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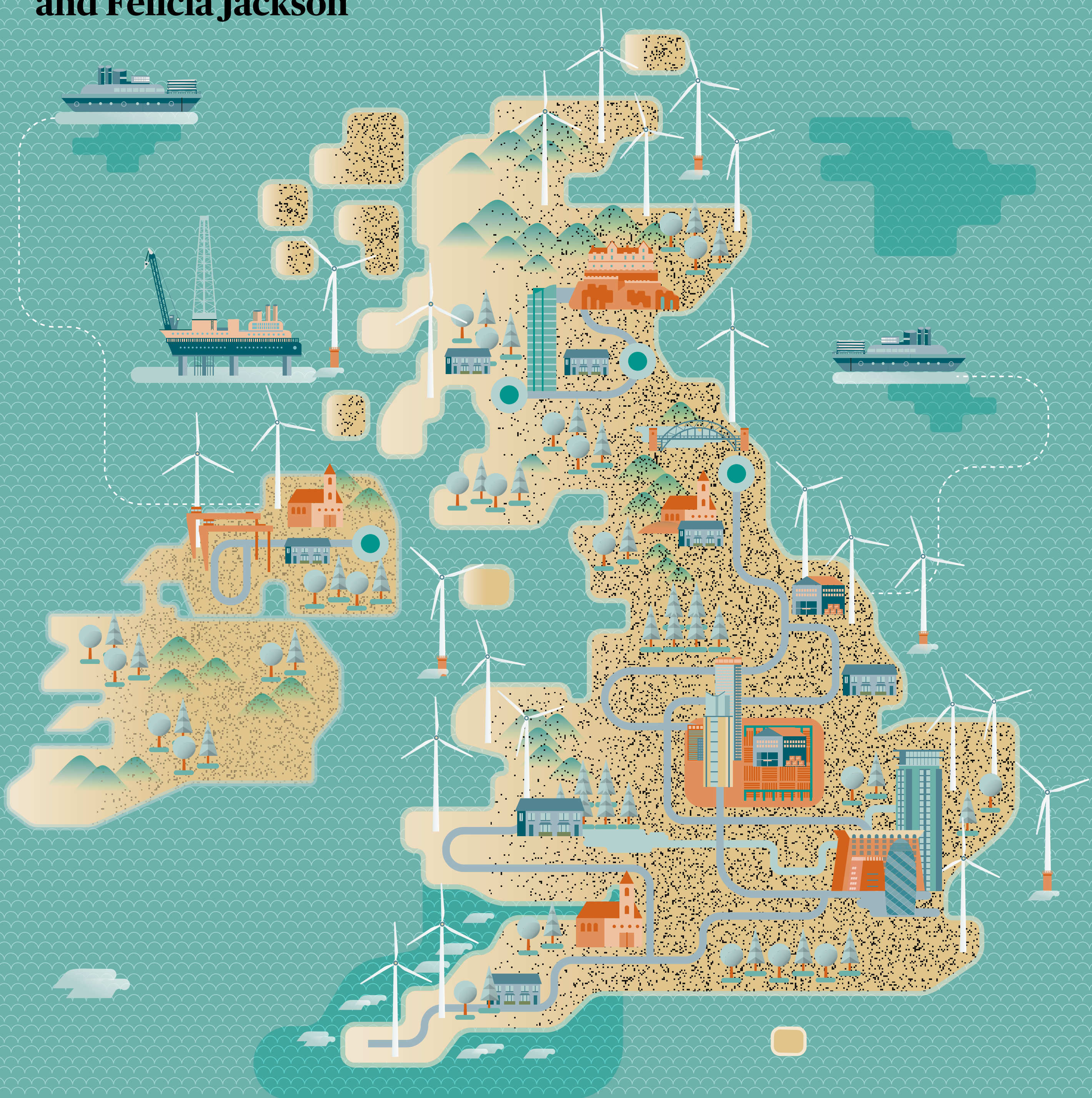
The voice of wind & marine energy

UK Wind & Marine Energy Business Barometer 2012

Analysis by Peter Stafford and Felicia Jackson



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RenewableUK

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with more than 675 corporate members, RenewableUK is the leading renewable energy trade association in the UK. For further information contact:

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Contents

Participating organisations

Introduction

By Felicia Jackson

Felicia Jackson is a writer and consultant specialising in the low carbon transition. Author of Conquering Carbon and editor-at-large of Cleantech Magazine, she was founding editor of New Energy Finance, and contributes to a number of national and trade publications

The UK wind and marine industry is at a pivotal point. The potential for growth is immense, but there are many unanswered questions about how that growth can be achieved, especially in times of economic austerity. The second UK Wind and Marine Energy Business Barometer highlights industry awareness of the challenges to be overcome.

