
Gore Street Energy Storage Fund plc Capital Markets Day



Gore Street
Energy Storage Fund

Chief Investment Officer



Sumi Arima **Chief Investment Officer**

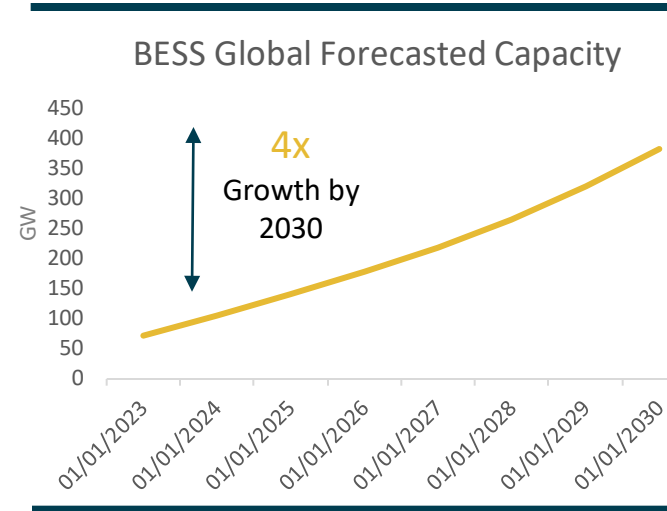
Sumi led Renewable Energy transactions as Managing Director of Kleinwort Benson.

Previously, he was MD of RHJ International SA / Ripplewood in Tokyo (parent company of Kleinwort Benson) responsible for PE investment management for over \$1B of AuM.

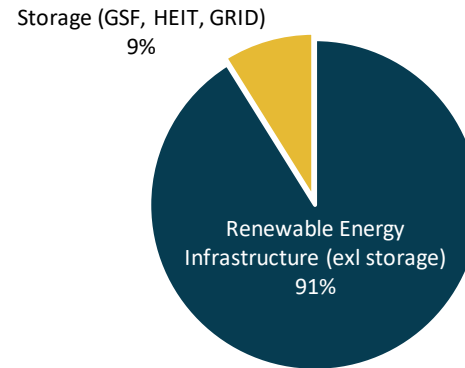
He has also worked in Debt Capital Markets at JP Morgan and prior to that, at McKinsey & Company.

Capital Markets Day – CIO/CFO

- ❖ The energy storage market will continue to grow significantly.
- ❖ Storage has become a key asset class for renewable energy investment.
- ❖ However, a growing market does not necessarily mean non-volatile profit – Why?

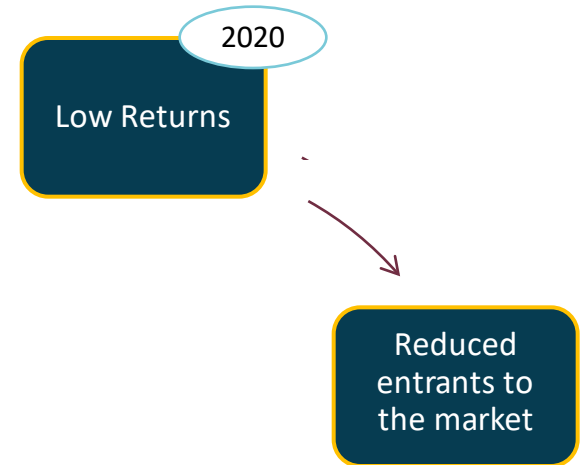


LSE listed Renewable Energy Infrastructure (Market Cap)



Market Cycles - GB

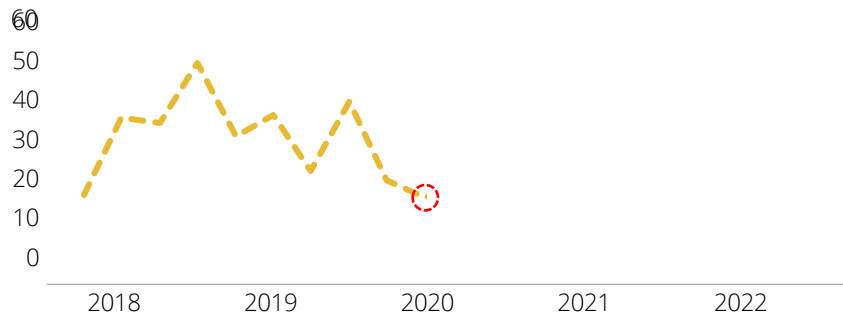
- ❖ In 2019–2020 the revenue rate for GB assets was low.
- ❖ This led to a reduction in new entrants.



Green field project rights traded at c. £30k/MW then - less than a quarter of its peak level

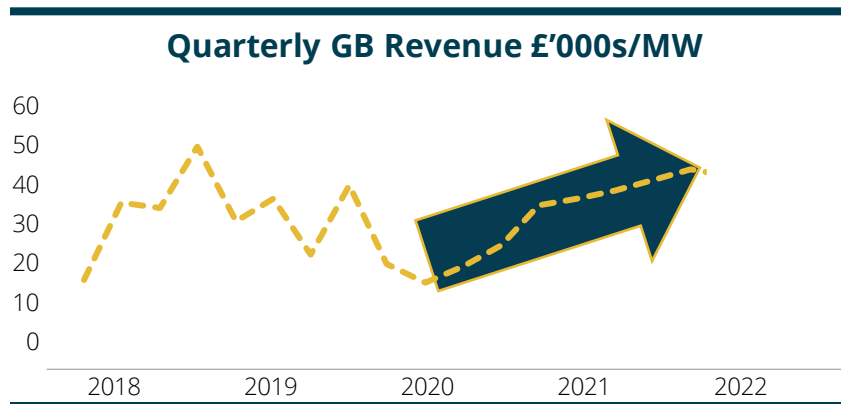
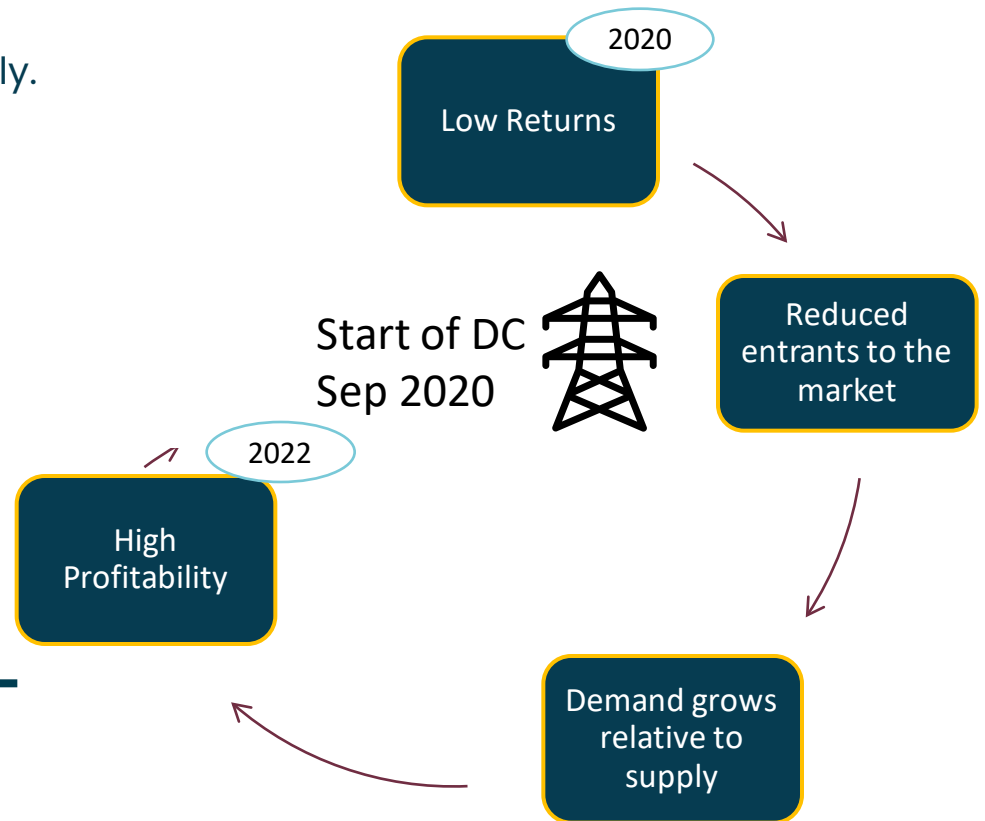
“We have decided to stop investing in GB market given the decline in revenue in late 2019” (a large US storage operator)

