

National Grid Conference

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See Appendix A-1 for Analyst Certification and Important Disclosures

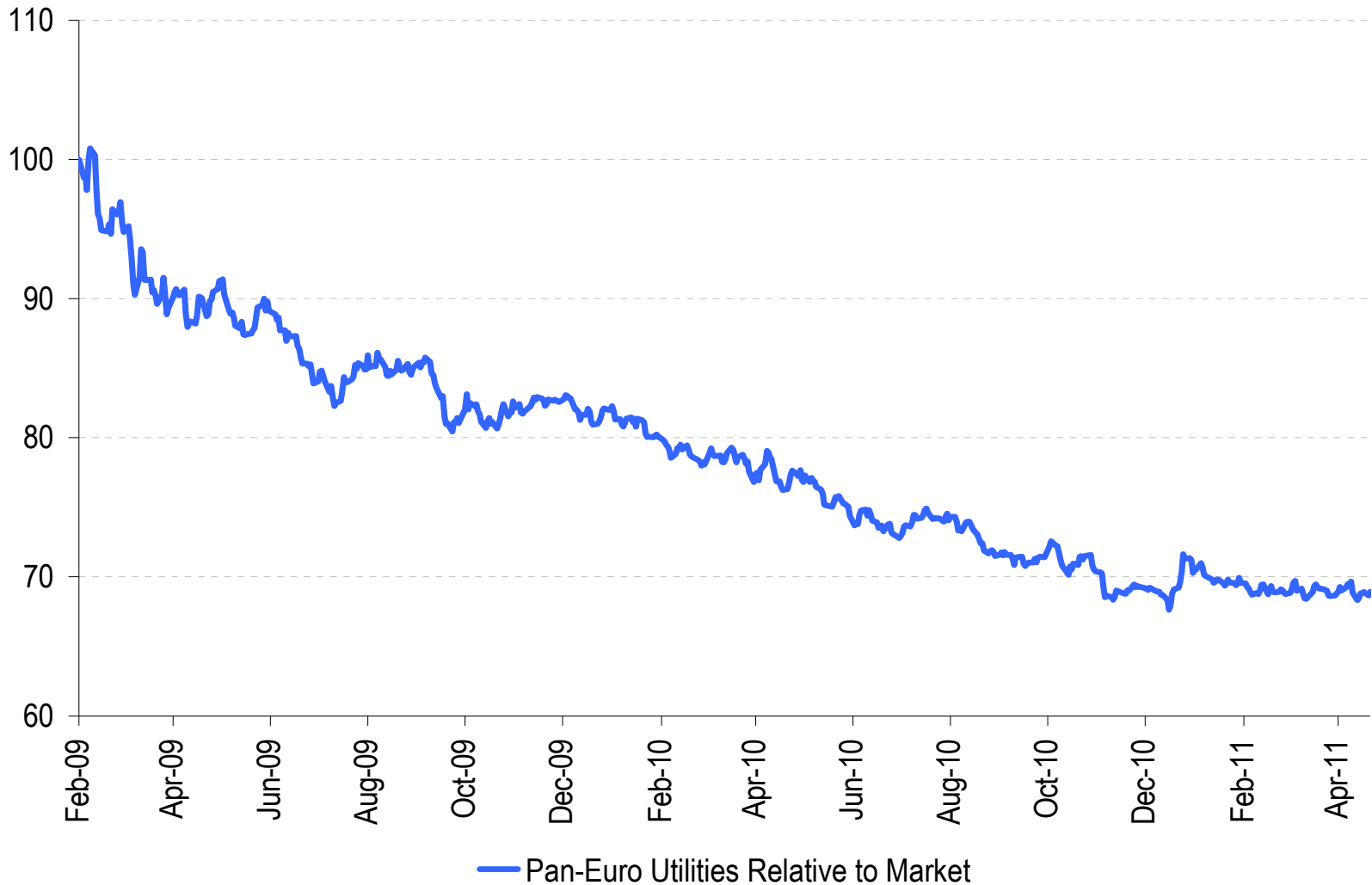
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Where will the famous £200bn come from?

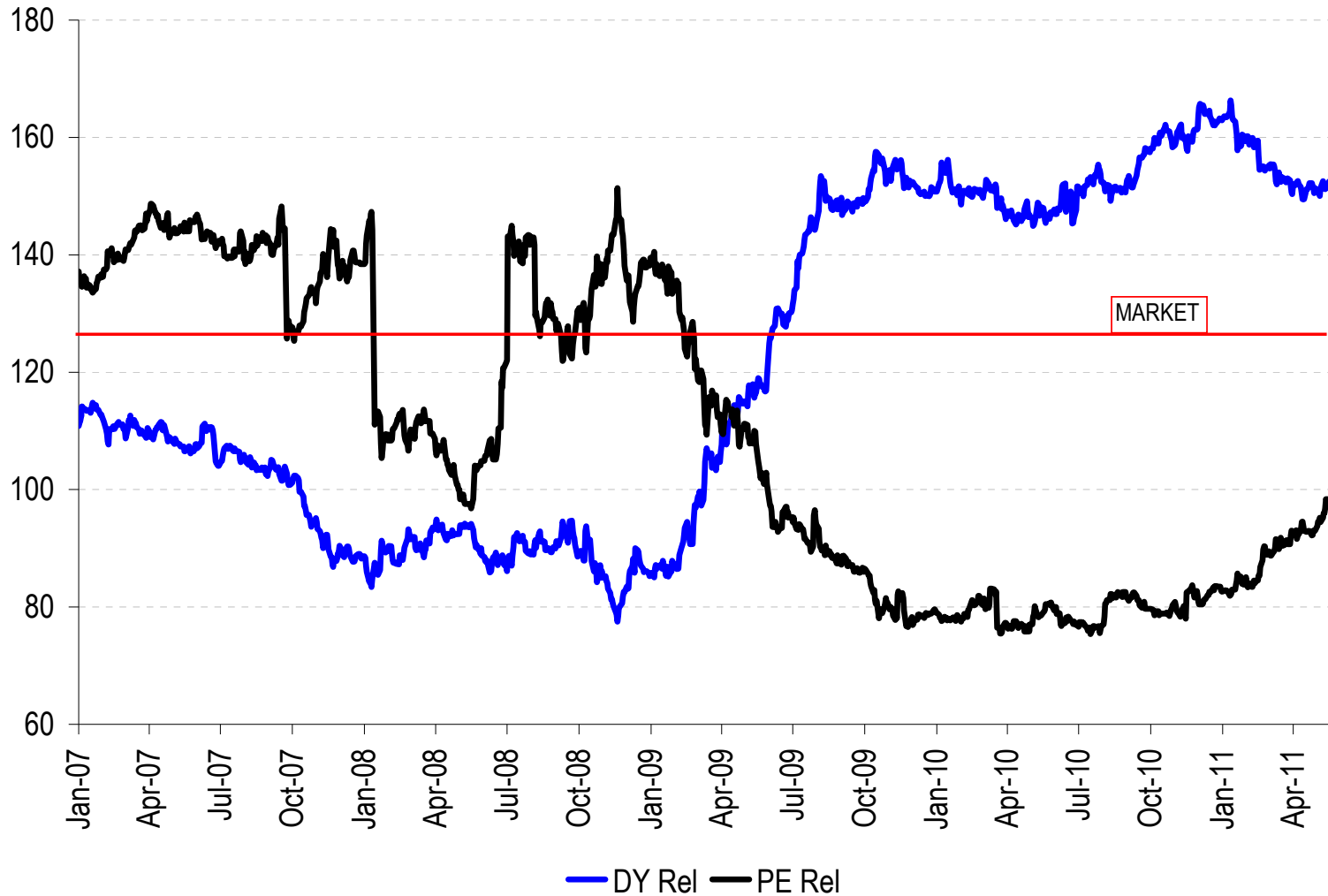
It won't.....

