



20 May 2011

## University of Exeter Energy Week

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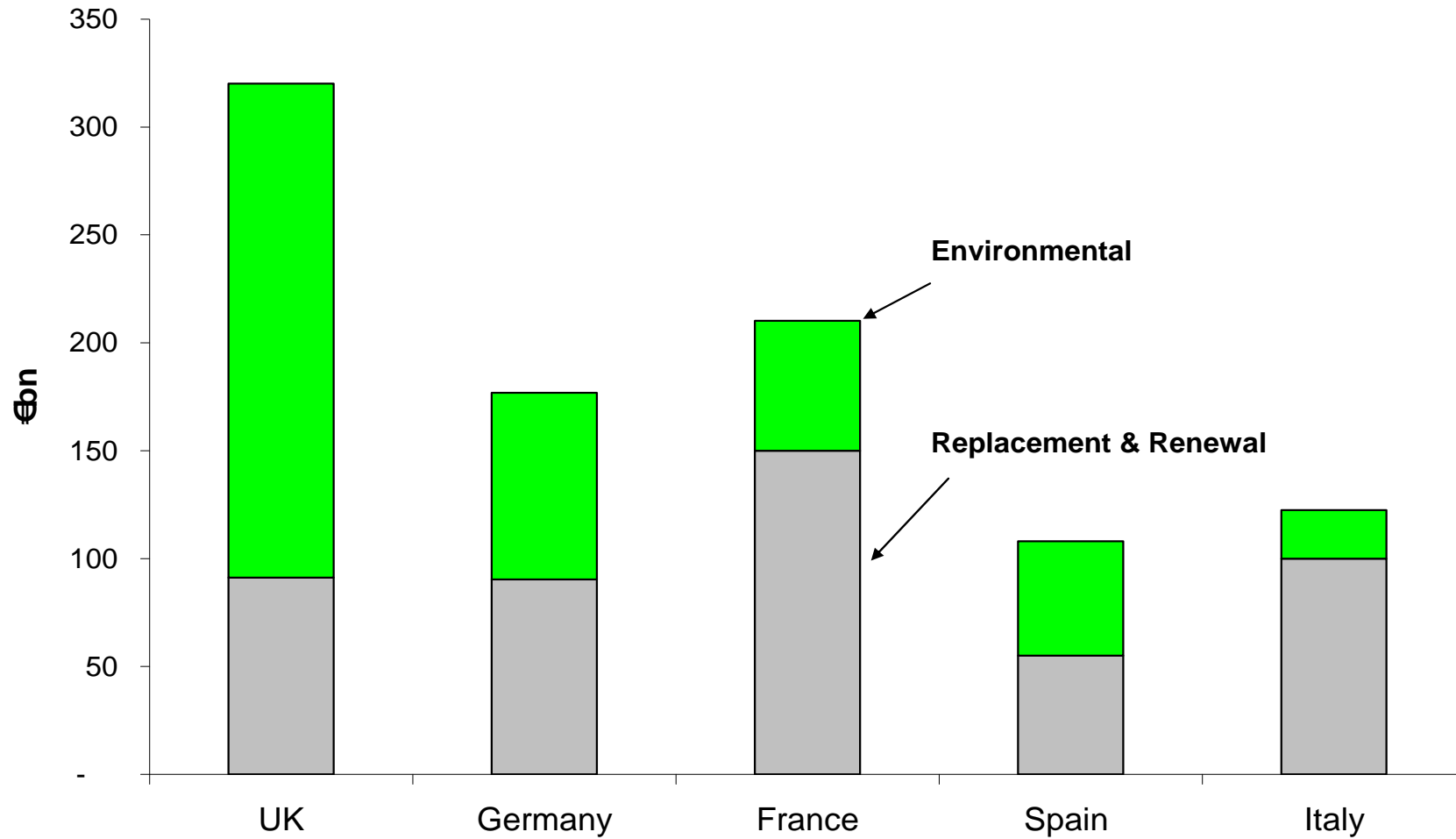
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# Where will the Ofgem £200bn come from?