Quarterly GB Revenue £'000s/MW



Market Cycles - GB

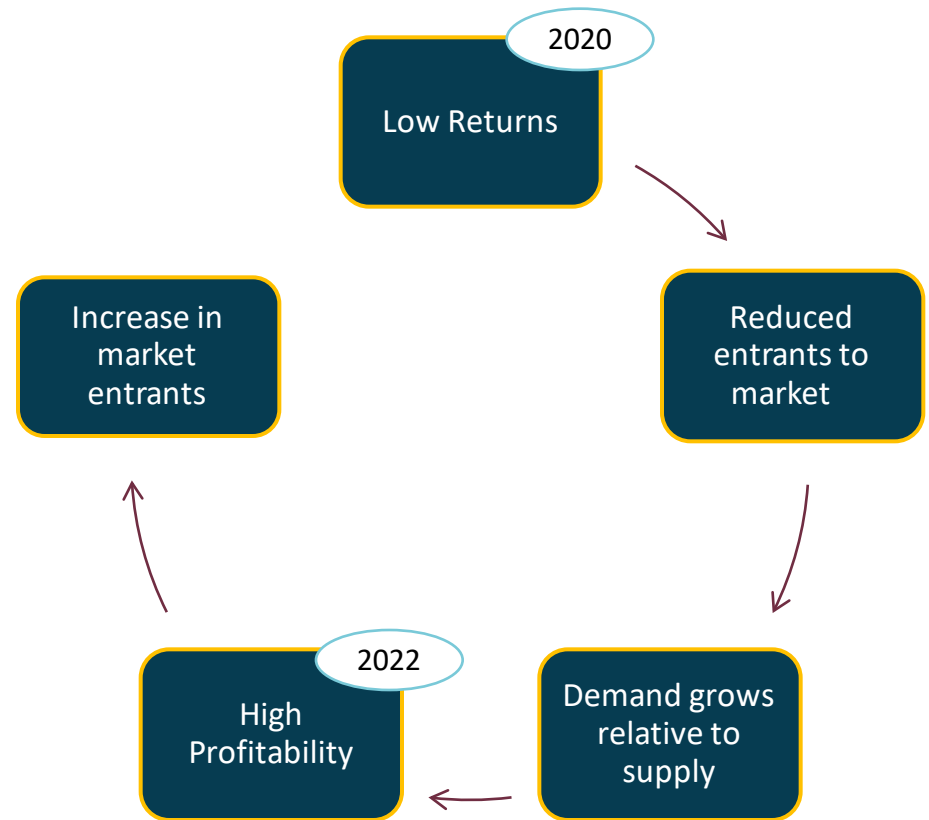
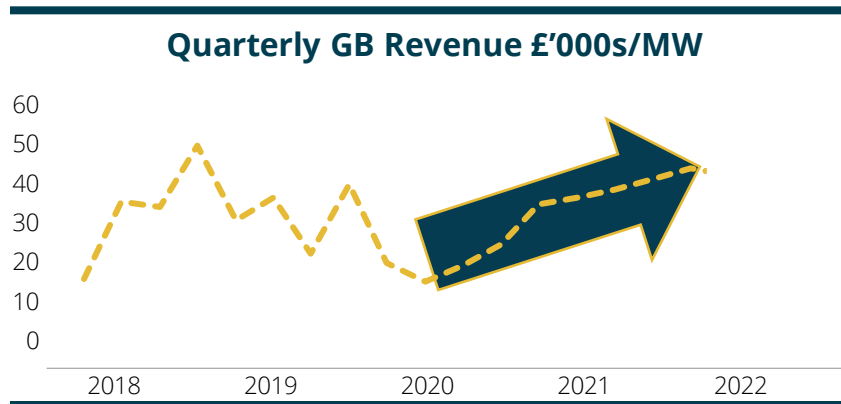
- ❖ Until increasing demand exceeded supply.
- ❖ Resulting in higher profitability.



Market Cycles - GB

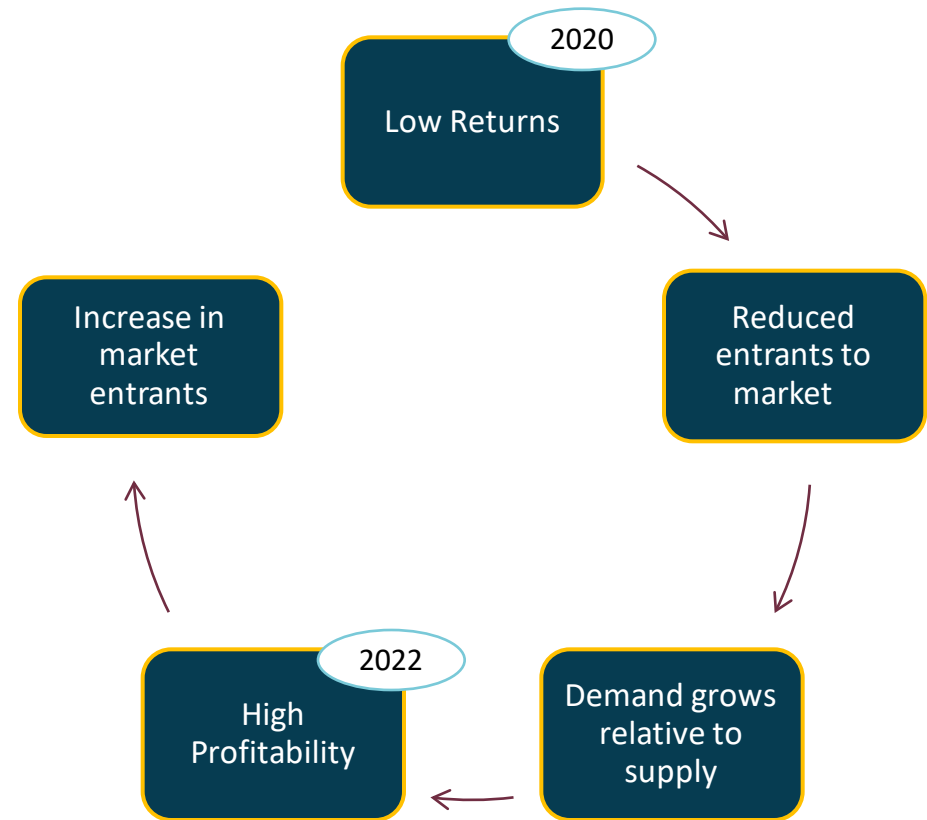
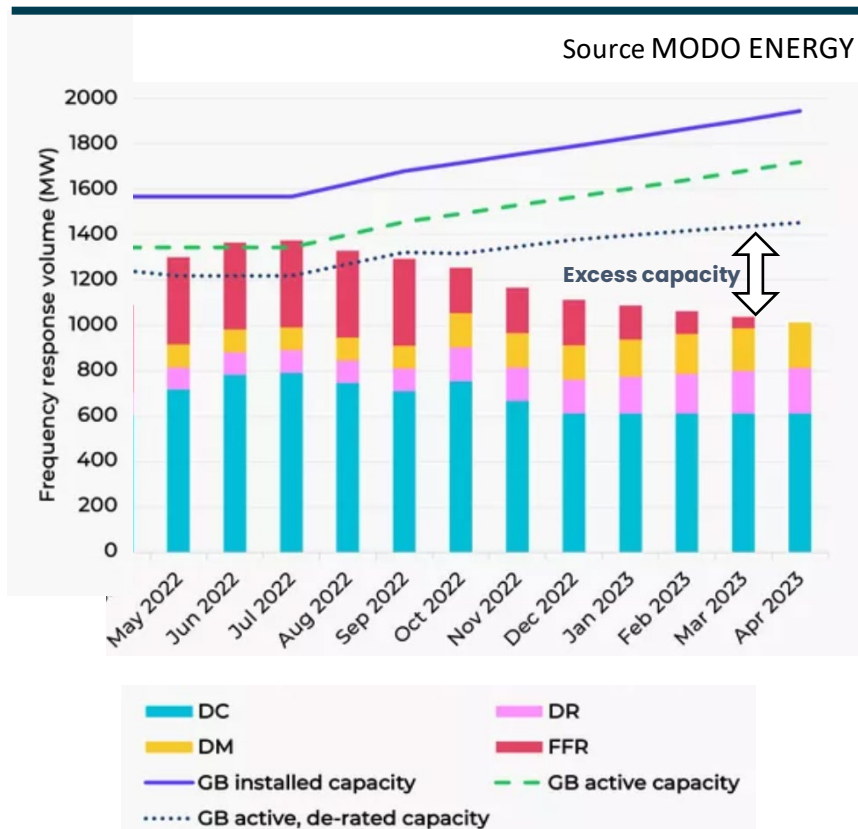
- ❖ However, higher profitability had attracted new investments in 2020-21.