Governments are struggling with the challenge of the affordability and security of energy supply in a time of economic constraint and energy demand growth. These challenges are inherently political because of their impact on economic competitiveness and consumer energy prices. This means both cost of generation and economic contribution are paramount.

Wind and marine energy has been accused of being more expensive than conventional gas generation. While plant capital cost may be higher today, costs are falling across a range of technologies. The recent drop in solar component costs is a key example of how increased deployment causes costs to fall. But debates about the cost of renewables pale into insignificance when considering the global scale of energy subsidies. In 2010, the fossil fuel industry was subsidised to the tune of $406 billion versus renewables $66 billion and, despite that, 2011 saw renewable generation capacity outstrip fossil fuel for the first time.

The vital contribution that wind and marine energy can make to the UK economy must also be considered. Both play a crucial role within the UK's green economy. A July 2012 report from the CBI, The Colour of Growth, reported that nearly one million people were employed in green business in 2011/12 and a third of the UK's economic growth came from the sector. At the same time, the UK has a £5-billion trade surplus in green goods and services, and the CBI believes it could add as much as £20 billion to UK GDP in 2014/15. According to some projections, the tidal industry alone is expected to be worth £3.7 billion to the UK by 2020.

Renewables also have a critical role to play in the mitigation of rising power prices. Over the last five years in the UK, rises in wholesale gas prices have been responsible for 80 per cent of increases in consumer energy bills. There is no question that effective management of affordability issues and security of supply will require a mixed energy generation portfolio.

In the UK, the government is attempting to address these challenges through Electricity Market Reform (EMR). The Energy Bill will see its second reading in November and many hope the Bill, and it's supporting documentation, will supply answers to many of the questions that remain about EMR, such as the strike price for low carbon power, indexation terms, acting counterparty and a reference price for Contracts for Difference (CfD).

This survey explores industry's view of investment, where capital might be sourced in the future and expectations of growth, the influence of different factors in driving investment, and projected capacity over time. It explores industry's view of government policy, its effectiveness and support for the sector, and where incentives and obstacles to development can be found. It also looks at industry's view of potential employment in the sector, challenges to growth and explores how safety records can be improved.

While there were differences in perception of the market dependent on size and position within the supply chain, most respondents shared a clear view that the future of the industry is reliant on the creation of an effective, stable long-term policy framework to encourage investment and drive growth.

The path to growth requires attracting investment and that means the sector needs policy consistency, clarity and confidence. As the UK Wind and Marine Energy Business Barometer provides a snapshot of where the wind and marine energy industries are today, it is hoped that the forthcoming Energy Bill will bring solutions to some of the challenges identified.

Section 1: **Investment**

Given the turmoil in the UK, European and global economies, businesses operating in the wind and marine energy sectors are relatively upbeat about the investment climate in which they work. Respondents were asked to set out how the investment climate in which they work differs from 18 months ago (if at all). The headline figures show that around one-third believe the investment climate is more favourable than 18 months ago, one-third believe it is about the same, and one-third believe the investment climate is less favourable than 18 months ago. While responses to this years survey are marginally less optimistic than those given in the 2011 edition, the overall picture is more positive than other similar published data on investor confidence in the UK over the last year. This suggests positive economic conditions for consolidation and growth. As a result, it is likely that at least one-third (and up to over a half) of firms see themselves in more positive trading territory than 12 months ago.

In very general terms, marine energy businesses are slightly more positive about the investment climate, compared to 18 months ago, than wind businesses. Interestingly, the most optimistic firms tend to be the very largest (with more than 500 employees) and the very smallest (with fewer than 25 employees).