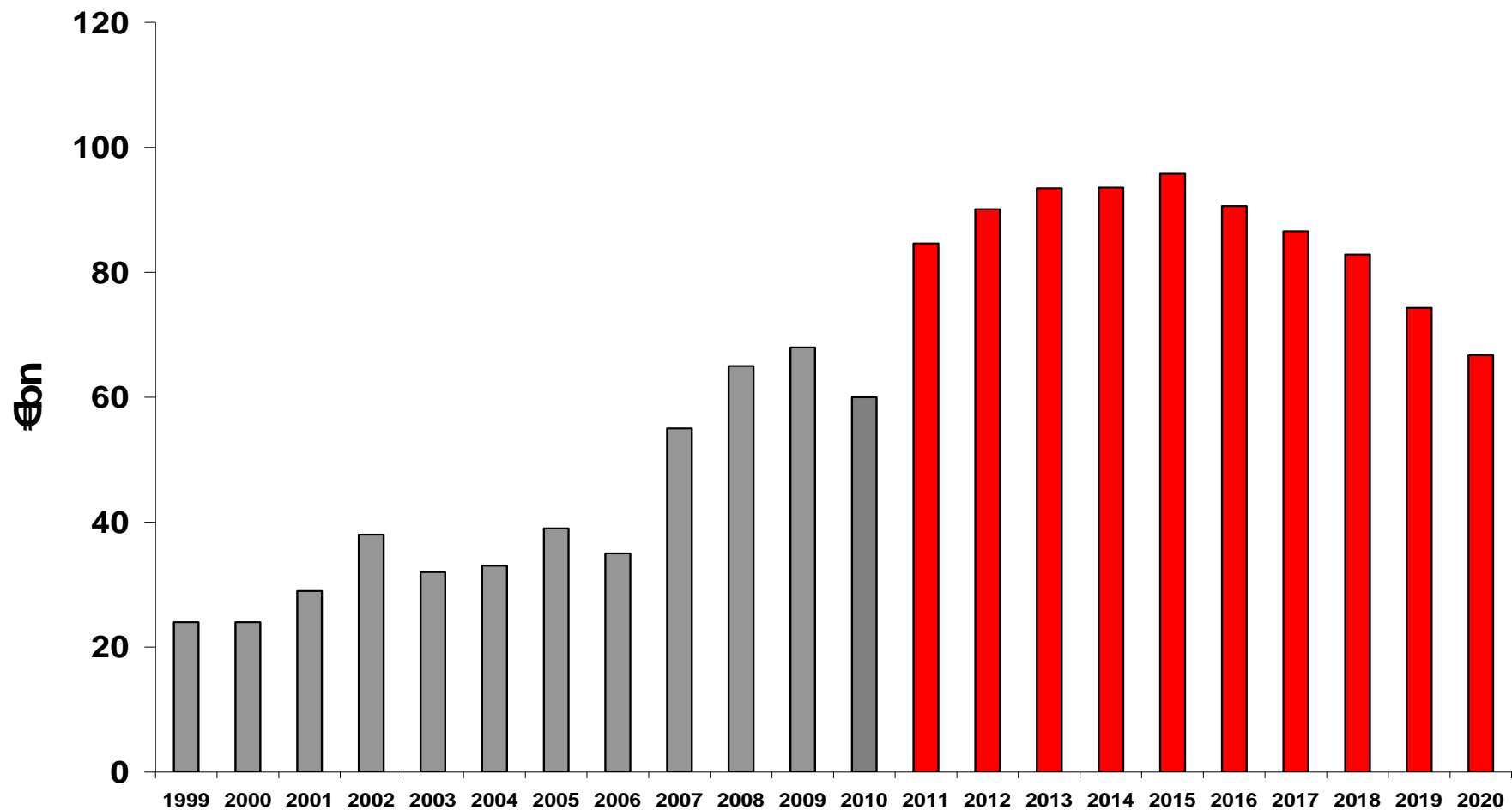
**It probably won't.....**

# The €1trn Euro Decade – 2010 to 2020



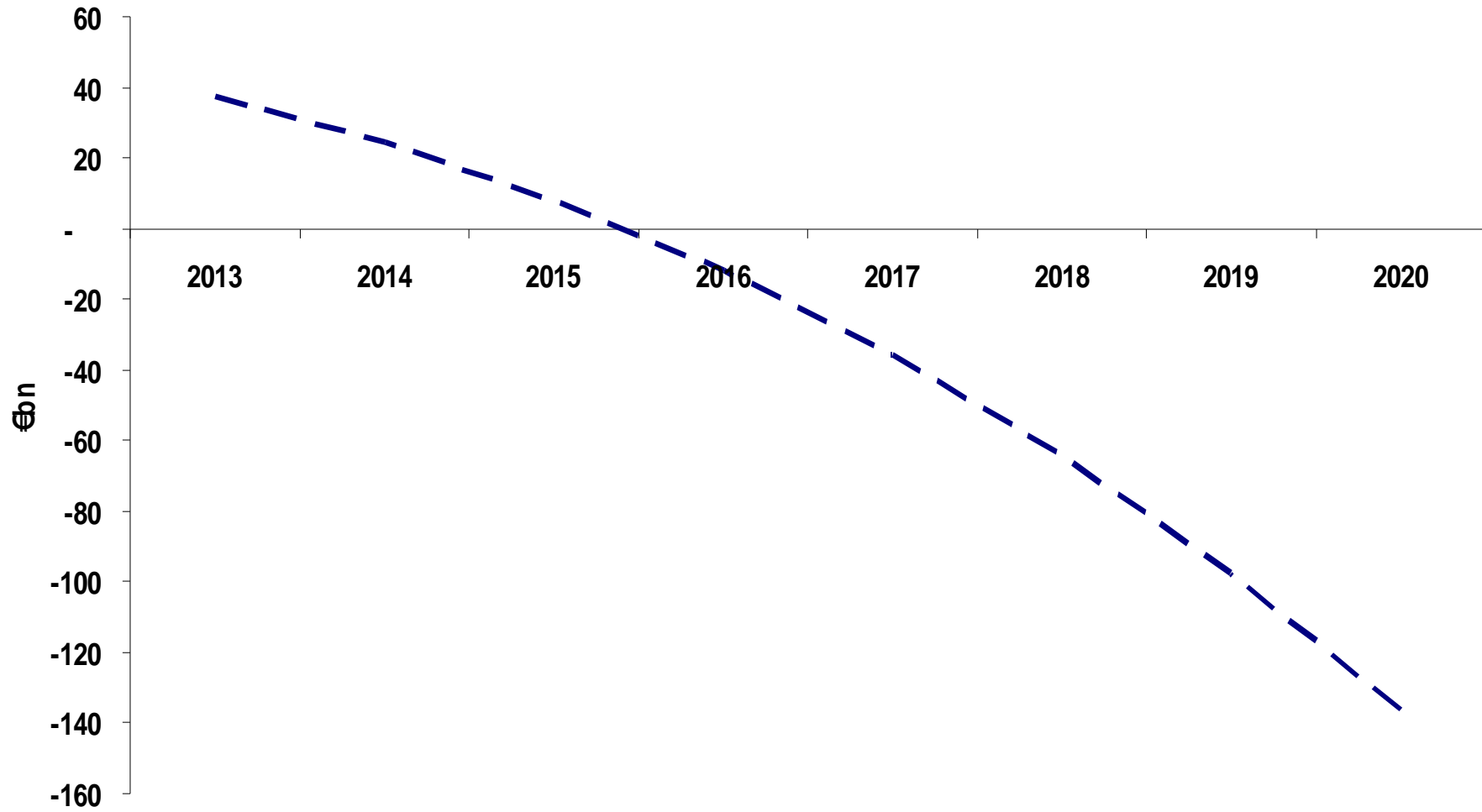
Source: Citi Investment Research and Analysis