Gore Street saw Green field projects sold over £ 100k/MW – which we passed



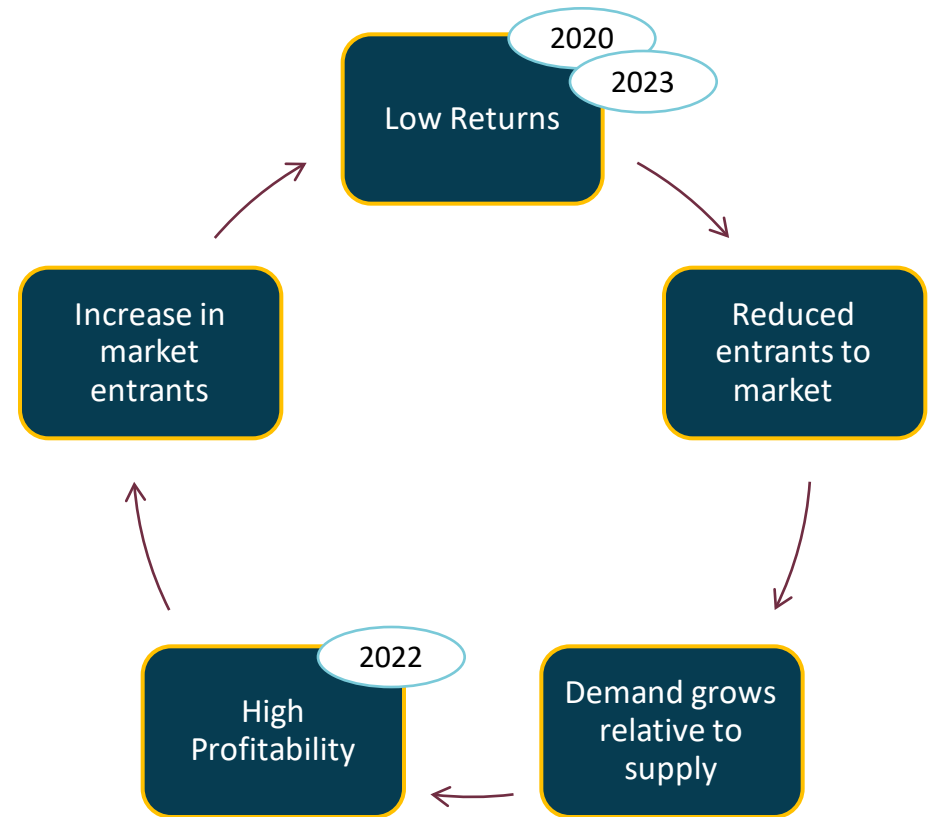
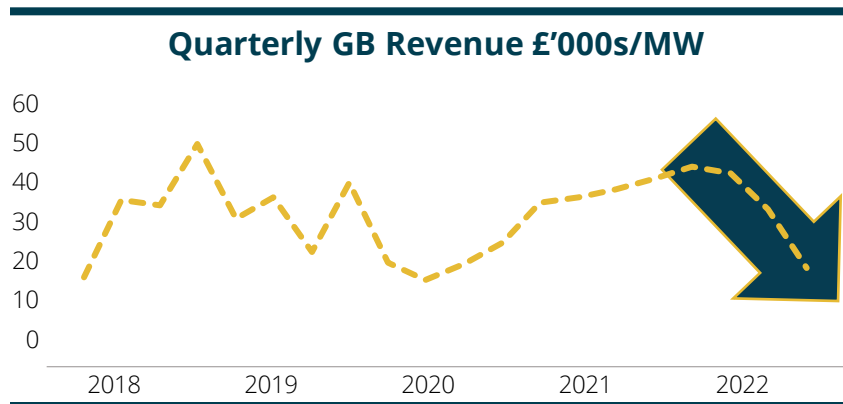
Market Cycles - GB

- ❖ New entrants exceeded National Grid's demand.



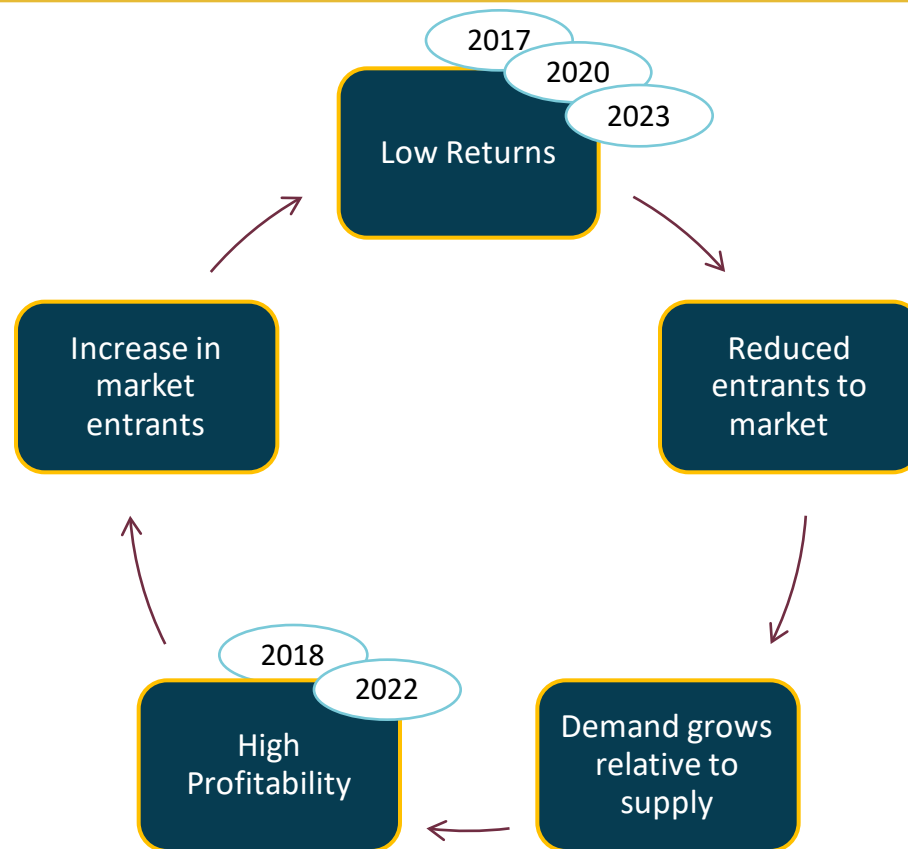
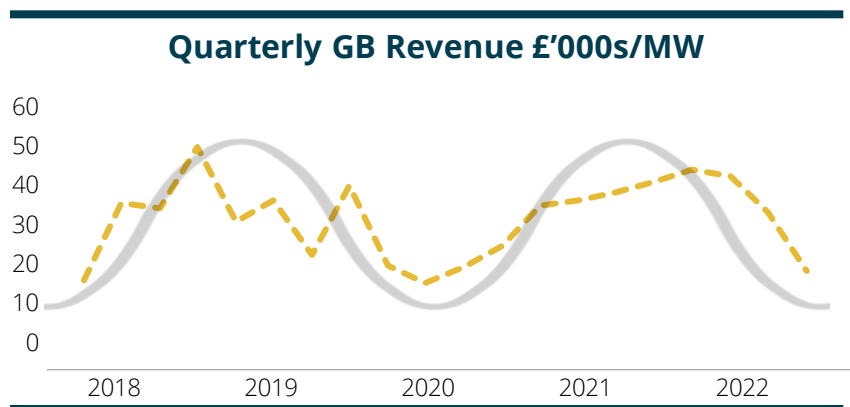
Market Cycles - GB

- ❖ Leading to pricing levels in GB to drop significantly.



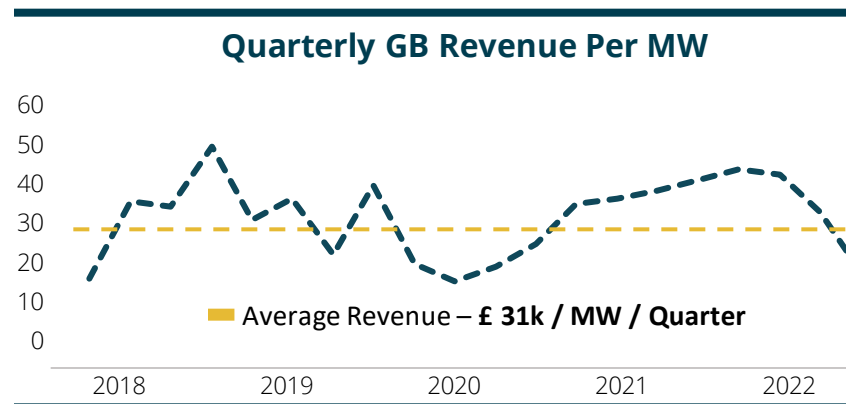
Market Cycles – GB Summary

- ❖ Higher profitability attracted new investments in 2020-21.
- ❖ New entrants exceeded National Grid's demand.
- ❖ Leading to pricing levels in GB to drop significantly.
- ❖ We expect this cycle is generally driven by new project lead time, typically two years.



Capital Markets Day – CIO/CFO

- ❖ The energy storage market will continue to grow significantly.
- ❖ Storage has become a key asset class for renewable energy investment.
- ❖ However, a growing market does not necessarily mean non-volatile profit.
- ❖ But it is underpinned by strong demand and attractive “average” profitability.



