



# STOR Power Limited



**EIS Investment Opportunity in the UK Energy Sector**



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# The Investment Opportunity

- STOR Power Limited (“**the EIS Company**”) provides investors with the opportunity to invest directly in UK based energy assets
- The EIS Company will 100% own and operate diesel generators that will be available to supply National Grid with electricity in periods where additional supply is required.
- The reserve electricity market is anticipated to experience significant growth due to increased reliance on reserve sources of power to meet fluctuations in electricity supply
- Target IRR 21%.
- Investors in the EIS Company benefit from EIS tax efficiencies.



# Key Terms

## Key Terms

Target IRR	21% - 3 - 4 year hold with EIS relief
Structure	UK limited company
Investment Strategy	Acquisition and operation of diesel generators which form the reserve power or “STOR” network for supply of electricity to National Grid
Developer	ESCO NRG Limited
The Offer	£5 million EIS Company Shares
Minimum Subscription	£50,000 or £25,000
EIS Tax Efficiencies	<ul style="list-style-type: none"><li>- Income tax relief at 30%</li><li>- Capital Gains Tax exemption</li><li>- Capital Gain Tax deferral relief</li><li>- Loss relief</li></ul>
Anticipated Exit Period	3-4 years from commencement of trade
Exit Strategy	Trade Sale
Management Fee	1.5% AMC
Commission Payable to Advisers	2% plus 0.25% trail
Closing Date	31 <sup>st</sup> December 2012 or other such date as Invicta may resolve



# UK Electricity Market

- National Grid is the operator of the entire electricity transmission system in the UK as well as owning the electricity transmission network in England and Wales.
- As the network operator, National Grid is responsible for balancing supply and demand for electricity. In order for the UK electricity grid to operate efficiently and effectively the system frequency must be kept at a stable rate of 50Hz. If there is too little supply or too much demand then the frequency will be above or below 50Hz, which can result in blackouts.
- In order to balance system frequency, at certain times of the day National Grid needs to access extra sources of power, in the form of increased generation or demand reduction.
- Short Term Operating Reserve (STOR) is a service for the provision of additional active power from generation and/or demand reduction in order to be able to deal with actual demand being greater than forecast and plant breakdowns.
- STOR service providers are contracted to deliver a certain level of power when instructed by National Grid.



# STOR Overview

## Seasons and Availability

- Due to the variability in the need for STOR, National Grid splits the year into 6 ‘seasons’ and weeks then into ‘working’ and ‘non working’ days and specifies the periods in each day that STOR is required. These periods are referred to as ‘Availability Windows’
- Availability Declarations for each week are made by the STOR service providers the previous Tuesday: STOR service providers notify National Grid of their ability to deliver power during the availability windows

## Types of STOR Service

- **Committed Service** – STOR service provider makes the service available for all Availability Windows within the contracted term
- **Flexible Service** – greater freedom as to how many hours the STOR service provider wishes to make the service available and when that availability is offered

## STOR Revenues

- **Availability Payments** are paid where a STOR service provider makes a unit/site available for the STOR service within an Availability Window
- **Utilisation Payments** are paid where National Grid instructs delivery of STOR from a unit/site



# STOR Overview

## Tender Rounds

- There are three tender rounds each year – January, June and August
- STOR service providers submit tenders to provide STOR for one or more of the seasons
- STOR service providers can tender for both Committed Service and Flexible Service. The tender contains required technical parameters as well as the Availability and Utilisation pricing
- Tender process works on a rolling basis meaning that rejected tenders can be re-tendered in the next round
- Current contracts are two years in length, but are expected to increase in length in future

## STOR Framework Agreement

- In order to be able to tender for the service a STOR Framework Agreement must be entered into between National Grid and the prospective service provider



# The EIS Company

## STOR Assets

- The EIS Company will acquire and operate up to 10 x 1MW diesel generators to provide STOR services
- Each generator is a single containerised solution using either a Cummins or Mitsubishi diesel engine matched with Mecc-Alte alternators. It includes fuel storage, remote start facilities and remote diagnostic functions to detect, for example, when fuel is running low, oil changes
- The generator sets will be located on leased land located at National Grid connection points
- Service and preventative maintenance can be contracted for a period of 3-5 years

## Operations

- The EIS Company will only be contracting for Committed Service – this level of service is highly sought after by National Grid and tenders are generally first across the line and subject to the highest availability payments
- If a tender is rejected, the EIS Company may still be able to extract some STOR value by making capacity available to an aggregator of Flexible Service. In the STOR market Flexible Service providers often tender for more MW capacity than they actually have access to (known as Phantom MW)
- On-going management of the STOR service including tender submissions and weekly Availability Declarations will be managed by an experienced third party





# The EIS Company

## STOR Assets

### Containerised Set



### Diesel Generator



# The EIS Company

## Outlook

- Within the UK market STOR is set to experience significant growth over the coming years. The management of the EIS Company believes the outlook for the EIS Company is positive due to a number of factors
- There is a significant upward trend in the requirement for reserve services due to a) decreased power supply following from the decommissioning of ageing nuclear power plants and b) increased volatility of power supply caused by increased reliance on renewables (due to the high proportion of wind power, renewables are not a consistent source of power)
- Committed Service is highly sought after by National Grid and the business will only be focusing on this level of service
- There is virtually zero technology risk with regards to the asset. Diesel generators are extremely robust and are a very well recognised technology
- Deployment of each diesel generator is quick and simple since each unit is delivered off the back of a truck in working order
- The Management team has significant experience of grid connection issues within the UK and already has access to numerous connection points capable of receiving in excess of 100MW of supply



# Exit Strategy

- After the Anticipated Minimum Trading Period the Shareholders in the Company will be given the opportunity to determine their Company's future, for example whether they wish their Company to continue its Trade, or whether they wish to realise some or all of its value.
- The most likely way to realise the value in the Company would be through either a sale of the assets to a trade or financial buyer, reflecting the long term predictable cash flows, followed by a members' voluntary liquidation. Any decision as to the realisation of the Company's assets will be subject to a formal resolution of the Shareholders.
- The Directors believe that institutional investors such as pension funds and insurance companies will find this type of asset attractive due to the long-term stable yields it generates. The Directors expect a high level of interest from these types of investors in 3 to 4 years when an exit is pursued.



