

Long Duration Electricity Storage: Technical Decision Document

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In October 2024 the Government's response to its Long Duration Electricity Storage (LDES) consultation set out that it would publish a joint Technical Decision Document (TDD) with Ofgem in the winter.

This TDD confirms key details of the LDES cap and floor scheme and sets out how this scheme will operate, when application windows will open, how much capacity will be procured, and what projects will be eligible to apply, amongst other details.

Ofgem expects to publish an application guidance document for window one when the scheme opens this spring. Additionally, Ofgem aims to release an eligibility assessment framework, detailing how projects will be evaluated against specific criteria.

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Executive Summary

1. Background

In the Government's response to its Long Duration Electricity Storage (LDES) consultation in October 2024,¹ it confirmed that, to enable investment in LDES, it would introduce a cap and floor scheme, similar to Ofgem's interconnector regime.

Ofgem's December 2024 call for input letter² noted that this aligns with the Government's Clean Power 2030 Action Plan³ and supports Objective 8 of Ofgem's Forward Work Programme.⁴ The letter also outlined the work plan, timelines, initial ideas on the first application window, and eligibility criteria for the LDES cap and floor regime, inviting stakeholder views on 14 questions.

This Technical Decision Document (TDD) confirms key final details of the scheme. It sets out how the scheme will operate, when the first application window will open, how much initial capacity will be sought, and which projects will be eligible to apply, amongst other details. Additionally, Ofgem will publish an application guidance document and an eligibility assessment framework. These documents will respectively detail the essential information required in an application and how projects will be evaluated against specific criteria when the scheme opens this spring.

Government and Ofgem made the final decisions included in this TDD using several additional sources of information beyond the previous consultation:

- Feedback from Ofgem's recent call for input inviting response to several areas of the scheme design.
- Advice from the National Energy System Operator (NESO) relating to some of the eligibility requirements and the amount of capacity that Ofgem should seek through this scheme in the first application window.
- Input from consultants Cambridge Economic Policy Associates (CEPA), commissioned by Government to provide technical advice, including on setting cap and floor levels.

Government and Ofgem expect the decisions set out in this document to be final for the first LDES application window. This includes firm decisions, such as the implementation of two assessment stages: the eligibility stage and the CBA stage,

¹ <https://assets.publishing.service.gov.uk/media/670660eb366f494ab2e7b57a/LDES-consultation-government-response.pdf>

² https://www.ofgem.gov.uk/sites/default/files/2024-12/Dec_OpenLetter_LDES_0.pdf (also referred to in this publication as Ofgem's open letter)

³ <https://www.gov.uk/government/publications/clean-power-2030-action-plan>

⁴ https://www.ofgem.gov.uk/sites/default/files/2024-03/2024-25_FWP_FINAL.pdf

which will inform the cap and floor regime award. Additionally, there are broad areas where Ofgem now plan further consultation, such as determining the cap and floor rate of returns as well as incentives to manage delays and cost overruns.

We also expect that Ofgem will carefully review the arrangements for projects awarded a cap and floor regime after the cap and floor regime period ends. The review aims to:

1. Ensure that there are measures in place to safeguard consumers' interests in long-lasting assets that received financial support (floor payments) during the regime period and are expected to continue operating after the regime ends.
2. Ensure that any revenues generated by these projects after the regime period ends are used to offset the floor payments they received during the regime period.

This review and the associated measures may not apply to projects that did not receive floor payments during the regime period.

Ofgem remains open to considering any reasonable and material concerns caused by decisions made in this publication.

2. Overview of the cap and floor scheme

The cap and floor scheme ensures investors receive a minimum amount of revenue to enable investment in LDES assets. Alongside this, the cap on revenue provides returns to consumers for their support, where LDES assets operate above the cap. While the scheme is based on previous experience gained from the electricity interconnector cap and floor regime, it is important to note that this cap and floor regime is not the same as the one used for interconnectors. Although it incorporates similar concepts, there are significant modifications to ensure it works effectively for LDES deployment. Importantly, this policy development does not apply to approved cap and floor interconnector projects or any future cap and floor interconnector windows.

The LDES cap and floor will be set as follows:

- The cap will be set to allow recovery of invested capital (debt and equity) and to provide a fair return on investment if the assets perform well in the market.
- The floor will be set to allow recovery of invested capital (debt and equity) along with a rate of return that is comparable to the cost of debt.

Government and Ofgem believe this sets the right balance of incentivising investment and encouraging appropriate operation of LDES assets, whilst avoiding unnecessary risk to consumers. This is discussed further in Chapter 5.

3. Timeline for window one

Table 1 below sets out the key stages, timelines, activities, and related publications for the first LDES application window.

Table 1: Key stages and timeline for window one

| Assessment stage | Period | Activity | Related publication(s) |
|--|---------------|--|---|
| Stage 1: Eligibility assessment | Q1 2025 | Development of eligibility criteria assessment framework | |
| | Q2 2025 | Window one open for applications (two-month period) | Eligibility assessment criteria framework Application guidance |
| | Q3 2025 | Eligibility assessment takes place | Final decision on eligibility |
| Stage 2: Project cost assessment (PCA) & Cost Benefit Analysis (CBA) | Q2 2025 | Consultation on: Initial CBA framework Regime details such as delivery and costs incentives | Minded to decision on: CBA framework Delivery and costs incentives |
| | | Cap and floor financial model (CFFM) & regime financial parameters | Consultation on: Draft cap and floor financial model (CFFM) and handbook Regime details such as cost of equity, cost of debt, and IDC |
| Licence development | Q2 to Q3 2025 | Review CBA framework consultation responses Review of Standard Licence Conditions (SLCs) and drafting of Special Licence Conditions (SCs) | |

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| Assessment stage | Period | Activity | Related publication(s) |
|-----------------------------|--------------------|--|---|
| | Q3 2025 | | Decision on final CBA framework Cost assessment guidance / template |
| | Q3 2025 | Submission deadline for costs for PCA & CBA | Decision on: CFFM and handbook Regime financial parameters and related policy |
| | Q3 2025 to Q1 2026 | PCA / CBA takes place Modelling indicative cap and floor using CFFM | Draft licence – consultation on special licence conditions and details on cost recovery arrangements |
| | Q1 2026 | Initial decision on PCA and CBA | Consultation on initial decision: (i) on PCA; and (ii) cap and floor regime award |
| | Q2 2026 | Opportunity to submit limited cost updates for cap and floor setting | Final decision on: (i) PCA, (ii) PA and (iii) cap and floor regime award Final decision on special licence conditions and related statutory licence modification |
| Stage 3: Construction phase | Q3 2026 | Confirm key milestones and risk logs Develop framework for debt competition | Construction Regulatory Instructions and Guidance (RIGs) published |
| | Q3 2026 onwards | Monitoring and reporting during construction | |

| Assessment stage | Period | Activity | Related publication(s) |
|---|---------------|---|-------------------------------|
| Stage 4: Post Construction Review | c. 2029 | PCR submission guidance development | |
| | c. 2030/31 | PCR for first LDES cap and floor projects | |
| Stage 5: Monitoring cap and floor during operations | c. 2029 | Operational RIGs development | Regime reporting |
| | During regime | Periodic revenue assessment & reopeners | |
| Post regime period | | | |
| Stage 6: Final assessment | TBC | Any outstanding revenue reconciliation and post regime arrangement finalisation | TBC |
| Stage 7: End-of-life Arrangements | TBC | TBC | TBC |

4. Next steps

Noting that not all potential projects are likely to be eligible for window one, we expect to consult with NESO once window one is complete to understand required further LDES capacity ranges for 2035 and 2050. Assuming more LDES installations are still required, we then expect to open window two as soon as practicable with indicative capacity requirements based on NESO’s assessment. We will also consider any lessons learned from the window one process.

This TDD marks the end of the LDES scheme policy development phases, involving extensive stakeholder engagement. It also marks the start of the delivery phase, with Ofgem expecting to open the first application window in April 2025 and finalise any outstanding LDES cap and floor regime aspects. This is a significant milestone in the construction and operation of the next generation of LDES assets.

From this point, Ofgem will make final decisions relating to the cap and floor scheme. Both government and Ofgem would like to thank stakeholders that have readily engaged in the policy process and look forward to further engagement as this scheme opens.

5. Related publications

- Long duration electricity storage consultation (January 2024):
<https://assets.publishing.service.gov.uk/media/659bde4dd7737c000ef3351a/long-duration-electricity-storage-policy-framework-consultation.pdf>
- Long duration electricity storage consultation: Government Response (October 2024):
<https://assets.publishing.service.gov.uk/media/670660eb366f494ab2e7b57a/LDES-consultation-government-response.pdf>
- Ofgem’s Open Letter: A call for input – LDES cap and floor regime (December 2024): https://www.ofgem.gov.uk/sites/default/files/2024-12/Dec_OpenLetter_LDES_0.pdf
- Clean Power 2030 Action Plan (December 2024):
<https://www.gov.uk/government/publications/clean-power-2030-action-plan>
- Ofgem’s Forward Work Programme 2024/25:
https://www.ofgem.gov.uk/sites/default/files/2024-03/2024-25_FWP_FINAL.pdf
- CEPA report: Cap and Floor Regime for Long Duration Electricity Storage: Setting the Cap and Floor (published by DESNZ, 2025)
- Interconnector cap and floor regime handbook (2024):
https://www.ofgem.gov.uk/sites/default/files/2024-12/Interconnector_Cap_and_Floor_Regime_Handbook_Updated_Version.pdf
- NESO’s advice:
 - (a) Long Duration Electricity Storage: Response to DESNZ Request: Q1 and Q2 (Published by NESO, 2025)
 - (b) Future Energy Scenarios (2024):
<https://www.neso.energy/publications/future-energy-scenarios-fes/fes-documents>
- Decision on the Final Project Assessment of the NeuConnect interconnector to Germany (2022):
<https://www.ofgem.gov.uk/sites/default/files/2022-09/Neuconnect%20Final%20Project%20Assessment%20decision1656590974415.pdf>
- Decision on the Final Project Assessment of the Greenlink interconnector to Ireland (2021): <https://www.ofgem.gov.uk/sites/default/files/2021-09/Greenlink%20FPA%20decision1633004200399.pdf>

- Infrastructure and Ports Authority: Cost Estimating Guidance - A best practice approach for infrastructure projects and programmes (2021):
https://assets.publishing.service.gov.uk/media/6050c9528fa8f55d324b0c84/IP_A_Cost_Estimating_Guidance.pdf

Chapter 1: Institutional framework for delivery

This chapter sets out broad parameters for how the LDES cap and floor scheme will be delivered from an institutional and regulatory standpoint.

1.1 Background

In October 2024, Government decided to introduce an LDES cap and floor investment support scheme and confirmed that Ofgem would be the delivery body and regulator responsible for delivering and administering this scheme. At that time government noted a preference for using network charges if a cap or a floor was to be triggered (i.e. as the route through which an LDES operator might receive support from consumers or pay any revenue earned above the cap back to consumers).

1.2. Legislative framework, charging, and licencing

Government will legislate for Ofgem to deliver the LDES scheme, setting out a requirement for Ofgem to implement the cap and floor scheme and confirming the use of network charges in the event that a cap or a floor was to be triggered.

The details of the scheme for projects that are granted a cap and floor regime will be set out in the licences held by LDES operators, with special conditions covering the operation of the cap and floor regime. Ofgem also expects to make separate changes to wider industry frameworks to support the cap and floor regime, including specifically the use of network charging.

Government will legislate for this via the Planning and Infrastructure Bill, which was introduced to Parliament on 11 March 2025.

Justification

Legislating for Ofgem to deliver the LDES scheme ensures a clear and authoritative framework for implementation. Ofgem has the capabilities and tools in place to set it up quickly and manage it effectively.

Legislating for the use of network charges allows Ofgem to design and establish a settlement mechanism efficiently. The use of network charges to settle payments has previously been used successfully in the interconnector cap and floor regime. Stakeholder engagement also showed a preference for the use of network charges to settle potential cap and floor payments.

Further work

Ofgem will set out further details regarding the licence development process, and a high-level timeline for any necessary licence changes and code modifications, in Q2 2025.

Government will publish an Impact Assessment for the LDES cap and floor scheme in the spring to support the Planning and Infrastructure Bill. Where Ofgem considers it appropriate, it will also assess the impact of relevant aspects of the LDES cap and floor scheme.