Assuming

- £120k / MW of revenue
- 60-70% EBITDA margin, and
- £500k/MW capex (1 hour system)

- 15-18% of EBITDA/Capex

Strategy

- ❖ So – what is the right investment strategy for storage?



Main Pillars of Storage Investment

❖ Gore Street believes the following are key factors for success in storage investments:

➡ Management of volatility.

➡ Continuous improvement of revenue, opex and capex without being swayed by volatile revenue.

○ Diversification

○ Relative revenue management – benchmarking

○ Low-cost entry and asset flexibility

○ Hands-on operational cost management

Diversification

- ❖ Why is it not possible to diversify within GB?
- ❖ Product revenue streams are the same across GB from the South of England to Northern Scotland.
- ❖ DM, DC, DR and FFR are all available across GB.
- ❖ Wholesale electricity prices are the same across GB. Local revenue, such as BM system action, is very limited.

➔ No revenue diversification possible in GB.



Diversification

- ❖ Global diversification helps stabilise revenue.
 - **Market design:** e.g. Texas has no capacity market, leading to occasional price spikes.
 - **Barriers to entry:** California grid-connection process and permitting is complex, leading to less risk for short-term market saturation.
 - **Pricing and products:** From real-time auction to a fixed price contract, or price linked to wind generation in Ireland.
 - **Difference in local demand and weather pattern:** e.g Texas heatwave or strong winds in Ireland.
- ❖ The investment team reviews fundamental demand strength, market size and current profitability level and leads portfolio diversification.
- ❖ This requires a multi-year effort to achieve.



Diversification

So, is it working?

- ❖ **Almost 0 correlation** ($R^2 < 0.1$) between GB revenue and non-GB revenue
- ❖ Looking at the standard deviation of quarterly revenue:
 - ❖ Pre-diversification (GB-only): £10.6k/MW
 - ❖ Post-diversification: £5.5k/MW

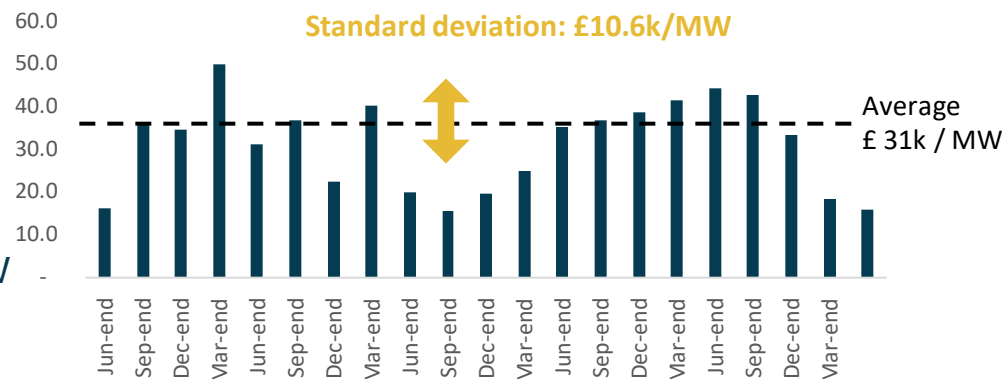
➔ **Result:** Diversified away 50% of the volatility so far (after FX)

- ❖ Current operational portfolio: 40% GB, 40% Ireland, 20% Germany and Texas

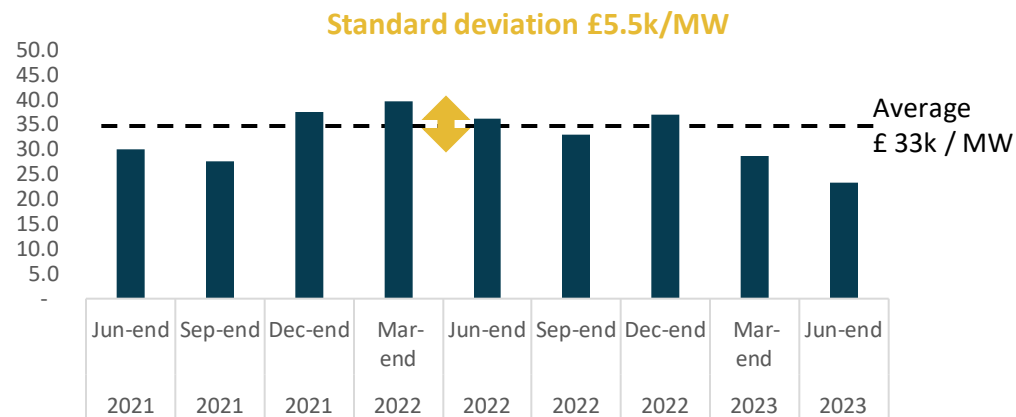
➔ Further diversification can stabilise revenue more

Non-GB assets outperformed GB assets by over 75% during the June end quarter

Quarterly Revenue GB Only
(£'000s/MW)



Overall Revenue after diversification
(£'000s/MW)



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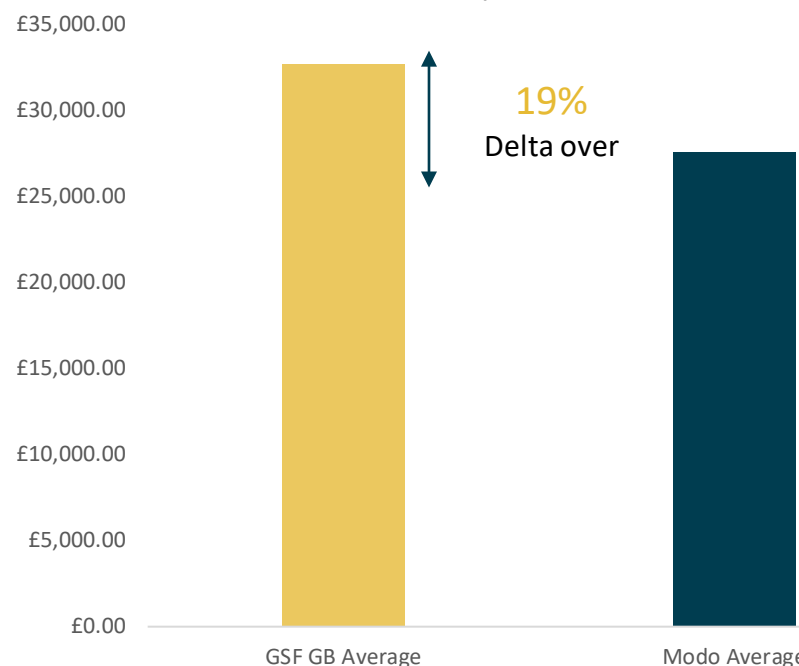
- Low-cost entry and asset flexibility

- Hands-on operational cost management

Revenue optimisation

- ❖ Storage revenue inherently volatile.
- ❖ We focus on management of relative revenue over index or “benchmark”...
 - ❖ **Benchmark:** revenue achievable by passive strategy
- ❖ ...and analysing the gap in detail twice a month to create improvement plan.
- ❖ GSC proactive optimisation strategy includes:
 - Northern Ireland asset combined with trading.
 - German asset with FCR + trading strategy.
- ❖ GSF successfully outperforming these benchmarks.
- ❖ GSF’s assets ranked in the top four performing GB sites for the last 12 months.

Quarterly Average £/MW Comparison CY (2020-2022)



