British Energy Association

"City Issues" Round Table - 28 November 2003

Organised by: BEAwec
Venue: DTI, 1 Victoria Street, London SW1

Note of matters raised by BEA members and guests during a discussion with officials from DTI, OFGEM and HM Treasury

Those present

Graham Ward	British Energy Association (Chairman)	Edward Griffin	HSBC
Richard Simon-Lewis	Abbey National	David Cain	Lloyds TSB
Sarah Kirkness	Allen & Overy	Peter Miles	Lloyds TSB
Sheila Connell	Allen & Overy	Peter Cassidy	Masons
Robert Lane	CMS Cameron McKenna	Robert Tudway	Nabarro Nathanson
Andrew Grenville	Clifford Chance	Richard Metcalf	Norton Rose
Steve Drummond	CO2e.com	Andrew Porter	PricewaterhouseCoopers
Doug King	Deloitte & Touche	Alan White	Royal Bank of Scotland
Eric Tracey	Deloitte & Touche	Charles Randall	Slaughter and May
Tony Wheeler	Deutsche Bank	Rob Wright	DTI
Duncan Coneybeare	Ernst & Young	Claire Durkin	DTI
Tony Ward	Ernst & Young	Iain Morrow	DTI
Mark Newbery	Herbert Smith	Steve Smith	OFGEM
Saul Raccah	HSBC	Catherine Webb	HMT

POINTS MADE:

- **Low wholesale prices and uncertainty leading to poor climate for investment**
    - Credit committees not willing to lend without some degree of regulatory certainty

- Banks looking to lend on project basis look over 15/18 yr term
- Totally uneconomic to invest in UK plant at the moment. Different story in some other countries
- Banks have £5bn invested in UK, of which they stand to lose £3bn. increasingly becoming equity owners of plant.
- Need wholesale price of £25/MWh for investment
- Banks better off to shut plants in current climate
- 20% of generators likely to go to the wall, similar % to current margin
- **Likely market consolidation**
- Larger power companies picking off smaller plants for below reasonable value
- Independent sector "looking into black hole"
- Could be moving to 5 vertically integrated generators. Is this a problem?
- Consolidating market squeezes out ability to raise project finance
- Development only financed on balance sheets of large companies
- Would be helpful to get independent generators out of being baseline providers and get big players to do this
- Limited incentives on large utilities to invest in renewables
- **BETTA/ NETA**
- NETA can work if generators able to work together to self-insure. No need for vertically integrated generators
- Removal of capacity payments has significant effect on market
- BETTA is opportunity to deal with many of the issues with NETA
- Key difference between electricity and gas markets is that you can't store electricity. NETA doesn't recognise this difference
- **Emissions Trading - the big uncertainty**
- Market not particularly liquid. Lack of transparency in forward market
- Fear of potential windfall tax on big players making big profits
- Financial projections do not anticipate any upside to carbon trading
- Gas capacity will become more fully utilised
- How will EU market evolve? Like to see London emerge as centre for carbon trading
- **Renewables**
- No investor appetite, particularly given total uncertainty beyond 2010
- Other countries e.g. Germany and Denmark, have investment in renewables from certain types of small investor
- Wind only works with clear government support
- Denmark cut previous support - no new investment
- No mechanism for rewarding people for providing necessary backup plant for renewables such as wind
- DTI's "complete failure" to deal with TXU/ ROCs issue led to losses and banks backing off. Do ROCs need to be supported, or are they in a market where HMG shouldn't intervene?

- Next 2 years crucial
- UK bottom of list in Europe for renewables
- **New capacity**
- JESS report says need significant new capacity in '06. Need to plan for this NOW
- Danger that nettle not grasped until lights go out
- What is the responsibility of Transco on capacity?