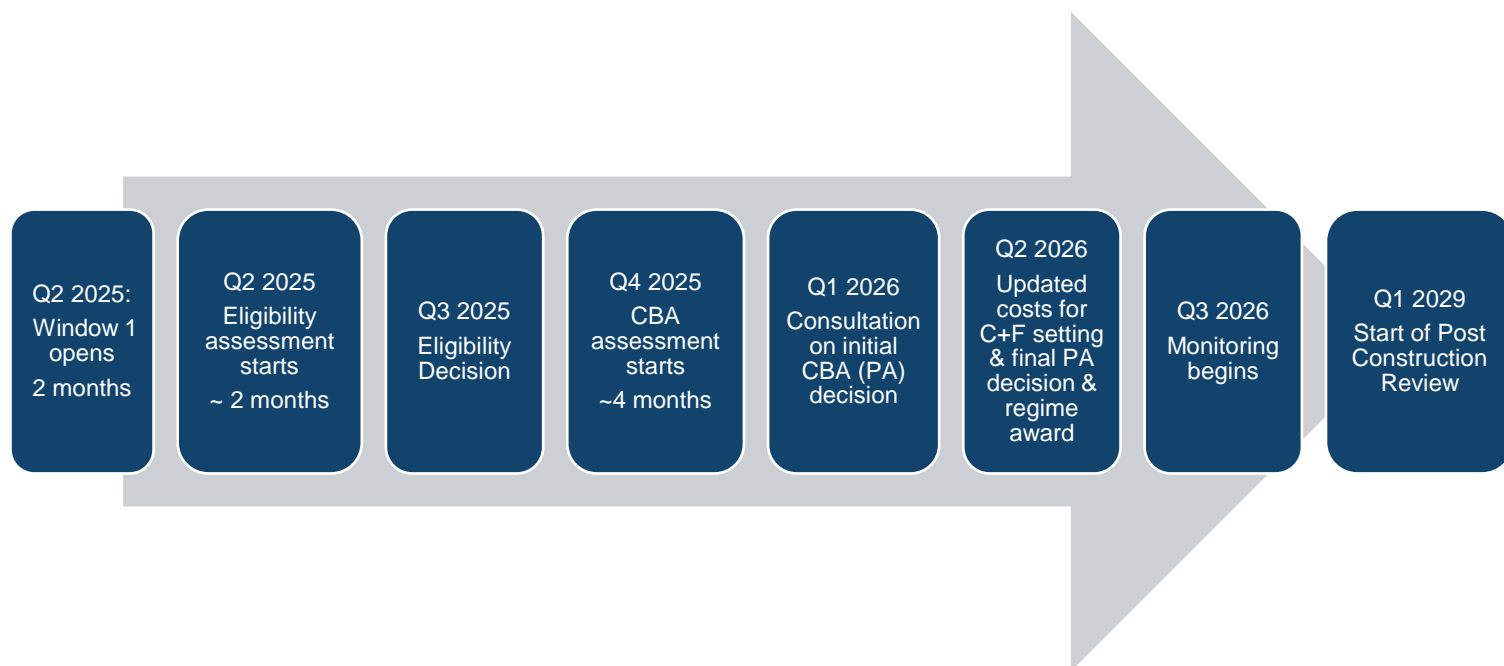
Chapter 2: Allocation round process and scheme duration

This chapter sets out how the cap and floor scheme process will be managed by Ofgem. It includes the application process, the twin track approach, the indicative capacity range for the first application window, and scheme duration.

2.1 Application process

The LDES scheme will use a window process where developers can submit their applications within a set period of time. For window one, developers will be able to apply at any time from when the window opens in April 2025, until the closing date (2 months later). Figure 1 below provides further details of the assessment timeline.

Figure 1: Window one assessment timeline



This process is designed to ensure a structured and transparent approach to project assessment and approval. Opening the application window will initiate a multi-stage process that includes an eligibility assessment, followed by CBA and project assessments for qualifying projects. More details are provided in the box below.

Overview of LDES cap and floor scheme process

1. The application window for the first round is expected to open in April 2025.
2. **Stage 1: Eligibility assessment:** From Q2 2025, Ofgem will conduct an eligibility assessment to confirm which applications meet the eligibility criteria set out in

Chapter 3. Ofgem will inform developers of the outcome of this assessment in Q3 2025 (in the eligibility decision).

3. Only projects that pass the eligibility assessment will move to the CBA and project assessment stage starting in Q4 2025.
4. **Stage 2: Project assessment:** In Q3 2025, Ofgem will require detailed cost information from projects to inform the CBA assessment. The submitted costs will undergo a cost assessment to inform the initial decision and cap and floor award regime decision in Q2 2026.
5. In Q1 2026, Ofgem expects to consult on the initial decision regarding which projects will be granted the cap and floor regime.
6. In Q2 2026, where necessary, Ofgem may permit successful projects a limited opportunity to submit updated cost information for setting the cap and floor levels. Any updated cost submission will be expected to be within the range of cost estimates provided for the CBA.
7. Ofgem expects to determine the administratively set cap and floor levels and all relevant input parameters for all successful window one projects in Q2 2026.
8. The timeline for setting the cap and floor levels based on some form of competition (as explained in Chapter 5) will be the same, with the exception of the floor level, which will take place once financial close is achieved, similar to the interconnector project finance process for the Greenlink and NeuConnect.^{5,6}
9. Following cap and floor regime award, Ofgem will monitor approved projects against milestones with a focus on how developers are managing risks such as supply chain issues, costs, delays, and progress. The award will be subject to a set of conditions contained within an annex of the project assessment decision document. Please refer page 93 of the Initial Project Assessment decision for Window 3 interconnectors to see what these conditions might look like.⁷
10. **Stage 3: Post construction review:** Once an LDES project has been delivered, Ofgem will conduct a post-construction review (PCR) to set the final cap and floor levels to inform our PCR decision.
11. Following the PCR, Ofgem will monitor the cap and floor regime during an LDES installation's operations, including compliance of licensed LDES operators with the cap and floor regime.

⁵ <https://www.ofgem.gov.uk/sites/default/files/2021-09/Greenlink%20FPA%20decision1633004200399.pdf>

⁶ <https://www.ofgem.gov.uk/sites/default/files/2022-06/Neuconnect%20Final%20Project%20Assessment%20decision1656590974415.pdf>

⁷ https://www.ofgem.gov.uk/sites/default/files/2024-11/Window_3_IPA_Decision.pdf

Further work

Ofgem plans to provide detailed information about the eligibility assessment framework when the first application window opens in April 2025 or soon after.

Ofgem will work with NESO on developing a CBA framework, which Ofgem expects to put to public consultation in May/June 2025. Ofgem expects to make a decision on the final CBA framework by Q3 2025. In Figure 1 above we provide the list of activities and indicative timelines.

Other key regime documents such as application guidance, cost assessment guidance, LDES cap and floor regime licence conditions, framework for debt competition will also need to be developed. A summary of the activities and timelines is provided in Table 1 of Chapter 1.

2.2 Twin track approach

As set out in Ofgem's open letter, Ofgem intends to assess all projects with 2030 and 2033 start dates in parallel but may use a 'twin track' approach if needed: Track 1 for projects deliverable by 2030 and Track 2 for those by 2033. Ofgem will decide on prioritisation after the application window closes. By the end of Q2 2025, Ofgem will know the number of applications and its capacity to handle them through eligibility and CBA assessment processes. Applicants may be informed of their project's prioritisation by email or when the eligibility assessment decision is published.

The majority of stakeholders were supportive of our twin track approach. They considered that it is aligned with Clean Power 2030 requirements while maintaining the flexibility to allow high quality projects that cannot be commissioned by the end of 2030 to continue development and be ready as soon as possible.

The CBA framework will be developed to consider projects from Track 1 and Track 2 based on their respective delivery dates of 2030 and 2033.

2.3 Capacity range for window one

The indicative capacity range for the first application window is between 2.7 and 7.7 GW up to 2035. This is based on advice provided by NESO to government, through its NESO's Future Energy Scenarios (2024) which indicated a further 2.7 to 7.7 GW on the system by 2035 would be needed by 2035.⁸

Ofgem will make decisions about the timing and amount of future capacity required, using advice from NESO to ensure these decisions are based on system needs. Government and Ofgem currently consider that Ofgem would open window two as soon

⁸ <https://www.neso.energy/publications/future-energy-scenarios-fes/fes-documents>

as practicable after completing window one, if it is determined that more LDES capacity is still required.

Further work

Ofgem expects to consider the range of between 2.7 and 7.7 GW again at the project assessment stage to calibrate our cost benefit analysis process, however, we have decided not to set firm capacity targets for window one. We will set out further details on how this will work in our project cost assessment and CBA guidance for window one.

2.4 Cap and floor revenue terms

Government's and Ofgem's initial position is that LDES assets will be subject to the cap and floor regime for 25 years and that all capital costs would be recovered over this period. Ofgem may consider requests for different regime lengths, but any request for a shorter duration must be at least 20 years. This is because shorter durations are likely to result in higher floor levels, increasing potential consumer support in any year, as the costs would be spread over a shorter period.

Applicants must clarify in their application whether they are seeking a regime duration that is shorter than or longer than 25 years, or if they need any specific regime variations, detailing those variations. They must demonstrate that their proposed regime duration or any specific variation is in the best interests of consumers, primarily through lower floor levels. Regardless of the requested regime duration, the costs and benefits of all projects will be assessed over a 25-year period to ensure a level playing field.

We recognise that fully depreciating long-lived assets over a period shorter than their expected economic life may result in increased costs to consumers through the floor over the regime duration. However, we also do not consider it is viable to require refinancing during the regime duration without significantly complicating the regulatory regime and exposing us to challenges in undertaking a robust CBA. We welcome proposals from developers on potential solutions that could lower the floor level and benefit consumers. Separately we are considering arrangements at the end of the regime period for assets that are able to operate for longer than 25 years, noting that consumers in principle should benefit having provided investment support through the cap and floor regime.

Justification

Setting the regime duration at 25 years allows Ofgem to assess projects efficiently and support those that provide the most system benefits over that period. It will help standardise the cost benefit analysis process.

If the revenue support duration is based on the project's lifespan, projects with shorter lifespans will have higher floors, while those with longer lifespans will have lower floors, all else being equal. The duration of revenue support under the cap and floor regime directly affects how the cap and floor levels are set. A longer regime duration would lower the floor level, reducing the likelihood of floor payments, but it would extend the period during which consumers might have to cover the floor. Conversely, a shorter regime duration with a higher floor level could lead to more frequent floor payments by consumers.

Ofgem's and Government's engagement with investors also suggested that securing financing for a term longer than 25 years was likely to be difficult. As the cap and floor levels are fixed (subject to indexation) over the whole revenue term having a revenue term in excess of 25 years would be likely to introduce a number of complexities to the model that we consider may harm investability.

CEPA recommended that projects should be supported for their operational life (up to refurbishment), up to 25 years. However, the model Government and Ofgem are taking forward sets the standard regime duration at 25 years, even if project's operational asset life is shorter (or the asset is refurbished sooner). A shorter regime duration of no less than 20 years will only be allowed by exception.

Government and Ofgem have taken this approach so as to ensure fair comparison of all bids, regardless of the expected lifespan of the assets participating in the cap and floor scheme.

Further work

The detail regarding revenue terms will be set out in the LDES cap and floor special licence conditions.

Chapter 3: Eligibility

This chapter sets out the eligibility criteria for the scheme, following on from the Government’s consultation response in October 2024, and further responses to Ofgem’s call for input in December 2024.

3.1 Eligibility criteria

Government and Ofgem will require projects to have the following evidence to be eligible for the first application window of the cap and floor scheme.

Table 2: Eligibility criteria for window one

| Criteria | Description |
|------------------------|--|
| Deliverability | <p>Cost estimates equivalent to the Infrastructure and Projects Authority (IPA) Ref. Classification “Outline Business Case” (OBC) at a minimum.⁹</p> <p>Evidence of upfront engineering design/optionseering (FEED) appropriate to the project's development stage; economic viability studies; project and business plans.</p> |
| Grid connection status | <p>Evidence that grid connection application has been submitted.</p> <p>N.B. Please refer to further details in Section 6.2.5.</p> |
| Planning consent | <p>Planning consent in place by the start of project assessment phase (end of Q3 2025).</p> <p>For projects deliverable by 2030 only, the ability to demonstrate that they can secure planning consent in the required delivery timescales including evidence of initial engagement and evidence of land rights.</p> |

⁹

https://assets.publishing.service.gov.uk/media/6050c9528fa8f55d324b0c84/IPA_Cost_Estimating_Guidance.pdf

| Criteria | Description |
|----------------------------------|--|
| Minimum capacity | 100MW (stream 1) or 50MW (stream 2) – further details in Section 3.4 to 3.5; demonstration of ability to maintain discharge capacity over the cap and floor regime duration. |
| Duration | 8 hours continuous output at full power, and maintain this capacity over the full cap and floor regime duration (i.e. 25 years). |
| Technology readiness level (TRL) | TRL 9 for stream 1 technologies, TRL 8 for stream 2 technologies. |

In addition to the above, in assessing projects, Ofgem may have regard to best use of scarce natural resources (such as lochs and rivers) and may engage with relevant local and environmental authorities to do so.