European Utility Sector has been de-rated



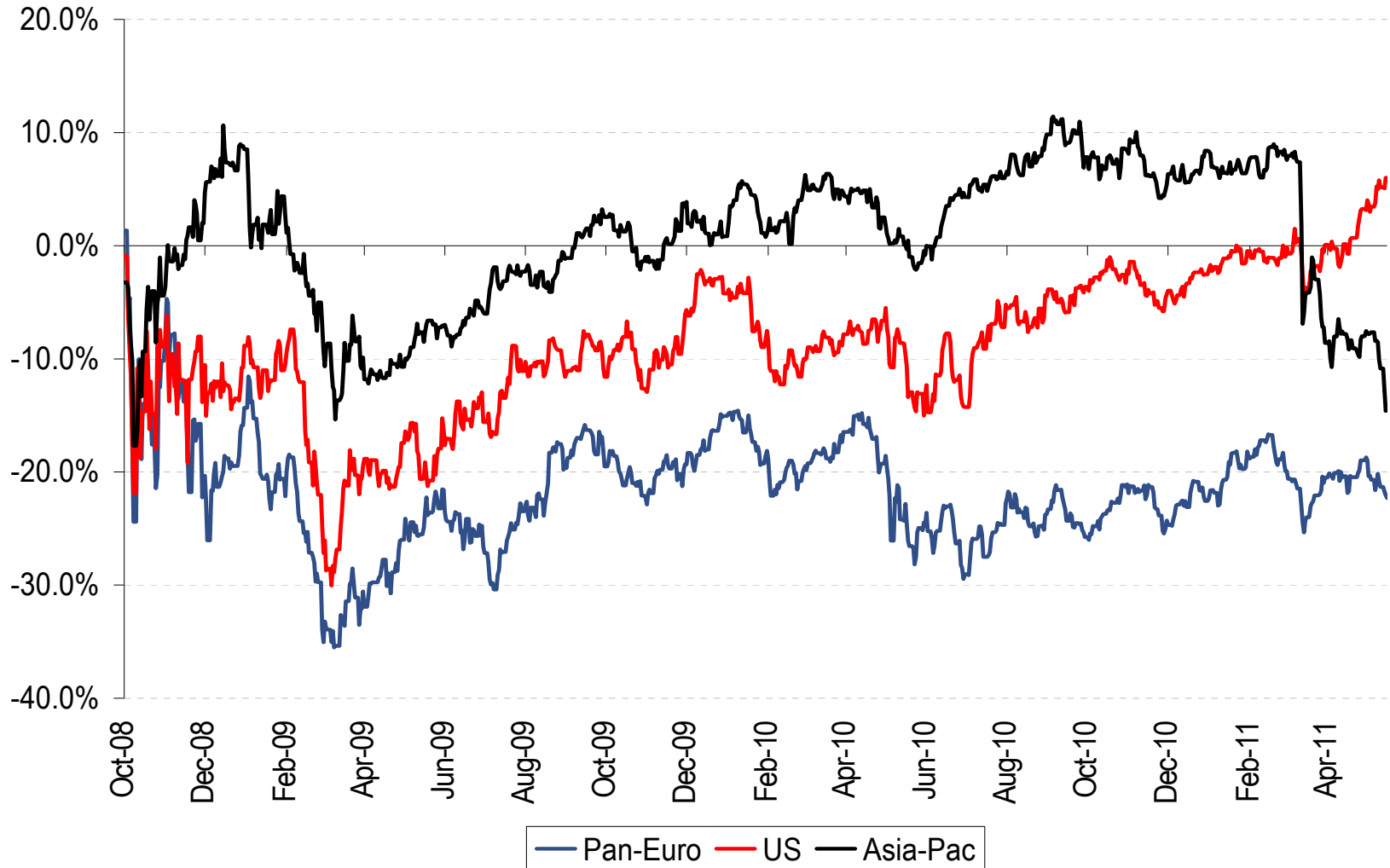
Source: Bloomberg, Citigroup Investment Research

