

## **BWEA Conference, Glasgow, Tuesday 10 October**

### **1. Introduction**

Ladies and Gentlemen, good morning.

I am delighted to echo Chris's<sup>1</sup> words of welcome to you all. ScottishPower is pleased to be Core Sponsor of BWEA28 and it's great to see you all in Glasgow.

I'm also pleased to be sharing the panel with some of the parliamentarians<sup>2</sup> who are playing a leading role in developing energy policy, for Scotland and the UK as a whole.

As Chief Executive of the UK's leading developer of green energy, I'm sure I'm not the only one to welcome the fact that each of the main political parties is now placing a high priority on taking action to address climate change - and the energy and environmental issues that we face. That said, there remains a very large gap between rhetoric and policy - and I would simply caution that the issue is too important to us all to become a victim of party political rivalries in the run up to elections.

In my comments today I would like to share my thoughts on how we can make the most effective progress towards this Government's renewables target - which Alistair Darling announced yesterday is now confirmed as 20% of generation from renewable energy by 2020. I do so mindful of the fact that I have the advantage of speaking first this morning – so I am going to take a leaf from the politicians' book and get my retaliation in first!

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<sup>1</sup> Chris Shears BWEA Chair

<sup>2</sup> Nicol Stephen (DFM, Lib Dem); Charles Hendry (Shadow Energy, Con); Chris Huhne (Environment, UK Lib Dem); Richard Lochhead (Energy, SNP).

## **2. The Energy Review, three months on**

As a company, ScottishPower will invest more than £3bn over the next five years – planning permitting - in modernising and improving the UK's generation and infrastructure assets. That includes big ticket items like the £170m we are spending to further clean up Longannet, one of the UK's biggest coal plants, and the £300m-plus we are committing to building Europe's largest windfarm at Whitelee, where we broke ground yesterday.

Like other energy companies, we have a crucial role in delivering sustainable and workable solutions that bring green energy goals closer to reality – to the ultimate benefit of the environment, the country, and the customer. If we are to attract the necessary investment to deliver these solutions and make meaningful in-roads into the onward march of climate change, business requires clarity and consistency of approach from policy-makers.

In the three months that have passed since the Energy Review, some of the dust has settled, and my hope is that we are now in a position to be able to look more objectively and without emotion at the energy challenges facing the UK. From my perspective, I sense that there is some growing of consensus surrounding the importance of significant new investment in generation capacity and in networks if we are to ensure security of supply and make generation from new renewables technologies a reality.

Yesterday I was pleased to host Alistair Darling's visit to the Whitelee site, where we are now beginning work on a windfarm that will provide green energy for 200,000 homes - or enough to power a City the size of Glasgow. However whilst Whitelee will be a big step forward for the UK in meeting its renewables targets, it is but one step, albeit a big step, along this path. If we are going to deliver more clean energy to people's homes, there is no alternative but to accelerate the momentum behind other major projects in the pipeline.

In what may or may not be a coincidence of timing, the Government also launched its consultation on proposed amendments to the Renewables Obligation yesterday. As I said to Alistair, we believe it is vital that this consultation does not create any additional concerns for investors and developers. Amid the enthusiasm for providing further incentives for offshore wind, most likely through banding, I would sound a word of warning - without the pipeline of onshore projects sitting in planning, awaiting grid connections or simply waiting to be built, it will be difficult if not impossible for the Government to meet its green energy goals for the UK.

This has been my consistent and clear position since becoming Chief Executive at the beginning of the year. I have learnt – often the hard way - from several decades of business experience that investor confidence is a rare and delicate commodity, and not one to be treated lightly. Unless managed very carefully, adjustments to the RO will erode that confidence – undermining the appetite for risk not just of ScottishPower, but of all developers, and damaging not just onshore wind but all renewable technologies.

Projects the size of Whitelee – 140 turbines producing 322 MW on a 55 square kilometre site - with potentially some £100m of the investment placed with Scottish companies – are not entered into lightly. As commercial developers we understand the necessity of accepting a calculated level of market risk. However if the RO mechanism is subject to retrospective change and bands are left continually open to question to try and stimulate what some believe is the latest technology, investment will simply dry up.