After evaluating the first application window, Ofgem will receive further advice from NESO on the additional LDES capacity needs and potential requirements for the second application window. Ofgem will then review the eligibility criteria and overall approach for the second application window as soon as practicable. If the current approach is found to be ineffective, necessary changes will be made to ensure we are able to run an effective process and deliver the LDES capacity required in a timely manner.

There will be a hard deadline for applications to be finalised and submitted by applicants for Ofgem’s consideration, after which there will be no automatic right for applicants to update or expand upon their submitted application. After this deadline, applicants will still be required to engage fully with any requests for further information issued to them by Ofgem and to keep Ofgem informed about developments that may impact deliverability of projects by the applicable deadlines.

3.2 Deliverability, grid connection status and planning consent

Government and Ofgem will require suitably mature cost estimates; evidence that grid connection application has been submitted and planning consent to be in place by the start of project assessment phase. For projects deliverable by 2030 only, the ability to demonstrate that they can secure planning consent in the required delivery timescales (e.g. initial application, etc) will be sufficient.

In addition, Ofgem expects – and will require evidence to demonstrate – that projects have the correct relevant environmental permits in place; a generation licence where applicable; and sufficient proof of landownership or lease agreements or binding options thereof.

Justification

Consultation response: The January 2024 consultation¹⁰ set out a minded-to position for requiring valid planning consent and grid connection offers. Respondents recognised the importance of these requirements and noted that it would help eliminate ‘phantom projects’ from applying for the LDES cap and floor scheme. However, some respondents highlighted that some of these processes are often subject to delays and could make securing investment more difficult.

Ofgem’s open letter: Stakeholders again acknowledged the importance of requiring planning consents and grid connection offers in response to Ofgem’s open letter, but many raised concerns specifically about the feasibility of requiring evidence of full consent, firm grid offers and completed FEED studies.

NESO is currently in the process of carrying out grid connection reform, which could result in grid connection offers changing, bringing forward or delaying connection dates. This makes it difficult to set firm grid connection requirements at this stage taking into account the ongoing review. As a result of that review process, only evidence that grid connection application has been submitted will be required.

Stakeholders highlighted that some projects would not require full planning consent by Q2 2025 to be delivered by 2030. They proposed that flexibility should be given to these projects. Setting the requirement too restrictively for projects deliverable by 2030 could result in insufficient LDES being deployed to meet targets. Due to this, projects with a deliverability date by 2030 will be allowed some flexibility to obtain planning consent within delivery timeframes.

Stakeholders highlighted that FEED studies entail high costs for projects with no guarantee for support under the cap and floor regime. These studies can also run up until close to the start of construction, meaning it is arguably excessive to require this to be completed upon application to window one of the LDES scheme. However, sufficient evidence will be required to demonstrate credible costs of projects to review as part of the assessment of applications. Cost estimates broadly equivalent to “Outline Business Case” (OBC) will be required. For the eligibility phase, all cost estimates should use the same ‘Level 0’ cost breakdown structure as provided in Figure 6 of the Infrastructure and

¹⁰ <https://assets.publishing.service.gov.uk/media/659bde4dd7737c000ef3351a/long-duration-electricity-storage-policy-framework-consultation.pdf>

Projects Authority cost estimating guidance.¹¹ Additionally, FEED studies appropriate to the project's development stage should be provided if available.

To be able to export electricity to the grid, cap and floor LDES assets will be required to have an electricity generation licence in place, where applicable. This is in line with the interconnector cap and floor regime and has not changed since the January 2024 consultation.

Conclusion: While these are important criteria to determine the deliverability of projects, especially in order to meet 2030 targets, some flexibility is required to ensure that sufficient LDES capacity is brought forward by developers. Projects will still be required to meet these requirements in agreed timeframes to ensure sufficient progress of delivery of the assets. In Q2 2026, Ofgem expects to set out progress milestones that developers must meet to ensure timely delivery of projects.

3.3 Minimum duration

Government and Ofgem will require projects to be able to discharge **continuously at full power for at least 8 hours** to be eligible for the cap and floor scheme.

Justification

Consultation response and alignment with international evidence: In the January 2024 consultation, Government initially proposed maintaining the minimum duration for both streams at 6 hours. A slight majority of respondents disagreed with this proposal, citing, for example, the LCP Delta/Regen analysis which demonstrated greater system benefits at longer durations, and various international definitions at eight hours or longer. However, there was a risk that this could leave valuable projects ineligible. Government therefore committed to consider this further with NESO and Ofgem.

NESO analysis: NESO evaluated the potential impacts of increasing the minimum duration. From a security of supply and operability point of view, it found that there are unlikely to be material impacts from increasing the minimum duration limit to 8 hours, however NESO noted that the 2022 Resource Adequacy Study still found that 6 hour units are useful to security of supply. Regarding the electrical grid's ability to manage thermal constraints (the heat produced during electricity transmission), NESO's quantitative and qualitative analysis suggested that there is a small benefit to moving to an 8-hour duration. However, this benefit is highly sensitive to the location of assets, and overall, the location of assets is more important for addressing constraints. The NESO advice identified some potential material impacts of excluding projects which are

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https://assets.publishing.service.gov.uk/media/6050c9528fa8f55d324b0c84/IPA_Cost_Estimating_Guidance.pdf

currently configured as 6 hours units and if projects reconfigure to meet the higher duration threshold. The exact nature of these impacts will depend on how developers respond to any increase in the proposed minimum duration threshold. These impacts could be identified through individual assessments, considering their location, total capacity and energy and technology type.

Feedback to Ofgem’s open letter: From responses to question five in Ofgem’s open letter¹² the majority of stakeholders either supported a higher minimum duration of 10 hours or noted that their projects would not be affected by a higher minimum. However, some stakeholders stated that a 10-hour duration would significantly delay their projects and risk deliverability for 2030, potentially requiring resubmission of planning applications, which could take 12-18 months. Some stakeholders indicated they would discontinue their projects if a 10-hour minimum duration was introduced. Very few such concerns were expressed in relation to an 8-hour minimum. This response is in line with Government’s prior understanding of the LDES project pipeline.

For question six,¹³ many stakeholders cited the LCP Delta analysis, which showed that longer durations provided greater system benefits, while some argued that shorter duration technologies (e.g., 6 hours) could offer alternative benefits such as locational advantages or lower capex requirements.

Conclusion: LDES projects have historically faced investment barriers, unlike short-duration storage. They are beneficial because they can provide power for longer without needing to recharge. Setting the threshold too low risks delays to Ofgem’s decision making due to a surplus of applicants with potentially lower value projects, which could put at risk the goal of achieving clean power by 2030. Raising the threshold to eight hours poses no significant issues for the energy system or the achievement of clean power by 2030. However, raising it above eight hours could delay achieving clean power by 2030. The confirmed requirement is therefore that eight hours shall be the minimum duration eligibility requirement for the cap and floor scheme.

3.4 Minimum capacity

The government and Ofgem will require projects applying for stream 1 to have a minimum capacity of 100 MW, while projects applying for stream 2 must have a minimum capacity of 50 MW.

¹² Question 5: For stream 1 only, if your project would be affected by an increase in the minimum duration requirement to 10 hours, would you re-scope the project to meet the new requirement or discontinue it?

¹³ Question 6: Do you have views on the potential differences in system and consumer benefits between longer and shorter minimum duration requirements, including how these differences might affect LDES asset operation?

Justification

NESO analysis: NESO evaluated the potential impacts of lowering the minimum capacity below 50 MW. This considered potential impacts to security of supply, operability, thermal constraints, connections, and generation costs and emissions. Overall, NESO's analysis was not able to identify any material system impacts (advantageous or disadvantageous) from reducing the minimum capacity threshold for stream 2. NESO's analysis did not weigh in favour of, or against, reducing this threshold.

Government and Ofgem are unaware of any projects below 50 MW that would make a significant impact on delivering clean power by 2030. Government's and Ofgem's position, therefore, remains that, at least for window one, setting a 50MW threshold for stream 2 strikes the right balance between accessibility (for developers of more novel approaches) and manageability (particularly for Ofgem in terms of assessing applications in tight timeframes for window one). However, this position may be reviewed for future windows of the LDES scheme.

Stream 2 technologies, being more established, should be capable of demonstrating sufficient scale at 100 MW. Government will continue to review whether further innovation support could help with the pipeline of novel LDES technologies that cannot meet the eligibility requirements for window one of the LDES scheme.

3.5 Technology Readiness Level (TRL) and assessment

Government and Ofgem will split projects into two streams based on their TRL. Developers will be required to self-assess their project's TRL during the application process.

Stream 1: Projects applying for stream 1 at TRL 9 will not be required to provide detailed evidence for their project's TRL. There is no reason for TRL 8 projects to claim to be TRL 9, given the only difference in assessment is a lower minimum power rating for stream 2. However, Ofgem reserves the right to reject applications from technologies that are known not to be TRL 9 (i.e. have no evidence of deployment).

TRL 9 is generally defined as a marketable product proven in repeated use, being sold in market. The technology should actively be in use in its final form and proven through successful operations. For the purposes of LDES, we would interpret this as meaning that at least two assets of at least 100MW (i.e. the minimum size for stream 1) are in working operation, in GB or internationally.

Stream 2: Projects applying for stream 2 will be expected to provide relevant detail on how their project meets the requirements for TRL 8.

TRL 8 is generally defined as a technology in which development is complete, final design and features are set, which may have limited release to clients, and for which all fulfilment procedures are trialled and documented. The technology is proven to work - technology design for production or roll-out is completed and qualified through test and demonstration. For the purposes of LDES, we would interpret this as having an installed, working example that is technologically identical or near identical to the proposed development of at least 1MW in size.

While there is no prescribed form of self-assessment, examples of supporting information for stream 2 applicants at TRL 8 could include, but are not limited to:

- A detailed plan outlining the steps taken to achieve TRL 8, examination of possible project risks and the methods to manage them.
- Details on the largest installations in MW/MWh with break down between planned, in construction, and commissioned.
- Validation report / stable performance metrics from operational assets across various operating conditions / performance at facility (round trip efficiency, ramp up rates, degradation and scale up quotes).
- Operational and maintenance plans for the full asset lifetime / key original equipment manufacturer (OEM) and subcontractors' data sheets.
- Documentation of the project's environmental footprint and measures taken to minimise negative impacts.
- Detailed financial estimates showing whether the project is financially viable, including cost-benefit analysis.

Indicative classifications

Projects should be at the minimum required TRL at the point of applying. As previously highlighted in Government's January 2024 consultation, it is currently expected that only PSH and Li-ion batteries will have a TRL of 9 at the start of window one. PSH is already extensively deployed, and although Li-ion batteries have not strictly been used in longer duration applications, Government and Ofgem expect such applications to be sufficiently similar and able to qualify as instances of well-established technology. However, Government and Ofgem recognise that this may change quickly as technologies develop, therefore Ofgem will adjust this view if required.

On the basis of our current understanding of the sector, we expect other technologies such as Liquid Air Electricity Storage (LAES), Compressed Air Electricity Storage (CAES) and flow batteries to come forward with a TRL of 8 and be assessed in stream 2, but as these are less developed and less homogeneous, this is not a guarantee of this. We would expect relevant applicants to make a strong case as to why their projects should

be considered as TRL 8. This is not a definitive list of technologies, and we welcome applications related to other technologies if applicants are able to meet the eligibility criteria for the scheme and can justify their project's TRL.

Justification

Feedback to Ofgem's open letter: The majority of respondents to question seven of Ofgem's open letter¹⁴ agreed with the initial view not to require detailed evidence for verifying a project's TRL at level 9 for stream 1. For question eight,¹⁵ some stakeholders argued that TRL should not be used for stream 2 and that projects should be able to self-select. Similarly to the consultation response, some stakeholders recommended an alternative approach which included using Commercial Readiness Level (CRL), manufacturing readiness levels or adoption readiness levels, which have been used by organisations such as the US Department of Energy.

Following review of consultation responses and further feedback from Ofgem's open letter, both Government and Ofgem intend to use a self-verification process for determining project TRL.

3.6 Additionality

Beyond the previously detailed eligibility criteria on duration and capacity, there will be no further test for additionality for projects applying in window one. Our position remains unchanged in that we will not support projects that can already be deployed without support, including projects that have already taken FID.