➡ Commercial team presentation

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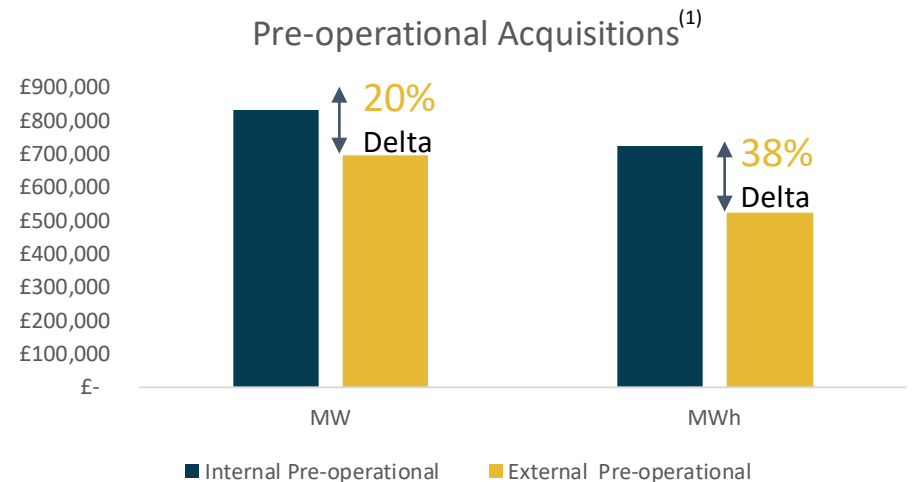
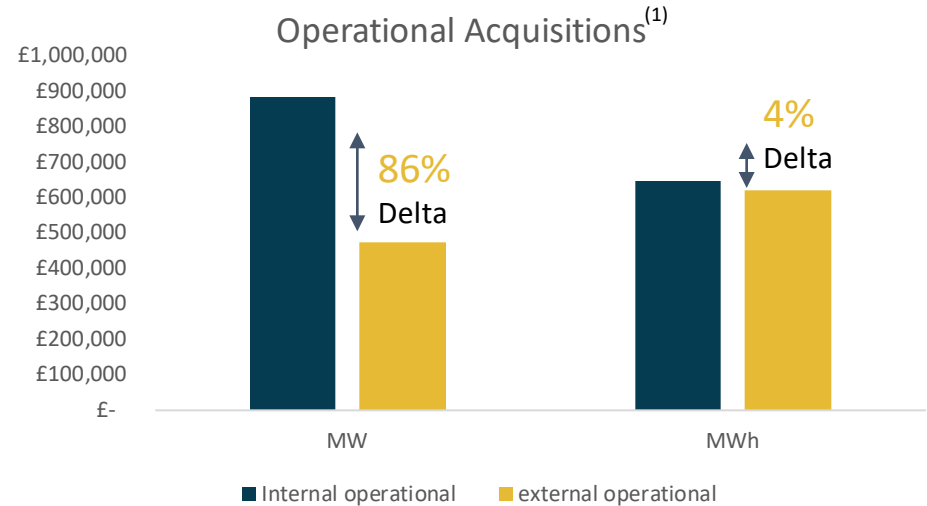
Low-cost entry and asset flexibility

- ❖ GSF typically acquires assets at greenfield stage.
- ❖ GSC internal team procures storage systems from suppliers directly.
- ❖ So, Capex is at cost -> i.e no “mark-up” by purchasing completed assets from the manager’s affiliate entities.

➡ Resulting in a competitive cost of entry

- ❖ GSF adopts disciplined capex approach.
- ❖ Avoided overspending in “future proof (when?)” 2-hour capacity at high cost.

➡ Construction team presentation



1) Based on publicly available information gathered by Modo Energy, for the 6-year period between 2017-2023. Source: Battery energy storage acquisitions: how has the landscape changed? | Modo Energy

Main Pillars of Storage Investment

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○ Hands-on operational cost management

Operational Cost Management

- ❖ GSC has internalised the core asset management functions.
- ❖ This enabling internal risk adjusted cost reduction / revenue optimisation approach such as:
 - ❖ Are we overpaying availability warranty fee given the recent stable asset performance?
 - ❖ Are we able to operate assets more aggressively for revenue considering recent capacity degradation status?
- ❖ Optimising O&M contract charges through approaches to warranty and reducing costs with major contractors.
- ❖ Insurance premium optimisation.
- ❖ Improved approach to Texas assets by working with new key contractors, Tenaska and PEMS (NAES subsidiary).

 Asset Management team presentation

In-house Capabilities summary

In-house Commercial Team

- ✓ Supports revenue efficiency
- ✓ Negotiation of commercial contracts
- ✓ Management of relationships with grid operators
- ✓ Successful duration optimisation

In-house Construction Team

- ✓ Cost per MW/MWh
- ✓ Negotiation & tailoring of warranties
- ✓ Procurement process
- ✓ Grid connections

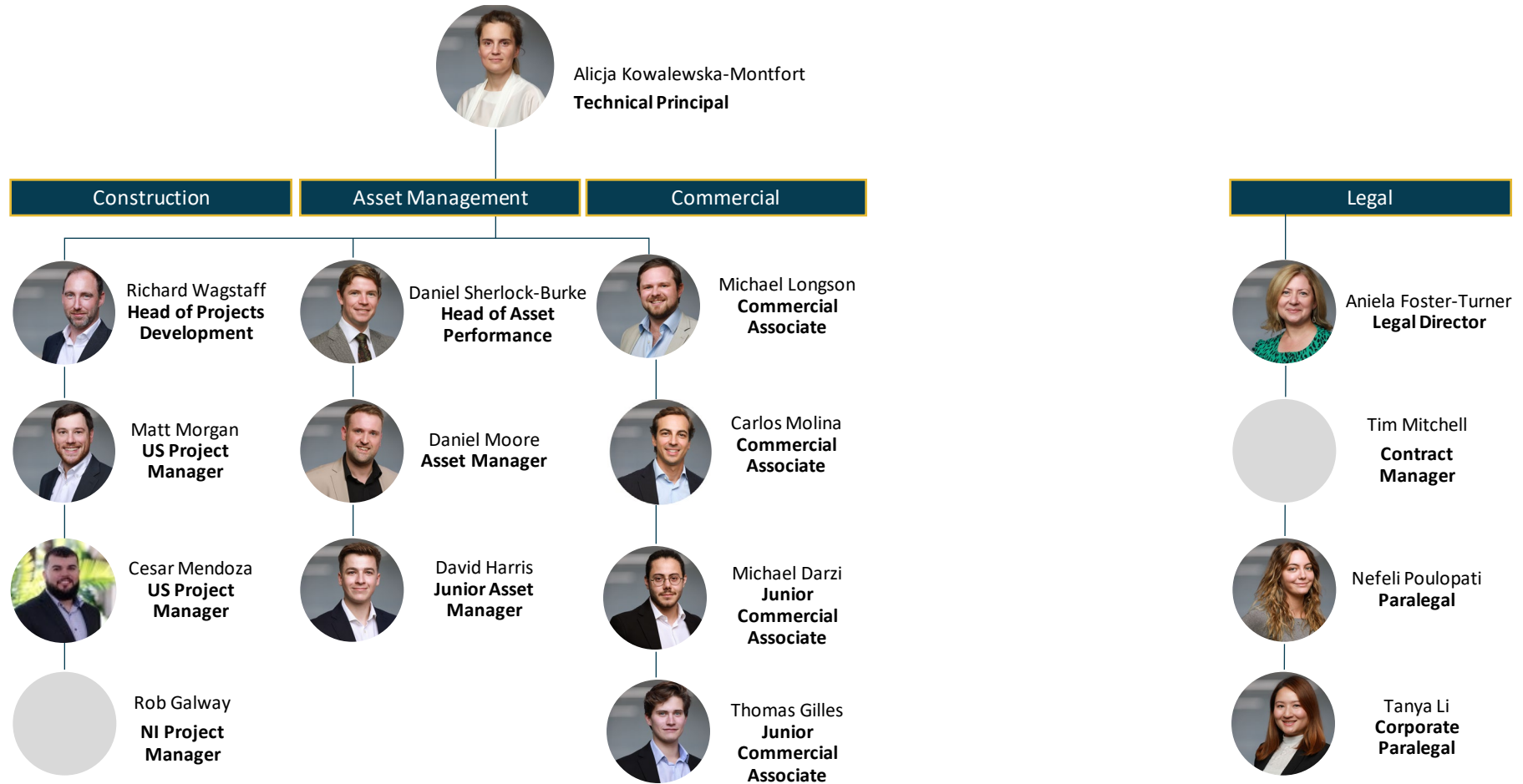
In-house Asset Management Team

- ✓ Asset Uptime
- ✓ Best-in-class fire safety
- ✓ Degradation
- ✓ An improved approach to security

