

# Gresham House Energy Storage Fund

## Capacity augmentations the priority in 2025

Gresham House Energy Storage Fund (GRID) invests in utility-scale battery energy storage systems (BESS) in Great Britain. The company recently hosted a site visit for analysts and investors to its 50MW capacity Enderby plant in Leicestershire, which included updates from GRID's Manager Ben Guest, Deputy Manager James Bustin and Chairman John Leggate. This note outlines the day's key takeaways, and subsequent news that gives the company more scope to pay dividends from distributable reserves if required.

### Aerial photo of the Enderby site



Source: Gresham House Energy Storage Fund

GRID's managers are currently focused on the completion of the company's 2024 construction pipeline of new projects and augmentations to several already operational projects, including the Enderby plant, which hosted the recent site visit. All these works are on schedule to be finished by the end of 2024. The augmentation of Enderby's batteries is already complete. Once concluded, the capacity of GRID's operational portfolio will increase from its level of 790MW at the time of the interim report (up 14.5% from end December 2023) to over 1GW for the first time, with an average battery duration of 1.6 hours (see our [last note](#)).

GRID's board and managers remain positive about the outlook for the BESS sector, given the inexorable global transition to renewable energy, which is dependent on BESS to store energy until it is required. The team also expects the current issues with the National Energy System Operator's (NESO's) energy trading platform to be resolved with time.

This confidence is reflected in their keenness to increase capacity further in coming years. It is clear from comments made by the managers during the site visit that the managers' priority in 2025 will be further augmentations to GRID's existing operational projects. Their objective is to lift the current average duration of 1.6 hours to two hours. This plan was foreshadowed in the company's H124 results, which were released in September, and would add 300–400MWh to existing capacity of 1,701MWh.

Investment trusts  
Renewable energy infrastructure

23 October 2024

**Price** 47.85p  
**Market cap** £272.3m  
**AUM** £621.2m

NAV per share\* 109.16p  
Discount to NAV 56.2%

\*Including income. As at 30 June 2024.

Yield\* 0.0%

\*No FY24 dividend expected.

Ordinary shares in issue 569.1m

Code/ISIN GRID/GB00BFX3K770

Primary exchange LSE

AIC sector Renewable Energy Infrastructure

52-week high/low 111.4p 38.2p

NAV\* high/low 146.1p 95.6p

\*Including income.

Net gearing at 30 June 2024 1.4%

### Fund objective

Gresham House Energy Storage Fund aims to provide investors with an attractive and sustainable dividend over the long term, by investing in a diversified portfolio of utility-scale battery energy storage systems located in the UK and Ireland. In addition, the company seeks to provide investors with capital growth through the reinvestment of net cash generated in excess of the target dividend.

### Bull points

- Efforts during H124 have stabilised revenues and increased operational capacity.
- The company's forthcoming capital markets day will reveal plans for further growth.
- With the share price discount still at an extreme and arguably unjustified level, now may be a particularly good time to acquire or top-up exposure.

### Bear points

- The upgrade to NESO's trading platform is taking longer than expected, and this is adversely affecting access to trading revenues.
- Future expansion plans are dependent on the availability of funding.
- A lack of infrastructure to support the generation and distribution of solar and wind power may slow the UK's transition to renewable energy.

### Analyst

Joanne Collins +44 (0)20 3077 5700

Harry Kilby +44 (0)20 3077 5700

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

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## Boosting battery duration is already lifting revenues

Augmentations offer several benefits. Primarily, they are a very cost-effective way of increasing capacity. Battery prices are falling, and Manager Ben Guest recently said that augmentations represent 'an exciting revenue opportunity' for GRID. The managers have seen revenues from two-hour augmentations almost double compared to one-hour batteries. This is because the longer duration batteries can capitalise on both the morning and evening peaks in electricity demand. Sensitivity analysis undertaken by the managers shows that, on average, every £150,000 spent on battery augmentation would bring £30,000–40,000 in additional revenue per annum, so augmentations effectively pay for themselves within four years. The returns from augmentation at Enderby have been higher, as the site already had spare batteries.

At a practical level, augmentations are quicker to implement than constructing new projects from scratch, in part because the time-consuming process of connecting batteries to the national grid has already been done. In addition, the majority of the augmentation work can be undertaken without significant outages, as at least 50% of each site can remain operational. Finally, in theory, increasing the duration of a battery should increase its life, as discharging a battery over a longer period reduces wear and tear.

## November's CMD will detail project plans and financing options

In addition to these augmentations, the managers have also signalled their wish to resume work on GRID's longer-term construction pipeline. However, these plans all require financing. The company is due to hold a capital markets day (CMD) in November, at which it will give more information on its construction plans, and possible funding sources.

One potential source of funding is asset sales. During the Enderby site visit, the managers confirmed that they are continuing their efforts to raise capital from the disposal of one or more projects from their operational portfolio. They say there is significant interest from the market, and discussions are ongoing, but no agreements have been reached.

Another possible source of funding is higher revenues, either from augmentations, or from further tolling agreements similar to the one struck this year with Octopus Energy (see our [last note](#) for details). Such tolling agreements do limit potential revenue upside, by dedicating battery storage capacity at a set price and time period. This limits opportunities to take advantage of more lucrative, but short-term opportunities, especially from trading. However, tolling agreements offer the prospect of steady revenue streams at rates above the spot price, so there is a balance to be struck between these considerations.

The managers indicated that they are also considering co-investment opportunities as a further means of funding their growth plans. Any developments on this front will also be revealed at the CMD.

## An update on the dividend policy expected at the CMD

The CMD and the forthcoming three-year plan are also expected to provide more information on GRID's revised dividend policy. The company suspended dividend payments in February this year as the revenue environment worsened, to free up cash to fund the 2024 construction programme and the initial round of battery augmentations. However, the board understands that returning capital in the form of dividends is important to many shareholders, and, as indicated in the recent H124 report, the resumption of dividend payments in 2025 remains 'a key priority'.

As [announced on 22 October](#), a decision by the High Court of Justice of England and Wales may assist with the board's desire to resume dividend payments. The High Court confirmed the

cancellation of GRID's share premium reserve and B ordinary shares arising out of the capitalisation of the company's merger relief reserve (the 'Reduction in Capital').

In a statement announcing the High Court's decision, GRID said that the 'purpose of the Reduction of Capital is to provide the Company with a significant pool of reserves which can be used in the future, if required, to fund dividend distributions, returns of capital or to provide flexibility for any other general corporate purposes, in accordance with applicable law.'

Shareholders will be looking to the CMD and three-year plan for further detail on any resumption of dividend payments, and how the board will balance the desire to resume dividend payments against the possibility of using this newly available pool of reserves and revenues to fund further capacity expansion.

We will provide a further update after the CMD.

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