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IBERDROLA ScottishPower

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Key messages

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- UK is a significant wind power market
- Attractive wind resource
- Traded certificate (ROC) structure
  - Provides attractive economics
  - ROC scheme in place until 2027
- UK has adopted ambitious targets for renewables
- ScottishPower is UK's onshore market leader with a strong pipeline of future projects

Agenda

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Market overview

ScottishPower – UK Wind

The UK wind market has experienced rapid growth in recent years …

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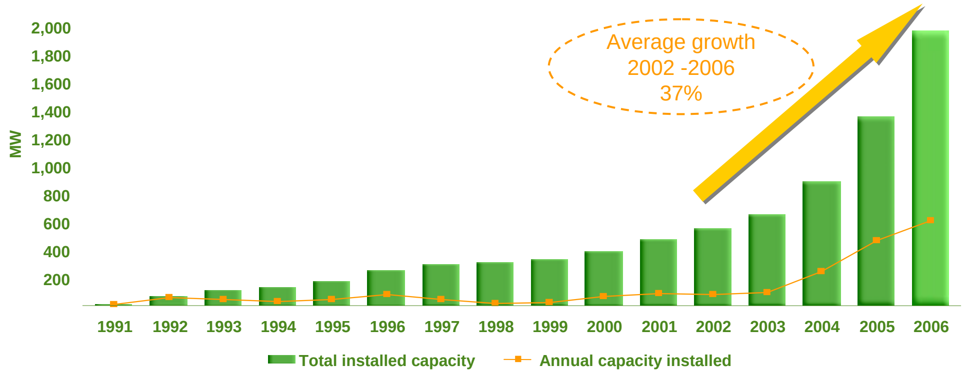
Regulatory support:

1990 – First Non Fossil Fuel Obligation → 2001 – Introduction of the Climate Change Levy → 2002 – Introduction of the Renewables Obligation → 2007 – UK becomes 7th country worldwide to install over 2GW of Wind Energy



The UK Wind market has experienced strong growth since 2002 fuelled by the introduction of the Renewables Obligation framework

Source: BWEA

… becoming an attractive market for wind energy …

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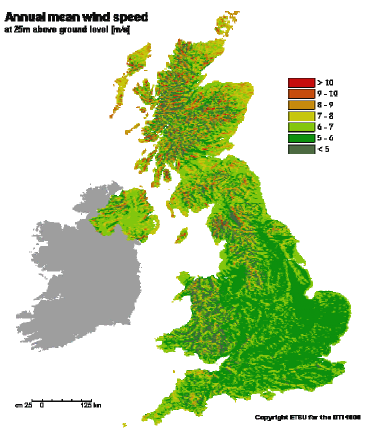
UK wind velocity



UK wind market (MW)

Operational	2,066
Under construction	1,275
Approved	3,777
Planned	10,770
Total	17,888

The UK is one of the windiest regions in Europe

Source: BWEA statistics April 2007

...with committed targets for renewables

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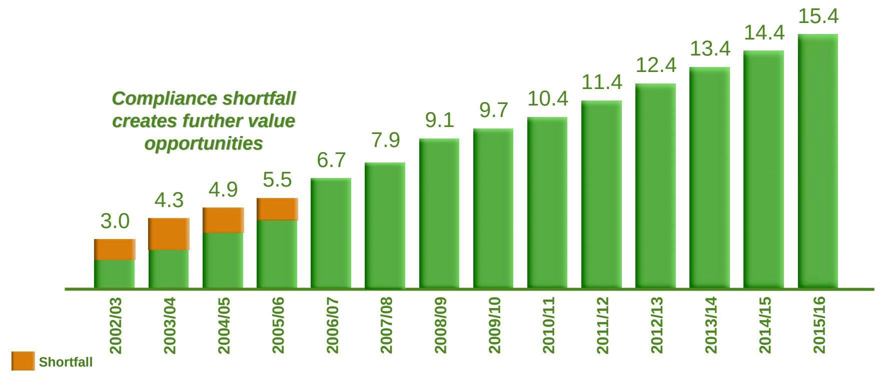
Obligatory % of supply from renewable sources



By 2015 obligation to supply over 15% of electricity from renewable sources – may rise to 20%

Source: Department of Trade and Industry

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...which will require significant new build