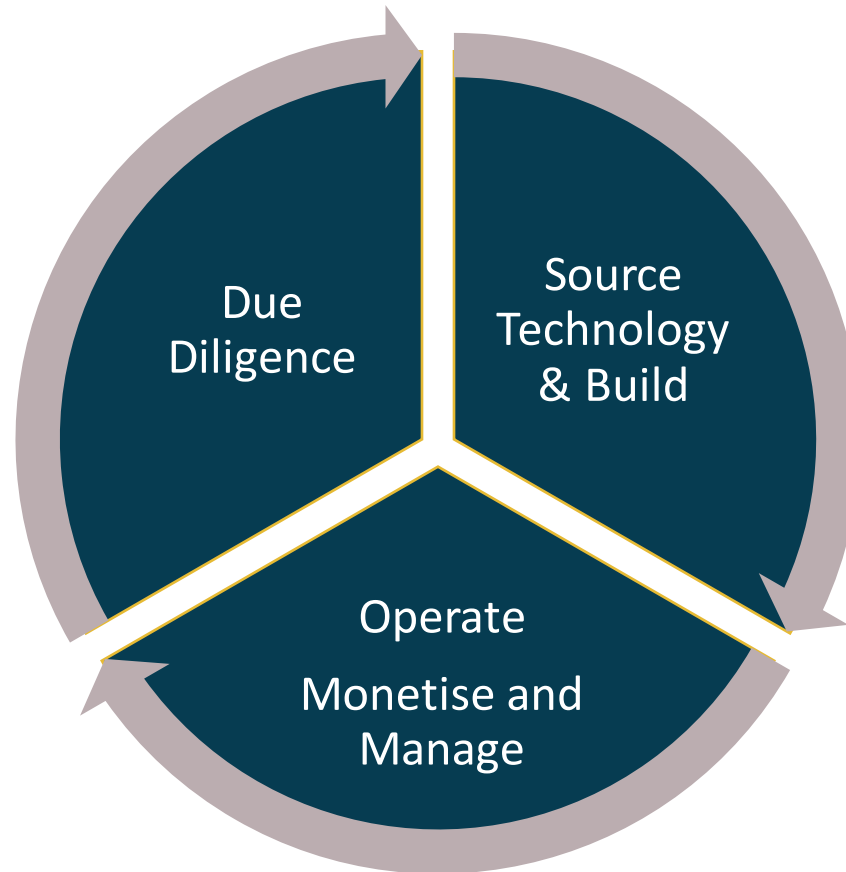
Technical Principal



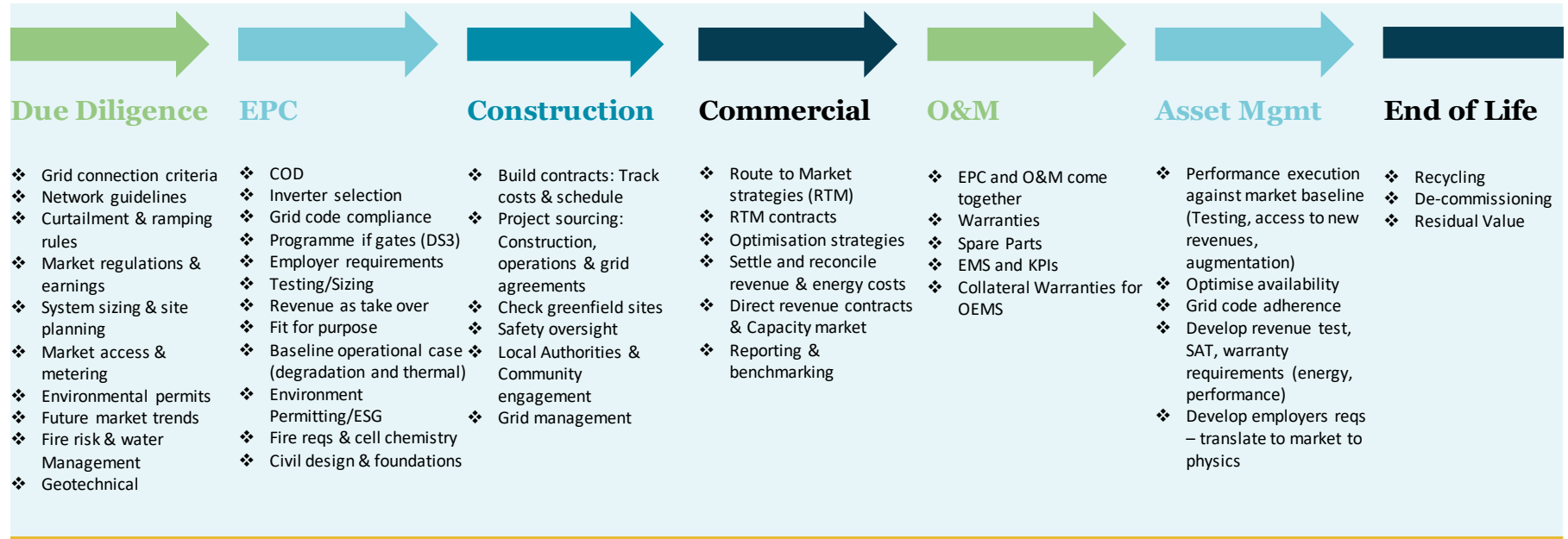
Technical Team



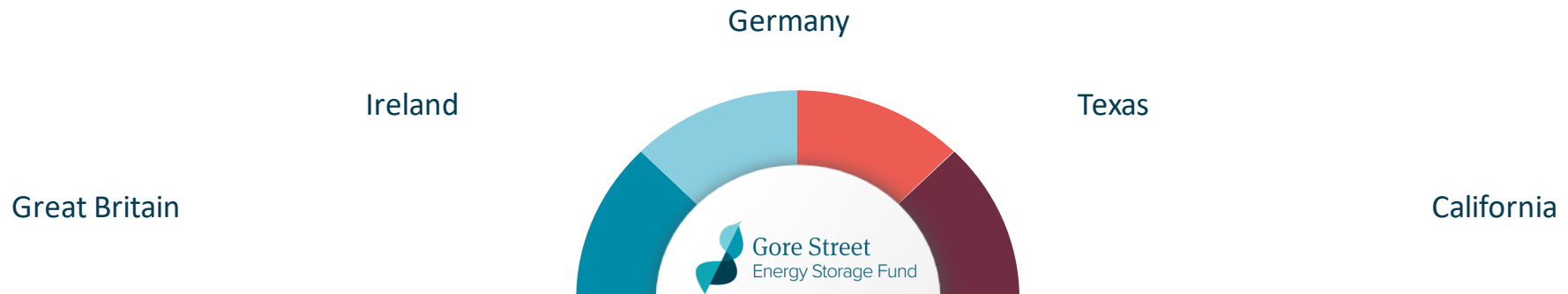
Technical Team



Full Technical Capabilities



Across GSFs key markets



Construction



Technology

- ❖ Complex systems which *can be* flexible when understood.



1 of the 19 battery energy storage systems at Stony

- ❖ Potential for hidden limitations – unlocked with technical expertise.
- ❖ Must be matched to market opportunities.

Construction Strategic Imperatives

❖ Focus on cost effectiveness.

❖ Assiduous on quality.



❖ Prioritise time.

Internalise and professionalise project management to drive ownership, accountability and performance.

Challenges and Opportunities

- ❖ Grid access – limited access, limited capability to deliver



“...The volume of new connection offers provided by the ESO has grown tenfold...Over 280 GW of generation projects are currently seeking to connect to the transmission system. This grew by a further 26 GW the month to June 2023... yet our data shows 70% of those projects may never be built.”

Amy Freund - Ofgem

- ❖ Portfolio development opportunities to enhance value.



- ❖ People



- ❖ Supply chains



Commercial



Commercial Overview

The Commercial Team



Michael Longson
Commercial Associate



Carlos Molina
Commercial Associate



Michael Darzi
Junior Commercial
Associate



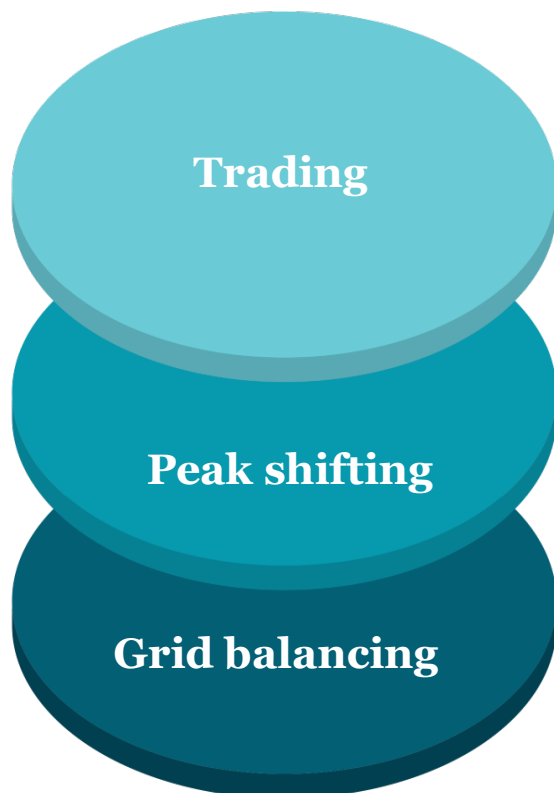
Thomas Gilles
Junior Commercial
Associate

Responsibilities:

- ❖ Understanding the regulatory landscape, nuances of services and requirements.
- ❖ Contract stakeholders, route to market (RTMs), to optimise the assets under management.
- ❖ Weekly interactions with four RTMs in GB and a further three across Ireland, Germany and Texas.
- ❖ Adjust revenue strategies within the market over the immediate- (daily) to long-term (multi-year).
- ❖ Optimising existing revenue streams while exploring new opportunities.
- ❖ Benchmarking, review and reconciliation.