## Annual Capex – actual and required



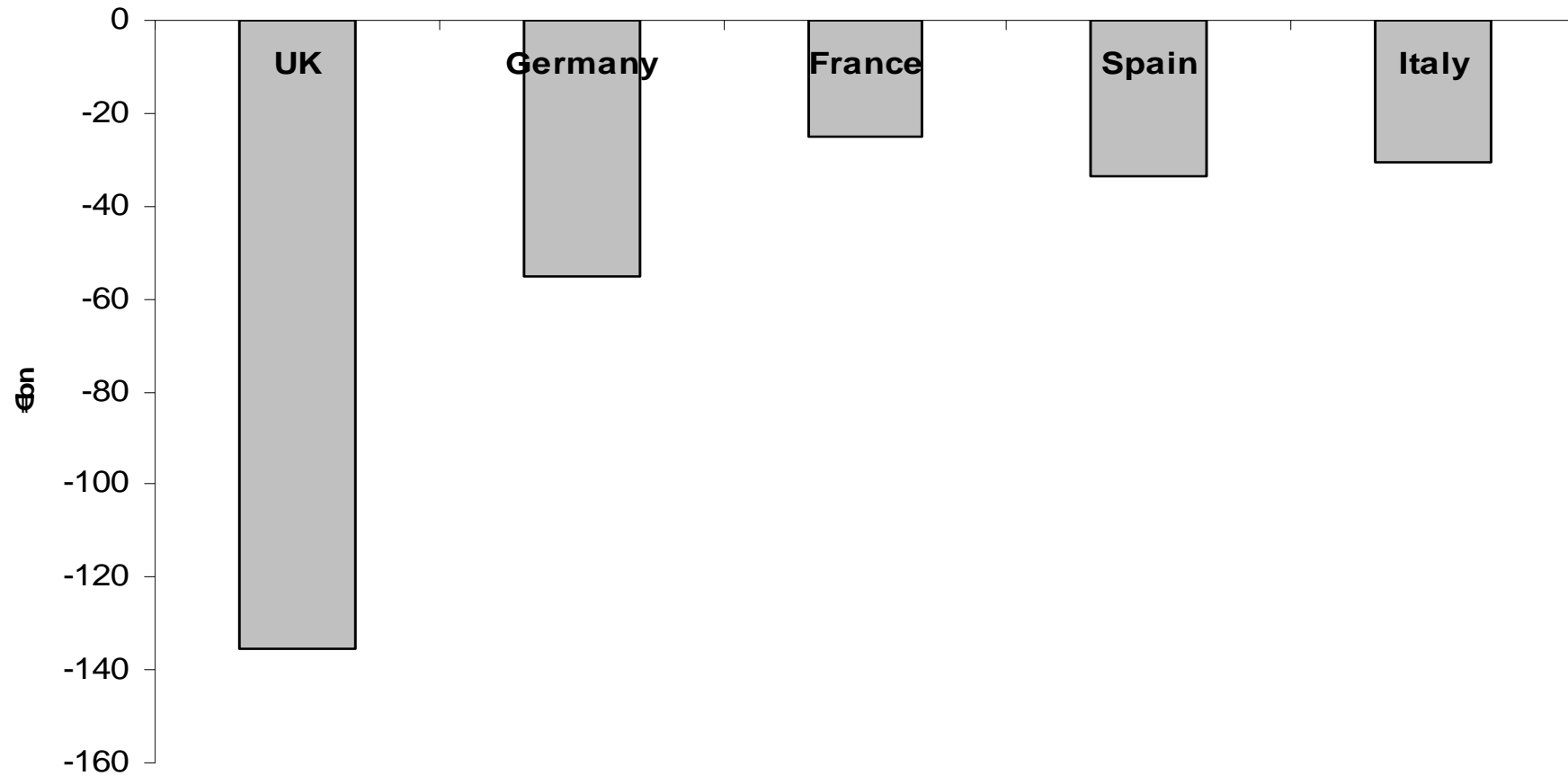
Source: Company Reports, Datacentral, Citi Investment