Yield Relative and P/E Moving in Wrong Direction



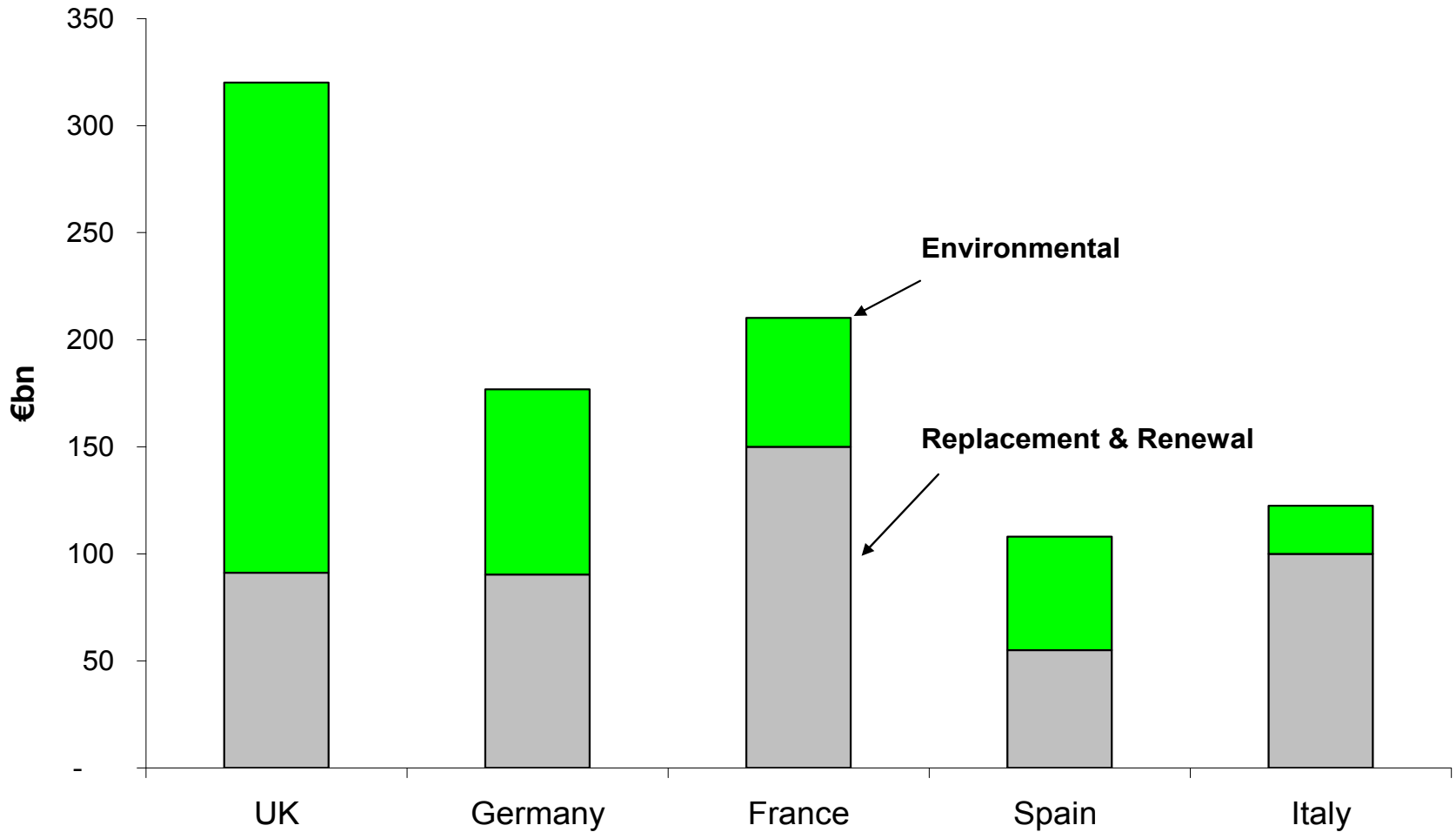
Source: Datastream, CIRA

Europe De-rated Relative to ROW



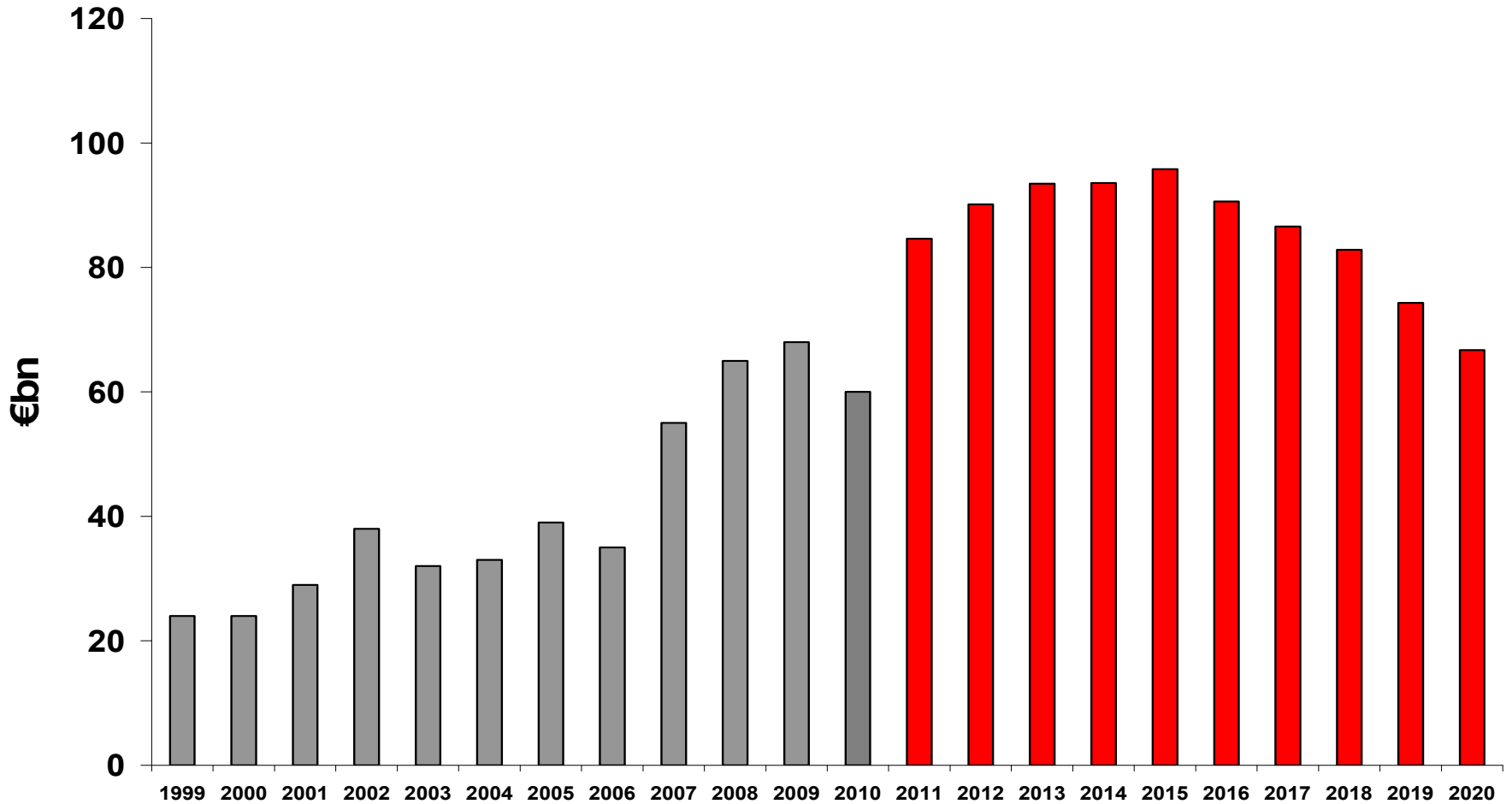
Source: Datastream, CIRA

