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Future of Battery Energy Storage Systems (BESS) | U.S.

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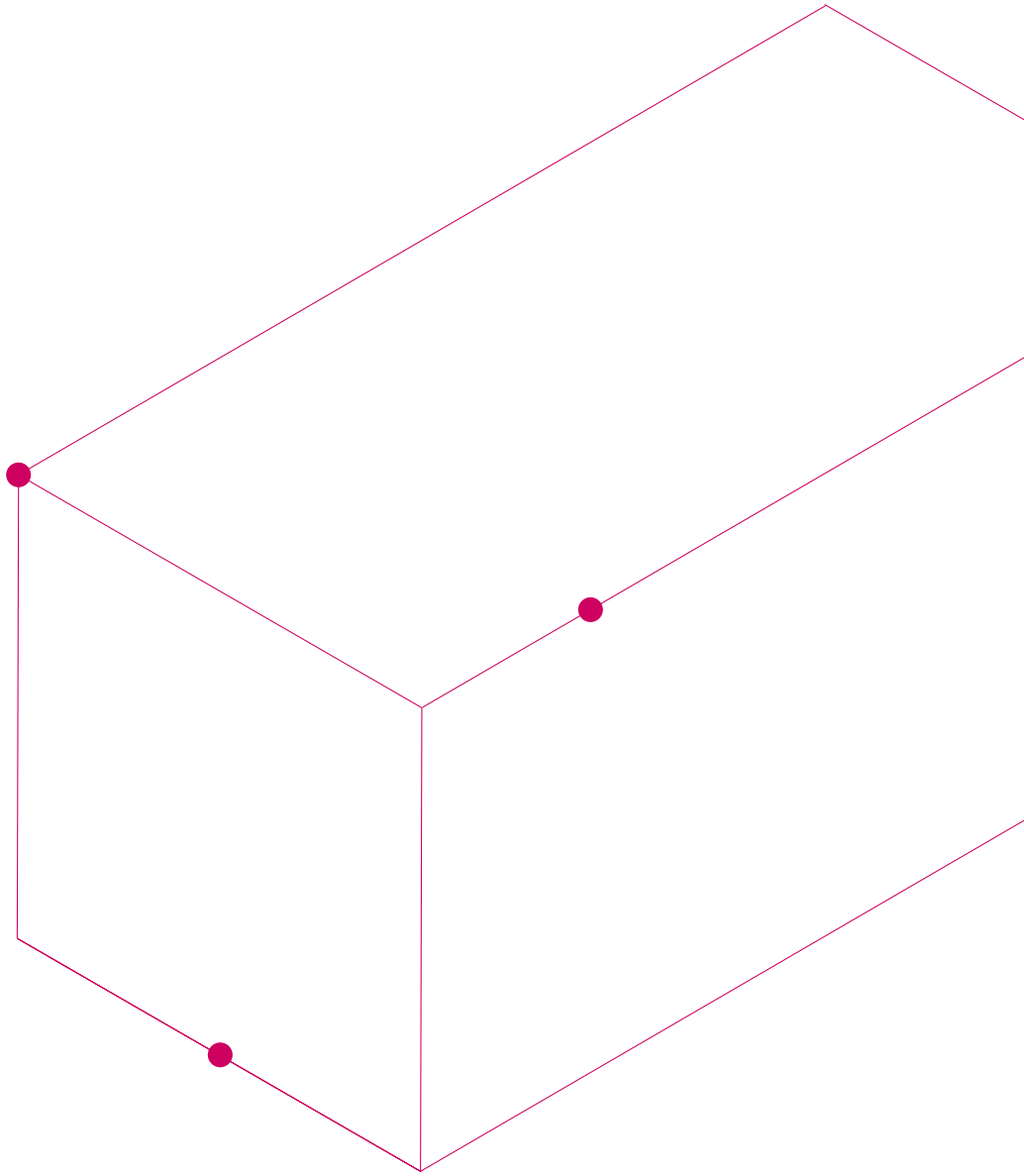
Introduction

Battery energy storage system ("**BESS**") deployment has been increasing in the United States. As demand for power in the U.S. is projected to increase, driven in significant part by large users like data centers, BESS may be well-positioned to contribute to meeting this demand and to providing other services supporting reliability of the transmission system. According to the U.S. Energy Information Administration, utility-scale battery storage capacity increased by 10.4 GW in 2024, exceeding 26 GW of total BESS capacity, and another 5.9 GW of BESS capacity was added in the first half of 2025. BESS projects also make up a significant portion of all pending interconnection requests.

Market and contracted revenue streams may be available to a BESS project providing these capabilities, but it is important to consider how regional differences can impact revenue expectations and outlook. A BESS project may also qualify for the investment tax credit ("**ITC**"), discussed in further detail below, but recent legislation has increased uncertainty regarding the applicable requirements for claiming this incentive. In particular, new restrictions on foreign involvement and supply chain issues may complicate BESS development for projects intending to claim the ITC beginning in 2026 and beyond.



