



IBERDROLA + ScottishPower


BIRTH OF A WORLD LEADER
Valencia, April 26th 2007

Technical Session II
ScottishPower
UK liberalised businesses:
Generation & Supply



IBERDROLA

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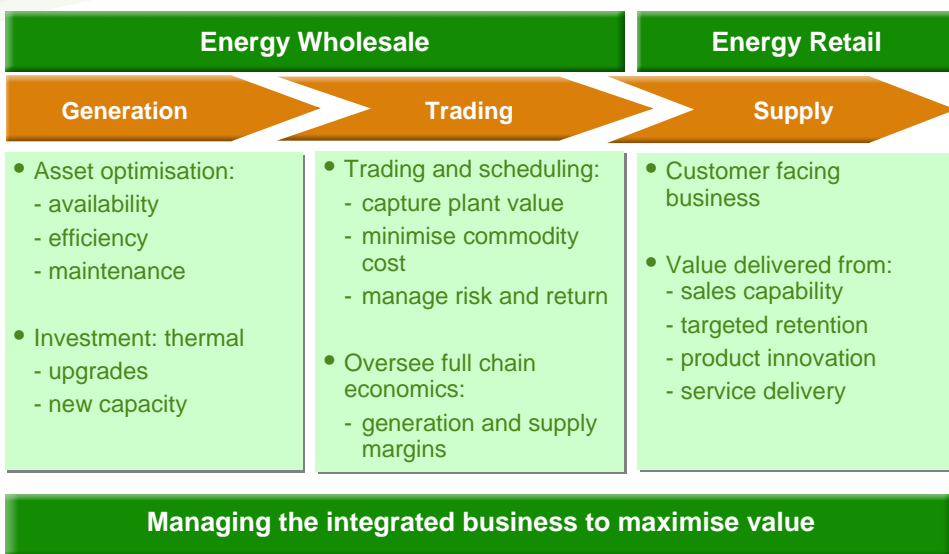


Integrated Generation and Supply

UK Conventional Generation

UK Supply

Integrated energy – UK value chain



Creating value by integrating Generation and Supply



Integrated commercial approach ...

Two businesses but one P&L

Joint understanding of marginal retail economics

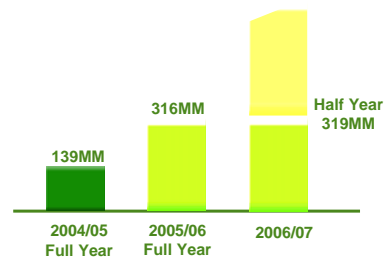
Joint decisions on retail pricing and customer growth targets

Single view of forward wholesale prices

Agreed view of long term "through the cycle" supply net margins

... with joint decision making

EBIT⁽¹⁾ trend (IFRS excl. IAS 39)



Each business brings its skills and knowledge to bear

(1) Converted to Eur at exchange rate of 1.4755

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Generation and Supply - strategic focus



Overall aim of growing our portfolio of assets and customers

1. Increase integrated energy margins

- Restore margins
- Grow customers when economic
- Competitive advantage from trading

2. Invest in generation assets

- FGD at Longannet
- CCGT

3. Focus on operational performance

- Drive value from plant
- Proactive customer service
- Benchmarked performance

Maximising whole chain profitability

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Agenda



Integrated Generation and Supply

UK Conventional Generation

Market overview

ScottishPower - Generation

UK Supply

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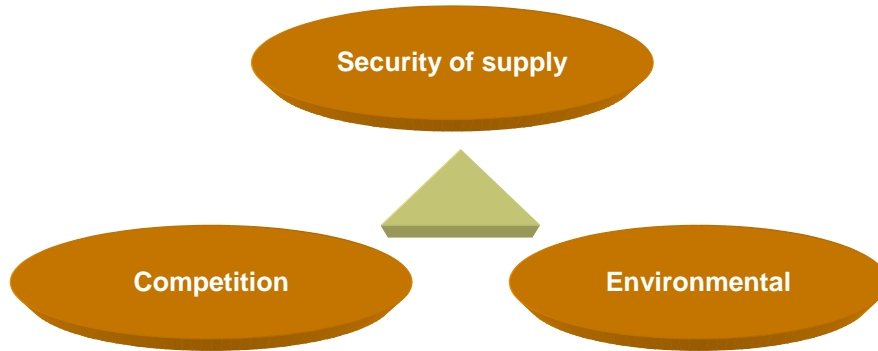
Key messages