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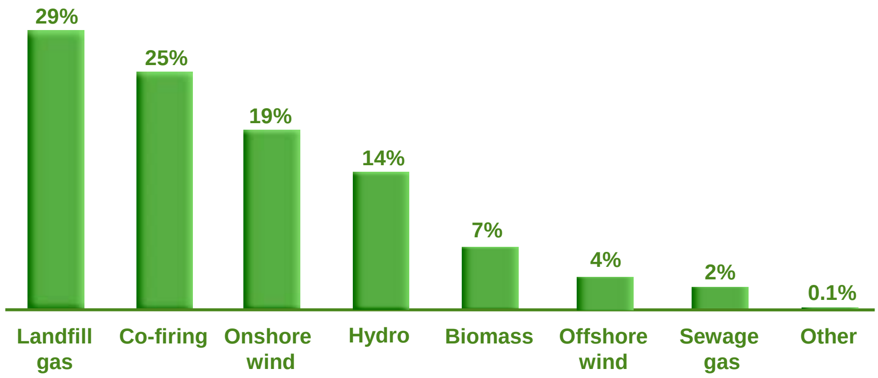
2005/06 ROCs issued by technology



16.5 GW needs to be built to meet the 2015/16 target – with onshore and offshore wind key technologies

Source: OFGEM Renewables Obligation: Annual report 2005 – 2006, February 2007

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Facing usual market development issues

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Planning timescales

Process slow although reform underway
Political will varies between local authorities
Successful planning knowledge and stakeholder relations is key

Grid infrastructure

Capacity is available to early projects
Later projects face delays
Some "queue" reform underway

Turbine supply

UK lacks incumbent suppliers, exposed to worldwide shortage

The UK faces the same issues for wind development as most European wind energy markets

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Renewables Obligation Certificates (ROC)

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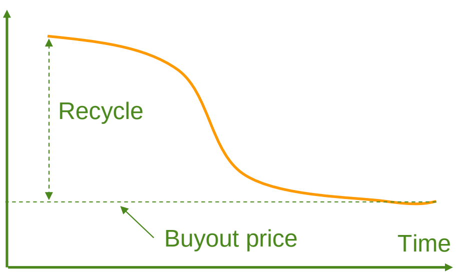
Illustrative revenues for UK wind per MWh

Current month ahead wholesale baseload [1]	£35.18	Eur 51.91
Buy-out price [2]	£34.30	Eur 50.61
Recycle price [3]	£12.93	Eur 19.08
Climate change levy [2]	£3.65	Eur 5.39
Total	**£86.06**	**Eur 126.98**

ROC pricing



Supply and demand based

Projects earn ROCs = base price (buyout) plus shared element of suppliers' non-compliance fines (recycle)

Plus price of power and LECs [4]

As compliance is met, recycle falls – price moves towards buyout

Sources: (1) Heron, (2) Ofgem, (3) Implied for the purpose of this example, (4) Levy Exemption Certificates

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Market overview and dynamics

ScottishPower – UK Wind

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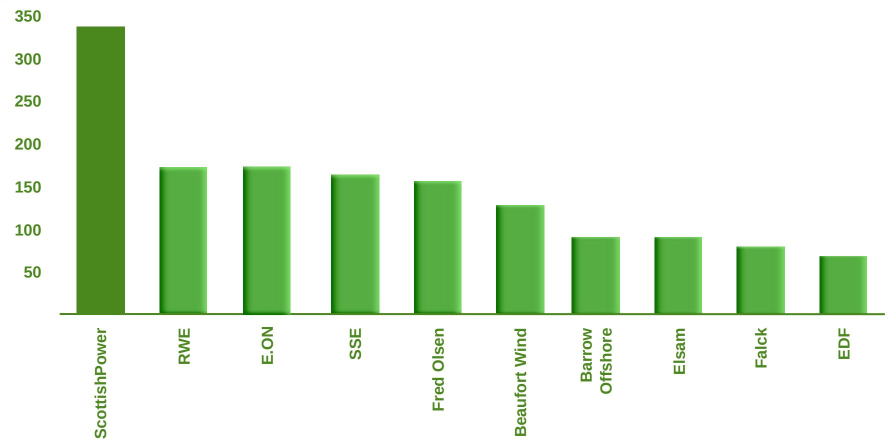
Market leading onshore developer …

Wind installed capacity (MW)



… with c.17% installed capacity in a fragmented market

Note: latest available data

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… with minor interests maintained in offshore while policy/economics evolve

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UK Offshore Wind market (MW)	
Operational	304
Under construction	474
Approved	2,196
Planned	2,625
Total	5,599

ScottishPower's net offshore interests

- Two planned wind farms:
  - West of Duddon Sands – 167 MW
  - Shell Flats – 35 MW
- 1,000 MW offshore factored into ScottishPower's '*Pre-Planning and Feasibility*' capacity