Figure 1 - **Investment climate compared to previous year**

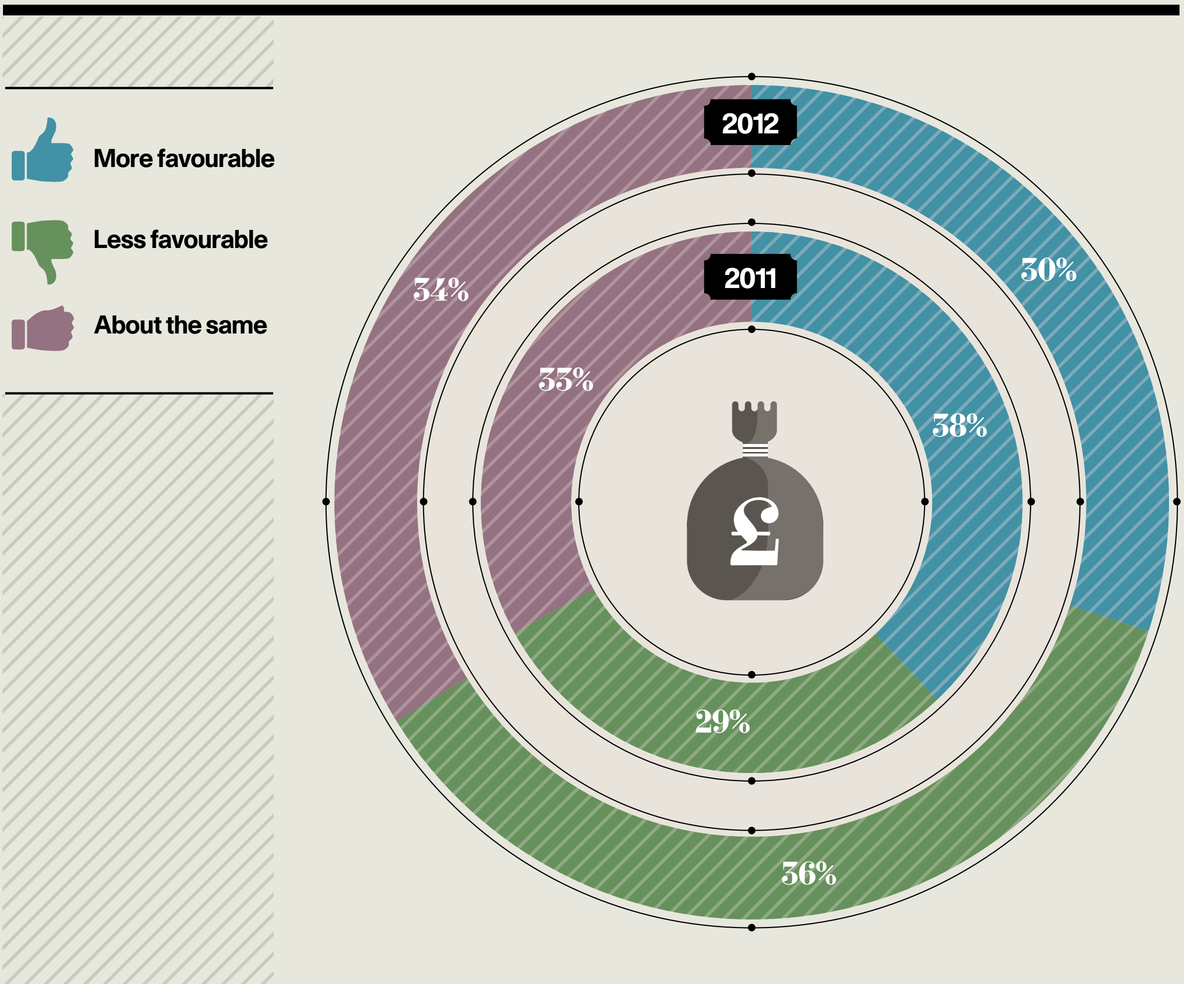
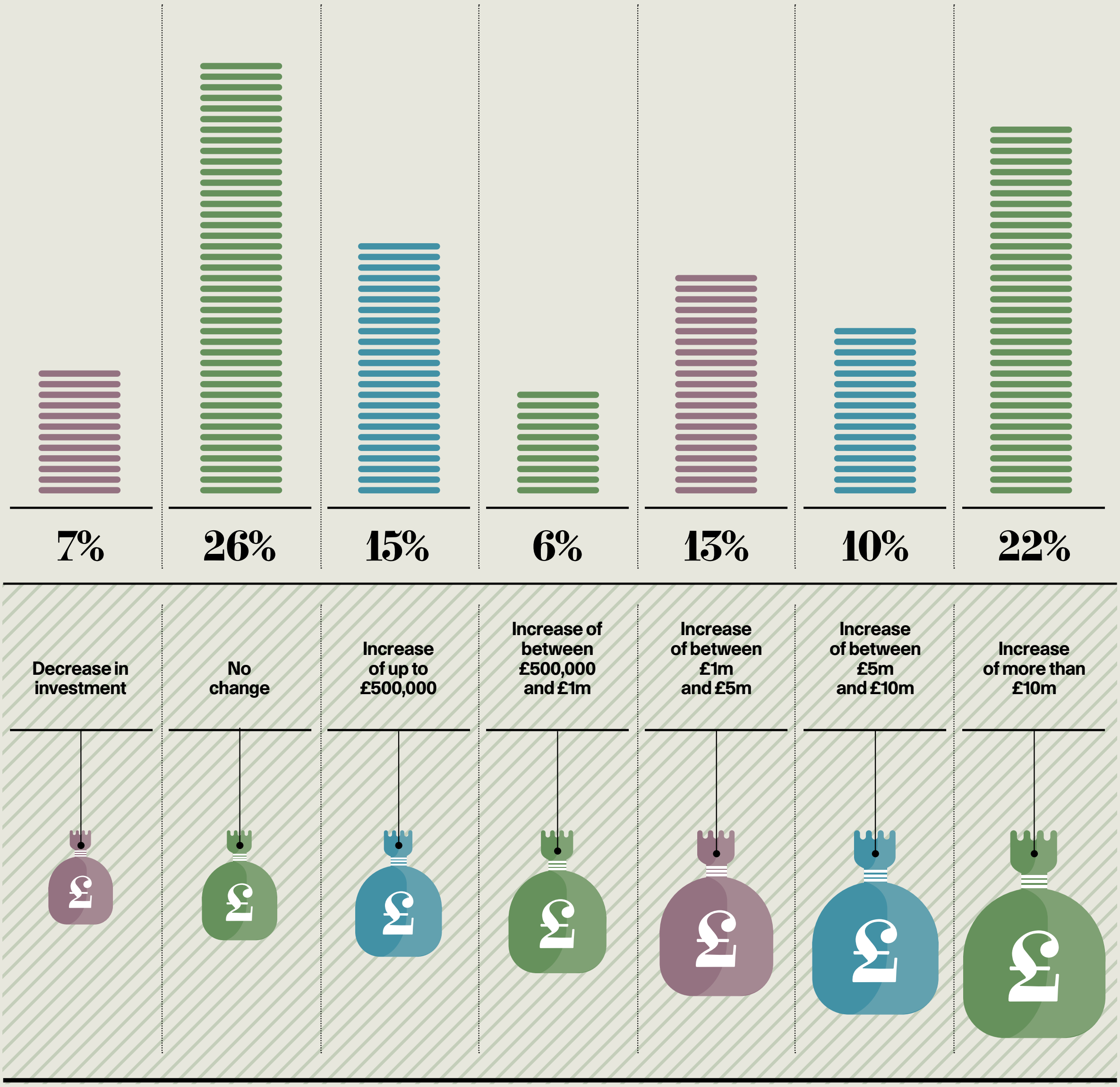


