

Energy storage: Navigating the UK LDES regime after Window 1

10 July 2026



The long duration energy storage (LDES) cap and floor regime is a significant development in the UK's energy storage strategy. It is modelled on the successful interconnector cap and floor regime, with important modifications, and provides a revenue support mechanism that is intended to facilitate private investment. Ofgem, the UK's energy regulator, has indicated that 16 projects, together representing 7,645 MW of storage, could receive regulated revenue support. For developers, sponsors, lenders and investors active in or considering UK grid-scale energy storage, the regime's mechanics – and its limits – merit close attention. In this briefing we discuss how the regime operates and what the implications are for market participants, whether currently engaged in the Window 1 process, assessing Window 2 prospects or evaluating secondary market positions.

Key features

- 1 The cap and floor regime is intended to provide a degree of revenue certainty for grid-scale storage projects – but the floor is a downside safeguard, not a guaranteed return
- 2 The 'soft cap', retaining 30% of revenues above the cap, is a deliberate and significant departure from the interconnector regime and incentivises market optimisation
- 3 Projects may bid on regime duration and residual value to reduce the floor – these are the only two competitive parameters under Window 1 and directly affect the Financial Assessment score in Ofgem's selection methodology
- 4 Project-financed structures are accommodated through the actual cost of debt (ACOD) floor, which requires Ofgem oversight via a debt funding competition process and a consumer protection backstop

- 5 Window 2 is coming – and Ofgem's assessment methodology for Window 1 signals what will matter in the next round

"The regime provides a level of revenue certainty designed to support project financing while preserving incentives to maximise market revenues."

Bryony Theaker
Partner, London

Unlocking investment

LDES lies at the heart of the UK's energy transition. Assets capable of discharging power continuously for eight hours or more – including pumped storage hydro (PSH), lithium-ion battery energy storage systems (Li-ion BESS), compressed air energy storage (CAES), liquid air energy storage (LAES) and vanadium flow batteries (VFB) – will play a critical role in managing the intermittency of renewable generation and maintaining system reliability as the energy sector decarbonises.

However, LDES projects have long faced a fundamental investment challenge. Merchant revenues alone are often insufficiently predictable to support large-scale capital investment. Projects are exposed to significant volatility and potential "cannibalisation" as additional storage capacity enters the market, i.e., the success of the technology reduces the market conditions that underpin its revenues, lowering returns for future projects of the same type.

The LDES cap and floor regime is intended to bridge that gap. Drawing on the established interconnector cap and floor framework, but adapting it to reflect the particular characteristics of storage assets, the regime provides a level of revenue certainty designed to support project financing while preserving incentives to maximise market revenues.

Protection on the downside, incentive on the upside

The regime is implemented through special conditions attached to the project's generation licence and is structured around two key revenue thresholds:

- **Floor:** a minimum annual revenue level, set using a building block approach based on efficient project costs and a notional cost of debt (currently 4.47% CPIH-real, as of 8 April 2025, to be updated at each project's Final Investment Decision). If revenues fall below the floor, the shortfall is met by consumers through Balancing Services Use of System (BSUoS) charges administered by NESO. The floor provides downside revenue protection sufficient to support investment, not a target rate of return.
- **Soft Cap:** a maximum annual revenue level above which 70% of excess revenues are returned to consumers and projects retain 30%. This was increased from the originally consulted 10% retention in response to stakeholder feedback that a higher share was needed to preserve commercial optimisation incentives. The distinction from the interconnector regime reflects a fundamental difference between the two asset classes: interconnector revenues are driven primarily by price differentials between connected markets, whereas active commercial management is central to the performance of an LDES asset. The 30% revenue retention above the soft cap therefore preserves incentives for market optimisation and an economic incentive for effective commercial optimisation.

The default regime duration is 25 years, with flexibility to bid shorter (minimum 20 years) or longer, after which the project operates on a fully merchant basis. Projects may also bid a non-zero residual value at the end of the regime. By including the expected residual asset value at the end of the regime as a credit against its total required revenue, the project can reduce the net support it requires from the regime, allowing it to present a lower floor price whilst still achieving the same return on investment.

These two parameters, regime duration and residual value, are the only competitive bidding parameters under Window 1 (reduced from the five originally proposed), and bidding strategically on them directly affects a project's score in Ofgem's Financial Assessment.