Market Overview – Available Revenue

3 Types of Service



20 Revenue Streams Available

GB		
Grid Balancing	Peak Shifting	Trading
<ul style="list-style-type: none"> • Dynamic Containment • Dynamic Regulation • Dynamic Moderation • Firm Frequency Response 	<ul style="list-style-type: none"> • Capacity Market • Triads 	<ul style="list-style-type: none"> • Market Arbitrage • Balancing Mechanisms
IRELAND		
Grid Balancing	Peak Shifting	Trading
<ul style="list-style-type: none"> • DS3 uncapped • DS3 capped 	<ul style="list-style-type: none"> • Capacity Market 	<ul style="list-style-type: none"> • Market Arbitrage
ERCOT		
Grid Balancing	Peak Shifting	Trading
<ul style="list-style-type: none"> • RRS • FFR • Reg-up/down • ECRS 		<ul style="list-style-type: none"> • Market Arbitrage
GERMANY		
Grid Balancing	Peak Shifting	Trading
<ul style="list-style-type: none"> • FCR • aFRR 		<ul style="list-style-type: none"> • Market Arbitrage

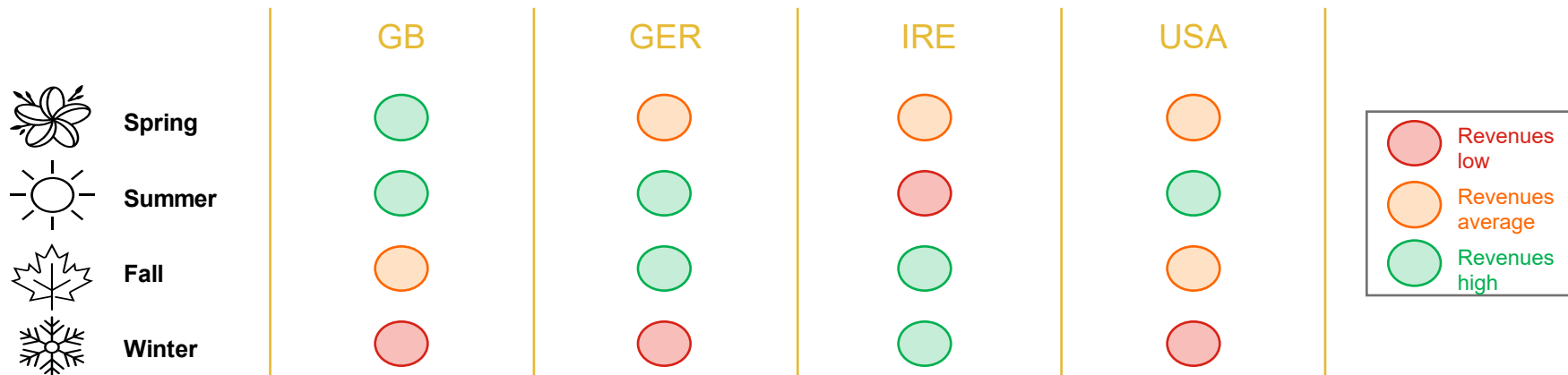
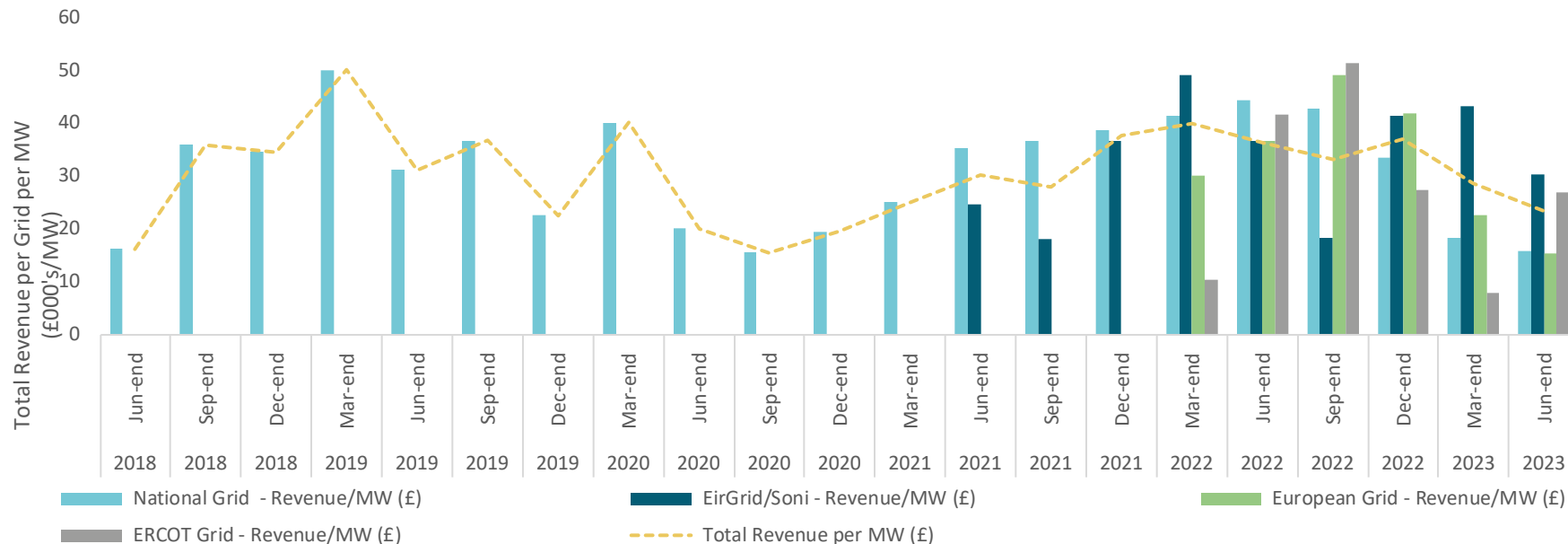
CAISO: expected new revenue streams

- Reg-up/down
- Spin
- Resource Adequacy (RA)
- Market Arbitrage

(1) Expressed as a percentage of total revenue earned by the Company during the reporting period

Seasonality of Revenue per Grid

Total Revenue (in £000s/MW) by Grid since IPO



Past performance is not necessarily a guide to future performance

Asset Management



Asset Management as Gore Street Capital

GSF's operational portfolio stands at

291.6 MW

The Company has a portfolio capacity including construction assets of **1.17 GW**

GB & Northern Ireland (GBP)

1. Boulby	6.0 MW 6.0 MWh	9. Larport	19.5 MW 19.5 MWh
2. Cenin	4.0 MW 4.8 MWh	10. Ancala	11.2 MW 11.2 MWh
3. POTL	9.0 MW 4.5 MWh	11. Breach	10.0 MW 10.0 MWh
4. Lower Road	10.0 MW 5.0 MWh		
5. Mullavilly	50.0 MW 21.3 MWh		
6. Drumkee	50.0 MW 21.3 MWh		
7. Hulley	20.0 MW 20.0 MWh		
8. Lascar	20.0 MW 20.0 MWh		

Republic of Ireland & Germany (EUR)

12. Cremzow	22.0 MW 29.0 MWh
13. PBSL	30.0 MW 30.0 MWh

North America (USD)

14. Synder	9.95 MW 19.9 MWh
15. Westover	9.95 MW 19.9 MWh
16. Sweetwater	9.95 MW 19.9 MWh



Role of Asset Management

- ❖ Maintain a high standard of fleet operations through experience and risk mitigation

Context: Asset Management's purpose is to improve *profitability* of the fleet.

1. Facilitate revenue performance

- Ensure assets operate with maximum uptime (availability).
- Support assets' engagement in highest value markets (e.g. D* services prequalifications).

2. Reduce revenue loss:

- Utilise experience and lessons from other projects to avoid repeating mistakes.
- Improve assets to mitigate the risk of downtime (e.g. HVAC upgrades).

