PKF FRANCISCLARK

Chartered accountants & business advisers

Will your revenues take a BATTERY of changes?

The long term business case for electricity storage, probably in batteries, is driven by the need nationally for huge amounts of “load-shifting” of supply and / or demand, which will deliver the alchemy of turning non-firm power into firm power; electricity supply when you need it is the coming dividing line: instead of peak/off-peak power we will have firm/non-firm power.

Batteries can time-shift supply from when there may be excess (solar in the day or wind in certain weather conditions) to when it may be needed; and they may be able to deliver considerable other benefits from deferring or replacing necessary grid investment to increasing resilience or power quality.

The obvious long term need at a national scale for huge volumes of electricity storage does not, however, by itself mean that a business plan for commercial scale battery development is immediately apparent or deliverable. We will need huge amounts of additional onshore wind in England too, but that is currently being held back by policy and the timing of certain barriers being removed unclear.

The limited scale of historical battery deployment in the UK is not deterring much early stage development from progressing: the long term need is clear and the costs of deployment are moving down fast. These cost characteristics are something which many remember from the precipitous fall in PV panel prices, along with the opportunities that created and continues to create.

But there is nothing as easy and straight-forward to access to stimulate early deployment as the early standalone PV FIT tariff - 25 years at £360/MWh RPI-linked! - and the revenue stack is complex to manage. At present the business case rests on ancillary and other services rather than the long term load shifting need.

A 15 year T-4 Capacity Market contract provides some long term revenue visibility, and short term ancillary services contracts may provide some near term revenue volumes; nothing currently available will replicate the long term visibility that FITs/ROCs/CFDs provide and there is a real risk of rapid falls in the pricing of the various ancillary markets given the volumes of storage currently under development.

That is a tricky (but not impossible) backdrop against which to fund projects, but challenges are magnified with the wider regulatory context. The “minded-to” letter on Triads, subsequently largely confirmed, was surprising in its scale of impact on certain embedded projects; not only do these curtail available, visible revenues for battery projects but they also have done so in an unnerving fashion. The extent and pace of regulatory change, and its impact on individual business plans, was huge. With CM rules being adjusted to de-rate batteries and wider reviews of distribution charging methodologies underway which may rebalance some costs towards connection capacities rather than annual volumes (as well as hopefully addressing “double-charging” of battery flows), an apparently unclear regulatory framework is a hostile environment.

The regulatory clouds may clear favourably, procurement for ancillary services may grow in volume and lengthen in term and battery pricing and government policy may both push towards huge deployment early on. In short, monetising such projects may become easy, but experience says that when it is the market will soon respond and only those that go into that phase appropriately positioned, with the right assets, capital structures and partners, will capitalise before the goal posts move.

Within PKF Francis Clark’s growing Energy corporate finance team, we are working with our developer clients to secure funding and realise projects in the short term, but perhaps more importantly to ensure their pipelines and business plans are positioned for the longer term such that they are safeguarded from insecurity in revenues as the regulations become clearer and the market stabilises.

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CORPORATE FINANCE

PKF Francis Clark's specialist renewable energy corporate finance team provide a complete financial advisory service to the renewable energy sector by building on its core corporate finance experience and drawing upon support from its leading tax advisory, wealth management and due diligence specialists.

PKF Francis Clark is a key member of PKF International, a global network of over 300 independent member firms in 150 countries giving immediate access to likeminded firms in overseas countries and therefore a network of global investors.

Energy specialists

Experianced Corporate Finance Advisers

Andrew Killick
Partner

Andrew has worked in corporate finance for over 25 years with extensive experience of renewable energy projects having been involved from the industry's beginning. Andrew has had senior positions in a Bank and regional Venture Capitalist and undertaken a wide range of deals to completion including acquisitions, disposals, MBO's, fundraisings and flotations.

Richard Harris
Director

Richard is a chartered accountant with over 7 years of corporate finance experience all within the renewables industry. He specialises in renewable energy M&A with a particular expertise in onshore wind.

Andy Thornhill
Director

Andy has over 13 years of corporate finance experience and specialises in energy M&A. Andy additionally has specialist financial modelling and funds experience and has worked across the commercially viable renewable energy technologies.

Bob Meier
Director

Bob is a qualified accountant who has specialised for more than 15 years on corporate finance in the Energy sector both at investment banks and at PKF Francis Clark. He has worked across a number of technologies and deal types, often on innovative transactions.

Rob Gear
Associate Director

Rob has over 10 years' experience advising on corporate finance transactions, including 7 years within EY's Renewable Energy corporate finance team. He has worked across the range of technologies with a particular interest in waste recovery.

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