# Invicta and ESCO

## Invicta

- Invicta is the promoter and manager of the EIS Company and will undertake the administrative processes on behalf of the EIS Company, such as book keeping, bank accounts, liaising with auditors and external professionals, dealing with regulatory and statutory matters and reporting
- Invicta has built a strong reputation within the financial service market for developing and implementing sophisticated structured investments. Since 2001, Invicta has raised over £1.5 billion
- Invicta identifies and works with experienced industry players in its key target sectors to bring asset backed alternative investment opportunities to the private client market

## ESCO NRG

- The developer of the STOR assets is ESCO NRG
- ESCO NRG is a leading renewable energy service company engaged in the development, installation and management of small and medium scale renewable energy projects across the UK and Europe
- This is the second investment opportunity where Invicta has worked with ESCO NRG, having previously worked together on an investment in the solar energy sector



# Risks

## Sector Risks

- The EIS Company will be operating in a relatively new sector of the energy industry with limited historical data with which to compare the merits of the business. The commercial risks are therefore high and there can be no certainty that the business offering will be well received in the market.
- There is no guarantee of successfully tendering for STOR services on a rolling basis. Management believes this is a low risk due to the highly desired nature of Committed Service and the increased demand for reserve power in the future
- New technology may render existing STOR equipment obsolete. However, such advancements require long lead times

## Government Policy

- Government energy policy towards STOR may become more or less restrictive

## Diesel Prices

- Diesel costs may be higher or lower than forecast

## Financial Modelling

- Costs and forecasts used in the financial model may be higher or lower than originally forecast



# Risks

## Investor Protection

- Investors are not protected by the Financial Services Compensation Scheme as the shares purchased in the EIS Company are unquoted

## Force Majeure

- Agreements entered into may contain “Force Majeure” clauses that may enable the relevant party to terminate or suspend the agreement in certain circumstances which are outside the control of the parties



# EIS Tax Efficiencies

An investor in the EIS Company can access the following EIS tax benefits:

- 30% EIS income tax relief
- Capital gains tax deferral (for gains on any asset)
- Capital gains on the investment are tax free
- Investment qualifies for inheritance tax relief
- EIS Loss Relief

See Appendix for further details



# Appendix 1: EIS Tax Efficiencies

## 1. Income Tax Relief

Can claim relief to set-off against income tax liability equal to 30% of the amount invested (maximum £150,000 relief).

### Example:

Initial Investment	£500,000
<b>EIS Tax Relief at 30%</b>	<b>£150,000</b>
Net cost of investment	£350,000

## 2. Capital Gains Tax Exemption

No CGT on capital gains on EIS Shares





# Appendix 1: EIS Tax Efficiencies

## 3. Capital Gains Tax Deferral Relief

Any capital gain on the disposal of any asset may be deferred by investing the gain in EIS Shares. Available for any gains that have arisen in previous 36 months or will arise in the following 12 months.

Initial investment	£100,000
Less: EIS Relief	(£30,000)
Less: Capital Gains Deferral at 28%*	(£28,000)
<b>Net Cost of Investment</b>	<b>£58,000</b>

\* On a gain on other investments of £100,000



# Appendix 1: EIS Tax Efficiencies

## 4. Loss Relief

Any capital loss on the sale of EIS Shares may be set off against taxable income.

Realised value	£0
Initial investment	£500,000
Less: EIS Relief	£150,000
Allowable Loss	£350,000
Loss Relief (at 45%)	(£157,500)
<b>Net loss on investment</b>	<b>£192,500</b>

## 5. Inheritance Tax Relief

The EIS Shares should qualify for Business Property Relief meaning they qualify for inheritance tax relief.



# STOR Energy Loss Analysis

Investment	EIS Relief	Exit Price	Exit Value	Deductible Loss	Tax Benefit 45%	Cash Position
£100,000	£30,000	20%	£20,000	£80,000	£36,000	-£27,500
£100,000	£30,000	25%	£25,000	£75,000	£33,750	-£24,750
£100,000	£30,000	30%	£30,000	£70,000	£31,500	-£22,000
£100,000	£30,000	35%	£35,000	£65,000	£29,250	-£19,250
£100,000	£30,000	40%	£40,000	£60,000	£27,000	-£16,500
£100,000	£30,000	45%	£45,000	£55,000	£24,750	-£13,750
£100,000	£30,000	50%	£50,000	£50,000	£22,500	-£11,000
£100,000	£30,000	55%	£55,000	£45,000	£20,500	-£8,250
£100,000	£30,000	60%	£60,000	£40,000	£18,000	-£5,500
£100,000	£30,000	65%	£65,000	£35,000	£15,750	-£2,750

## Assumptions

1. Investment £100,000
2. Tax Rate 45%
3. Loss on exit fully deductible
4. Exit price based on percentage of day one CAPEX



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