

German British Forum Conference, One Great George Street

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Dr. Paul Golby

Good morning.

What I want to do in the time available to me is to provoke some debate and discussion by making some remarks on two issues:

1. Europe and developments at the continental level
2. Closer to home, UK energy policy

Energy policy has risen quickly up the political agenda over the last couple of years. The reasons are well known but worth restating for the record – growing awareness of the threat of climate change and increasing concern about the security of future energy supplies.

Meeting these challenges requires action by the EU and here in the UK.

European market

E.ON is a key player in a number of markets across Europe. We are making a major contribution to the future security of the continent's energy supplies – for example through our investment in the Nordstream pipeline.

Earlier this year we committed to cut our carbon emissions by 50% by 2030 through major investments in renewable and other low carbon plant, including replacement nuclear build.

E.ON is also committed to competition. We are a firm supporter of the Commission's vision of a single, competitive market in energy across the European Union.

Why?

Because a genuinely competitive single energy market is in our interests and that of Europe to deliver secure, sustainable and affordable supplies of energy.

It will allow us to trade more efficiently between our market units, to meet the needs of our customers and to enter new markets, driving competition and investment across Europe as we do so.

Our ultimately unsuccessful bid for Endesa last year has helped to crystallise this debate.

It forced the Commission to confront the fact that some countries clearly continue to believe in the concept of so-called national champions – a concept

which runs counter to the creation of a genuine single market for energy across Europe.

We now have proposals from the Commission before us in the form of its third legislative package.

As is widely known, my company has grave reservations about the package. We share the aims and objectives one hundred percent but we do not see how the proposals on the tables will do anything to achieve them.

Also, given that Europe will need players in the market with the scale and financial strength to negotiate with key suppliers, such as Gazprom, the thrust of the Commission's proposals does nothing to secure Europe's energy supplies.

It is worth remembering that the second EU liberalisation package, as we have come to call it, was not implemented by the Federal Government in Germany until 2005. However, there has already been major progress and change. E.ON's experience of competition in the UK and Scandinavia is helping to bring about this change.

Let me close this part of my talk by making the observation that the calls for Europe to simply replicate what we have in the UK should be treated with caution. It is not based on the facts. My worry is that the package currently on the table will inhibit rather than encourage investment.

Let me now turn to matters closer to home.

The UK context

We are at the end of another interesting week for our industry here in the UK. (and I am not talking about Gordon Brown's non-election).

On Tuesday, the Government released details of its scheme to support the development of carbon capture and storage in the UK.

On Wednesday, its consultation on nuclear power came to a close.

Welcome as these milestones are – and E.ON wants to be a leader in both fields - the clock is still ticking.

Over the next ten to fifteen years, around a third of the UK's generating capacity – mainly its existing coal and nuclear stations - will have to be replaced.

That means two things.

1. It means having to take some important decisions now about how we replace the capacity that will be retired.

2. Self-evidently it also means that those decisions will go a long way to determining the size of the UK's carbon footprint in the second half of this century.

The UK has a small window of opportunity to make some fundamental decisions about how we tackle security of supply and cut our carbon emissions.

If we don't, the UK will face serious problems a decade or so from now. The consequences of a likely second 'dash for gas' to keep the lights on will ultimately be seen as the wrong answer.

In trying to explain where I think we have got to on energy policy in the UK, I often compare it to writing a book.

The Energy Review launched at the beginning of last year gave us the title.

The Energy White Paper supplied us with the titles of the chapters but we now need to fill in the detail, the words on the pages, to create a credible framework for investment.

The framework we need has to include two main elements:

- An incentive to invest in low carbon technology – i.e. a carbon price
- And the ability of investor's like E.ON to deliver new capacity – i.e. a planning system that recognises the national importance of energy investments.

EU/ETS & carbon

The key to delivering a sustained carbon price is a successful EU Emissions Trading Scheme. No one would claim that the current scheme is perfect, but establishing it in the first place is an overlooked achievement.

Changes are needed of course. We need to see a greater degree of harmonisation of the scheme across the EU – how it is implemented, how permits are allocated and how emissions are verified and monitored.

We also need to see a movement away from free allocation towards auctioning of permits across all sectors.

The EU's commitment to long-term reductions in carbon emissions is welcome.

The target set out in Brussels is a good start, but it now needs to be agreed and a plan worked up for how this can inform ETS planning over the third phase of the scheme at least as far as 2020 – if not beyond that.

Without that detail, investor's like E.ON will be expected to base their investment decisions on blind faith.

Delivering infrastructure/planning reform

Clearly, putting in place the incentives to invest in low carbon technologies is one thing.

Making it possible for investors like E.ON to deliver the diversity of technology is quite another. It is here we are forced to confront the UK's planning system and ask: "is it fit for purpose?"

Of course any discussion about planning reform raises issues around local democracy.

We are calling for a planning system that assesses energy infrastructure against the "national need" as well as local circumstances - balancing the local circumstances against the broader national and global challenge.

These and other changes to the planning system are needed by 2009. If we are not careful, we will still be debating the merits of the Government's proposals on planning when the lights start to flicker.

Energy diversity

I pointed out a moment ago that one of the possible consequences of a failure to take decisions soon would be, by default, a second dash for gas.

So widening the investment options available to industry is imperative.

If the UK is to be in a position to benefit from a diverse portfolio of technologies, then the Government needs to take a number of steps to make this happen.

It has to resolve the issue of nuclear power.

Decisions made (or indeed not made) by the end of this year will determine whether or not nuclear power is able to make a long-term contribution.

We need to see evidence of action and clarity on a number of key issues – particularly around planning and licensing.

Building on our European expertise and experience, we have made clear our interest in developing nuclear power in the UK. We are, therefore, supporting a number of reactor designs through the pre-licensing process.

At the moment we are spending relatively small amounts on this work.

However, no investor is going to commit to much greater sums without greater clarity and confidence in the framework for new build.

E.ON is also a long-standing advocate of coal. We believe it has real benefits in terms of fuel diversity and energy security. It's obvious that developing economies will also look to fuel economic growth through their indigenous coal reserves – China an obvious example.

We are considering what the Government said in the Pre Budget Report on Tuesday about developing a demonstration carbon capture and storage facility. We are very keen to play a leading role in this area.

Finally, we also need to ensure that we pick up the pace with regard to the potential of renewable energy.

Industry has not been slow to develop renewable energy projects – my company is involved in two of the biggest offshore developments in the UK, Robin Rigg and London Array – but deliver of them has been slow and piecemeal as we, like other developers, have tried to get much needed projects through the planning system.

Conclusion

Clearly there are a number of issues I haven't had time to cover in my remarks but I would be delighted to see them figure in the questions at the end.

I am thinking of issues such as:

- the need to ensure our R&D base is fit for purpose to develop the new energy technologies we will need – the “two or three things we haven't thought of yet” as I like to describe them.
- energy efficiency – and in particular how we reconfigure the supply market in the UK to become an *energy services* market post 2011.

However, I hope we can pick up *all* of these issues in our discussion.

Thank you for listening.