Research and Analysis

# €277bn funding deficit



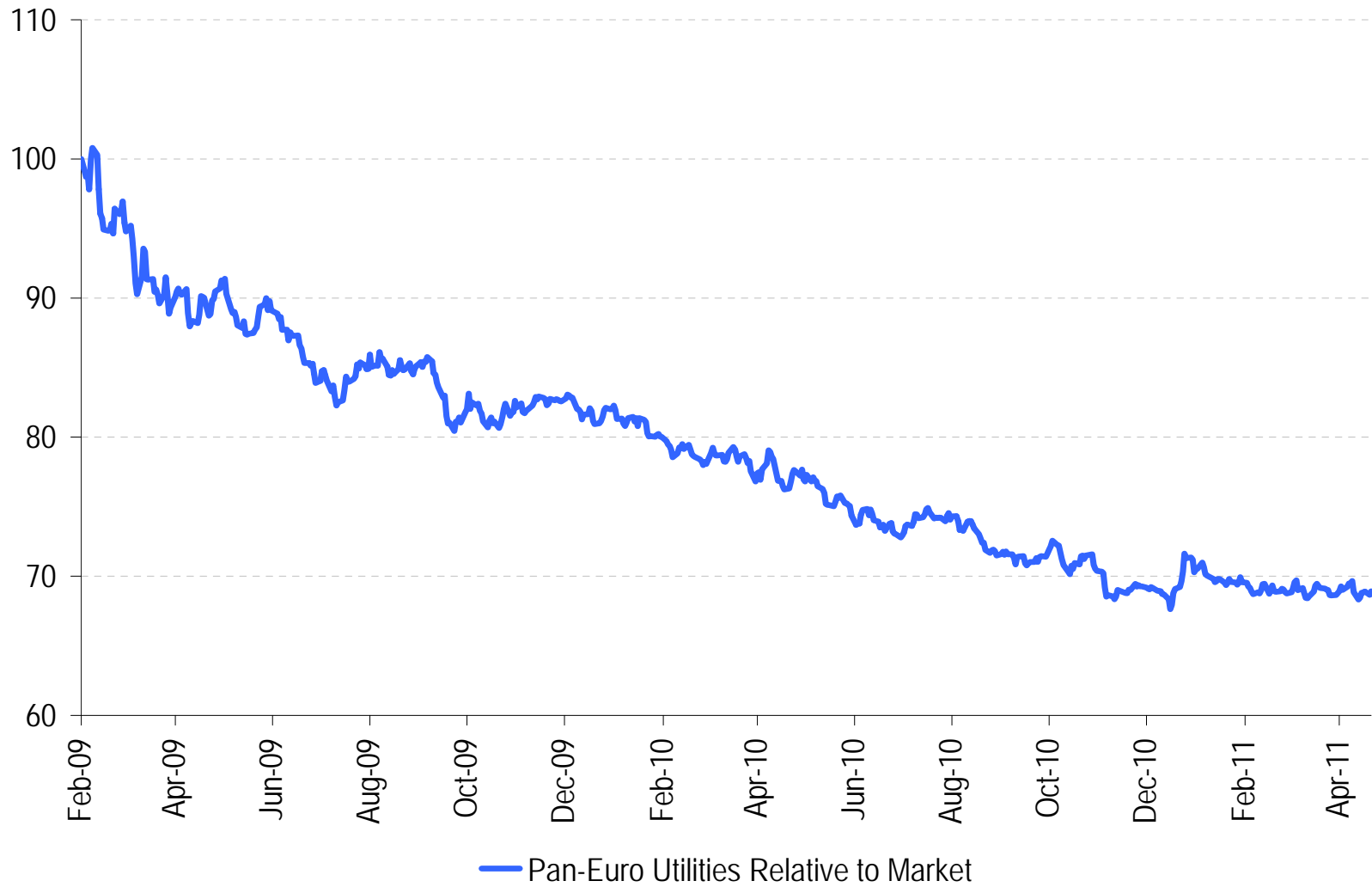
Source: Citi Investment Research and Analysis