Justification

In Government's October 2024 consultation response, Government stated that the cap and floor scheme would not support projects that could be delivered via existing market mechanisms. As no LDES has ever been delivered in GB without significant Government support, and Government and Ofgem are not aware of any in the pipeline that could progress without such support, Ofgem will treat all LDES as automatically satisfying this requirement for the first window. This also simplifies this assessment process. Ofgem reserves the right to review this position for future windows, for example, if certain technologies are proven (in GB or internationally) to be deliverable on a purely merchant basis.

¹⁴ Question 7: Do you agree with our initial view to not require detailed evidence for TRL9 projects?

¹⁵ Question 8: If you are a potential stream 2 applicant, what information do you think you would need to provide to demonstrate TRL 8 status?

3.7 Refurbishments

The cap and floor scheme will be available for significant refurbishments or expansions, as well as new builds. Projects adding an amount of capacity that meets our other eligibility criteria (e.g. 100MW over 8 hours) can apply. Only the cost of the new capacity from the refurbishment or expansion can be supported by the cap and floor scheme. The CBA will consider the newly formed asset against system and overall benefits as new builds. It must be clear how to identify the costs and benefits of the newly formed system, as well as how to separate revenues that will accrue to it.

If a developer can clearly show that any phases of a project that are already under construction during the application window depend on the award of a cap and floor for the entire project and cannot operate viably as a stand-alone investment, Ofgem will consider including these costs in the cap and floor assessment. This approach ensures that, where projects are able to progress elements of construction before a final decision on cap and floor awards is made, the timings of the new regulatory regime do not act as a barrier to deployment.

The project should face similar deployment barriers to new builds; otherwise, it will not be eligible. For the purposes of cap and floor scheme support, the value of support will only apply to the investment for the refurbishment. All revenues earned by the refurbished, upgraded newly formed asset will be considered in cap and floor calculations.

Justification

Most respondents supported the scheme including refurbishments. However, they argued that refurbishments should add capacity or provide extra benefits to the system.

We consider that significant refurbishments and expansions can be more cost-effective than new builds, allowing for the optimisation of existing infrastructure and resources. The requirement to clearly identify the costs and benefits of the newly formed system ensures transparency and accountability. We include significant refurbishments or expansions that face similar deployment barriers to new builds to ensure a level playing field. Only those refurbishments or expansions with comparable challenges and complexities, which cannot secure funding through existing methods like the capacity market, will be eligible.

Further work

Ofgem will need to define what 'extensive' refurbishments mean and how they align with the 'no additionality' test mentioned above. Extensive refurbishments may include factors such as substantial investment costs, significant increases in capacity or efficiency, additional system benefits like improved reliability or reduced emissions,

and projects facing challenges similar to new builds, such as high costs and long build times.

Chapter 4: Project assessment and decision-making

This chapter sets out Ofgem’s expected approach to Cost Benefit Analysis (CBA) for projects eligible under the LDES cap and floor scheme. It covers the cost assessment process, awarding the cap and floor regime, and setting cap and floor levels for successful projects.

As set out in Chapter 2, Ofgem will use: (i) a two-stage process to select successful LDES projects in the first application round; and (ii) post construction review to confirm the cap and floor levels. The table below sets out the decisions taken at each stage of the assessment.

Table 3: Assessment stage process for window one

| Assessment stage | Decision |
|--------------------------|---|
| Eligibility assessment | Decision taken on which projects pass the eligibility criteria. Only those projects that pass this stage will proceed to the project assessment stage (CBA assessment). |
| Project assessment | Decision taken on which projects successfully pass the project assessment and are awarded a cap and floor regime in principle. During this stage, preliminary cap and floor levels are also established for successful projects. |
| Post construction review | In this phase, the final cap and floor levels are determined. Ofgem conducts a thorough review of the outturn costs and any changes to the specifications that were set out in the original submission. Based on this review, Ofgem allows costs that it deems eligible, economic, and efficient. |

This process begins with an eligibility assessment for the cap and floor scheme. Successful projects will then undergo a more detailed assessment phase. The assessment phase includes a project cost assessment (PCA) and a cost benefit analysis (CBA) assessment. There will also be a further limited cost reassessment process in Q2 2026 to set the final cap and floor levels. This additional cost assessment is for developers who believe they might have more mature cost estimates at that time to inform cap and floor setting.

To ensure the process runs smoothly and meets the application window timescales, Ofgem will need to follow a strict deadline for final application submissions. After this

deadline, applicants will not have the automatic right to update or expand their submissions. However, they must still respond to any further information requests from Ofgem.

Ofgem will assess each application based on its content at the time of submission. While Ofgem may consider additional information received after the deadline, this will be at its discretion. Any further analysis that may be required due to the exercise of this discretion will be proportionate to the time remaining before the scheduled decision date.

4.1. Cost Benefit Analysis

Ofgem will use a multi-criteria assessment for the CBA. This will include many different impact categories. It may include both quantitative and qualitative assessments of socio-economic welfare (SEW), system costs and benefits. Additionally, it may also include quantitative and qualitative assessments of non-system impacts, such as social and environmental costs and benefits.

- **Socio-economic welfare:** We should be able to measure how a project affects the welfare of three groups: consumers, producers and LDES owners. Metrics should be calculated on a Net Present Value (NPV) basis using an agreed discount rate over the 25-year duration of the cap and floor regime.
- **Consumer welfare:** This refers to the benefits consumers get from the electricity market when a new LDES project is added. It includes changes in wholesale market prices that affect the cost of electricity for consumers. Through cap and floor payments, consumers top up project revenues if they fall below the floor level or receive refunds if revenues exceed the cap level, shifting welfare between consumers and developers. It also impacts capacity market costs, which ensure a reliable electricity supply and are funded by consumers through their energy bills, transferring welfare from consumers to producers. Additionally, the Contracts for Difference scheme supports renewable and low-carbon energy generators by guaranteeing stable revenues. Consumers either top up revenues when market prices are low or receive refunds when prices are high, again shifting welfare between consumers and producers.
- **Producer welfare:** This refers to the benefits producers (other than LDES) get from the electricity market. Adding a new LDES project can change producer welfare in several ways. It can alter wholesale market prices, which affects the revenues from electricity production minus the costs of fuel and carbon emissions. Producers benefit if new projects lead to higher prices and lose out if prices drop.

- **Long Duration Electricity Storage welfare:** For LDES owners, socio-economic welfare (SEW) includes changes in revenue from buying electricity at low prices and selling it at higher prices. It also includes changes in revenue from participating in the capacity market, which affects payments under the cap and floor regime. Additionally, it covers changes in payments to or from consumers based on the total revenue earned by LDES projects, which is compared to the cap and floor levels. Revenue cannibalisation happens when a new project changes electricity prices, affecting the revenue of other LDES projects. Finally, it includes the costs of building and operating an LDES asset, based on information from developers' applications for the cap and floor scheme.
- **Other system impacts:** System costs and benefits include assessing network costs for connecting LDES projects to the grid and any wider reinforcement costs undertaken or avoided. It also covers system operability impacts, which are the benefits a new LDES project can provide through ancillary services, flexibility, and security of supply.
- **Hard to monetise impacts:** This category helps identify potential public concerns when new infrastructure is built. It includes indicators such as environmental impacts, landscape impacts, impacts on the local community, and interactions with other uses of shared resources (e.g., land and water). This category will also importantly consider the economic growth impacts of individual projects. Many of these impacts are examined more closely during planning and environmental permitting stages by other authorities better placed to do so. Therefore, we intend to draw on the work done by the respective authorities as part of this assessment.

Justification

In October 2024, Government published the consultation responses in respect of the approach for assessing LDES applications. Most respondents supported using a similar CBA method to the one used under the interconnector cap and floor regime for evaluating LDES benefits. Some emphasised the importance of clearly defining system benefits at the CBA stage, given the challenges in assessing broader system benefits. Additionally, many respondents suggested that the assessment should be specifically tailored to highlight the unique benefits of LDES assets, such as their contributions to decarbonisation and their impact on local communities.

Similarly to the CBA assessment process for cap and floor regime interconnectors, the CBA framework for LDES is essential to ensure a comprehensive evaluation of project impacts. By using a multi-criteria assessment, as has been used for cap and floor regime for interconnectors, we can consider both quantitative and qualitative aspects

of socio-economic welfare, system costs, and non-system impacts like social and environmental effects to inform our decision-making. This approach will help us capture the full range of benefits and challenges associated with LDES projects, ensuring a balanced and informed evaluation.

Further work

We will work with NESO to develop a CBA framework for LDES projects that are successful at the eligibility assessment. This framework will outline the methodology, establish clear metrics for both quantitative and qualitative assessments, and ensure consistency in applying the framework for all projects. The initial framework will be put to public consultation in Q2 2025 for stakeholder feedback. A decision on the final framework is expected in Q3 2025.

The CBA assessment will start in Q4 2025. Ofgem will publish a 'minded- to' decision in Q1 2026, and make the final decision on project approval in Q2 of 2026.

4.2. First additional / marginal additional method

As noted in the call for input letter, Ofgem expects projects to be assessed both individually and collectively, where possible. This approach will be tailored to the LDES CBA assessment methodology, noting that the capacity of some projects at 50MW or 100MW may make their individual impact on the system more challenging to assess.

The appraisal approach for LDES projects will likely depend on the number of applications received, balancing the robust CBA with practical feasibility. Examples of possible approaches include:

- Detailed first additional (FA) and marginal additional (MA) analysis: each project's incremental benefit is assessed based on system-wide impacts.
- Grouped or zonal FA/MA analysis: projects are grouped by geography or technology type to streamline analysis.
- Hybrid evaluation approach: a mix of individual and aggregated assessments may be used, particularly if projects differ significantly in scale and purpose.

An adaptive approach will ensure that we can balance rigor with efficiency, enabling LDES deployment that maximises whole-system benefits while maintaining regulatory practicality.

Further work

Ofgem will work with NESO to identify an appropriate approach. Ofgem will set out further details as part of our CBA framework consultation in Q2 2025.

4.3. Approach to cost assessment

Ofgem will conduct a thorough initial cost assessment to ensure costs are economic and efficient, setting preliminary cap and floor levels in the Project Assessment decision in Q2 2026. There will be two key stages for submitting costs: 1) the eligibility assessment in Q2 2025, and 2) the CBA assessment in Q4 2025, with a limited update allowed in Q2 2026 for cap and floor setting.

For the eligibility assessment stage, developers are expected to submit cost estimates that are broadly equivalent to an “Outline Business Case” at the time of application.¹⁶ This should include a clear link to the overall business case, which forms the basis for the decision to develop their LDES project, detailing how developers expect to recover their investment and providing a view on revenue. Our assessment of cost maturity for the purposes of eligibility will be based on evidence of the process undertaken to reach the expected level of cost maturity, not on the detail of the cost estimates themselves.

For the CBA assessment stage, successful projects will need to submit detailed costs in a cost assessment template provided by Ofgem. This CBA stage estimate may include three scenarios: the reasonably optimistic case, the most likely case, and the reasonably pessimistic case. Additionally, projects should provide a risk register, an assumption register for the risks, and plans to mitigate and keep costs within the range.

In Q2 2026, there may be a limited opportunity for successful projects to provide updated costs for setting cap and floor levels. However, costs submitted at this stage **must fall within the range provided at the CBA stage**, as the detailed cost assessment will be well advanced by that point. This approach ensures that the cap and floor levels set at the regime award in Q2 2026 are based on the best available costs, whether based on signed contracts or estimates, helping to manage risks for both consumers and developers.

Justification

Government and Ofgem are using the cap and floor regime interconnector assessment process as a model, which has three stages: Initial Project Assessment (IPA), Final Project Assessment (FPA), and Post Construction Review (PCR). However, we are

¹⁶ Please refer to the Infrastructure and Ports Authority Cost Estimating Guidance provided in the Related Publication section of this document.

adjusting this process for LDES to allow us to reach decisions more quickly on cap and floor levels given the aim of moving at pace to help with their finance raise process.

The initial and final cost assessments which Ofgem will follow for LDES are very important to ensure the cap and floor levels are set correctly and fairly. By doing a thorough initial cost assessment at the project assessment stage, we can ensure the preliminary cap and floor levels we set at that stage reflect reasonable economic and efficient costs. This helps create a realistic cost basis for the project. The final cost assessment at the PCR will allow us to adjust the cap and floor levels based on the actual economic and efficient costs. While we recognise that the final cost assessment at PCR may create some uncertainty for developers about final cap and floor levels, the process Ofgem will follow will be similar to the interconnector cap and floor regime process which has worked well for both balance sheet and project finance projects.

Further work

Ofgem will publish cost assessment guidance providing more details and a cost submission template for the CBA stage. The CBA and project cost assessment will begin in Q4 2025 to inform Ofgem's "minded to" decision, which will be published in Q1 2026. Any updated cost submissions in Q2 2026 for cap and floor setting at project approval will need to be assessed ahead of the final decision.