The €1trn Euro Decade – 2010 to 2020



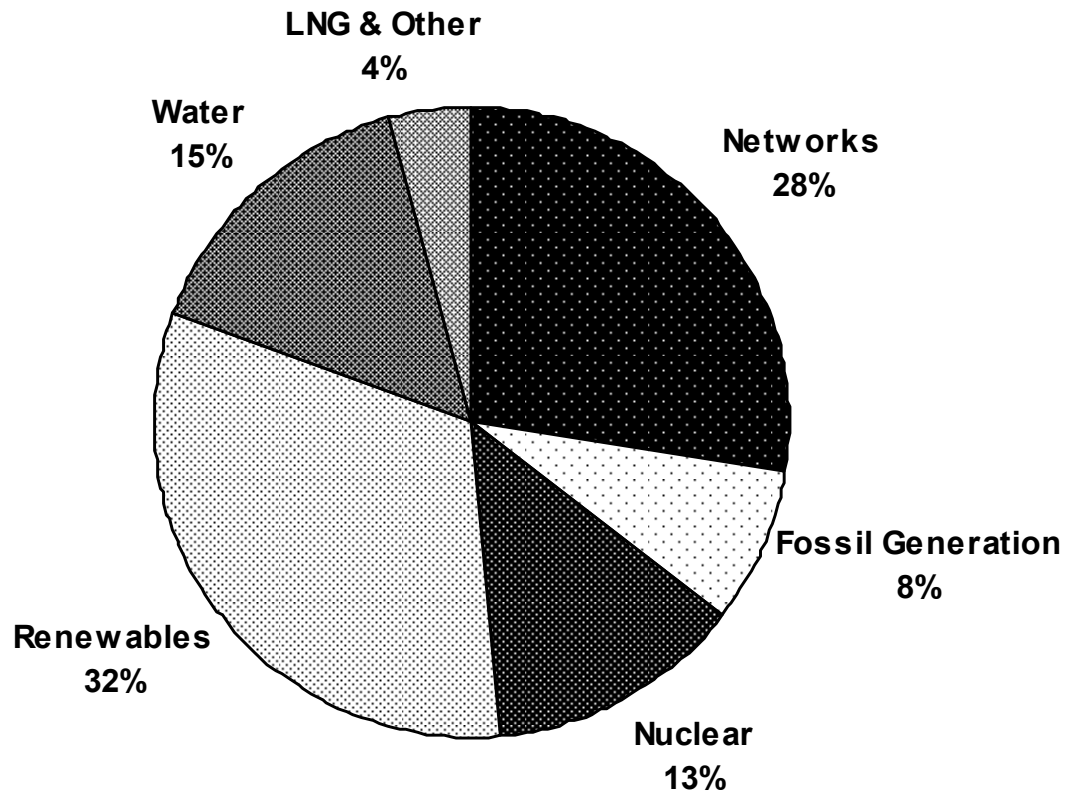
Source: CIRA

Annual Capex – actual and required



Source: Company reports and CIRA

What will the money be spent on?