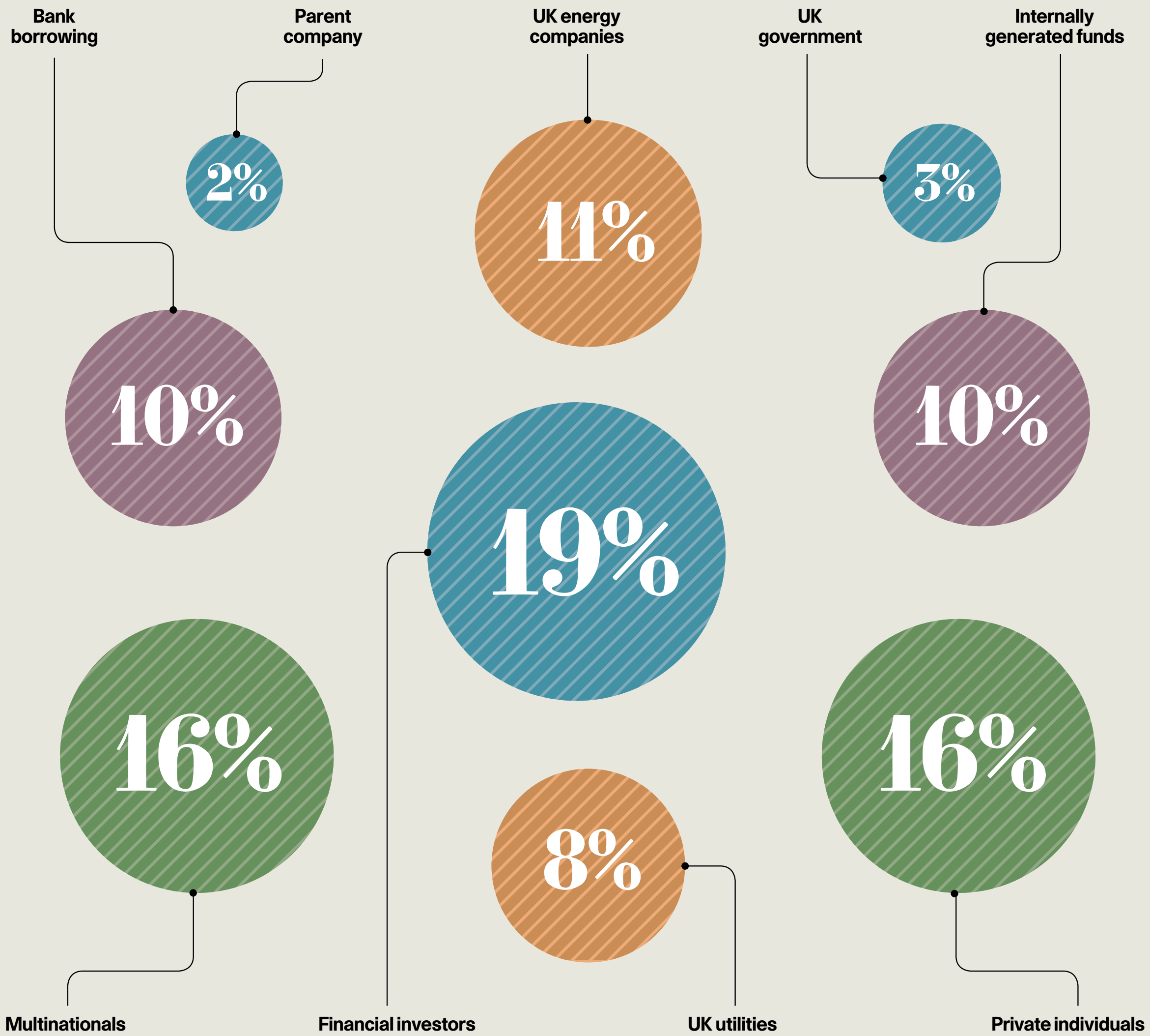
Figure 2 - **Investment over the next 18 months**