- **Shifting political and regulatory priorities**
 - Before – competition and pricing
 - Now – environment and security of supply
- **Significant new capacity requirements**
- **Wholesale power prices have tracked commodity cycle**
- **ScottishPower is one of the top generation players**
 - Attractive mix of assets
 - Customer hedge from supply business
 - Strong investment opportunities
- **Managing the integrated Generation/Supply business to create value**

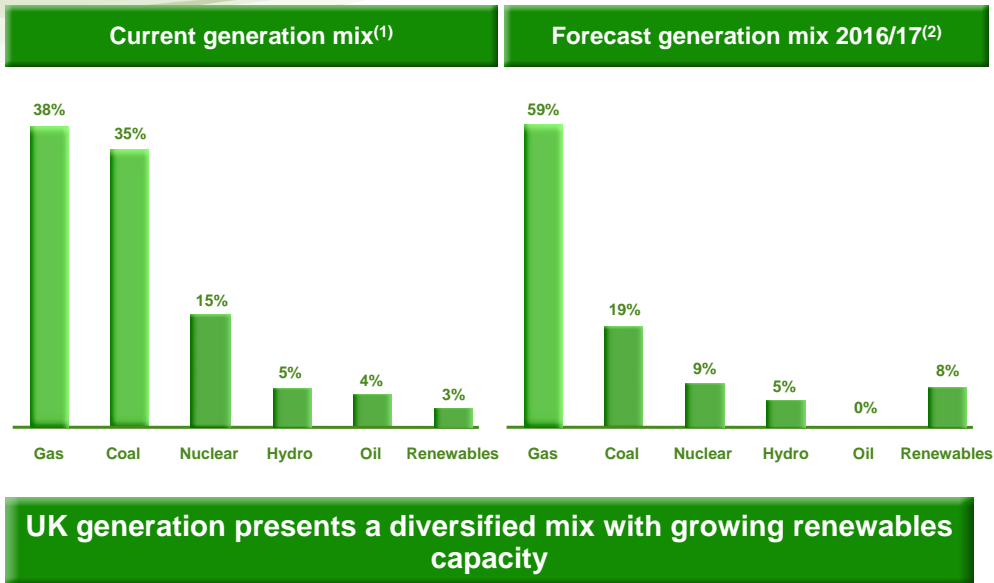
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Current themes in UK generation