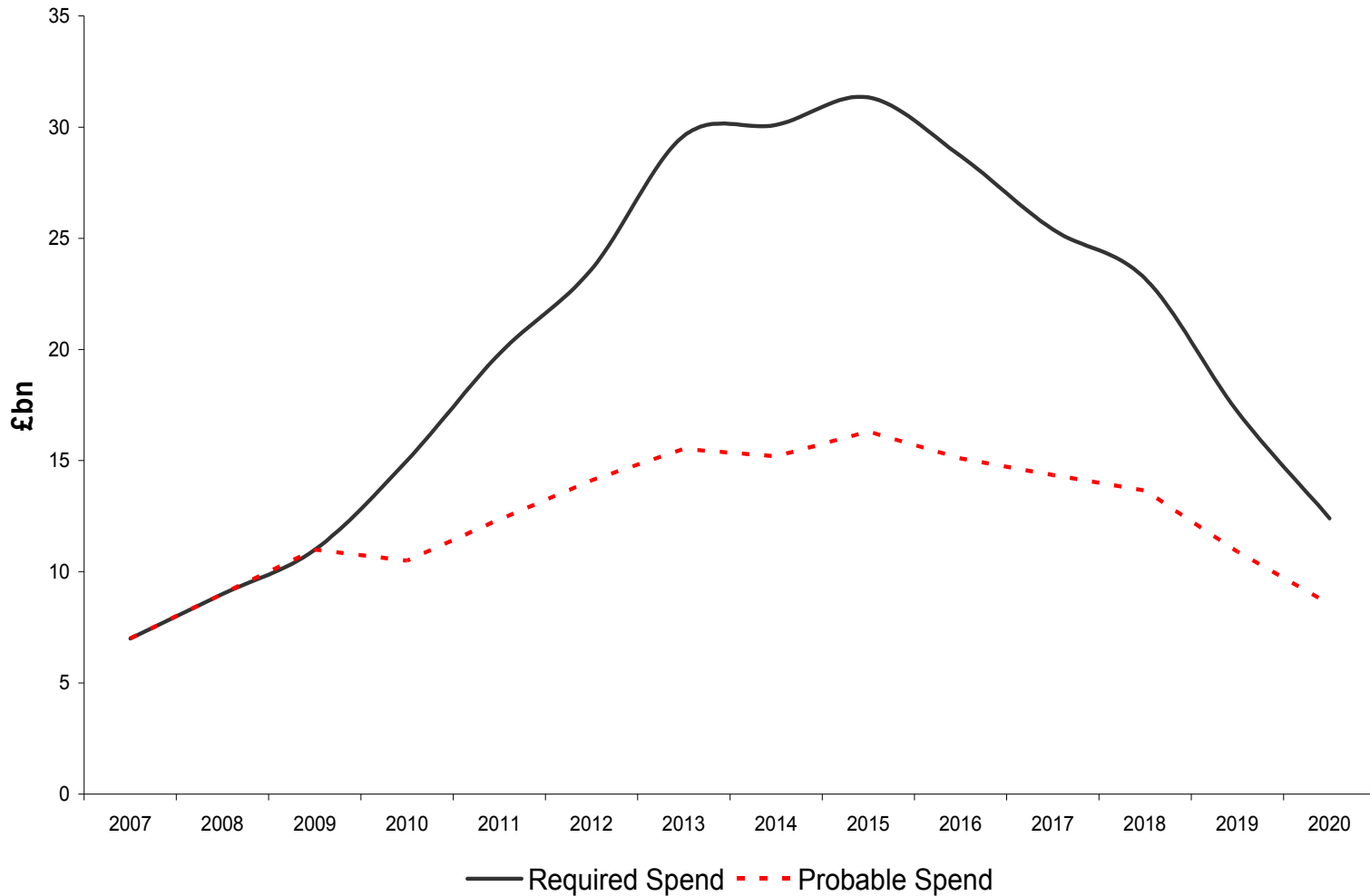
Source: CIRA estimates

UK Capex Requirements 2010 - 2020

	MW	Cost (£bn)	Replacement / Renewal	Environmental Targets
On shore wind	17,000	22.8	0	22.8
Off shore wind	19,000	62.7	0	62.7
Gas	10,000	7.0	3.5	3.5
Coal (CCS)	2,000	3.2	3.2	0.0
Nuclear	6,400	25.6	0	25.6
Bio Mass	2,500	5.5	0	5.5
Electricity Distribution Network		16.0	11.2	4.8
Gas and Elec Transmission Network		18.0	9.0	9.0
Off shore transmission		12.5	0	12.5
Gas Distribution Network		10.0	10.0	0.0
LNG		1.0	1.0	0.0
Water		44.0	33.0	11.0
Smart Meters		5.0	0	5.0
Gas Storage		3.0	3.0	0.0
Energy Efficiency		20.0	0.0	20.0
IED Expenditure		3.0	0	3.0
Total		259.3	73.9	185.4

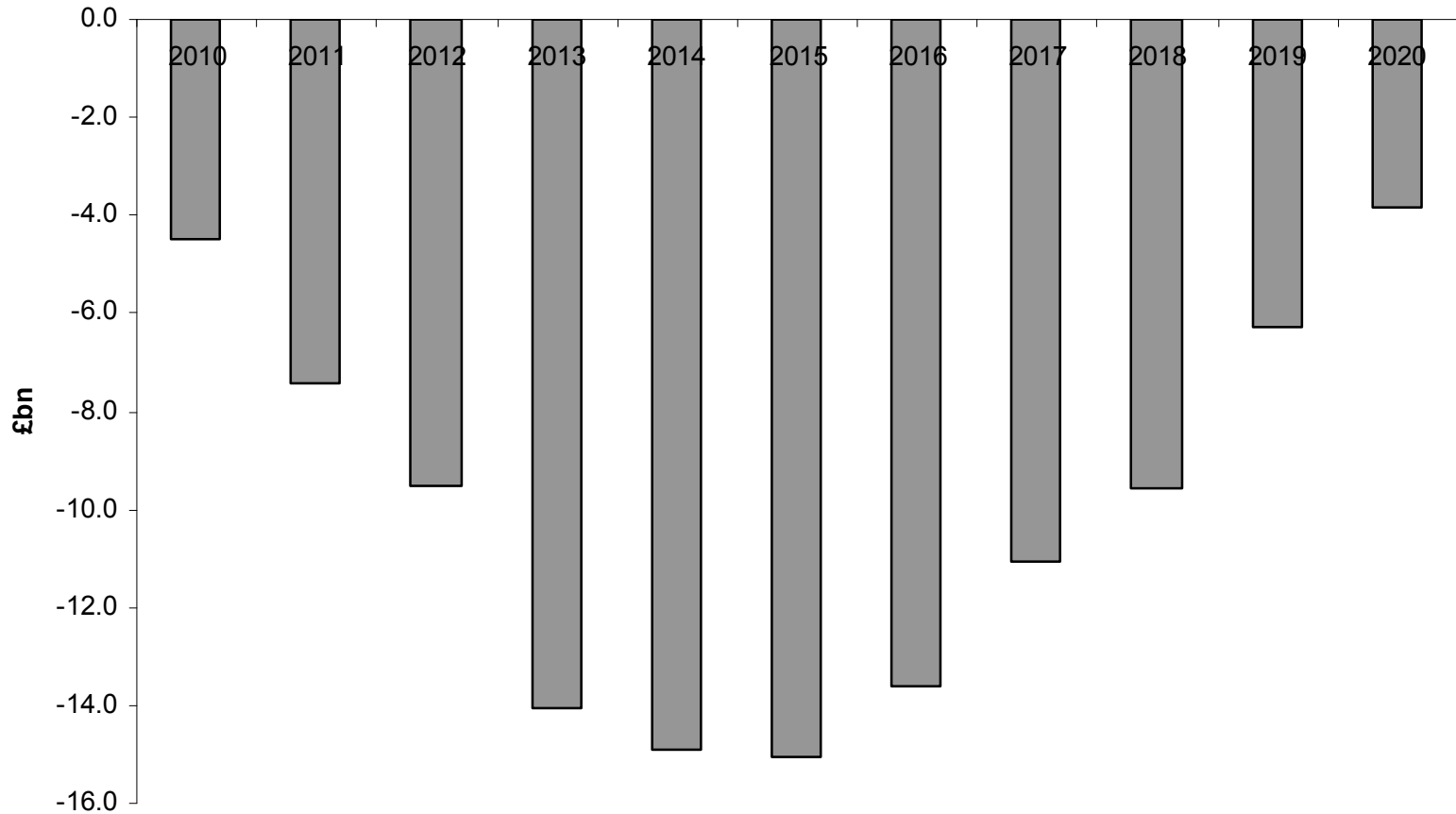
Note – no smart grid, no EV roll-out included. Source: CIRA estimates

