

# Energy storage – country cousin no more

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Over the years we've seen more niche sectors than you care to recall creep their way out of left- into centre-field for infrastructure. These are mostly whacky wheezes dreamt up by funds desperate to shift money out the door, often taking a punt on unproven technology. Some of the best examples for this lie in biomass, ethanol and tidal – projects doomed to be dashed against rocky shores of reality.

However, while energy storage has all the hallmarks of a niche tech sector being back-doored into the infra space – supported by technical due diligence incentivised beyond market reality and the ever-present, wide-smile vendors – this looks no longer to be the case.

Having stepped away from journalism for three years (2014 until June 2017) to work as a head hunter in infra and energy, it was curious to note in the last year-or-so a spike in interest from clients as they sought to hire people with experience in energy efficiency and storage.

At the time, it felt like a bubble with infra funds following the fashion of the day – led by hearts rather than minds... possibly followed by wallets. But, as it turns out, they were on the money.

Energy storage appears now to have come of age. Speaking this week to people in the market, it is increasingly apparent that energy storage has progressed (or is progressing) into mainstream where it is now deemed investable. This sea change is driven by global developments as diverse as Elon Musk's Tesla in California through to Drax in the UK.

Anyone reading the papers this week cannot have missed developments in this space and it feels like a tipping point has been reached.

Asif Rafique, managing director for energy storage at SUSI Partners, has been tracking this space for a long time and says: "When I think about the challenges that the macro system involves at the moment, I think that storage provides an awful lot of solutions and I think that it will become an integral part of a solution – but not necessarily *the* solution as some people thought at the outset."

He adds: "If you think about an ecosystem with energy efficiency, smart grids, renewable generation, EV charging, smart metering and thermostats – storage sits very well within all of that as a system as well as having unique applications for each one of those segments, as well as stand-alone."

And he's right. Evolution of the energy sector definitely requires storage. It is the glue that holds numerous different pieces together.

The hurdle of recent times when investors struggled to get comfortable with storage and a different set of risks seems to have been left behind. This thesis is proven by the Anesco, Foresight and TRIG deals of late in the UK, not to mention Enel's acquisition in January of Demand Energy Networks – a US-based company specialised in intelligent software and energy storage systems.

For all that, the true litmus test for whether energy storage has indeed moved from niche into mainstream is – of course – time, but it's heading in the right direction... and at speed.

### **Building scale**

If ever there was a barometer for a sector, it has to be how seriously equity players view it.

Infra funds have of late seen ticket sizes on energy storage deals creep up to the £10-25 million mark which – including leverage – sees them investing in projects with estimated values of £70-100 million. This remains shallow water and niche for the big funds, but easily falls into mainstream for the vast majority of funds out there.

As we look around the market, the largest projects so far have financing requirements in the region of \$100 million and we are going to see a lot more along these lines.

For the ideal example, look to Australia where Tesla plans to deliver a 100MW, 129MWh Powerpack system from a wind farm. The capex on this project will come in around \$100 million. Meanwhile, in the US projects of this size have been signed by the Californian utilities. Then build in that in the UK, Drax is considering a 200MW battery storage project.

We are now talking three figures – estimated value and MW – and you're heading comfortably in the right direction. It is only a matter of time before the first movers are joined by the next wave as it becomes increasingly bullish about deploying assets in scale.

This morning UK energy regulator Ofgem announced that Anesco will be allowed to continue to claim ROCs for energy from three PV facilities that is not submitted direct to the grid, but goes into energy storage and then on to the grid. The solar parks are in Northampton, Chesterfield and Stratford-upon-Avon and are each 5MW with a 1.1MWh battery.

### **Here come the lenders...**

Debt players have been looking to get involved in this space for the last 24 months and it looks like they are just about there.

This week an IJ source revealed that in the last month his company had received a mandate from a lender for a first-of-a-kind deal in relation to a portfolio of battery storage schemes. Sadly no detail was forthcoming on the identity of the bank, but the fact that it is in play is interesting and telling.

As the source says, it is the first time they have come across a lender looking at storage in a ring-fenced asset engaging in the capacity market and sends a clear and positive signal. And, from what we hear, these are not small projects – in the 10s of MW.

So here we stand looking on at the birth of a new market – one that will doubtless have many fathers – and it's starting to look like we have a new stream of businesses. It's just a shame the baby's not a bit chubbier.

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