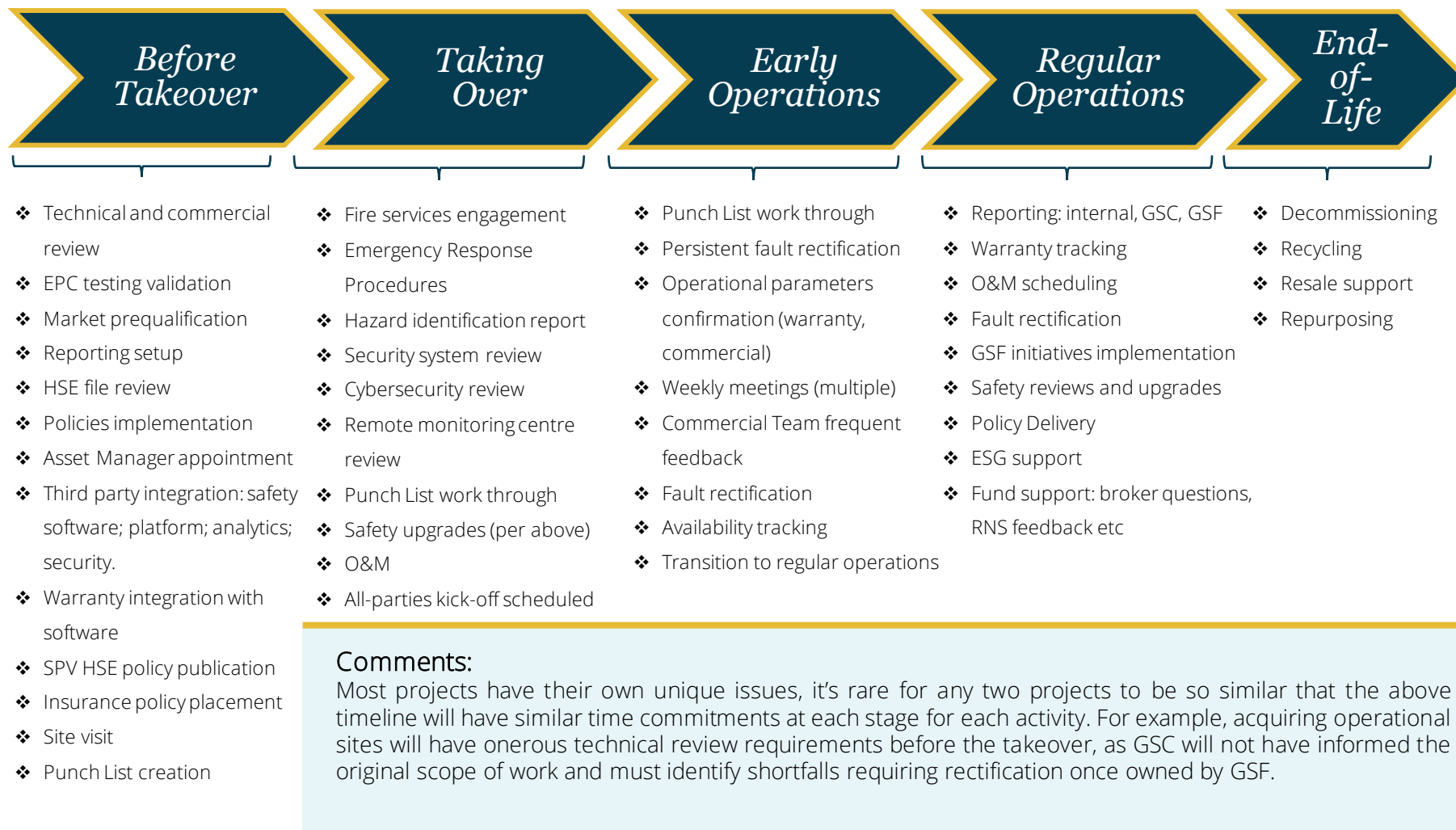
3. Reduce costs

- Suggest cost-efficient upgrades to reduce larger costs at later dates.
- Streamline contracts for improved commercial performance.

Value proposition:

- Incorporate all the above experience in delivering better projects in GSF's pipeline.

Core Activities of Asset Management



Performance Track Record

Region	H1 22/23 Availability
GB	88.8%
IRE	97.7%
GER	94.7%
ERCOT	96.7%
Weighted average:	93.6%

Region	H2 22/23 Availability
GB	94.2%
IRE	99.0%
GER	96.7%
ERCOT	93.8%
Weighted average:	96.5%

Region	FY-22/23 Availability
GB	91.5%
IRE	98.6%
GER	95.7%
ERCOT	95.2%
Weighted average:	95.4%

Takeaways:

- Improvements across the GB fleet in the latter half of the year.
- High availability in Ireland, which is essential for confidence in commercial services (DS3).
- German asset onboarded well and performed reliably.
- Texas assets onboarded and maintained strong performance.

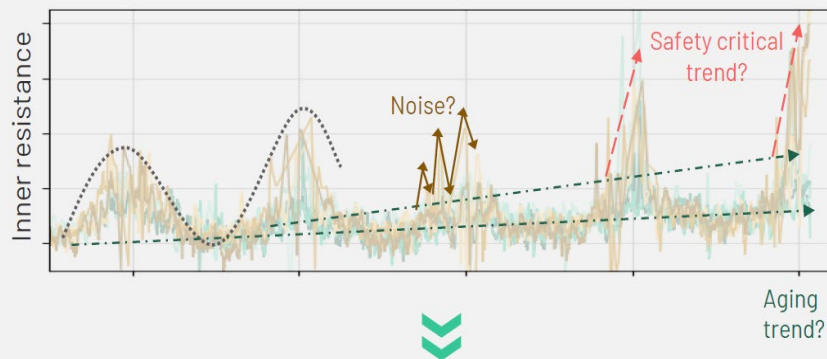
Value-add:

- Experience and technical capability are essential for facilitating the smooth onboarding of operational assets.
- Disciplined interaction with the construction team ensures the best commercial availability at COD.

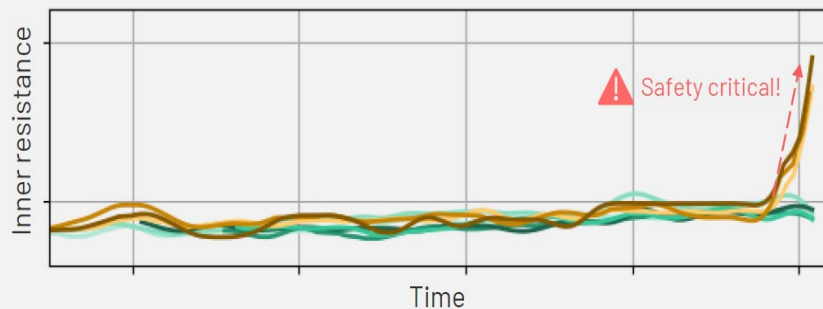
Asset Empowerment Through Data

- ❖ GSC will deliver improvements through state-of-the-art technology implementation

Illustration: Data Science Safety Improvement Example



Cloud monitoring to clean, and filter irrelevant outliers to only receive what matters.



Example: Battery Analytics

- Trials underway at several GSF projects.
- Take the data points read by a battery management system.
- Broadcast existing data to the cloud for storage and processing.
- Can apply near-unlimited sophistication of algorithms to interpret trends in battery data.
- Identify modules prone to failure months ahead of time.
- Failing modules are removed from service before faulting.
- Anticipate insurance premium reductions.

Contact

Gore Street Capital – The Investment Manager

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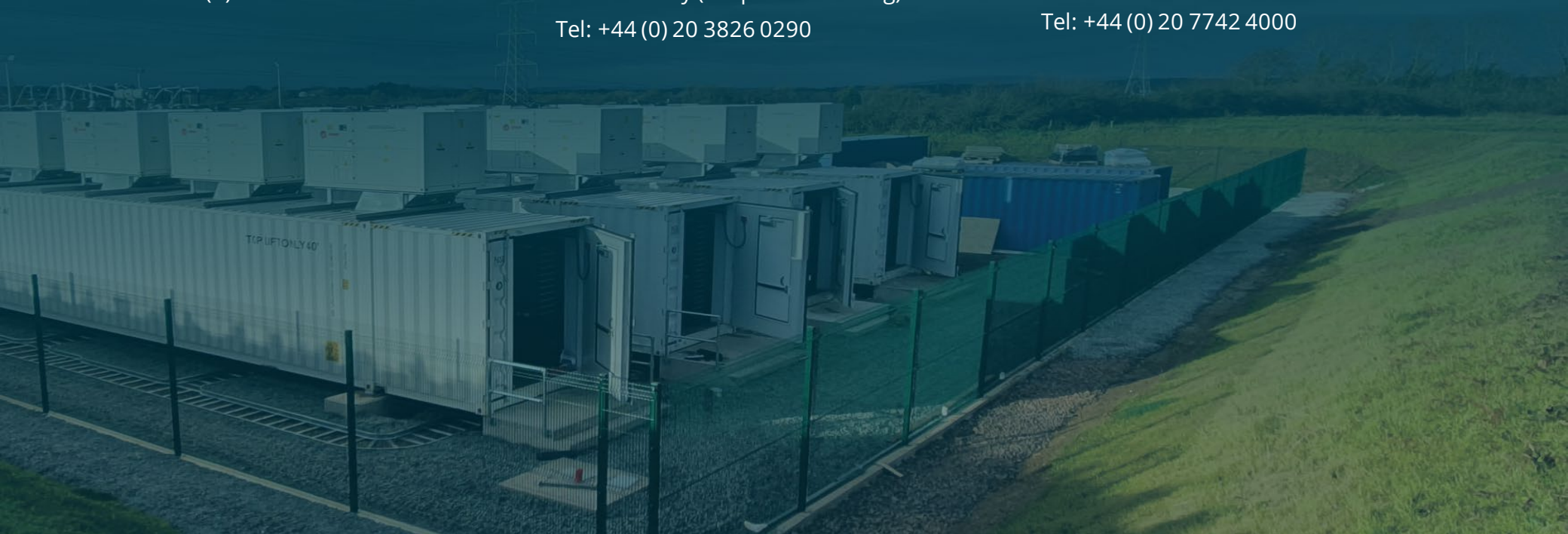
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