The UK Spend Requirements



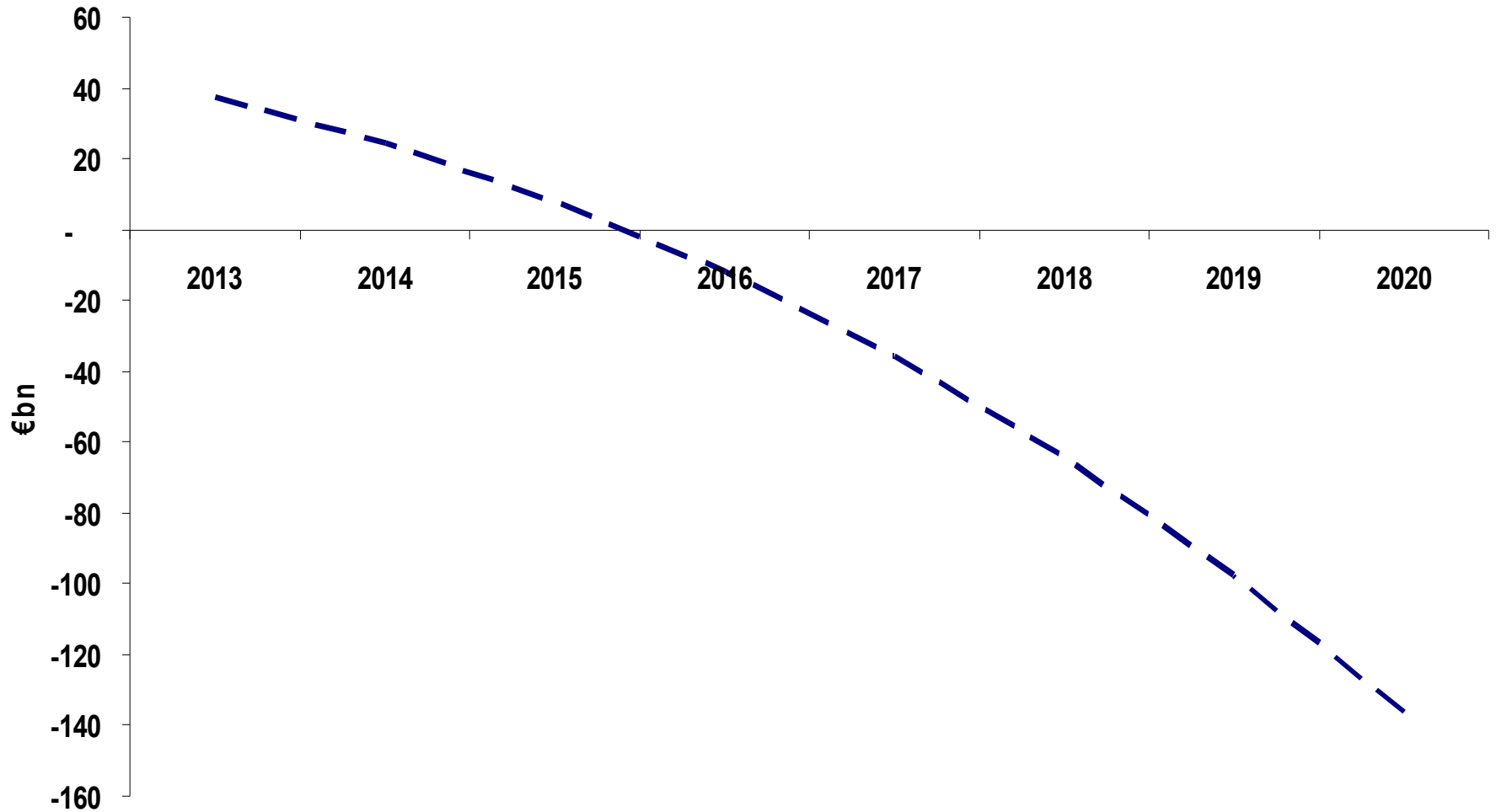
Source: CIRA

UK Probable Under-spend



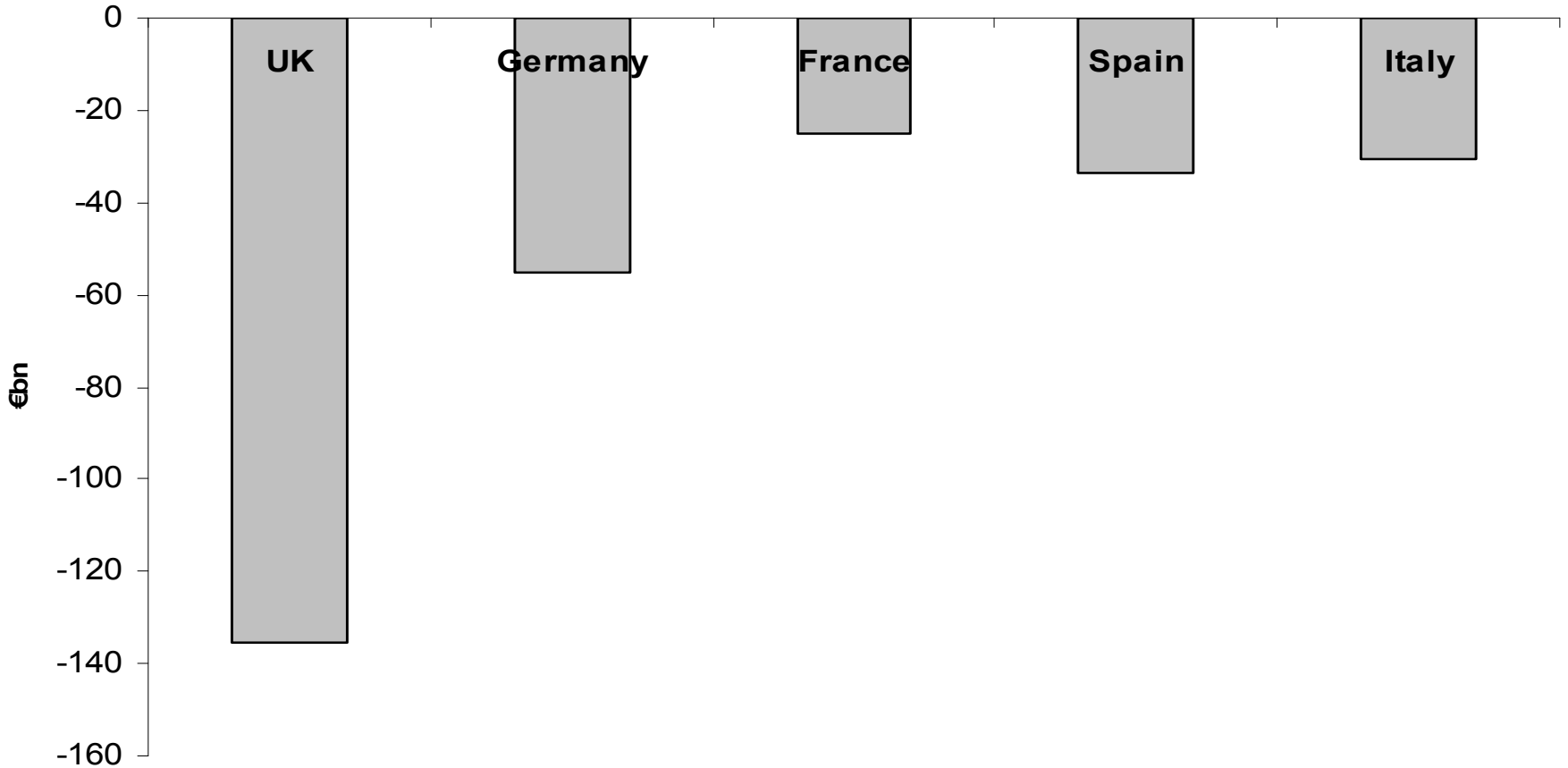
Source: CIRA estimates

€277bn funding deficit



Source: CIRA

Under-spend by Country



Source: CIRA estimates

Wider investment environment (2)