## Under-spend by Country



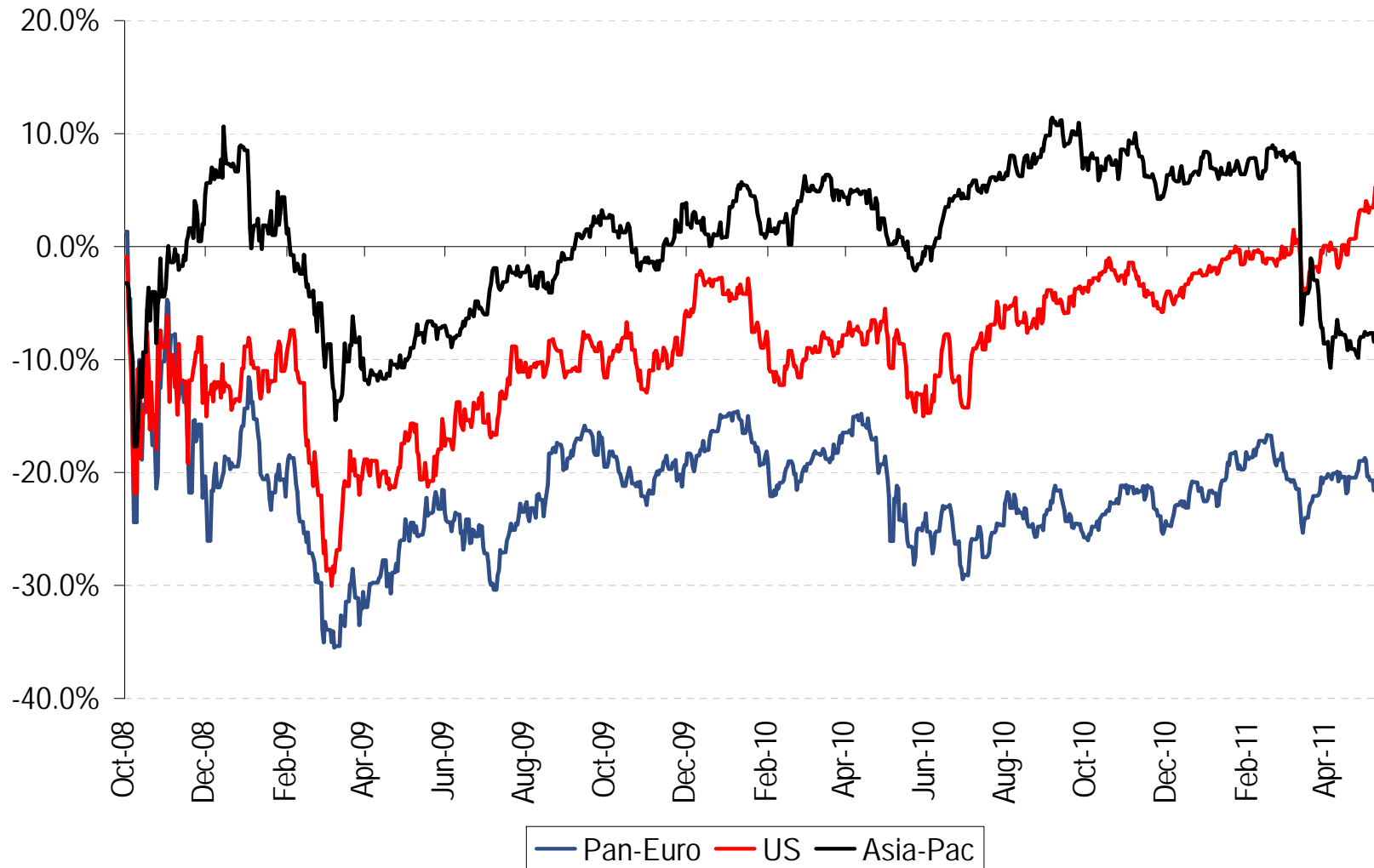
Source: Citi Investment Research and Analysis