This publication looks at the main regulatory, policy and market developments in the U.S.

United States

BESS revenue streams

Market revenue

There are several different market regions in the U.S., as well as non-market regions. While applicable rules and conditions can differ by region, a BESS project located in a market region may be able to participate in and receive revenue from the following types of markets:

- **Energy** – a BESS project participating in energy markets can charge when energy prices are low and discharge when energy prices are higher, thereby capturing the difference. This could be particularly attractive in markets and locations with greater price volatility, but arbitrage opportunities can be uncertain if, for instance, conditions change in a way that reduces price volatility.
- **Ancillary services** – ancillary services maintaining reliability of the transmission system, rather than meeting energy demand directly, may be procured through a market mechanism. A BESS project that is able to ramp up or down quickly could be well-suited to provide one or more of these services, such as frequency regulation, which typically requires that a resource respond quickly to balance small variations in load and supply.
- **Capacity** – in regions that have a capacity market, a BESS project may be able to receive payments for committing to be available to meet future demand. Applicable requirements for market participation, such as capacity accreditation rules, can vary in different markets and impact a BESS project's participation.

Contracted revenue

A BESS project owner may contract with a utility or other buyer under a longer-term bilateral agreement, which can often provide the project with greater revenue certainty. One such approach is a tolling arrangement, under which the BESS project owner typically receives a fixed payment stream, and the buyer has rights to charge and dispatch the BESS subject to any agreed-upon operating restrictions, and, where applicable, retains any associated market revenue.

Some U.S. states have established storage procurement mandates involving other revenue structures. For example, the U.S. state of Maryland is expected to hold energy storage solicitations to procure a total of 1.6 GW of energy storage capacity, pursuant to which a selected storage project would receive fixed "energy storage capacity credit" payments for storage project capacity, and it could also participate in and retain any revenue from energy and ancillary services markets. The U.S. state of New York is also expected to hold energy storage solicitations toward the state's target of 6 GW of energy storage capacity by 2030, and a selected bulk energy storage project would enter into an agreement under which it receives "index storage credit" payments with respect to storage capacity available for dispatch, indexed to an estimation of the project's expected energy and capacity market revenue.

In addition, a behind-the-meter BESS project may be able to contract with a collocated customer, such as a large energy user like a data center or industrial facility, to support backup power options and help shift or reduce demand, particularly at times of peak use, providing the large energy user with greater flexibility in managing energy usage and costs.

Regional variations

BESS project owners should carefully consider regional variations in assessing revenue expectations and outlook. For instance, market territories in the U.S. states of California and Texas have historically attracted significant BESS capacity, but increasing installed BESS capacity in these territories can put pressure on market revenue streams like energy arbitrage and certain ancillary services. On the other hand, in territories with capacity markets, such as in the mid-Atlantic region, or a different resource adequacy construct, such as in California, a BESS project may benefit from this relatively more predictable revenue stream, but this can also come with performance obligations and potential non-performance liabilities.

Other regional differences can also impact BESS project development and economics. For example, the process and timeline for interconnecting a BESS project to the transmission system can vary based on the region's applicable procedures and any required system upgrades, which can impact BESS project schedule and cost. Regional transmission conditions, such as congestion or rules under which BESS charging energy may be subject to transmission charges, can also impact BESS operations and revenue expectations.

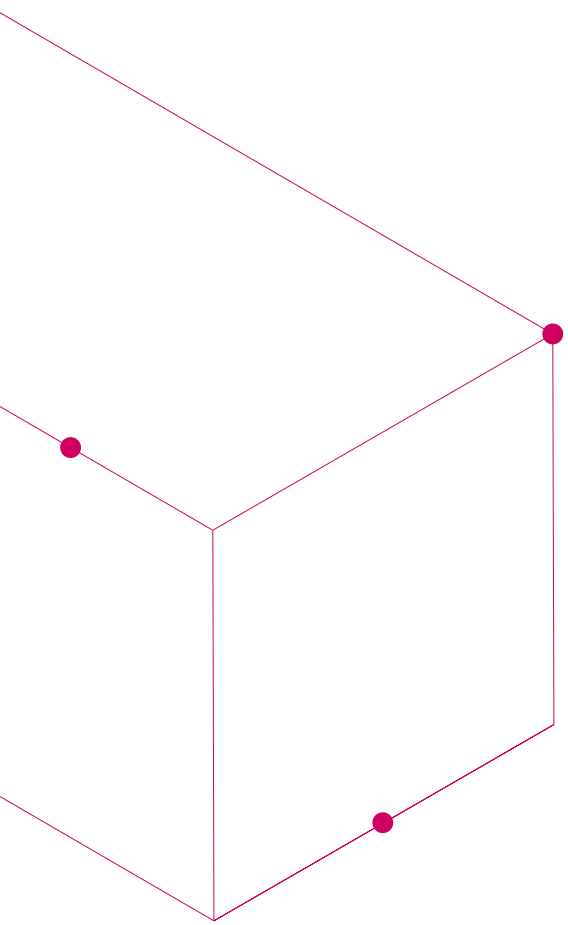
Federal tax incentives

In addition to the typical revenue streams outlined above, BESS projects may be able to benefit from the federal ITC, which would allow the project owner to claim (or transfer) credit of up to 30% of the amount invested in the project against U.S. federal tax liability.