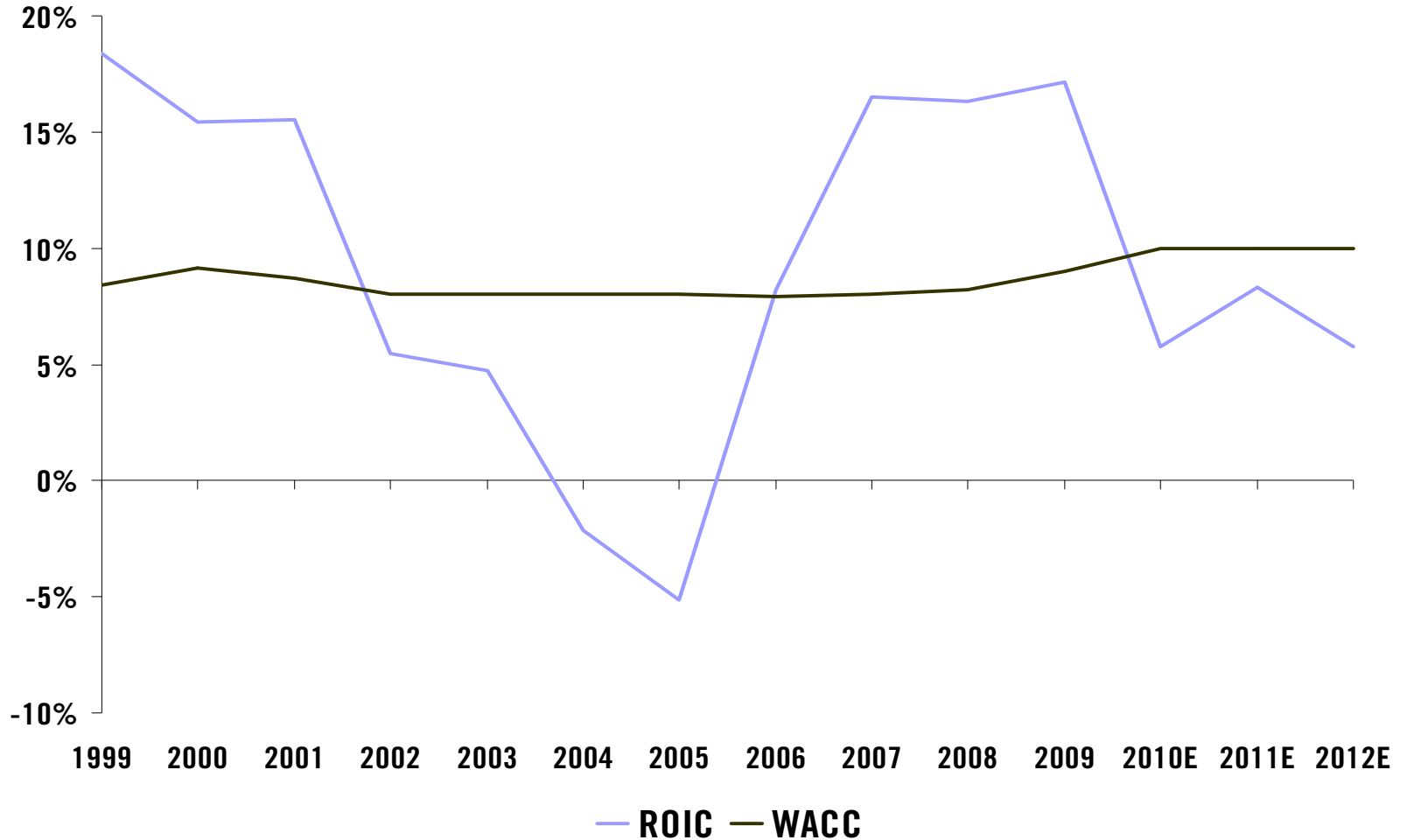
World Solar Index



Source: Bloomberg

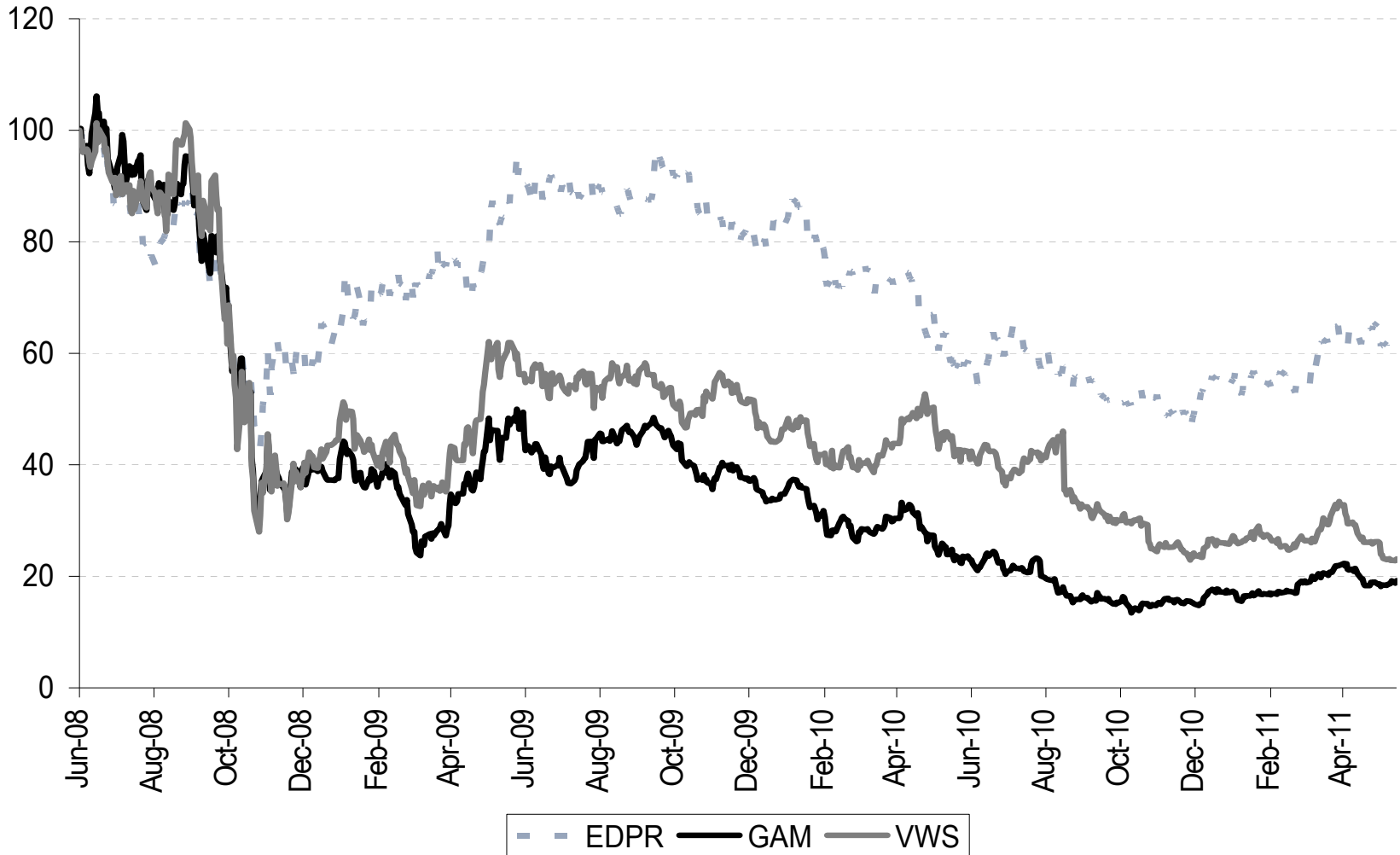
Wider investment environment (3)

Vestas



Source: Company reports and CIRA

The wider investment environment (1)



Source: Datastream, CIRA

Political Risk has Risen Massively

- Investor confidence has been rocked by events in Spain, Germany & Czech Republic – and Japan
- Confidence in the consistency of govt policy is crucial
- Reasonableness and affordability of government targets is key
- “Do I trust that future govts will stand by policies when prices AND profits are rising fast”?
- Not being honest over implications for consumers increases risk
- Setting impossible targets helps no one

What about Electricity Market Review?

- Huge transfer of risk to the consumer / tax payer
- Government is taking a massive bet on certain technologies / fuel types – exceptionally unlikely they will get this right
- Government is taking a massive economic bet that fossil fuel prices rise for ever
- Further re-nationalisation of investment decisions
- Does little to solve affordability problem – could make it worse
- Hugely complex set of reforms - no one knows how they will work in practice and interact with existing investments / market
- If you throw enough subsidy at something then investors will be attracted – but only up to a point

Conclusion – the even if's

In our view.....

- Even if – the Utility companies had the appetite to spend €1trn they don't have the organisational capacity to do so;
- Even if – they had the organisational capacity to spend the money the supply chain couldn't provide the equipment;
- Even if – the supply chain could provide the equipment the Utility companies don't have the balance sheet to finance the investment;
- Even if - the Utility companies could raise the equity they wouldn't be able to afford the cost; and
- Even if – the Utilities could finance the investment, the consumer wouldn't be able to afford their bills.

Appendix A-1

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