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Research

Adam Forsyth

adam.forsyth@longspur.com

+44 (0) 131 357 6770

Max Campbell

max.campbell@longspur.com

+44 (0) 131 357 6771

Distribution

Adam Robertson

adam.robertson@longspur.com

+44 (0) 203 940 6602

LONG DURATION STORAGE CONSULTATION

Policy support for long duration energy storage in the UK looks set to use a cap and floor model which we see as a positive move, helping to reduce funding uncertainty for projects going forward. The consultation identifies a need for long duration flexible electricity capacity of at least 30GW and up to 50GW by 2035, making this an important area of opportunity in the UK power market. The consultation closes on 5th March so we could see final policy being announced during 2024.

DESNZ Consultation Issued

The UK's Department of Energy Security and Net Zero (DESNZ) has issued a consultation on long duration energy storage which follows earlier consultation and notably confirms the provision of support on a cap and floor basis. This is largely as expected although there had been some speculation last year that there might be no floor price, potentially limiting the attractiveness of support. The new consultation will look to support existing technologies offering at least 100MW of power and over 6 hours of storage as well as support for novel long duration storage technologies.

Cap and Floor Support Proposed

The cap and floor support mechanism acts allows projects to trade in the electricity market but where prices fall below the floor a top up subsidy is provided and where prices rise above the cap, a repayment is made. In this case the price will be the gross margin, defined as dispatched revenue less cost of charging. This provides a degree of return certainty helping to overcome barriers to investment such as high upfront capital costs, long lead times and uncertain market signals. The cap and floor approach has already been successfully used to support investment in electricity interconnectors. Notably this consultation supports participation in other markets including the capacity market, balancing mechanism and system support markets.

Cruachan Expansion Potentially a Key Beneficiary

Drax Group (DRX LN) has already secured development consent to extend its 440MW Cruachan pumped storage project by 600MW. The expansion project is potentially a key beneficiary of the proposed support and we see the consultation as positive in that regard.

Flow Batteries to Benefit as a Novel Technology

Invinity's (IES LN) vanadium flow batteries would be treated as a novel technology despite numerous operating projects worldwide. While the company is now seeing sales around the world, the UK still remains an important market and projects are likely to benefit from the proposed support.

Model Could be Adopted Elsewhere

Corre Energy (CORRE ID) is the leading developer of compressed air energy storage projects in Europe and again, despite a strong operating history, these are seen as novel technologies. The UK has more limited geology for CAES than continental Europe and while it is unlikely that CORRE will target the UK in the near term, we have already seen elements of UK policy adopted in Europe and we could see this supportive model being developed more widely.

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Longspur Research
10 Castle Street,
Edinburgh. EH2 3AT
UK

Longspur Capital
20 North Audley Street,
London. W1K 6WE
UK