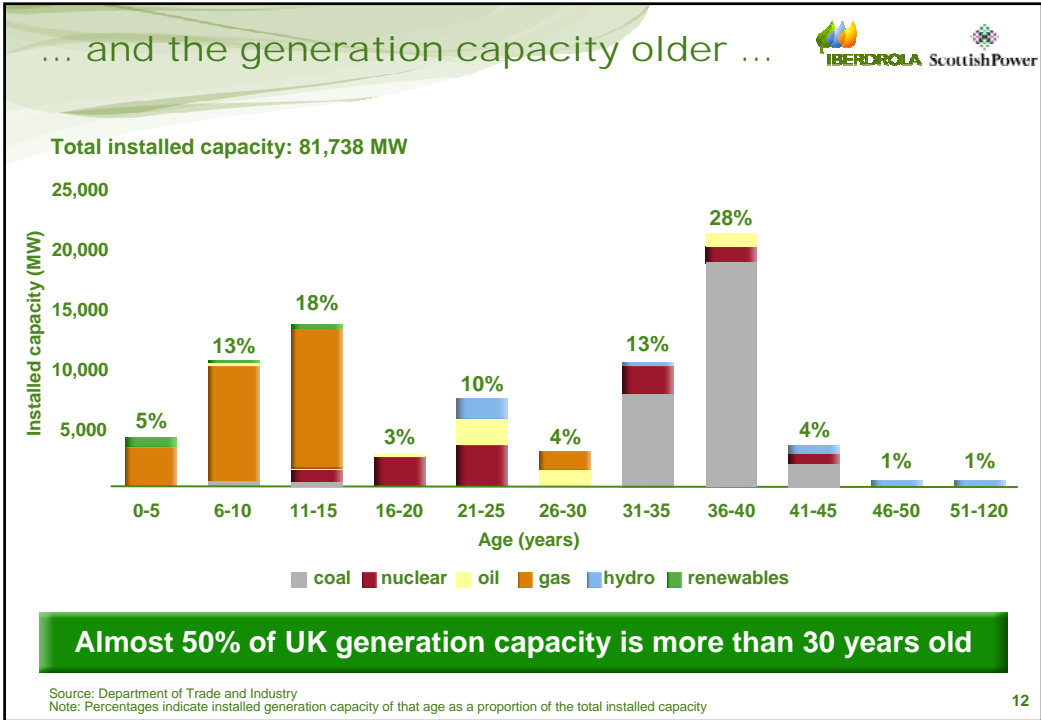
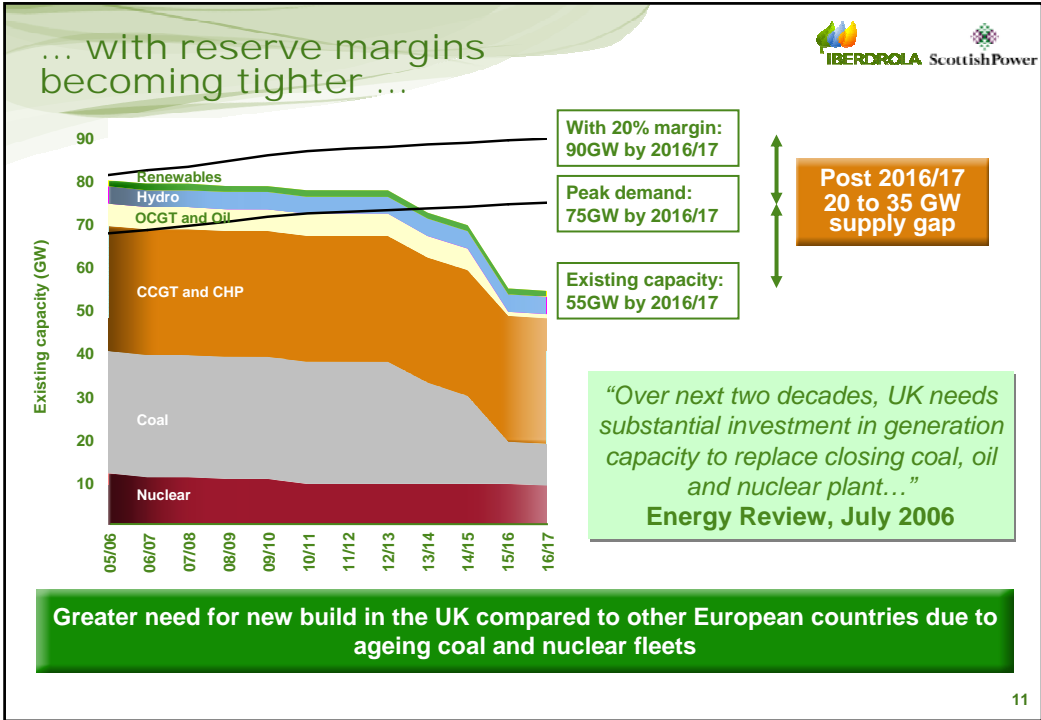
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UK generation output is changing ...