Bankability with conditions

Projects may elect for the floor to be calculated by reference to their actual, competitively secured cost of debt, thereby providing lenders with greater confidence of debt service coverage and better reflecting project-specific financing realities. The ACOD floor is available only to project-financed structures and covers debt obligations only. It is subject to Ofgem oversight through a debt funding competition process modelled on the interconnector regime, which needs to be accommodated within project timelines. Where the ACOD floor exceeds the floor which would have been set had Ofgem applied a notional cost of debt, projects must repay the difference to consumers before making any equity distributions.

Floor payments do not commence until commissioning, meaning no revenue support is available during the construction phase, unlike some other UK regulatory support schemes. This places greater reliance on construction financing and liquidity arrangements. Cap and floor adjustments are assessed and settled annually in arrears (with NESO acting as the central payment intermediary under the BSUoS framework), which may create timing mismatches between project cash flows and regulatory payments and necessitates liquidity facilities pending receipt of any floor payment.

Floor mitigates revenue risk, not delivery risk

The floor is not unconditional. Access to revenue support depends on meeting delivery milestones and ongoing operational obligations. The three most significant are:

- **Delay:** if a Track 1 project (target commissioning by 2030) or Track 2 project (target commissioning by 2033) fails to commission on time without an approved extension (e.g. for force majeure), a payback mechanism applies. Projects that miss their target but commission by the backstop date (2032 for Track 1; 2035 for Track 2) with an approved extension incur no penalty. Projects delivering after the backstop date without approval are subject to a proportionate floor payment repayment mechanism. These charges accumulate as a repayment balance and must be repaid from future surpluses above the floor before distributions. The regime duration is not reduced as a result.
- **Availability:** projects must meet a project-specific annual minimum availability target (MAT), which excludes planned outages and force majeure events. Failure to meet the MAT results in loss of floor

support for that year. For project-financed projects, a conditional floor accrual loan mechanism may be available to allow temporary retention of floor payments below the MAT, subject to clawback, to improve lender confidence. Specific MAT percentages will be confirmed through the licence conditions process.

- **Post-Construction Review (PCR):** Ofgem reviews actual capital costs against the cost estimates submitted at Project Assessment stage. Well-evidenced cost overruns up to the P90 estimate will generally be added to the Regulatory Asset Value (RAV) unless they constitute demonstrably inefficient or wasteful expenditure. Cost overruns above the P90 estimate will only be accepted if the project provides strong evidence that they could not have been avoided. There are no retrospective clawbacks of payments already made; any cap and floor adjustment from the PCR is forward-looking only.

Window 1: what the minded-to decisions tell us

The scale of market interest in the LDES regime has been significant. Of 171 applications received, 77 projects (28.7 GW) met the eligibility criteria – a broad mix of technologies dominated by Li-ion BESS, but including significant PSH, VFB, CAES and LAES/BESS participation. Four projects withdrew before the Project Assessment commenced, leaving 73 projects assessed. Ofgem's minded-to decisions, published on 26 June 2026, propose final awards to 16 projects totalling 7,645 MW. The consultation on those decisions closes on 7 August 2026, with final awards expected in Autumn 2026.

In selecting projects for final awards, Ofgem applied a structured multi-criteria assessment (MCA) across three components: (i) the Economic Assessment – which considered incremental system benefit (using a Benefit Cost Ratio weighted at 40%) alongside non-monetised impacts such as security of supply, avoided renewable curtailment and system operability; (ii) the Financial Assessment – comparing expected revenues against the cap and floor levels to assess the extent of potential consumer support; and (iii) the Strategic Assessment – including deliverability, scenario robustness and portfolio diversity. No single factor was decisive. Projects that bid strategically on regime duration and residual value improved their Financial Assessment score. For Window 2 applicants, the minded-to decisions provide useful indications of the factors that may influence future allocation exercises, although Ofgem has emphasised that future windows may be designed differently.

Ofgem has confirmed that it will consult on the design of future windows later in 2026, with the aim of confirming its intent to open a second window by 2027. Projects unsuccessful in Window 1 will not be excluded from future windows, and Ofgem has indicated it will consider options to streamline participation for projects previously assessed. Future windows will be informed by the Strategic Spatial Energy Plan (SSEP) and may introduce further competitive parameters.

"For secondary market investors, understanding the interaction between the floor level, the remaining regime duration and the post-regime arrangements ... will be central to valuation."

