

# CRIPPS SEARS & PARTNERS

## Energy Executives Networking Lunch 1 March 2007

*A remarkably full session !*

Pre-prandial discussion: the following items featured

- The departure of Harry Roels from RWE; its meaning and implications
- The arrest of several BG and ex-BG personnel in Italy over issues at Brindisi
- Planning issues relating to the new Scottish power line

Main topics

### **Nuclear Power in Germany** (revisiting an old favourite ...)

The CDU is seen as quietly embracing the nuclear solution, but the SDP and the Greens will not be changing their positions. It is therefore not an issue for the duration of the present coalition and will await the next election. The issue of how waste will be handled was raised.

How would German public opinion evolve ? Perhaps only the lights going out would cause people truly to welcome nuclear power, but this does not result in timely support for long lead-time new investment (although extending the life of existing plant may be another matter). Conversely, another Chernobyl would have an instant impact on public opinion.

### **Private Equity**

There is too much \$ looking for a home ! and thus longer-term deals are starting to feature in PE portfolios. The recently-announced TXU bid was mentioned in this context, and it was suggested that perhaps even nuclear assets might in future be on the PE agenda – a long-term, secure, regulated income stream. E&P might be another new area for PE money. There will in future be a greater range of PE business models – still some ‘churn’ money looking for a quick turn, but also longer-term perspectives. The example of Macquarie Bank was mentioned as ‘new generation’ investor. ‘Traditional’ PE may be looking to use their superior speed of action to buy assets for onsale to slower-moving funds, (eg oil exporters).

PE may in future be subject to greater financial regulation: but its role is dynamic, forcing existing management to consider alternatives. Almost any asset or company in the UK is potentially for sale: but there are greater political and labour issues in other EU countries.

### **‘GASPEC’ ?**

Neither of the ‘Big 2’ gas exporters – Russia, Qatar – are willing to subordinate their interests to a group decision-making process, so GASPEC will remain a trade association, not become a decision-making body. The only motivation for an active GASPEC would be for any exporter feeling they were not getting full value: but gas exporters are seeking to achieve their ambitions via new types of contract and pricing terms.

It was noted that India may currently be the LNG market paying the most attractive prices, but that there was relatively little activity in India’s LNG sector and that doing business there was difficult: it is a closed business community and JVs etc with local interests were vital. But both debt and equity were readily forthcoming for projects in India: there is significant unmet internal demand: and there is a mood of innovation.

The recent actions of Venezuela and Russia indicate that some NOCs are no longer reliable partners for IOCs, who will not participate in areas where they would be unable to book reserves towards their reserve replacement targets. If these outlets for recycling oil revenues is losing its attraction, where will IOCs reinvest ? The power sector ? IOCs have a poor track record here, and in any event the ROC is too low. In principle there are significant investment

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opportunities in China, India (see above), Nigeria ... The investment activities of China and Korea will be significant.

## **Biofuels**

Traditional oil companies were seen as paying lip-service to biofuels, also the motor manufacturers, “waiting for the 2<sup>nd</sup> generation”: but they may get caught out by their conservatism. The EC Biofuels Directive and Fuels Directive mandate significant developments in the coming years, towards which efficiency measures can only contribute a part. The politics of the issues see German car companies (specialising in large cars) ranged against French interests (smaller cars). Additional support in France comes from the agribusiness lobby, (which together with concerns over security of supply represents the main driving force in the USA, not concern over CO<sub>2</sub>). In 10 years time biofuels for transportation may overtake renewables in power generation in significance. This will impact food prices.

The different market dynamics, economics and tax treatments for biodiesel, bioethanol and biomass for power were discussed. Biomass is subsidised, a regional ‘market’ with no major transportation issues. Woodchips and biodiesel are bulk, international markets where both transportation and the non-availability of hedges are issues. By contrast, bioethanol is more flexible, and hedges are available - a recipe for long-term success. A shakeout may be forthcoming in the biofuels industry as these different dynamics work through the system.

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