BESS may be developed as a standalone resource or paired with another resource. Prior to the Inflation Reduction Act of 2022 ("**IRA**"), a BESS project had to be paired with an otherwise qualifying generation source, such as solar photovoltaic generation, in order to qualify for the federal ITC. After the IRA, a BESS project can qualify for the ITC, regardless of whether the BESS is paired with a renewable generator.

The One Big Beautiful Bill Act ("**OBBB Act**"), enacted in July 2025, made sweeping changes to energy tax credit rules and largely scaled back eligibility for resources like solar and wind, but ITC for BESS projects was far less impacted, with projects beginning construction prior to 2033 remaining eligible for the full credit amount.

However, the OBBB Act also imposed newly expanded project ownership and equipment supply restrictions in order to claim the ITC. BESS projects that begin construction in 2026 or later must not be owned by certain foreign entities and must meet increasingly stringent limits on participation from those entities, including equipment supply, which could significantly complicate BESS project development.



Foreign ownership and supply chain restrictions

BESS project owners planning to claim the ITC in 2026 and beyond must comply with new restrictions on participation of certain foreign entities of concern in the project, called "prohibited foreign entities" under the OBBB Act. A prohibited foreign entity is generally the governments of China, Russia, Iran, or North Korea and certain entities or persons owned by, controlled by, or with other ties to those governments.

BESS projects claiming ITC that begin construction in 2026 or later must not be owned by one of these prohibited foreign entities or have certain other connections with these prohibited foreign entities including, for example, rights to appoint board members or debt ownership above a certain requisite (15%) threshold.

They also must meet increasingly stringent limits on equipment in the BESS project that is sourced from one of these entities. In 2026, at least 60% of products incorporated into a BESS project must not be mined, produced or manufactured by one of these prohibited foreign entities, increasing to 85% in 2030 and beyond.

The OBBB Act, however, left several items open for further interpretation. For instance, it includes within these restrictions entities that are "effectively controlled" by an otherwise restricted entity. While the OBBB Act includes examples of "effective control," generally listing certain contractual provisions the presence of which would be indicative of such control, it also directs that the U.S. Treasury Department should provide further guidance on compliance with this restriction.

There is also the complexity of how a BESS project should account for direct costs attributable to a foreign entity of concern to demonstrate compliance with the limits established in the OBBB Act on products from such entities in a BESS project. The OBBB Act directs the U.S. Treasury Department to establish guidelines by the end of 2026.

Navigating supply chain uncertainty

Since the OBBB Act was enacted, where feasible, many BESS developers have focused on meeting certain safe harbor tests to commence construction before January 1, 2026, in which case the newly expanded foreign ownership and supply chain restrictions would not apply to the BESS project.

BESS projects that are not able to meet the safe harbor before 2026 must carefully consider current supply chains for component parts. Many common BESS project components like lithium, battery cells and modules, and battery management systems are largely sourced or manufactured in the current market by entities that would be noncompliant with the foreign ownership and supply restrictions. This is further complicated by the fact that tax credits can be recaptured for a period of several years after the project is placed in service if noncompliance is later discovered.

Many BESS project owners are already requiring assurances from suppliers of compliance with the new restrictions. While further guidance from the U.S. Treasury Department may be issued in the future, in the interim, BESS project developers would be well-advised to take relatively conservative interpretations of the governing statutes. Sourcing BESS project equipment manufactured domestically may avoid some complications, but the current domestic U.S. supply chain for BESS equipment is relatively limited, and until it is more fully developed, project owners could also run into issues of domestic supplier capacity, equipment availability and increased costs.

Outlook for BESS

There has been significant recent interest in U.S. BESS projects, both standalone and paired with another resource. This growth, however, could be complicated in the future by new foreign ownership and supply restrictions to claim the federal ITC, as well as shifting electric market conditions and regional differences impacting revenue expectations and outlook. A BESS project that will rely on the ITC, and which does not meet the safe harbor for commencing construction before January 1, 2026, should also carefully consider vendor supply chains, obtaining compliance assurances to the extent possible, and considering domestic supply where feasible.

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For further reading:

Future of BESS UK & Europe

Discover how evolving regulation, new business models and investor appetite are reshaping the UK and European battery storage market. **Our Future of Battery Energy Storage Systems Report** maps the key legal, regulatory and commercial trends, and highlights what sponsors, lenders and offtakers need to know to **deliver bankable projects in a rapidly scaling sector**.

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