Bryony Theaker
Partner, London

Implications for market participants

For developers and sponsors, the regime offers a credible framework for securing long-term revenue certainty and supporting project bankability. However, access to that support is contingent on meeting eligibility, delivery and operational requirements – and the Window 1 process demonstrates that success is likely to depend on a combination of project economics, deliverability and broader system value considerations. For those targeting Window 2, the Window 1 decisions offer the first detailed public insight into how Ofgem weights competing projects: the Economic Assessment (particularly the Benefit Cost Ratio and security of supply contribution) appears to have been the primary differentiating factor, but deliverability and portfolio-level diversity also informed the overall assessment.

For financial investors, the regime's structure deserves careful analysis. The ACOD floor provides meaningful protection for debt service in project-financed structures, but introduces a degree of regulatory scrutiny into the financing process that is unusual outside the interconnector context. Key structural considerations include: the absence of floor payments during construction (necessitating robust liquidity facilities); the annual settlement cycle and associated cash flow timing; the 80% gearing cap; and the ringfencing and financial reporting obligations that attach to the LDES licence. For secondary market investors, understanding the interaction between the floor level, the remaining regime duration and the post-regime arrangements (which are yet to be fully determined) will be central to valuation.

The immediate focus for market participants is the 7 August 2026 consultation deadline and the emerging lessons from the Window 1 minded-to decisions. Those decisions provide some initial indications as to how Ofgem might exercise its discretion in future allocation rounds. The regime remains a developing framework: the licence conditions are still being finalised, the post-regime arrangements are not yet determined, and Ofgem has indicated that further competitive parameters may be introduced in future windows.

How we can help – now

Clifford Chance has advised on the interconnector cap and floor regime since its inception and brings that direct experience to the LDES regime. If you would like to discuss insights from the interconnector regime, the implications for your project, investment or financing strategy, or the lessons from Window 1 for a Window 2 application, please contact us. This could include:

Window 1 participants: advice on the consultation response and preparing for the post-consultation period ahead of Autumn 2026 final awards.

Window 2 aspirants: structured analysis of what the Window 1 assessment outcomes signal about Ofgem's weighting priorities, and how to position a project accordingly before the next window design is confirmed.

Lenders and secondary market investors: diligence frameworks for assessing LDES projects in light of the Window 1 decisions and the emerging licence condition terms.



Bryony Theaker
Partner, London

bryony.theaker@cliffordchance.com
+44 207006 2162



Clare Burgess
Partner, London

clare.burgess@cliffordchance.com
+44 207006 1727



Jonathan Dillon
Partner, London

jonathan.dillon@cliffordchance.com
+44 207006 1099



Nicholas Hughes
Partner, London

nicholas.hughes@cliffordchance.com
+44 207006 4621



Nigel Howorth
Practice Area Leader Real Estate,
London

nigel.howorth@cliffordchance.com
+44 207006 4076



Emma Ireland
Senior Associate, London

emma.ireland@cliffordchance.com
+44 207006 3070

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

cliffordchance.com

Clifford Chance, 10 Upper Bank Street, London, E14 5JJ

© Clifford Chance 2026

Clifford Chance LLP is a limited liability partnership registered in England and Wales under no. OC323571. The firm's registered office and principal place of business is at 10 Upper Bank Street, London E14 5JJ. The firm uses the word "partner" to refer to a member of Clifford Chance LLP or an employee or consultant with equivalent standing and qualifications.

If you do not wish to receive further information from Clifford Chance about events or legal developments which we believe may be of interest to you, please either send an email to nomorecontact@cliffordchance.com or by post at Clifford Chance LLP, 10 Upper Bank Street, Canary Wharf, London E14 5JJ

Abu Dhabi • Amsterdam • Barcelona • Beijing • Brussels • Bucharest** • Casablanca • Delhi • Dubai • Düsseldorf • Frankfurt • Hong Kong • Houston • Istanbul • London • Luxembourg • Madrid • Milan • Munich • Newcastle • New York • Paris • Perth • Prague** • Riyadh* • Rome • São Paulo • Shanghai • Singapore • Sydney • Tokyo • Warsaw • Washington, D.C.

*AS&H Clifford Chance, a joint venture entered into by Clifford Chance LLP.

**Clifford Chance has entered into association agreements with Clifford Chance Prague Association SRO in Prague and Clifford Chance Badea SPRL in Bucharest.