Additionally, Ofgem will need to clarify how developers should explain their plans to manage and mitigate construction, financial, and operational risks. Any incentives or penalties to keep costs economic and efficient should also be outlined. Ofgem will also need to specify the regular reporting requirements and provide Regulatory Instructions and Guidance (RIG) templates and guidance.

Please see Chapter 5.3 for further details regarding the costs eligible for inclusion in the cap and floor levels.

4.4 Post Construction Review

The PCR is the last stage of our cap and floor scheme assessment framework. The primary aim is to set the final cap and floor levels for LDES. In order to confirm the cap and floor levels at the PCR stage, we will revisit aspects of our cost assessment that were not fixed at the project cost assessment stage and assess the efficiency of certain costs incurred during construction. We will conduct a review of the final capital costs (capex) and consider the efficiency of the operational costs (opex). We will also re-examine any information or aspects of the initial submission that have changed significantly.

At the PCR stage, Ofgem will adjust the preliminary cap and floor levels for costs that we deem to be eligible and efficient and will update the preliminary cap and floor levels and

set the final cap and floor values for the project. These final cap and floor levels then remain fixed for the duration of the cap and floor regime, subject to a limited number of reopeners, similar to those used for the interconnectors cap and floor regime opex reopener.

Chapter 5: Approach to cap and floor levels and financial parameters

The section explains how Ofgem plans to set the cap and the floor for LDES projects. By setting clear policy, defining what is included, and explaining the process, we hope to reduce risks related to uncertainty and give investors and lenders the clarity they need to raise funds and complete projects to meet system needs.

Government and Ofgem have reviewed the consultation responses and the stakeholder feedback from the call for input to shape the decisions outlined in this section. Where there are still residual details to be decided, Ofgem will ask for more feedback from stakeholders between the publication of this document and Q2 2026, when cap and floor regime special licence conditions are expected to be finalised. This process will involve further analysis by Ofgem, workshops, and public consultations on financial metrics and special licence conditions to gather input from stakeholders. By Q2 2026, Ofgem expects to have finalised any remaining details and set cap and floor levels for successful window one projects. Key timelines are provided in Chapter 2.

Government commissioned CEPA to advise it on the overall approach to setting the cap and floor levels. In general, CEPA's conclusions on the approach needed to bring forward the required investment without unnecessary risk to consumers support the positions reached in this document. In some cases, Government and Ofgem either take a different approach or have chosen to delay their final decision until Ofgem completes additional consultations on unresolved issues. Government has published CEPA's report in the interests of transparency, and where our design deviates from their proposals, we make clear why.

5.1 Cost recovery at the cap and the floor

LDES developers will be able to recover all economic and efficient capital and operational costs as long as they comply with their licence obligations and are not penalised by any incentive mechanisms. The LDES scheme sets a maximum (cap) and a minimum (floor) revenue for projects. These are based on different allowed rates of return set for the cap and the floor. If a project earns more than the cap, a larger portion of the extra revenue is returned to consumers. If it earns less than the floor, consumers cover all the shortfall, provided the project meets its minimum availability threshold.

This cap and floor mechanism ensures that developers of LDES projects can recover their investment while protecting consumers from high energy costs in relation to assets they have helped to deliver. The range between the cap and the floor is important to incentivise projects to operate efficiently, in particular through how they earn market revenue. This is a core design principle of the LDES scheme, and one of the reasons that

Government has decided to use a cap and floor model and not another route like a Contract for Difference (CfD) or a Regulated Asset Base (RAB) model.

- **The cap** allows recovery of invested capital (debt and equity) and provides a fair return on investment if the assets are operating very well in the market. The cap is flexible (a 'soft' cap), meaning that if revenues exceed the cap, the extra revenue is shared between the licensee and the consumer. The exact details of how this sharing will work will be determined after further consultation.
- **The floor** allows recovery of invested capital (debt and equity) and provides a return similar to the cost of debt for both equity and debt investors. Developers will be given a choice between allowing Ofgem to set the floor administratively (i.e. Ofgem makes a determination), or to undertake a competitive debt-raising process under an optional 'project finance' variation. The floor set through this approach will be designed to meet debt obligations.

Justification

In its letter of December 2024, Ofgem sought stakeholder input on a related question 12,¹⁷ regarding the calibration of the cap and floor levels, 76% of respondents opposed setting the floor at 80% of eligible project costs instead of full eligible cost.

In this decision, Government and Ofgem are replicating the interconnector approach of allowing full cost recovery plus a return on all allowable capital costs at a notional cost of debt level set by Ofgem. We are also keeping the project finance variation Ofgem currently uses for interconnectors, which allows lenders to compete to fund the project in a process led by the project developer. This variation meets the needs of project finance lenders and benefits from the competitive pressure of lenders bidding to fund the floor, thereby expanding financing options and potentially improving value for money for consumers. Both models are quickly deployable, well understood by the market, and developers value the flexibility due to their varied financing structures.

To best contribute to clean power by 2030, Government and Ofgem have decided to build on the existing electricity interconnector cap and floor regime while adapting it for LDES specific characteristics. This approach leverages a proven model that has successfully facilitated investment and is familiar to the market. By adapting this established framework, we can efficiently implement the LDES cap and floor scheme with components already in place.

¹⁷ What are your views on the calibration of the cap and floor levels? Do you consider setting the floor at, for example, 80% of projects' costs is a viable model for LDES assets, potentially alongside a higher cap?

By basing the LDES approach on the interconnector model, we minimise the risks associated with developing a new scheme. In their report CEPA have recommended that for projects with a lifespan beyond 25 years, their capex is not fully recovered through the length of the cap and floor regime. However, there is a risk that this approach would not be attractive to investors, especially for projects with long - lifespans that go beyond 25 years. This could create uncertainty for projects and risk the deliverability of sufficient LDES for 2030 and beyond. We are therefore not implementing this recommendation. Instead, Ofgem will review arrangements after the regime ends to ensure that projects that received floor payments during the regime period use some of their post-regime revenues to offset costs to consumers on an NPV-neutral basis.

Further work

Ofgem expects to conduct a public consultation from Q2 to Q3 2025 to determine the administrative cap and floor rates of return, as well as the competitive cap rate, its incentivisation process, and whether to use an administrative cap or a competitive cap. Ofgem will take into account any relevant evidence from stakeholders as part of this exercise to ensure that the final cap and floor levels are investable and in consumers' interest. The floor rate for the project finance process will be set according to the debt raise timelines for each project. Ofgem will work with licensees to create a framework for raising debt financing that aligns with each licensee's process.

Similarly to the interconnectors' cap and floor model, we expect this framework to include key limits for gearing, debt repayment period, and debt service coverage ratio to ensure the financial stability of the licensee. Ofgem will also progress work looking at other measures to safeguard broader value for money, noting specifically the challenges inherent in setting an efficient cap and floor over the duration of the anticipated cap and floor period.

Ofgem will provide details on how the cost components listed in Section 5.3 of this document will be combined to form the value of a project's regulated asset (Regulated Asset Value) for either an administrative process or a project finance process.

5.2 Approach to setting cap and floor levels

Cap: The investment rate of return at the cap can be set either administratively or through competition. **Ofgem expects to set the administrative cap for all successful projects at the time of cap and floor regime awards in Q2 2026.**

For the competition process, Ofgem may provide a range for the investment rate of return at the cap (such as cost of equity) in the LDES window one application guidance. This range may, for example, be based on the cost of equity of stand-alone electricity generators and regulated network companies. Developers will then be required to

propose a target cost of equity (at the cap) they expect to earn on their investment in the LDES asset and justify why this target is appropriate. Developers who consider the Ofgem range inappropriate can suggest a cost of equity outside this range, but they must provide strong justification for why they should earn more than fully merchant projects. Developers who submit a competitive target cost of equity may be allowed to keep a larger share of extra revenue above the cap or be awarded a higher target cost of equity compared to other successful projects, encouraging competition and potentially improving value for money for consumers.

Floor: The investment rate of return at the floor can be set either administratively or through competition by commercial lenders to provide debt finance to the project.

Under the administrative approach, we currently expect to follow the interconnector model and use the relevant cost of debt index to set the floor. The specific details of how this will be calculated are subject to further analysis and stakeholder engagement.

Ofgem expects to set the administrative floor for all successful projects at the time of cap and floor regime awards in Q2 2026.

Under the project finance variant, also known as the competitive approach, commercial lenders would compete to fund the floor in a debt finance raise process led by the developer, with Ofgem overseeing the process. This approach is similar to the project finance process used for Greenlink and NeuConnect interconnectors. The process would be based on the framework for Ofgem's oversight of Debt Funding Competition (DFC), which was used for both interconnectors. This is not a published document. The framework will be adapted to suit each LDES developer and their preferred process, ensuring it remains economic and efficient. A summary of a draft document adapted for LDES is provided in Appendix 1.

Box 2. The competitive approach

Floor: In the competitive option for the floor, developers using non-recourse (or limited recourse) project finance will have commercial lenders compete to fund the floor through a debt finance raise process overseen by Ofgem. **For these projects, eligible project costs can be fixed when the cap and floor regime is awarded in Q2 2026 or based on the project finance debt raise timeline.** These costs will be converted into cap and floor levels based on financial parameters achieved at financial close. The final project costs at financial close must remain within the range estimated during the CBA process.

For LDES assets delivered under the project finance route, **the floor covers only debt obligations**, like the interconnectors' cap and floor variation model. If this project finance-linked competitively set floor is higher than the administratively set floor that allows full recovery of invested capital, the licensee must repay consumers the difference before any equity distribution can be made. This ensures the floor level is broadly fair to both balance sheet and project finance licensees.

Cap: In the competitive option for the cap, developers will propose a target cap rate of return when submitting their application for eligibility assessment in Q2 2025. Ofgem will then select

one cap rate of return from the projects that passed the CBA stage to apply to all projects awarded a cap and floor regime in Q2 2026, with the most competitive developer receiving a bonus. It will be possible to present the outcome of this competitive cap-setting process for consultation alongside the administratively set cap and floor return rates. A decision on whether to use the administratively set cap or competitively set cap will be made in Q3 2025.

To keep things fair, and similar to the interconnectors project finance process, developers who achieve a higher floor following the competitive process must first use any revenues not being used for direct debt repayment to cover any difference between the two floors before making equity distributions. This means that equity investors will not receive any returns until consumers are fully paid back.

Developers who achieve a lower floor may receive a bonus either from the sharing ratio above the cap or an uplift to the cap itself.

Justification

In Ofgem's letter of December 18, 2024, we sought stakeholder input on a related question 13,¹⁸ about exploring competitive mechanisms. Of the respondents, 50% agreed that competitive mechanisms should be explored, 23% disagreed, and 27% believed competition should be explored but only for later application rounds. Stakeholders who disagreed argued that there are significant differences in risk between project finance interconnectors and LDES, and that further uncertainty in a novel regulatory scheme based on competition would increase the cost of capital.

We looked at two main options for setting the LDES cap and floor levels: one set administratively by Ofgem, and one set through competition. Under the competitive option, developers would propose a target cap rate for Ofgem to select one to apply to all projects, with the most competitive developer receiving a bonus. Commercial lenders would compete to fund the floor in a debt finance raise process led by the developer under Ofgem's oversight. Both options will be set once and remain fixed throughout the regime period, except for any specific reopeners established at the time of the licence award. This approach suits LDES assets, which are long-term investments that raise financing once for the specific purpose of delivering the asset.

The interconnectors project finance process is already known to investors and has proven successful, so any uncertainty in replicating that for LDES should be limited. In their report, CEPA have set out that the floor should be set at the notional cost of debt. For project financed solutions, they have recommended a hybrid approach that includes an alternative floor that covers debt obligations. This is a similar approach as outlined above. For the cap, we might use an administrative process similar to the one used for interconnectors and as recommended by CEPA if further consultation with

¹⁸Question 13: Do you support exploring methods to lower consumer costs, including more use of competitive mechanisms when setting cap and floor rates?

stakeholders shows that using competition to set the cap creates more risk than benefits for consumers.

To be clear, developers have two options for setting the floor: the administrative approach and the competitive approach. Under the administrative approach, the floor is set at the cost of debt, allowing full recovery of eligible costs (both equity and debt), with the baseline for equity returns generally being the cost of debt. In contrast, the competitive approach (non-recourse or limited recourse project finance) sets the floor to cover debt obligations only, with an administratively set backstop floor to protect consumers. If the project finance floor exceeds the administratively set floor, licensees must repay the difference before making any equity distributions.

