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Date	1st September 2009 1700hrs
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The period shortly after 2015 has, by the electricity industry, long been recognised as being a critical one and although risks do exist steps are definitely in hand to ensure the lights do stay on and "70's style power cuts" are averted.

Nine coal and oil-fired power stations, which last year generated about 10% of Britain's total electricity consumption between them, will have to close by the end of 2015 having opted out of installing expensive atmospheric pollution control equipment at the start of 2008 to meet emission limits imposed by the European Union Large Combustion Plants Directive.

In addition, four nuclear power stations are due to reach the end of their licenced lives in this period – although it is possible that the two at Hartlepool and Heysham due to close in 2013 could receive life extensions before then, similar to extensions given over the past year to plants at Hunterston, Hinkley Point, Oldbury and Wylfa.

This could mean that in total about 16 GW, or almost one-fifth of the current generation fleet, is likely to be closed by 2016, well before any new nuclear stations are likely to be built.

However, the industry recognises this potential shortfall, and there is over 9 GW of new gas-fired capacity currently under construction and due to become operational in the next 2-3 years. A further 6 GW of gas fired plant has consent to built. In addition some 2GW of wind farms are under construction, and 7GW has consent, among them the Walney and London Array projects which the respective owners announced would in fact be proceeding following the Government's Budget announcement of accelerated support for offshore wind.. The contribution the wind capacity can make to meeting demand is lower than that of gas fired plant to reflect the co-incidence of wind and demand.

An additional 6 GW of gas and coal projects have submitted applications for consent, and there are proposals for as much again being considered by a wide range of companies. While these are unlikely to all proceed, the scope does exist over the next six years to fill the potential gap left by the enforced closures.

The recession also appears to have played an involuntary part. As electricity demand has fallen over the past year, largely as a result of falling industrial production, expectations for future growth have been similarly dampened. The 4-5% drop this past winter is expected to equate to peak demand being as much as 3 GW less by 2015 than had been forecast before the recession hit, even assuming the economy starts to recover from next year.

Whilst pressures on the system are to be expected, and there is much work still to be done over the next few years, it is far from certain that the country will be facing blackouts in the next decade. If Government gives the same kind of underwriting it saw fit to give banks, it almost certainly won't. If it leaves it to the market, are there sufficient incentives for generators to fill the gap? Dare we wait and see?

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Notes to Editors

IPA Energy + Water Economics is an economic consultancy, with over 20 years experience, in the Electricity, Gas, Renewables, Carbon, Water, Transport and Infrastructure sectors. We have offices in Edinburgh, London, Abu Dhabi, Shanghai, and Melbourne. Since 2005, IPA Energy + Water Economics has been part of the DAR Group (www.dargroup.com) - one of the world's top 15 international groups of professional services.

We produce a quarterly assessment of the potential development of the Great Britain wholesale electricity market, including **long-term forecasts** of **electricity**, **gas**, **CO_2**, and **Renewable Obligation Certificate (ROC)** prices. We investigate the key drivers which are expected to impact on the electricity market over the next 25 years, including:

- Developments in other energy commodity markets (including oil, gas, and coal);
- Regulatory developments at both the UK and European Union level, including the EU Emissions Trading Scheme (ETS) for CO_2, the Large Combustion Plants Directive (LCPD), the climate change package, renewables targets and changes to the Renewable Obligation (RO) support mechanism;
- Security of supply concerns as generation capacity is closed and demand for electricity grows; and
- The rate of development and cost of new technology, such as carbon capture and storage (CCS), third-generation nuclear, and large-scale offshore renewables; and their resultant deployment by market participants.

Our proprietary market model **ECLIPSE** (*Emissions Constraints and Policy Interactions in Power System Economics*) is able to capture the complex interactions between these various economic and non-economic drivers through a linear optimisation methodology to help quantify their impact on the industry. We explore a credible range of outcomes for all of the drivers in the form of **three scenarios** under which power and ROC prices are forecast against **self-consistent assumptions** for fuel and CO_2 prices and economically rational plant closure and build decisions.

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