Sizeable opportunity… → **… which ScottishPower is ideally placed to rapidly exploit**

Clear potential to increase offshore development

Source: BWEA

ScottishPower's UK wind farms

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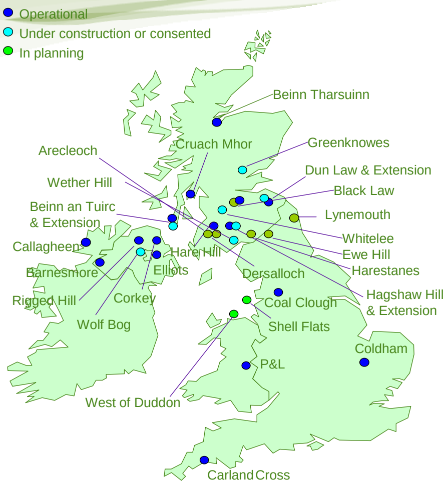

- Leading onshore developer
- 344 MW operating capacity
- 474 MW construction programme including:
  - Whitelee 322 MW among largest in Europe
- 772 MW in planning
- 3,628 MW in pre-planning and feasibility

ScottishPower wind farms are mostly located in Scotland where the best wind sites in the UK are located

ScottishPower has market leading wind capabilities ...

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- Benefits from early mover in onshore wind:
  - site selection, high wind yields
- Strength of in-house development team:
  - environment impact, project design, risk assessment, technology
- Seen as a responsible developer:
  - public consultation, partnerships
  - relationships with key stakeholders
  - Queens Award for Sustainable Development
  - Vision in Business for Environment Scotland Award
  - three Green Energy Awards
- Strong in-house renewables operational and trading skills

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2006

Successfully built on rapid market entry

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... as well as developing marine renewables strength

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- Scotland well positioned to exploit wave and tidal resources
- Wave power demonstration project to be established (3 MW)
- OPD Pelamis technology
- Accelerate commercialisation
- Strong support from Scottish Executive

Growth potential over a wide range of renewable technologies

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UK wind: key economic drivers

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High load factors
2,300 – 2,800 hrs on average

Attractive economic incentives

Stable regulatory framework

Opex
40 – 50 £/kW per annum

Capex
1,000 – 1,200 £/kW

Potential returns in the UK are more attractive than those available in several other wind markets in Europe

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Conclusions

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Market environment
- Long term and stable regulatory framework (until 2027)
- Increasing ROC demand

Government commitment
- 15% of generation to be sourced from renewable sources by 2015
- Attractive economic incentives

ScottishPower
- Currently #1 onshore operator
- Strong development pipeline
- High quality sites
- Options in offshore, marine

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Appendix

Detailed UK wind farm overview

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Name	Installed capacity (MW)	Operational	Load Factor
Barnesmore	15	1997	33%
Beinn an Tuirc	30	2002	35%
Black Law I	97	2005	30%
Callagheen	17	2006	32%
Carland Cross (45% owned)	3	1992	28%
Coal Clough (45% owned)	4	1992	26%
Coldham	16	2005	29%
Corkey	5	1994	37%
Cruach Mhor	30	2004	22%
Dun Law	17	2000	26%
Elliots Hill	5	1995	37%
Hagshaw Hill	16	1995	30%
Hare Hill	13	2000	41%
P&L (50% owned)	15	1992	24%
Rigged Hill	5	1994	37%
Black Law II	27	2006	25%
Beinn Tharsuinn	29	2006	29%
Operational	**344**		**30%[1]**

Source: As at April 2007. (1) Average load factor

Detailed UK wind farm overview (2)

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Name	Installed capacity (MW)	Operational	Load Factor
Beinn an Tuirc 2	38	Post 2010	32%
Greenknowes	30	2008	32%
Hagshaw Hill Extension	26	2008	32%
Dun Law Extension	30	2008	27%
Wether Hill	18	2007	34%
Whitelee	322	2008	29%
Wolf Bog	10	2008	35%
Under construction / consented	**474 (818 incl. operational)**		**30%[1]**
Arecleoch	180	2009	27%
Black Law Phase 3	18	2009	27%
Dersalloch	78	2010	31%
Ewe Hill	51	2010	28%
Harestanes	213	2010	28%
Lynemouth	30	2010	28%
West of Duddon Sands Offshore	167	2013	40%
Shell Flats Offshore	35	2012	40%
In Planning	**772**		**31%[1]**
Pre-Planning and Feasibility	**3,628**	Onshore 2,628 / offshore 1,000	
Total (Operational and Pipeline)	**5,218**		

Source: As at April 2007. (1) Average load factor

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