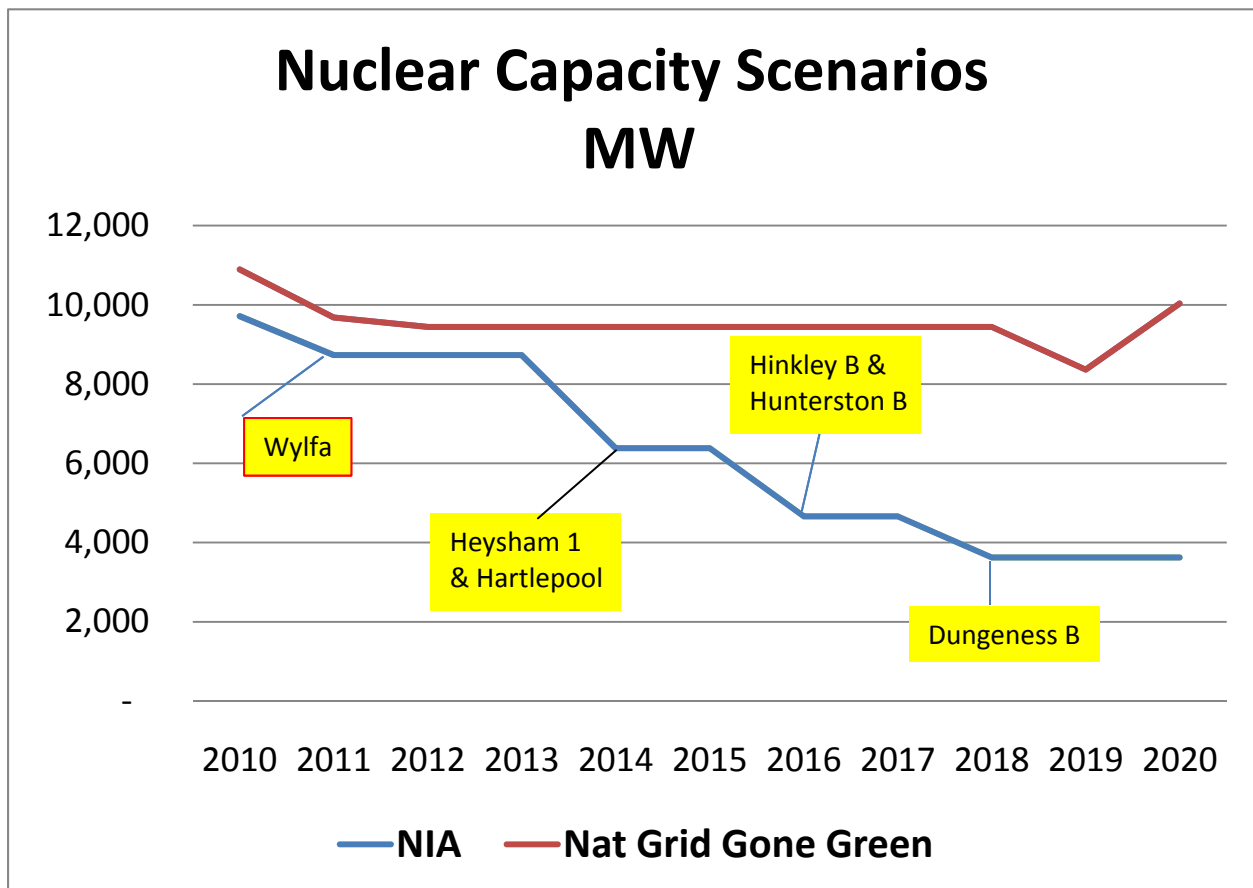


How credible are the assumptions underlying the “Gone Green Scenario”?

An informal straw poll conducted among my deep and wide circle of senior managers in the power and energy business reveals that no one believes that the plant stated as “available” in “Gone Green” will actually be available. The same straw poll indicated that the FGD-non-compliant plants that are being run down would need extensive investment if they are meant to run in any emergency after 2015.

The wind turbine construction programme looks impressive but as you are aware, wind power is unlikely to provide any firm capacity at the times of highest demand.

Furthermore, as Grid and OFGEM are well aware, until the electricity trading arrangements are thoroughly reformed, it would be imprudent of any company to commit its shareholders to the stated dates for new nuclear and clean coal commissioning. In this respect, planning delay issues, while relevant, are a secondary issue and a red herring until the economics of new generation can be verified and secured.



In particular and because the variance is so stark and immediate, I draw your attention to the wide difference between the data in “Gone Green” and the data available on the Nuclear Industry Association web site, at <http://www.niauk.org/uk-nuclear-statistics.html> and at <http://www.british-energy.co.uk/>.

There even seems to be a difference over what is and what is not “on-line” during 2010!

I understand from high level, anecdotal sources that a significant number of prospective gas-fired power stations (CCGTs) that are in your forward estimate have been postponed or canceled.

The Guardian recently reported that there is mounting concern within DECC that hydrocarbon liquid supply may not be adequate to meet rising demand driven by the mid-decade. If this happens, as seems likely to the writer, gas supply security and price is also likely to be affected negatively as it was during 2008.

At the risk of seeming alarmist, it should be noted that while all globally traded coal amounts to roughly one billion t/y, the annual incremental growth of Chinese coal demand is 150 - 200 million t/y and that China is a net coal importer for the first time in history. There is a high chance that most of China's annual increase in consumption will be sought in the same market from which the EU and UK import their coal, so creating another fuel supply bottleneck in the mid-decade.

Finally, I drew your attention to the short presentation made by Rothschilds' Stephen Vaughan at the UK AEP's seminar in April this year. This was attended by senior figures at DECC, Grid and OFGEM, so its analysis conclusions cannot come as any surprise. Mr. Vaughan made it quite clear that the "£200 billion" on which the Government is placing its hopes for infrastructure renewal, cannot be sourced unless the cost of new capacity is built into the rates or some other finance can be found. Whether this will be acceptable to the UK's voters and employers, is never discussed openly but the price rises needed to underwrite new capacity will be greater than anything being openly reported by DECC.

I hope you will take these remarks as helpfully and constructively meant & look forward to your early response.

Unless the foregoing statements can be proven as faulty, I deem it as desirable to amend the consultation document, or at least to draw the attention of those consulted, to the possibility of a darker and quite urgent scenario of capacity shortfall.