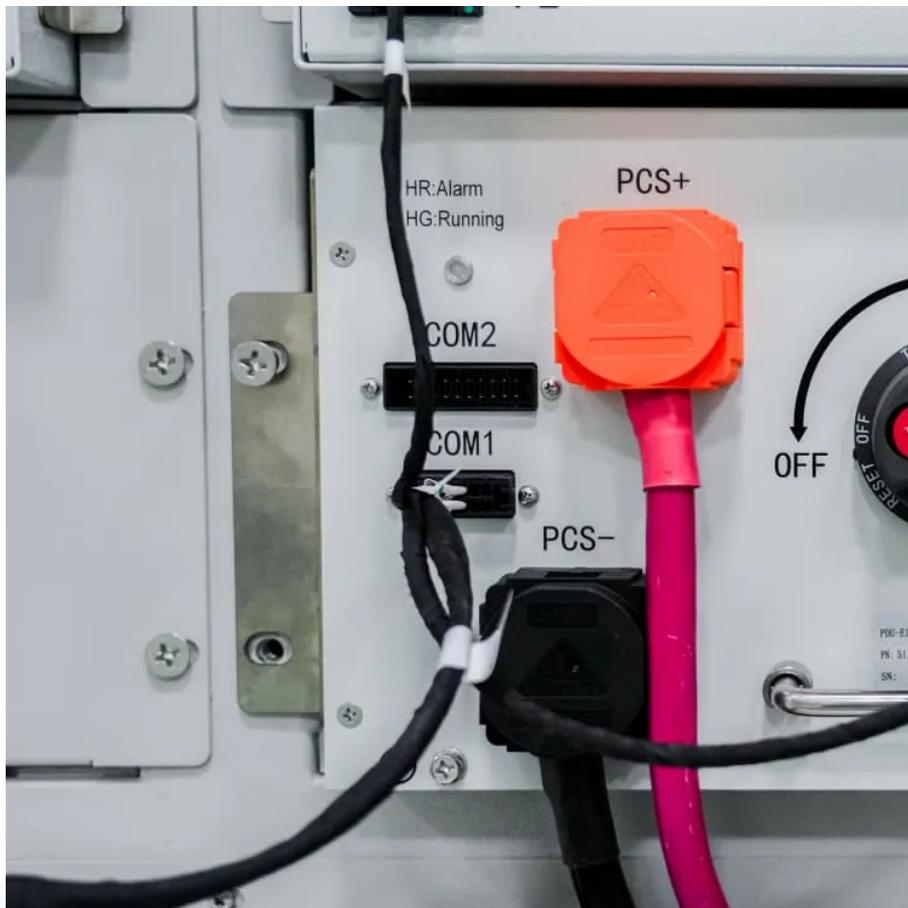


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Energy Storage Project Profitability Calculation



Overview

How is the income of energy storage projects calculated?

To determine how the income of energy storage projects is calculated, several factors are critical: 1. Revenue Streams, 2. Cost Structures, 3. Market Mechanisms, 4. Incentives and Subsidies.

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This article is a collaborative effort by Fransje van der Marel, Godart van Gendt, and Joscha Schabram, with Carlos Bermejo, Luca Rigovacca, and Yves Gulda, representing views from McKinsey's Electric Power & Natural Gas Practice. While energy storage is already being deployed to support grids.

IRR Definition: Internal Rate of Return (IRR) represents the discount rate at which the Net Present Value (NPV) of a project's cash flows equals zero, offering insights into the project's potential profitability. **Steps in Calculation:** To calculate the IRR for a Battery Energy Storage System (BESS).

Net present value (NPV) is the current worth of a future sum of money or stream of cash flows given a specified rate of return. It is a great tool to analyse the profitability of an investment independent of different lifetimes and account for inflation and degradation – two of the biggest impacts.

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The Storage Financial Analysis Scenario Tool (StoreFAST) model enables

techno-economic analysis of energy storage technologies in service of grid-scale energy applications. Energy storage technologies offering grid reliability alongside renewable assets compete with flexible power generators.

LCOS, IRR, and NPV: Key Indicators for Evaluating Energy Storage Economics
Policymakers and investors must evaluate energy storage projects' economics as energy storage technology increasingly finds application in power systems. To assess the feasibility, profitability, and payback period of such.

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