SCOTLAND'S ECONOMIC FUTURE POST-2014

SUBMISSION FROM INFINIS ENERGY PLC

About Infinis
Infinis is the UK’s largest independent renewable power generator with 621 MW of installed capacity across three technologies: landfill gas (LFG), onshore wind and hydroelectricity. We operate at 147 sites across the UK which last year generated 2.5 TWh of renewable electricity for the equivalent of half a million UK homes.

We are the leading LFG generator in the UK with an approximate 40% market share based on generated electricity, equating to 330 MW of installed capacity. This is one of very few renewable technologies that can produce reliable baseload electricity due to the predictability of gas production from landfill sites. Infinis manages both the gas fields as well as the preventive maintenance and overhaul of a fleet of about 330 high performance gas engines with its own team of technicians.

Infinis also has a leading position in the UK wind sector where we are now the 7th largest generator. Our 16 operational sites have an installed capacity of 274 MW. We also operate ten hydroelectric plants, using both run-of-river and reservoir technologies, with a total capacity of 17 MW.

Infinis owns and operates all of its generating plants. This allows us to efficiently manage our portfolio of generating assets, utilising our in-house maintenance teams, the Lancaster-based Centre of Excellence for engine overhauls and training, and a 24/7 power plant compliance and performance monitoring logistics centre based in Northampton. We aim to instil a culture of responsibility and operations excellence amongst our employees who are a core part of our competitive advantage in the sector.

Infinis in Scotland
Over a quarter of Infinis’ current operational capacity (162MW) is based in Scotland where we run seven wind farms (148.5MW), six LFG sites (13MW) and one hydroelectric plant. Since all of our plants are ‘embedded generation’ and connect to the local distribution network, the power we generate in Scotland is ultimately consumed by Scottish households.

As well as being a significant part of our operational base, Scotland is also the location for the majority of our wind development pipeline and future growth. We have two consented wind farms (A’ Chruach in Argyll and Bute and Galawhistle in South Lanarkshire) in pre-construction accounting for 98 MW of new capacity to be built out in 2015-16 as well as a further 12 wind development projects in the planning and pre-planning phase. We choose to develop in Scotland due to the attractive wind resource, the ambitious renewable energy strategy adopted by the Scottish Government and the generally favourable support we get from local communities we engage with.

Infinis manages its wind operations, development and construction activities out of its Edinburgh office, where we employ about 20 staff members. Our in-house wind development team covers a wide array of technical and project management
capabilities with expertise in estate surveying, planning, energy yield assessment, grid and wind farm construction. We seek to involve local communities in Scotland at the earliest possible opportunity and have put in place community benefit schemes to ensure that local communities share in the long term financial benefits which wind farms bring in their areas.

Provided the low carbon regulatory regime remains supportive, we expect to invest £150-200 million in new operational capacity in Scotland for the remainder of this decade and to increase our Scotland-based staff numbers. Taken together, Infinis’ current Scottish power generation plants contribute £2 million per year in business rates and community benefits and this amount will more than double if we go ahead with our future investment plans. At the same time these plants contribute to Scotland’s energy resilience by providing domestic sources of energy production.

We have two Scotland-based institutional investors among our Top ten-shareholders, Standard Life and Alliance Trust, who invested at the time of our IPO in November 2013.

Energy policy – the imperative need for stability
Investors in energy assets require a degree of long term certainty about their future returns. A lot of capital has to be committed upfront with payback periods then stretching out over many years and potentially decades. There are a number of factors that can impact future returns that it is appropriate for businesses to manage, including asset maintenance, fuel costs, route to market, financing requirements and recruitment of adequately skilled employees.

By contrast, it is much more challenging for businesses to manage the risk of policy instability since that is a factor entirely outside their control. Where the risk of policy change is perceived to be high, investment in energy assets is likely to suffer as shareholders demand higher returns for their capital, debt providers become reluctant to lend, and managers become more cautious about committing capital to new projects.

That is a scenario that policymakers committed to meeting ambitious climate and renewable energy targets should wish to avoid. Through its membership of the EU, the UK is signed up to achieving a target of 15% renewable energy consumption by 2020. To meet that goal, the government has stated that renewable electricity will need to generate 30-35% of total UK demand by 2020 – a challenging goal from the current base of 15% in 2013. As a renewable energy generator Infinis believes ambitious renewable energy targets have great value in driving the industry forward and we note that the Scottish government is currently more advanced than the UK government in this regard, targeting renewable generation equivalent to 100% of Scotland’s electricity consumption by 2020.

Meeting these renewable energy targets will depend crucially on maintaining access to the regulatory support schemes. The vast majority of large-scale renewable energy projects built in the UK benefit from revenue support in the form of the Renewables Obligation (RO) scheme. Infinis is typical insofar as its entire operating capacity is grandfathered under the RO-regime.
The Renewable Obligation scheme has been critical to attracting sufficient investment in renewables to meet the UK’s binding targets, and as a result driving down the cost of deployment as the installed base grows and economies of scale kick in.

This is a positive process but it is not yet finished. Renewable energy technologies are still far from their maximum potential or minimum cost, and the perceived threat of a potential interruption to financial support at this stage will prevent the industry from achieving the requisite scale enabling it to be increasingly cost efficient and improve the affordability of renewable energy for UK households.

The question of independence
Infinis does not take a formal view on the question of Scottish independence. Our main concern is the preservation of a stable and investable policy framework for renewables in Scotland, enabling Infinis to strongly commit to substantial investment in future capacity growth in Scotland. We believe the following conditions need to be achieved to maintain Scotland’s place as an attractive market for renewable energy investments:

i. A clear commitment to the policy of **grandfathering** for projects built under the RO with a clear linkage to revenues that can sustainably support the spending commitment, whether through customer levies or general taxation.

ii. No abrupt shifts in future policy support for renewables. The UK Government has spent the last four years designing and implementing a new Contract-for-Difference (CfD) feed-in tariff for renewables and, though we have some reservations about its design and remain ardent supporters of the proven effectiveness of the RO-regime, it would be unhelpful to pursue a radical change of direction after so many years.

iii. A fully integrated GB energy market with a shared subsidy mechanism reflecting Scotland’s surplus supply of renewables and the UK’s overall surplus demand.

iv. Ambitious and progressive targets for renewable energy deployment with tapered financial support dependent on evolving technology costs.

Our view is that these conditions can be achieved, although not necessarily guaranteed, in the event of a no vote in the referendum. It may be harder to achieve these conditions under a Scottish independence but not impossible, provided both the UK and Scottish governments are willing to work in partnership to maintain a common energy market. This will underpin the affordability and security of supply objectives of Scottish and wider UK households and businesses as power is increasingly sourced from low carbon generation.

Infinis Energy PLC
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