## European Utility Sector has been de-rated



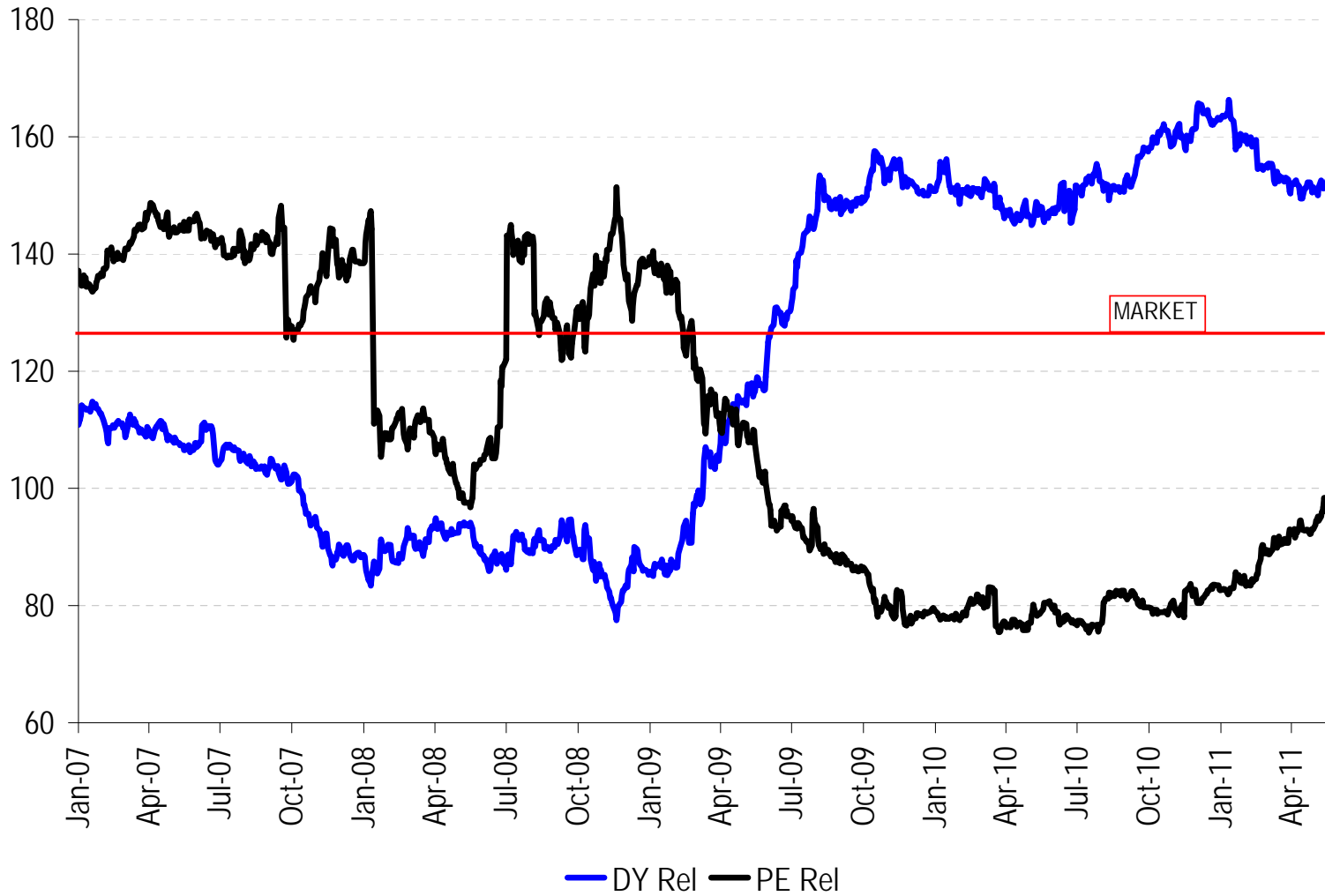
Source: Datastream, Citi Investment Research and Analysis