Further work

Ofgem will continue exploring the potential role of competition in setting the cap, pending further policy work and building on our initial proposals set out above. By Q3 2025, Ofgem expects to create a cap and floor financial model (CFFM) and a financial handbook for LDES. In Q2 to Q3 2025, Ofgem will decide, via a public consultation, whether to use an administrative cap or a competitive cap, and how the proposed 'soft' cap would work alongside either a competitive or administrative process.

Ofgem will look carefully at the arrangements for the period once the cap and floor regime for each project has concluded. Due to the uncertain nature of LDES revenue streams, Ofgem will carefully consider whether mechanisms are needed to protect consumers and investors in efficiently operated LDES assets from significant mismatches between the required cost of capital and actual returns over the asset's lifetime. We do not expect long-life assets will operate solely on a merchant basis after the cap and floor period ends. Instead, we will consider arrangements that ensure fairness for consumers, who may be providing support at the floor level and remunerating investors for their capital investment over time horizons considerably shorter than the economic life of LDES assets.

5.3 Costs eligible for inclusion in the cap and the floor

Similarly to the cap and floor regime for interconnectors, the following costs form the building blocks of LDES cap and floor:

- Capex (capital expenditure):
 - Development expenditure (devex): Costs related to the planning and development phase of a project (including land acquisition, permitting and licencing, etc).

- Construction capital expenditure: Efficient and economic costs of actual construction of the project.
- Replacement expenditure (repex): Estimated costs for replacing or upgrading existing assets.
- Spares: Estimated cost of parts and equipment that are kept on hand to ensure the reliable operation and maintenance of the LDES.
- Interest During Construction (IDC): Interest costs incurred on loans taken to finance the construction phase.
- Controllable opex (operating expenditure):
 - Operating costs: Day-to-day expenses required for the operation and maintenance of the project.
 - Corporation tax paid on the income generated by the project.
- Decommissioning cost: Some expenses related to safely closing and dismantling the project at the end of its life will be covered. This will be carefully considered for projects that may or may not continue operating beyond the 25-year scheme duration.
- Uncontrollable opex / Pass-through cost:
 - Similar to the interconnector regime, these costs will be tightly defined and not subject to cap or floor limits. They include necessary expenses to run the asset, such as GB licence fees and GB property fees, where applicable.

Justification

We are using a cost structure similar to the one adopted for the interconnector cap and floor regime. Costs are divided into capital expenses (capex) and operational expenses (opex). Capex includes spares, repex and decommissioning cost. This helps developers know what will be recovered through depreciation and makes it clearer and more predictable for developers. By allowing for a limited set of uncontrollable costs, we reduce the risk for developers related to costs beyond their control. Development costs (devex), capex, repex, and spares are all counted as capex for depreciation. These, along with opex and decommissioning costs, are set and included in the cap and floor levels.

Further work

Ofgem will do more work to make sure all justifiable costs relevant to LDES are included and clearly defined and recoverable. We recognise that different technologies have

different cost profiles and technical risk. Further work will be undertaken to take account of the most effective way to capture this in the cost assessment process. For example, Ofgem will also need to consider whether full recovery of decommissioning costs is sensible within the regime duration, especially for projects that will continue operating beyond the regime duration. Ofgem will continue to engage with stakeholders to get feedback and improve this initial set of costs. This will help make sure the cost building blocks work for LDES.

The timeline for the work will match our general work plan to determine the remaining key scheme details this spring. Detailed guidelines for submitting, reporting, and monitoring costs will be published later, before the cost submission for the CBA process starts in Q3 2025.

5.4 Cost assessment reopeners during the operational phase

Cost reopeners during the operational phase are expected to follow the interconnector cap and floor regime approach, potentially allowing only limited reopeners for decommissioning costs and opex over the regime duration. In the interconnector regime, opex reopeners can be triggered by either Ofgem or the licensee no earlier than 10 years from the regime start date, with any related decision applying from its publication date to the remaining duration of the regime. Decommissioning reopeners can be triggered if there is a change in law requiring a more (or less) stringent decommissioning process, resulting in changes to expected costs.

Justification

Reopeners are an important part of our regulatory toolkit to address areas of uncertainty. Limiting reopeners to specific areas like decommissioning costs and opex helps to balance flexibility and financial stability. This approach has worked well for interconnectors. Allowing limited reopeners helps developers manage the risk of estimating opex over long periods, like 25 years.

Further work

Ofgem will continue to work with stakeholders to develop a cost reopener process that works for LDES. The timeline for this work is from Q2 to Q3 2025.

5.5 Pre-operational force majeure events and operational force majeure events

Like the interconnector cap and floor process, Government and Ofgem plan to consider a pre-operational force majeure mechanism for LDES projects to help developers manage risk of project delays. This mechanism will allow:

- **Track 1 projects**, which are scheduled for delivery by 2030, to request an extension of their deadline to 2032 if they encounter delays due to force majeure events during the pre-operational period. If this request is approved, there will be no penalties imposed on investors.
- **Track 2 projects**, scheduled for delivery by 2033, to be delivered by 2035 (the backstop date for Track 2). If the request is approved, there will be no penalties imposed on investors.

Delays beyond these backstop dates may not be covered by the force majeure mechanism. This approach ensures that only projects highly confident of meeting the 2030 and 2033 delivery dates will be considered in the first application round.

Similarly, operational force majeure as used in the interconnector cap and floor regime may be adapted for LDES projects. Under this regime, events covered during the operational period include:

- Unforeseen circumstances at the time of licence grant that result in increased or decreased costs or expenses during the **operational period**, exceeding a percentage of the floor or cap level.
- Circumstances that cause the actual availability of LDES to fall below the minimum availability target set for each LDES in any relevant year.

Relevant events will be clearly defined and set out in the LDES licence conditions. Claims will be thoroughly assessed to confirm their validity.

Justification

Introducing mechanisms to take account of force majeure events is important to reduce financial risks from unexpected and uncontrollable events, like natural disasters. Ofgem will clearly define and outline the process in the LDES licence conditions to create a transparent and predictable process for developers. Similar to the interconnector regime, this mechanism aims to compensate licensees for revenue losses beyond their control, boosting investor confidence and supporting the long-term success of LDES projects.

Further work

Ofgem will consult with stakeholders on force majeure type events for the LDES regime.¹⁹ This consultation will cover the relevant definitions and the process, noting the importance of a robust process for assessing and verifying licensee claims. The timeline for this work is from Q3 2025 to Q2 2026.

5.6 Revenue assessment against the cap and floor levels

The approach for LDES will follow the interconnector cap and floor regime process but with four key changes:

- Revenue assessment will be over the full length of the cap and floor regime on a Net Present Value (NPV) neutral basis.
- Excess revenues over the cap in any year must be paid back to consumers the following year in line with the timeline for the relevant network charging process.
- The same assessment period will apply for both project finance and balance sheet financed LDES assets.
- Post regime arrangements will be carefully considered for each project.

Revenue assessments against cap and floor levels will happen every year or five years as preferred by licensees. The assessment will look at the total revenue for the year or five-year period up to that point. Initial payments are adjusted over time, with the final adjustment made at the end of the regime period. This method treats the assessment as if it covers the full regime length while allowing for interim payments to help licensees manage cash flow and reduce credit risk.

In all cases, licensees will be required to pay back any excess revenues over the cap in one year immediately (i.e., at the earliest available window or the following year). Any initial payment will count towards the five-year adjustments and the final adjustment to be made at the end of the regime. Arrangements will be considered carefully when the

¹⁹ For interconnectors regulated under the cap and floor regime, the definition of Force Majeure applicable to the **operational period** is set out in special licence condition of the interconnector licence and is available under “Associated documents” in this publication: https://www.ofgem.gov.uk/sites/default/files/2024-12/Interconnector_Cap_and_Floor_Regime_Handbook_Updated_Version.pdf or accessed under the following link: <https://www.ofgem.gov.uk/sites/default/files/2023-12/Schedule%202%20-%20National%20Grid%20Viking%20Link%20Limited%20%E2%80%93%20Special%20Conditions.pdf>.

The definition of Force Majeure applicable to the **pre-operational period** is contained in standard licence conditions of the interconnector licence, which can be accessed under the following link: <https://www.ofgem.gov.uk/sites/default/files/2023-03/Electricity%20Interconnector%20Standard%20Licence%20Conditions%20-%20Current.pdf>

cap and floor period ends to ensure that consumer interest is protected for assets that will continue to operate after the regime ends.

Justification

The reason for this change from the interconnector cap and floor regime is that stakeholders have argued there is high uncertainty around expected LDES revenue compared to interconnectors' revenue.

Requiring licensees to pay back any excess revenues over the cap immediately ensures that consumers benefit directly and promptly from any overperformance. Applying the same assessment period for both project finance and balance sheet projects simplifies the regulatory framework, ensures consistency across different financing structures, and maintains a level playing field. Reviewing arrangements for the period after the regime ends will ensure that developers that received floor payments during the regime period do not make excessive profits afterwards, as this would be unfair to consumers.

CEPA's advice to Government is that revenues should be assessed over the full length of the cap and floor regime. This aligns with the approach taken forward for the LDES cap and floor scheme.

Further work

Ofgem will develop a clear methodology for revenue assessments and create guidelines for submitting, reporting, and monitoring revenues ahead of the 2030 delivery date. Engaging with stakeholders will be essential to refine the interconnector assessment process for LDES. Ofgem will ensure that any approach taken forward does not hinder developers' ability to raise needed financing.

5.7 Financial resilience

Government and Ofgem plan to require cap and floor LDES project licensees to show they are financially strong. This means they should have enough money saved, good financial management, and access to funds for operating the asset and handling unexpected costs. This will help make sure projects can handle financial pressures and keep providing reliable service.

Justification

Making sure LDES project licensees are financially strong is important for the stability and reliability of the energy system. By requiring licensees to be in good financial health, we can prevent service disruptions due to financial difficulties. This is especially important given the uncertainty around LDES revenue, as highlighted by stakeholders. It is important to ensure licensees are managing their finances well and planning ahead.

Further work

Ofgem will need to set out the process for checking the financial strength of LDES licensees. This includes defining the specific financial measures and levels they must meet. Talking to stakeholders will be important to get feedback and make sure the rules are practical and achievable. Ofgem will also create guidelines for monitoring and reporting financial health to ensure transparency and compliance.

Government and Ofgem recognise that some of our initial decisions in this document may need further refinement to work well for LDES. We understand that as we work with stakeholders to develop the regime, specific considerations for LDES that were not relevant to the interconnectors may come up. Following the publication of this document, Ofgem will continue to engage with all stakeholders, including consumer groups, commercial lenders, institutional investors, sovereign wealth funds, and international financial institutions. This ongoing engagement will ensure that the LDES scheme works for consumers while remaining an attractive investment framework for investors.

Chapter 6: Operational considerations

This chapter covers risks and potential incentives for efficient project delivery and operation. Government's consultation response in October 2024 and Ofgem's call for input in December 2024 noted the potential for LDES operators not to use their asset in the most efficient and economic way to help meet the system needs. This section looks at these risks, focusing on the potential for gaming of the gross margin, market activities, and measures or incentives to manage these risks.

6.1 LDES gross margin reporting

An adaptable approach will be adopted for LDES, allowing the licensee operator flexibility in their trading methods. Operators can choose how to trade power and, for example, use a third-party optimiser or the 'in-house' trading arm of a related party. There will be a clear set of licence conduct and reporting requirements applicable to all operators.

Justification

In the response to the December 2024 Ofgem letter the majority of responders to question 14²⁰ thought that in-house trading should be permitted. Government and Ofgem also received substantial stakeholder feedback that the existing assimilated REMIT Regulation and related enforcement provisions are substantial enough to prevent the cap and floor regime from being used to manipulate electricity markets.

Ofgem's and Government's view is that instead of a prescriptive mandate on power trading requirements, a clear set of rules around conduct will give operators flexibility while ensuring there are sufficient controls to prevent gaming of the gross margin. The approach balances operational freedom with necessary regulation, ensuring efficient and economic use of assets to meet system needs without dictating the exact trading methods or routes to be used.

Further work

To make sure the choice-based approach works well, Ofgem will need to set out details so licensees know what is expected. The special licence conditions for LDES cap and floor assets will set out the additional reporting requirements and internal trading and ringfencing restrictions needed to manage gross margin and market risks.

²⁰ Question 14: Do the potential benefits of allowing LDES assets to be managed by in-house trading teams outweigh the potential risks? How can we effectively mitigate any potential risks of gaming, such as manipulating trade bookings or market manipulation?

Previous work by Government has also identified a range of low regret mitigation measures which could be introduced alongside the dual pathway route. These measures include:

- profit sharing above the cap, discussed below;
- sub-meters for co-located assets;
- mandatory participation in the capacity market;
- limits on LDES structured transactions.