Looking at investment over the next 18 months at a sectoral level, the largest increases are likely in offshore wind. Some 40 per cent of offshore wind respondents expect to see private investment increase by between 5 per cent and more than 20 per cent. A further 15 per cent expect to see private investment increase by more than 20 per cent. This expected growth in private investment in offshore wind can be contrasted with the outlook for private investment in onshore wind. Some 44 per cent of businesses expect to see no change in investment or an actual decrease over the next 18 months. Only 5 per cent of onshore wind firms expect to see an increase great than 20 per cent over this time period; the majority of those expect to see it come from private individuals and bank lending.

The marine sector expects to see significantly lower levels of private investment over the next 18 months. A quarter of respondents working in tidal and wave businesses expect to see no change, and fewer than 10 per cent expect a decrease in private investment. Of those expecting an increase, forecasts are more modest than the wind sector, with most expecting up to 10 per cent growth. Interestingly, 5 per cent expect to see an increase of more than 20 per cent, which is the same proportion as the wind sector, and again it is expected that this investment will come from private individuals and bank lending. In both the wind and wave sectors, the largest firms are the most optimistic. Smaller, technical-service providers have seen little growth over the last 18 months and also expect little future growth over the next 18 months.

Figure 3 - **Sources of future investment**



Altogether 97 per cent of investment in UK wind and marine energy businesses over the next 18 months will come from the private sector. Only 2.5 per cent of respondents hold out hope of government investment in the next 18 months, the bulk of which are small firms operating in the wave and tidal sectors. Of the remaining respondents, financial investors and private individuals are likely to account for one-third of respondents' investment sources. Very few businesses operating in marine energy expect to avail of investment from financial institutions over the next 18 months. Interestingly, a large number of those marine businesses expect to be able to raise their own funds from their own balance sheet, capital or through reinvestment of profits. Bank lending will provide the bulk of investment for 10 per cent of firms, mostly in the onshore and offshore wind sector.

Almost 16 per cent of firms are looking to multinational firms for investment over the next 18 months. These firms tend to be based overseas, mostly in northern Europe, and already work outside of the UK. They are also the largest firms in this survey. Investment from UK energy companies plays a very marginal role in the future investment scenarios presented by respondents. Only 11 per cent of respondents look to energy companies for the bulk of investment. These companies tend to be the smallest, with over half having fewer than 25 employees. They are also most likely to be in the wind sector. Very few large firms or businesses in the marine sector pointed to energy companies as the source of the bulk of this future investment.