



**Cripps Sears and Partners
Minutes: Energy Executive
Networking Forum
Thursday 1st March 2018**

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Energy Executives Networking Forum

1 March 2018

City of London Club

New nuclear financing solutions?

It was noted that the UK government was being urged by the nuclear industry to bear more of the development risk in future nuclear power developments, “to reduce the cost to consumers” – and that the government appeared to be giving this a hearing. Does it mark the start of a significant new departure? Some felt that the very high cost of Hinkley Point C meant that no politician would ever advocate developing another. The costs of all the alternatives were falling. But others asked: what else could provide baseload power? It was suggested that combinations of different classes of renewables, together with storage, could deliver this. Increasingly, direct subsidy was not required for renewables, although several pointed out that (a) renewable generators taking on unhedged merchant risk did not seem plausible, even if long-term PPAs could work the trick; and (b) services provided to renewables by transmission and distribution grids were a form of indirect subsidy.

On the latter, the increasing difficulties for TSOs / DNOs (a) to make the type of returns they had made in the past, and (b) to recover their costs against a declining base were mentioned. It was probable new charging bases would be instituted. The industry model 10 years from now was likely to be very different.

Some suggested there was little political appetite for state ownership of power assets. However, the trend in Germany for public demand for restoration of social ownership. Finally, notwithstanding the general view that another Hinkley was unlikely, it was pointed out that EDF have a put-option on a 35-year CfD for another UK nuclear project, Sizewell C ...

Shale in Europe is history?

Significant differences were noted between the conditions for shale development in the US and in Europe. Prospects in Europe probably hinged also on future demand for gas, and the state of the (currently over-supplied) global LNG market. Some suggested shale production in Europe would make no material difference to the price of gas for local consumers: others observed that (unless production costs were very high) this very fact would make for a tax windfall instead. It was mentioned that in Scotland the SNP government has set its face against shale development; but that this was only a moratorium, not an outright ban – they were keeping their options open.

Europe’s ‘agreed’ emissions reductions

Discussion on this was started by the observation that Germany will miss its emissions targets by a significant margin, even as costs continue to rise, causing the issue to be swiftly relegated in importance in domestic German politics. Even the ‘diesel scandal’ has had limited impact. There will, however, continue to be decarbonization in many sectors, driven more by private investment and lifestyle decisions than by regulation – for example, towards electric vehicles and away from the model of private ownership of cars altogether. Various aspects of the Uber business model were discussed, and how ‘Uber Pool’ resulted in effective decarbonization even with the existing vehicle fleet, with electrification still to come.

BREXIT and energy

With energy markets being global in nature, in which price signals dictate how energy moves, is Brexit of major significance to the energy sector? There was general agreement that little pressure existed



for divergence on energy market rules – indeed, the UK's has been model broadly adopted by the EU – even if countries like Germany may be disengaging from other types of trade with the UK. It was further noted that if the UK had anything to fear from a breakdown in current cross-border energy trading arrangements, Ireland had a great deal more to lose.

Technology opening doors to localized powergen

All agreed the role of software and big-data-management is increasingly critical in all aspects of the evolving electricity system: optimising the operation of windfarms was cited specifically. The same was true of new business models, in several infrastructure classes (e.g. airports and toll roads) as well as energy. Members debated exactly what was the 'smart-grid' business model and a variety of suggestions were made, a common theme being that, whatever the details, it will be disruptive of traditional models. The prize was to gain efficiencies that brought down the disproportionate costs of meeting peak demand – principally by reducing that peak, through better demand management at all levels. (The magic word '*blockchain*' was heard several times ...)

During this discussion, various views were offered on electric vehicles, and advances in battery and hydrogen technology. It was suggested that some western players are not comfortable migrating towards technologies that are currently dominated by China.

Future of integrated oil companies

The traditional utility model being already under severe threat, what future is seen for 'traditional' integrated oil companies? Oil products and plastics would still be needed for the foreseeable future. It was further suggested that the 'traditional' model will still work in China, India etc: for many years they will be massively increasing their power generation and vehicle fleets. Alternatively, perhaps (as with telecoms) developing economies would 'skip a generation' and move straight towards less monolithic industry structures.

As regards IOCs in the west, it was noted that the Shells and BPs of the world are capable of being relatively nimble, not least by acquiring smaller companies. Many new start-ups – frequently the source of new ideas and talent – are only too willing to be bought up by large companies.

Consequences of forthcoming UK Price Cap?

It was suggested the outcome was predictable quite simply: set the cap too high and prices would rise towards that level; set it too low, and a number of suppliers would go out of business. Either way, the prospect was 'existential' for competition. Caps should not be necessary: but it could be agreed that "the market isn't working" - on either side, seeing how many customers declined to participate actively.

"Power interconnector between UK and Germany"

Was talk in the German press speculative, political gesturing, or based on reality? Both countries will have periodic wind-power surpluses; and German grid constraints north-to-south are acute. The matter will probably hinge on subsidies and/or, as more recently in the UK, capacity payments.