Ofgem will look into the extent to which these extra measures are needed alongside the relevant provisions of the REMIT Regulation²¹ and decide what other steps should be taken. We will set out further details as part of our licence workstream, from Q2 2025.

6.2 Incentives

We expect to explore further whether additional incentive mechanisms are necessary and desirable for LDES assets. We note that in general the cap and floor regime implicitly incentivises pro-consumer outcomes in the following four areas:

- Timely delivery through ‘payment on completion’- revenues only start when the project is complete;
- Efficient asset operation, trading and market operations – as the floor only provides a limited return on equity to developers, the incentive is strongly to outperform through efficient ongoing market operations allowing developers to earn a higher return up to the cap;
- Cost efficiency – Ofgem will assess costs both ex ante and ex post to ensure these are economic and efficient; and
- Financial efficiency – through both administrative and project finance routes we consider there are strong incentives on developers to raise debt finance efficiently.

We will consider further whether the above incentives are sufficient to ensure LDES projects deliver the required system and consumers benefits. We note that incentives may be reputational as well as financial, and that licence requirements can also help to reinforce expected behaviours.

²¹ Regulation (EU) No 1227/2011 of the European Parliament and of the Council, as assimilated following the UK exit from the EU, available here: <https://www.legislation.gov.uk/eur/2011/1227/contents>

6.2.1 Timely delivery

We expect each developer to specify a delivery date that they can achieve. There are strong inherent incentives on timely delivery. Meeting delivery dates ensures that the project's benefits are realised as planned and helps maintain overall cost efficiency.

As set out in Chapter 5 above, we expect to give applicants a two-year period (backstop date) to deliver their projects, if they can prove that the delays are beyond the developers' reasonable control as defined in the pre-operational force majeure provisions. If a project is delayed by more than two years, we will take further action, within our remit, as appropriate. This could involve changes to aspects of the licence and, in extremis, we may look to reassess the needs case of the relevant project. This could result in us withdrawing regulatory support if we consider that a project no longer delivers sufficient benefits.

We also want to incentivise projects to be delivered on time or ahead of schedule if possible. We welcome further input from stakeholders on potential positive delivery incentives for LDES projects. These developer-proposed incentives may only be considered if they can be implemented consistently for all LDES projects. The incentives must provide sufficient motivation and deliver better outcomes for consumers.

Justification

The Clean Power 2030 and 2035 capacity requirements mean we cannot afford delays in delivering projects. Therefore, Government and Ofgem need a strong incentive package to make sure that the developers submit within their applications realistic delivery schedules and manage their projects well to avoid delays they can control. Large infrastructure projects usually have performance incentives to ensure they are delivered on time.

Ofgem has used backstop date and delivery incentives under its cap and floor interconnector regime. Other regulators, like the CAA, Ofwat, and Ofgem's in its regulation of onshore transmission networks, also use delivery incentives for large projects. These incentives usually reward early and/or on-time delivery and penalise late delivery.

Further work

Ofgem will work on improving the incentives after consulting further with stakeholders. This will happen at the same time as the licence drafting, from Q2 2025 until project approval in Q2 2026.

In the box below we set out details on how the backstop and delivery incentives operate.

Backstop date and delivery incentives

In this section we set out the timing of the backstop date and delivery incentives for the: (i) 2030 connection date; and (ii) 2033 connection date.

For 2030 Connection dates:

- **2026:** Award cap and floor regime to projects that pass the project assessment.
- **2030:** Projects delivered by this date may be eligible for an early delivery reward, starting the cap and floor regime early.
- **2032:** Backstop date. Developers have a two-year grace period (2030-2032) where penalties don't apply if delays are due to force majeure.
- **After 2032:** Projects delivered after this backstop date will be subject to a penalty.

For 2033 Connection dates:

- **2026:** Award cap and floor regime to projects that pass the project assessment.
- **2033:** Projects delivered by this date may be eligible for an early delivery reward, starting the cap and floor regime early.
- **2035:** Backstop date. Developers have a two-year grace period (2033-2035) where penalties don't apply if delays are due to force majeure.
- **After 2035:** Projects delivered after this backstop date will be subject to a penalty.

6.2.2 Incentives below the floor

We expect that each LDES licensee must meet a minimum availability threshold to stay eligible for the floor, similar to the interconnectors' cap and floor regime. This means the floor is a 'soft floor'. LDES must meet the minimum availability requirements each year to keep the full floor. If the requirement is not met in any year, the floor may be removed for that year. If the requirement is met, the floor remains in place. For LDES, 'availability' may include both charging and discharging capabilities.

Justification

Setting a minimum availability threshold makes sure that LDES projects provide reliable and consistent service for the floor support they are getting. This is similar to the interconnectors' cap and floor regime, which has worked well to keep high performance standards.

In their report, CEPA have recommended that a similar approach to a 'soft floor' should be introduced.

Further work

Ofgem will need to define availability for LDES and set specific minimum availability thresholds for each project. Ofgem also needs to determine how the licensees should measure and report availability. Consulting with stakeholders will be crucial to ensure that our definitions and thresholds are practical and achievable. Ofgem will provide guidelines for monitoring and enforcing the availability requirement to ensure compliance. The timeline for providing these details is expected to be by June 2026.

We will also consider further the range of obligations it may be necessary to impose on LDES operators to ensure projects achieve consumer and system value.

6.2.3 Availability incentives above the cap

The cap for LDES will be a 'soft' cap. This means any extra money earned above the cap will be shared between the licensee and the consumer. The exact details will be worked after further consultation, using a 'sharing factor' to decide how much is shared.

Justification

Government and Ofgem are making a small change from the interconnector approach, which uses a hard cap with a 2% adjustment up if an interconnector meets its target availability and a 2% downwards adjustment if it does not. This change is introduced because the expectation is that interconnectors and LDES behave differently during system stress events, and the system operator's ability to use the asset varies. A soft cap can ensure that LDES operators stay motivated to make their asset available and help meet system needs, even when their revenues are above the cap.

In their report CEPA have recommended introducing a 'soft cap' to preserve operational incentives. However, we also consider that conduct based licence obligations may be an effective means to ensure that LDES licensees continue to meet expectations at all times, noting that the consumer support provided by the cap and floor is in itself significant.

Further work

Government and Ofgem consider that a soft cap could provide an incentive for LDES asset operators to ensure high availability when revenues are over the cap. Ofgem will develop the details for how this could work in practice, before taking a final decision on implementation. In doing so Ofgem will consider the interaction between the 'soft cap' and how the cap level is set. This will be put to consultation as part of the overall regime details consultation. The timeline for this work is until Q3 2025.

6.2.4 Cost overruns

Similar to the interconnector cap and floor regime, LDES developers must plan for possible extra costs during construction and operation. Developers should carefully think about costs, clearly explain assumptions, use a risk register and mitigation methods and market tools and contractual arrangements to manage risk of cost increases and overruns in a timely manner. If done well, this should help control project costs and prevent budget overruns.

The approach to hold developers to account may involve setting financial penalties or rewards for LDES related to cost management. This can help incentivise operators to stay within budget and manage resources effectively. Ofgem will consider each case and only allow costs deemed economic and efficient within the cap and floor values.

Justification

Cost overruns may occur during the construction phase of an LDES project. Some cost overruns may be due to factors beyond the developers' control, while others could result from inadequate cost controls. It is important to only allow cost overruns that are necessary and efficient, not those reflecting inefficient and uneconomic planning and operations.

Further work

Ofgem will consider further the need to develop incentives and penalties to manage cost underspends or overruns beyond those already included in the high level regime design set out in this document. The details of this policy will be developed alongside other LDES cap and floor regime details and will be put to a public consultation. The timeline for this work is Q2-3 2025.

Ofgem will provide further details on the evaluation of project cost overruns in our cost assessment guidance, which will be published in August 2025.

6.2.5 Grid connection reforms

The connections reform annex to the Clean Power 2030 Action Plan notes that the TDD would define LDES for those purposes. As stated elsewhere in this document, to be considered LDES, an asset must be capable of discharge at full power for at least eight hours, and full power must be at least 50MW or 100MW (depending on technology maturity).

In addition, given the large number of lithium-ion batteries already in the connections queue and that the modelling which informed the permitted capacities in the Clean Power 2030 Action Plan did not include lithium ion as LDES, we are clarifying that for the purposes of the Clean Power 2030 Action Plan pathway which will be used for connections, lithium-ion electricity storage projects will be treated as batteries. This

does not affect their eligibility for the LDES cap and floor regime, should they otherwise be eligible.

NESO and Ofgem are exploring whether successful bids for the LDES cap and floor which had lost their place in the queue will be able to re-enter as batteries (if lithium-ion) or LDES (in all other cases). Note that this categorisation as ‘battery’ or ‘LDES’ would not affect queue position or connection date.

Chapter 7: Summary of the LDES cap and floor regime

The details of the LDES cap and floor regime, as outlined in Table 4 of this chapter, describe the proposed standard process. Similar to the cap and floor regime for interconnectors, LDES developers may request project specific variations to the regime and process to reflect individual circumstances, provided they can demonstrate how these variations would benefit consumers.

Developers considering requesting variations to the financial aspects of the LDES cap and floor regime should first refer to the guidance Ofgem published in December 2015 for interconnectors,²² as the scope of regime variations for LDES is expected to be similar. Ofgem may publish guidance on variation requests for the LDES cap and floor scheme following project approvals in Q2 2026.

Developers of projects that have passed the eligibility assessment and expect to request variations to the regime should clarify this in their submission for the CBA stage. This will ensure that any expected variations are factored into the CBA assessment for the respective project.

Table 4(a): Summary of the LDES cap and floor Regime for Window one

| Regime element | Detail | Further work | Timeline |
|---|---|--|--|
| Regime duration | The regime duration is 25 years | <ul style="list-style-type: none"> Define: i) regime start date, ii) cap start date, iii) floor start date; iv) arrangements post regime period Provide details for variation request for durations other than 25yrs | <ul style="list-style-type: none"> Further work will follow the licence drafting timeline expected to start in Q2 2025 Minded to decision publish: Q1 2026 (1 month consultation) Decision: Q2 2026 |
| Project cost covered by the regime | Administratively set cap and floor levels cover 100% of eligible project cost | <ul style="list-style-type: none"> Define project costs and outline details on cost reopeners Publish cost assessment guidance and cost submission template | <ul style="list-style-type: none"> Timeline similar to licence drafting; decision in Q2 2026 Cost assessment guidance/template in Q3 2025 |

²² https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/open_letter_-_electricity_interconnector_financing_under_the_cap_and_floor_regime_2.pdf

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| Regime element | Detail | Further work | Timeline |
|--|--|---|---|
| Cap and floor levels | Fixed in real terms for the 25-year regime duration | <ul style="list-style-type: none"> Specify inflation index | <ul style="list-style-type: none"> Decision expected in Q3 2025 |
| LDES revenues | All sources of revenue will be considered for assessment against the cap and floor | <ul style="list-style-type: none"> Define “Revenue” and related terms and any pass-through cost items | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |
| Assessment period (assessing whether interconnector revenues are above the cap or below the floor) | Assessment period: 5 years with an option for 1 year Revenue compared to cap and floor levels on NPV neutral basis every 5 years or 1 year Carry overs between assessment periods (unlike interconnectors regime), meaning final assessment based on full regime duration Excess revenues over the cap must be repaid within the following year Yearly interim payments subject to true-up on NPV neutral basis at end of 5-years / 5-yearly interim payments subject to true-up on NPV neutral basis at end of the regime | Define relevant licence terms such as: <ul style="list-style-type: none"> Assessment periods Relevant years Partial years Discount rate applied for the NPV-neutrality calculations | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |
| Regulatory reporting | <i>Development phase:</i> Reports on cost and supply chain plans / risk logs - identifying risk, assumptions and mitigations <i>Construction phase :</i> Reports on construction progress and costs during construction phase. <i>Operational phase:</i> Annual reports on revenues, availability, and costs during operational phase | <ul style="list-style-type: none"> Details on development phase reporting Development of RIGs for the construction and operational phases Details on post-regime reporting This reporting must be in line with the ‘regulatory instructions and | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |

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| Regime element | Detail | Further work | Timeline |
|-------------------------------|---|---|---|
| | <i>Post-regime period:</i> Annual reports on revenues, availability, and costs during post-regime phase | guidance' (RIGs) issued by Ofgem | |
| Cap and floor payments | Payments between licensee and NESO, recovered and distributed via network charges | <ul style="list-style-type: none"> Outline details that will enable cap and floor payments between the licensee and NESO Confirm network charges to be used | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |

