery risk). Members proposed the following options for addressing this:

- Use the medium range for more mature projects but a higher point in the range for less mature projects.
- Award a specific uplift to the project weighting for mature projects (preferable)

6. **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 & can they be consistently assessed?**

We agree that the key benefits have been captured by the Economic Assessment (and note that wider security of supply implications are covered in the Strategic Assessment).

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

Security of supply – we would expect the security of supply aspect of the Strategic Assessment to be built on/ informed on the NESO's forthcoming 'Resource Adequacy into the 2030s' report (to be published in July 2025).

'Balanced mix of technologies' – more information would be welcomed on how this will be assessed. Our assumption is that NESO will do this via a 'working straw man' model of the Strategic Spatial Energy Plan (SSEP) (due to be published end 2026), and that the assessment will have a strong locational aspect. Members felt this section needed further clarification on what and how the benefit here will be assessed.

8. **Other impacts that should be considered in Strategic Assessment?**

In general, members felt that the Strategic Assessment was trying to capture too many wider/ hard to quantify aspects and would benefit from being simplified.

There was though, a general agreement that a specific focus on deliverability was lacking and would be beneficial. Without this, there is a concern that unviable projects would progress, pushing viable projects out, and risking both under-delivery of the 7GW ambition and inefficient use of the administrative resource.

We support the recent change in focus away from early (2030) delivery. As stated in previous responses, members support a focus on best value for the system/ bill payer rather than early delivery. Deliverability is an important part of this – projects need to be able to evidence that plans are advanced and credible and that developers have a strong track-record of successful project delivery, can secure sufficient investment and can mobilise a supply chain to deliver to projected timescales.

We would support slightly improved weighting for more mature projects in recognition of the lower risk that these projects represent.

Need for a cap and floor: members generally don't support this criteria. Whilst the C&F scheme was designed around pumped hydro storage (as GB's only existing LDES technology) which is unsuitable for merchant-build (high capex and long lifetime), there may be other reasons why an LDES project could be viable but require a stabilisation mechanism to de-risk investment.

Longer duration batteries or advanced-CAES projects may be a first-of-a-kind technology (FOAK) or face concerns from investors about the revenue uncertainty. Whilst part of the revenue uncertainty comes from the projects meeting future rather than existing system needs, there are challenges even with current flexibility revenues streams (NESO 'skip rates', proposed code modification P462 which would flatten price spreads, the implementation of change GC0166 allowing batteries to be used for longer than 30-minute intervals). In the same way that a government contract was required to support investment into offshore wind (Contract for Difference scheme), newer forms of LDES may also require assurance to access investment.

The focus for successful projects should be those that deliver system value, at a competitive price and which are unlikely to require energy bill payer support.

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

As noted previously, Energy UK support clear weighting for all aspects of the assessment.

Further information would be useful on what the next steps will be if submission revenue and costs data differ significantly from the NESO projections. On assumed project costs, we note that these will not be agreed until financial close and will change if there are project delays or cost increases.

More guidance is needed on when a project could use alternative financial assessment.

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

It is not clear to us that LDES will be neutral in the Balancing Mechanism at a project level (rather than on average as an asset class).

This assumption would not reflect the benefits that specific projects may have by virtue of their location within the energy system (likely to be reflected in asymmetric utilisation in the

BM and other services). This differing remuneration will reflect the relative benefits these projects have over alternatives which should be considered in the evaluation. This could be done either via simplified modelling to take account of this difference or, by developers submit third party verification of the revenues from the BM.

Members would welcome further clarity on what assumptions will be used where revenues are uncertain due to system change/ sector immaturity (for example, the level of NESO 'skip rates' and possible implementation of P462 [removal of subsidies from BM bid stack].

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

We support the new approach (using 39 modelled rather than actual projects) for constructing the counter-factual. We agree that this feels more robust than the previous approach since it will assess each applicant on a level playing field.

More information is required on how the counter-factual will be constructed - especially on the handling of non-FID LDES projects (what data source will the NESO use, what level of certainty will be assumed on planning/ connection status and on delivery dates?)

12. Views on the counterfactual and sensitivities that Ofgem could use?

While the counterfactual approach (aligning with CP2030) is reasonable, policy and regulatory shifts should be tested against carbon pricing, and capacity market reform.

Other sensitivities that could be considered:

- Slower rollout of low carbon dispatchable power (a dependency in the LCP-Delta LDES evidence base)
- Technology cost curves
- Balancing market evolution (to account for the ability to provide inertia, black start and frequency response and changes in ancillary service revenues).
- Supply chain risks (where there is a reliance on locations/ materials for certain technologies [i.e. lithium].
- Market volatility (assessing multiple outturn scenarios for gas, power and carbon prices and how these impact the relative need for LDES versus alternatives).

Annex - What has Energy UK said previously?

- Energy UK [Response](#) to Ofgem's Open Letter (January 2025)
- Energy UK [response](#) (March 2024) to Designing a policy framework to enable investment in long duration electricity storage (DESNZ, 2024)
- Energy UK [response](#) (September 2023) to the House of Science and Technology Committee inquiry Long-duration energy storage.
- Energy UK [response](#) to Government Call for Evidence into Facilitating the deployment of large-scale long duration energy storage , BEIS (2021)