## Europe De-rated Relative to ROW



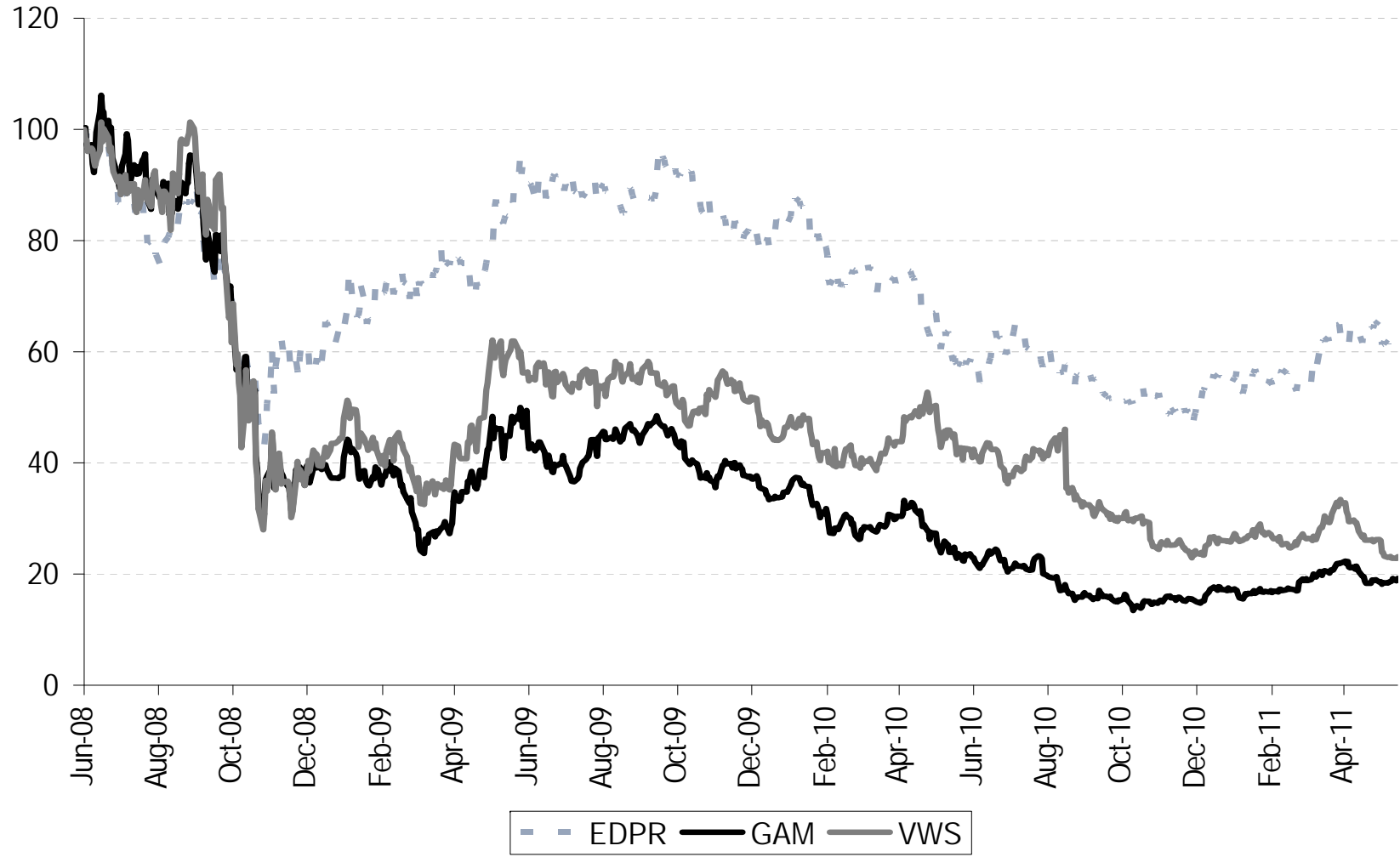
Source: Bloomberg, CIRA

## Yield Relative and P/E Moving in Wrong Direction



Source: Datastream, CIRA

# The wider investment environment (1)



Source: Datastream, CIRA

## Wider investment environment (2)

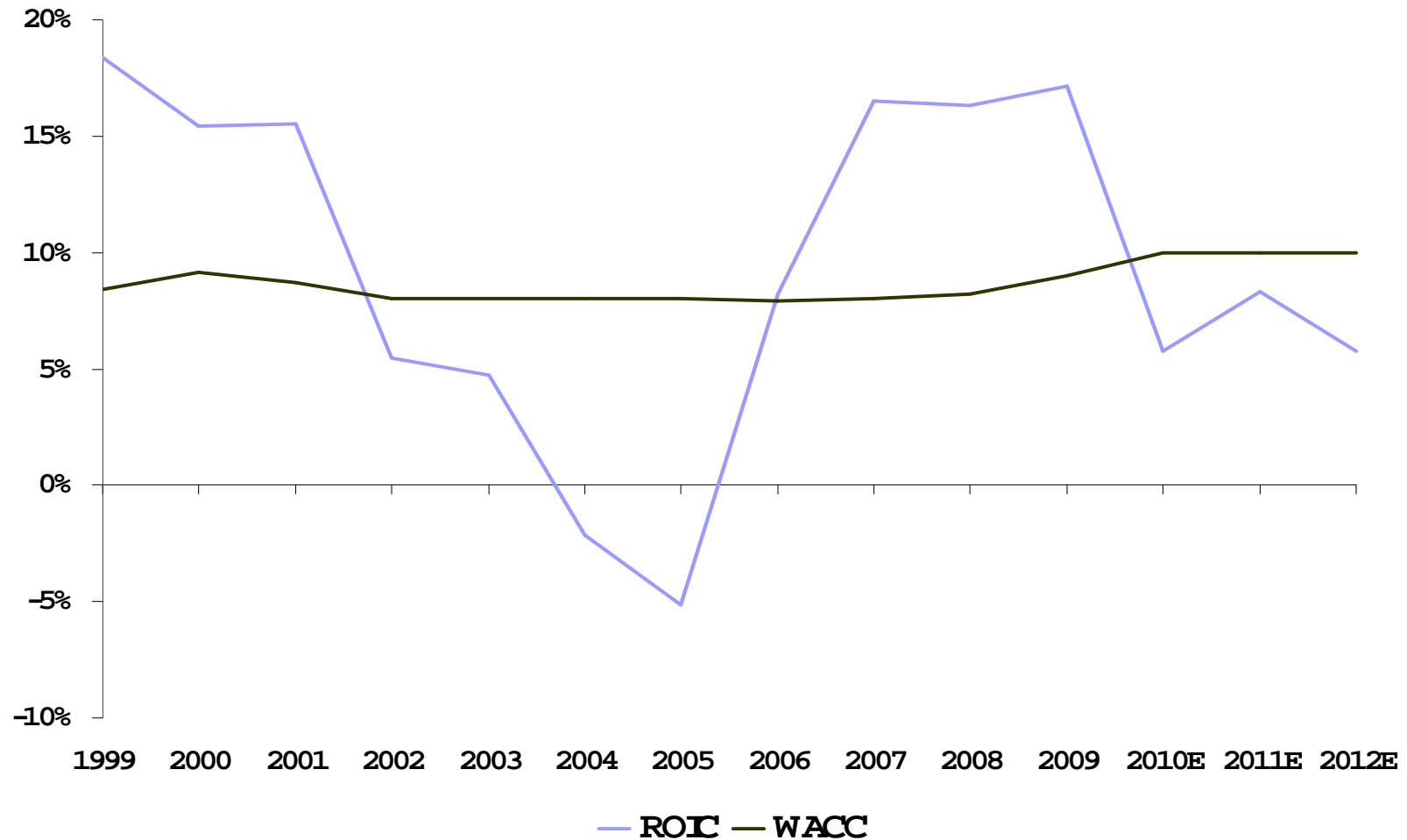
World Solar Index



Source: Bloomberg

## Wider investment environment (3)

Vestas



Source: Company reports, Citi Investment Research and Analysis

## Political Risk Has Risen Substantially

- Investor confidence has been rocked by events in Spain, Germany & Czech Republic – and Japan
- Confidence in the consistency of government policy is crucial
- Reasonableness and affordability of government targets is key
- “Do I trust that future governments 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 EMR?

- Large transfer of risk to the consumer / taxpayer
- Government is making a big call on certain technologies / fuel types – unlikely they will get this right
- Government is also making a big call that fossil fuel prices rise for ever
- Further re-nationalisation of investment decisions
- Does little to solve affordability problem – could make it worse
- Very 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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