Table 4(b): Calculating the cap and floor levels

| Regime element | Detail | Further work | Timeline |
|---|---|---|--|
| Building blocks approach | <p>Cap and floor built from capital costs, operational and maintenance costs, decommissioning costs, tax, and allowed return</p> <p>Cap and floor levels profiled so that they are flat over time in real terms</p> | <ul style="list-style-type: none"> Confirm cost components Detail policy for combining costs components to set cap and floor levels | <ul style="list-style-type: none"> Further engagement: Q2 2025 Minded to decision publish: Q2 2025 (1 month consultation) Decision: Q3 2025 |
| Indexation of the cap and floor levels | Inflation index potentially CPIH | <ul style="list-style-type: none"> Confirm inflation index to be used | <ul style="list-style-type: none"> Further engagement: Q2 2025 Minded to decision publish: Q2 2025 (1 month consultation) Decision: Q3 2025 |
| Availability incentive | <p><i>Maximum availability:</i> Soft cap to incentivise maximum availability</p> <p><i>Minimum availability:</i> Licensees lose automatic eligibility for full floor payments if availability is below a minimum (%). Ofgem may reinstate eligibility for floor payments if</p> | <ul style="list-style-type: none"> Define the relevant licence terms such as 1) exceptional events; 2) soft cap and 3) sharing ratio over the cap Specify minimum availability target Clarify soft floor policy for project finance and balance sheet projects | <ul style="list-style-type: none"> Further engagement from Q2 2025 Decision expected by Q2 2026 |

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| | | | |
|---|--|---|--|
| | outage caused by force majeure type event | | |
| Capital costs | <p>Includes devex, construction capex, spares, capital replacement expenditure, IDC, and financial transaction costs</p> <p>Combined, these give the regulatory asset value (RAV) which reflects the cost of building the LDES</p> <p>Allowances determined by cost assessment or benchmark approach, as follows:</p> <ul style="list-style-type: none"> • Devex, construction capex, spares, and repex assessed for efficiency • IDC and financial transaction costs determined by benchmark approach • Capital costs allowances determined at two stages: Project Assessment (before construction), FID (update financial parameters), and PCR (after construction) | <ul style="list-style-type: none"> • Details on final cost components and cost assessment process • Specify financial transaction costs for debt raise & equity raise • Clarify the process for project finance • Cost assessment detail and decision process | <ul style="list-style-type: none"> • Further engagement: Q2 2025 • Minded to decision publish: Q 2025 (1 month consultation) • Decision: Q3 2025 • Cost assessment decision expected to be made for all projects by Q2 2026 when cap and floor awards are made |
| Interest During Construction (IDC) | <p>IDC treated as a capital cost during construction</p> <p>IDC for construction delays will not be included, unless delays result from force majeure type events</p> | <ul style="list-style-type: none"> • Establish a methodology for determining IDC (%) • Specify when will be determined and what period it would apply • Clarify whether the final IDC allowance (£) will reflect the final RAV at the PCR stage or initial RAV at the PA stage | <ul style="list-style-type: none"> • Further engagement: Q2 2025 • Minded to decision publish: Q2 2025 (1 month consultation) • Decision: Q3 2025 |

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| <p>Financial assistance and Depreciation of capital cost</p> | <p>Any grants are netted off project investment costs used to set cap and floor levels</p> <p>Capital costs may be depreciated on a straight-line basis over 25 years or longer, or shorter but not less than 20 years. Annuitised to make cap and floor levels constant in real terms over the regime duration</p> | <ul style="list-style-type: none"> • Detail policy on calculations that will underpin cap and floor levels • Cap and floor financial model and handbook development | <ul style="list-style-type: none"> • Further engagement: Q2 2025 • Minded to decision publish: Q2 2025 (1 month consultation) • Decision: Q3 2025 |
| <p>Decommissioning costs</p> | <p>Developer provides forecast of decommissioning costs</p> <p>Assessment of efficiency of proposed costs</p> <p>Baseline allowance for efficient and economic decommissioning costs included in cap and floor levels, reflecting legislative requirements at PA/PCR stage</p> <p>Changes in legislative requirements related to decommissioning cost treated as ‘non-controllable’</p> <p>Additional or reduced costs due to legislative changes passed through as adjustment of cap and floor levels</p> | <ul style="list-style-type: none"> • Clarify if full recovery of decommissioning costs during the regime is sensible and fair for consumers, especially for assets that will operate long after the regime ends | <ul style="list-style-type: none"> • Further engagement: April 2025 • Minded to decision publish: June 2025 (1 month consultation) • Decision: September 2025 |

Table 4(c): Approach to operating costs

| Regime element | Detail | Further work | Timeline |
|---|---|---|---|
| Operating costs (opex) | <p>Developer provides forecast of operating costs</p> <p>Assessment of proposed costs (only efficient and economic costs allowed)</p> <p>Opex may be reviewed and re-set once during the regime, no earlier than 10 years into the regime. Either party (the licensee or Ofgem) may trigger review, leading to adjustment of cap and floor levels (upwards or downwards)</p> | <ul style="list-style-type: none"> Definitions, detail on the process and final decision | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |
| Non-controllable operating costs | <p>Defined as property rates and property taxes, licence fees, and network rates</p> <p>Baseline allowance included in cap and floor levels, reflecting economic and efficient costs at the PCR stage</p> <p>Changes in economic and efficient costs relative to baseline allowance passed through as revenue adjustment during revenue assessments, regardless of LDES asset's revenue in relation to cap and floor levels</p> | <ul style="list-style-type: none"> Definitions, detail on the process and final decision | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |

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| Capex reopeners | <p>Developer may claim efficient costs caused by force majeure event</p> <p>Assessment of costs (only efficient and economic costs allowed). Accepted costs netted off revenue for assessing against cap and floor levels</p> | <ul style="list-style-type: none"> Definitions, detail on the process and final decision | <ul style="list-style-type: none"> Similar timeline as licence drafting, with a decision expected in Q2 2026 |
| Tax | <p>Allowances for tax at both cap and floor determined using UK tax rates Tax annuitised and added to annuitised cap and floor levels of all costs other than tax allowance</p> <p>Allowances for tax (%) determined at cap and floor regime award</p> <p>Final allowance (£) reflects regulated asset value (RAV) at the PCR stage. No re-openers for changes to tax rate changes</p> <p>Alternatively, unlike the interconnector approach, tax can be treated as a pass-through. This means the tax burden is passed directly to consumers</p> | <ul style="list-style-type: none"> Definitions, detail on the process and final decision | <ul style="list-style-type: none"> Further engagement: Q2 2025 Minded to decision publish: Q2 2025 (1 month consultation) Decision: Q3 2025 |

Table 4(d): Approach to returns

| Regime element | Detail | Further work | Timeline |
|---|--|---|---|
| Cost of debt (return at the floor) | Allowance for return at floor calculated based | <ul style="list-style-type: none"> Detail policy work to specify benchmark | <ul style="list-style-type: none"> Further engagement: Q2 2025 |

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| | <p>on a cost of debt benchmark to 100% of RAV</p> <p>The administratively set return at floor (%) determined at cap and floor award stage in Q2 2026 for all projects</p> <p>Reference date is expected to be the month the cap and floor award decision is made</p> <p>Final floor level (£) reflects final RAV at PCR stage (initial administrative value specified at PA for all projects)</p> | <p>and determine when calculation methodology</p> | <ul style="list-style-type: none"> • Minded to decision on policy details publish: Q2 2025 (1 month consultation) • Decision: Q3 2025 |
| <p>Floor set to cover debt obligations (project finance)</p> | <p>Commercial lenders compete to fund the floor under Ofgem's oversight. The floor only covers lenders' obligations, with no equity interest or return. If the competitive funding floor is higher, consumers will be reimbursed before any distribution to equity holders</p> | <ul style="list-style-type: none"> • Framework for oversight of debt funding competition | <ul style="list-style-type: none"> • Developer led and specific to each project |
| <p>Cost of equity (return at the cap)</p> | <p>Allowance for return at cap based on the cost of equity, and applying this rate to 100 of RAV</p> | <ul style="list-style-type: none"> • Detail policy work to specify benchmark and determine when calculation methodology | <ul style="list-style-type: none"> • Further engagement: Q2 2025 • Minded to decision on policy details publish: Q2 2025 (1 month consultation) • Decision: Q3 2025 |
| <p>Re-financing</p> | <p>Re-financing is encouraged if it is expected to result in a lower floor without</p> | <ul style="list-style-type: none"> • Detail policy work to set out the process | <ul style="list-style-type: none"> • Developer led and specific to each project |

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| | extending the initial regime length | | |
| Low availability years | In years with less than minimum availability target (%), only revenues above the floor level carried over into assessment of revenues against the floor level. All revenue considered for assessment against the cap level | <ul style="list-style-type: none"> • Detail policy work to set out the process | <ul style="list-style-type: none"> • Further engagement: Q2 2025 • Minded to decision on policy details publish: Q2 2025 (1 month consultation) • Decision: Q3 2025 |
| Licence | <p>Standard Licence Conditions</p> <p>Special Licence Conditions</p> | <ul style="list-style-type: none"> • Review generation standard licence conditions to ensure suitability for LDES • Develop LDES special licence conditions | <ul style="list-style-type: none"> • Q1 2026: special licence conditions consultation • Q2 2026: Licence modification |
| LDES gross margin and revenue reporting | <p>Operators can choose how to trade power and, for example, use a third-party optimiser or the 'in-house' trading arm of a related party</p> <p>However, there will be a clear set of licence conduct and reporting requirements applicable to all operators</p> | <ul style="list-style-type: none"> • Details policy on approach | <ul style="list-style-type: none"> • Q1 2026: special licence conditions consultation • Q2 2026: Licence modification |

Appendix 1: Draft framework for oversight of Debt Funding Competition

Overview: This framework outlines Ofgem's approach to overseeing the Debt Funding Competition (DFC) for LDES projects, drawing on the processes used for the Greenlink and NeuConnect interconnectors. It proposes a risk-based oversight strategy to ensure that the floor level from the DFC is minimised and consumer value is preserved.

Objective of the DFC: The goal of the DFC is for LDES developers to identify suitable funding structures and lenders, ensuring that the DFC is as low as necessary for project delivery. This process aims to help developers secure financing needed for their projects.

Ofgem's oversight role: Ofgem will oversee the DFC to ensure transparency, manage conflicts of interest, and keep the debt raise process competitive. This oversight ensures the funding solution does not change the risk allocation in the cap and floor regime, unless it reduces consumer risks. The framework helps LDES projects get financing that benefits consumers and supports their deployment to meet the Clean Power 2030 and 2035 targets.

Scope of oversight: Ofgem's oversight will cover all aspects of the DFC, particularly areas that pose value for money risks or present potential conflicts of interest. Developers must notify Ofgem of any conflicts and demonstrate how these are being mitigated. Key areas of oversight include:

- DFC delivery timetable
- Transaction structure (company and financing structure)
- Selection framework for financial institutions
- Elements of the debt funding package subject to competition
- Evaluation framework for bids received
- Ensuring the DFC remains stable between DFC completion and financial close

DFC process stages

Transaction structure: Developers will select the preferred company and financing structures, considering risk, return, and regulatory requirements. Developers will ensure that the chosen structure delivers on expectations.

Preparing for debt competition: Developers will outline the scope of the debt funding competition and potential funding solutions. Ofgem will review the documentation provided to lenders.

Overseeing debt competition: Developers will manage the process of receiving and evaluating bids from lenders. Ofgem will ensure the process achieves the DFC objective.

Financial close: Ofgem will work with developers to manage risks between DFC completion and financial close, ensuring the DFC remains unchanged.

Risk-based approach: This focuses on areas with the highest potential impact on achieving an efficient cost of debt, and ultimately, an efficient capital structure consistent with consumers interests. This includes monitoring the DFC delivery timetable, transaction structure, and evaluation of bids.

Developer responsibilities: Developers must comply with the framework, notify Ofgem of conflicts of interest, and provide necessary documentation throughout the DFC process.

Examples of potential Ofgem approval areas

Financial and non-financial covenants: Gearing, debt service coverage ratio, and debt tail etc.

Floor portion for debt repayment: Ensuring that a portion of the floor revenue is allocated to debt repayment, both deflated and inflated to match repayment schedules.

No equity distribution: Ensuring no equity distributions are made until the DFC floor is lower than the administratively set floor.

Evidence of competition: Ensuring that the debt funding process is competitive, with multiple lenders participating and transparent criteria for selecting the winning bids.

Additional potential considerations:

- Tenors: Balance the debt tenor with its price.
- Refinancing: Address pre- and post-completion costs and refinancing assumptions.
- Hedging: Oversee floating to fixed hedges at financial close to ensure competitiveness.
- Bank raises and bonds: Consider bond issuance and include credit rating information.
- Debt and debt-like instruments: Review to ensure regulatory alignment.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.