Without giving away too many confidences, I can say that in another of those unfortunate coincidences of timing, the ScottishPower Board met very shortly after the publication of the Energy Review in July. Whitelee was on the agenda - so too was the Energy Review. The RO banding proposals caused concern, raised substantive questions and placed a cloud over the perceived economics of past and future UK based on-shore wind developments. The result was to tilt the balance in favour of allocating capital to the USA where

the risk / reward balance is perceived as increasingly favourable relative to that in the UK.

This is particularly the case in the context of significant rises in development costs. If anything, the consultation gives the industry an opportunity to present better data showing the impact of the dramatic increases in the price of steel and copper and the global shortage of turbines. Returns are nowhere near as optimistic as some supposed authorities on windpower – such as the Carbon Trust quango – might have the public, politicians and government officials believe.

We will be working closely with government to try and ensure that appropriate decisions are reached on banding levels and the frequency of future changes. Just as important is a clear and commercially workable solution to other contentious issues including grandfathering mechanisms - particularly for projects stuck in planning queues or held up by grid connection delays.

### **3. Planning & Grid**

Planning and network obstacles may seem like familiar bogeymen for me to raise at this point. Despite comforting words from government departments we are yet to feel the impact of any significant progress in addressing these issues. Indeed in my view here would be a much better place for focus rather than looking to RO banding for a lasting stimulus for investment in renewables.

There is no doubt that there is a growing opportunity for change – the Review provided a welcome Statement of Need on renewables development. However this is only the start and to be successful this requires meaningful support in terms of recommendations from the Barker review - and subsequent enabling legislation. In Scotland, the Executive has made a positive drive to improve planning guidance under SPP6. It remains to be seen whether every local authority (whether supportive of renewables or not)

will set out clearly how it expects to contribute to Scotland's renewables targets.

I believe that ScottishPower is a responsible and sensitive developer. Our people pride ourselves on working closely with local communities and stakeholders to deliver project solutions that address as many legitimate concerns as they can. It is similarly incumbent on local authorities to buy in to SPP6 if the Scottish Executive is to ensure that targets are met.

On progress on grid issues, we need more than the watching brief offered by the Energy Review. There is growing pressure to push through grid upgrades and to reprioritise grid connection dates. This is a position I have sympathy with, because as I speak there are ScottishPower projects with consent but no grid connection until 2013. Put bluntly this is neither commercially viable for Scottish Power nor sustainable if the Governments renewables targets are to be met.

SPP6 could also usefully give greater recognition of the need for grid upgrades to deliver new connections. We have been instrumental in making the case for a number of strategic upgrades to government, and to Ofgem as part of the current Transmission Price Control Review. These strategic upgrades are essential to unlocking the huge potential renewable resource in Scotland, both wind and marine.

#### **4. Marine**

I would like to end with a few words on marine, which is appropriate given Nicol's participation in the panel this morning.

For the past three years, we have been working with OPD on capturing wave power with the Pelamis technology. We can see the potential of this developing technology. Thanks to the leadership and commitment being shown by the Scottish Executive, we should soon be in a position where we

can take the next steps towards making wave power a reality in Scottish waters.

Marine can potentially play a meaningful role in meeting our medium to longer term renewable targets. Harnessing this power, refining the technology and bringing it to commercial application offer us a clear opportunity for the future, with real potential benefits to Scotland. These are exciting advances but they will only become viable and earn for Scotland the success they deserve if we maintain a disciplined and rigorous approach. To help us to do so, I would like to conclude on one of the points that I made right at the start of my address.

Investments in this industry tend to be large and long term in nature. Clarity of policy and consistency of implementation should be valued above all else by industry and policy-makers in setting the framework for meeting the UK's energy needs. With the demonstrable progress we are making on windpower and the exciting prospects offered by marine, the prize has never been greater – and the need for stability never more important.

Everyone here understands the tangible benefits of renewable power, but policymakers must also bear in mind that wind generation can only be fully effective within an integrated portfolio of base load and flexible generating assets, including coal and gas. Here again the same imperatives of clarity and consistency of policy are necessary to bring forward investment.

## **5. Conclusion**

In conclusion, we need policy not rhetoric. We also need a pragmatic balance between security of supply and environment issues. On environmental policy we are not an island but need to move forward in step with our partners and competitors in Europe. The politician or party that ignores these basic truths will have a very rude awakening when the lights start to flicker and go out.

Thank you for listening to me this morning.