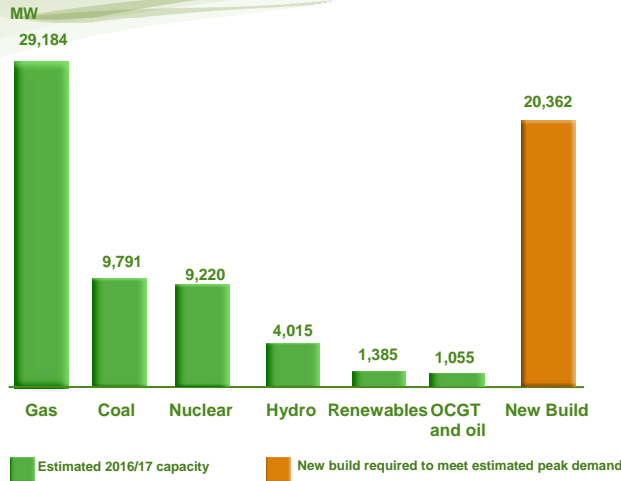


Note: (1) Department of Trade and Industry (2005)
 (2) Internal estimates (assuming no nuclear build by 2016 and 20% plant margin)

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... requiring new build capacity



Technology	Comment
New CCGT	Low risk, technology of choice, LNG link
Old Coal (supercritical retrofit)	New environmental costs
New Coal (supercritical)	Competitive with CCGT, depending on the cost of gas
Nuclear	Competitive but wide cost range, other issues
Renewables	High cost, dependent on RO, vital role

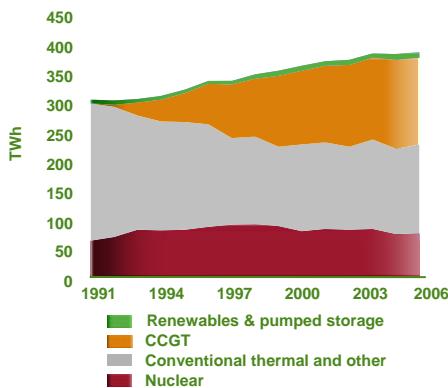
Significant baseload new build requirement post 2015

Note: Existing 2016/17 capacity reflects 2005/06 plant that has run-off by 2016/17. Gas includes CHP

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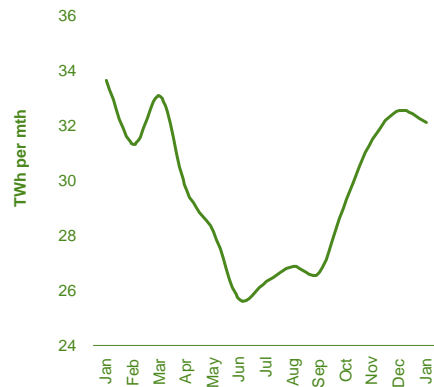
UK generation market characteristics

Production by fuel type



Decline in conventional generation more than offset by growth in CCGT...

Demand profile (2006)

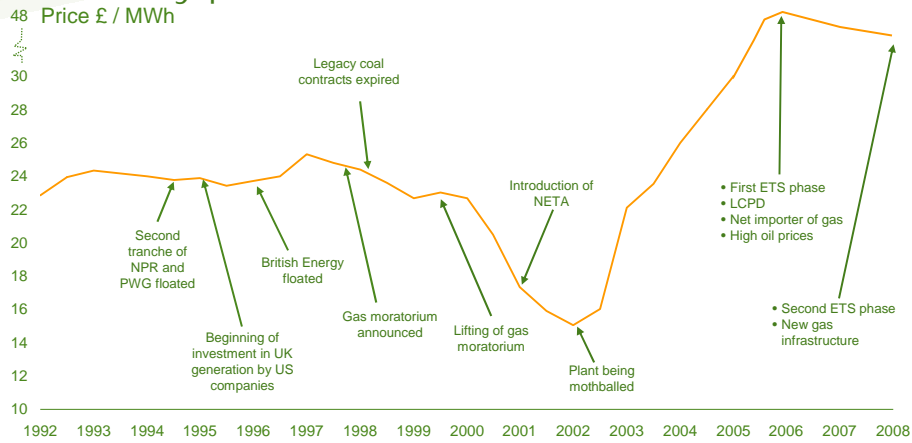


...with some intra-year demand fluctuation

Source: National Grid, Department of Trade and Industry

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UK wholesale prices have followed need for new capacity and global commodity prices...

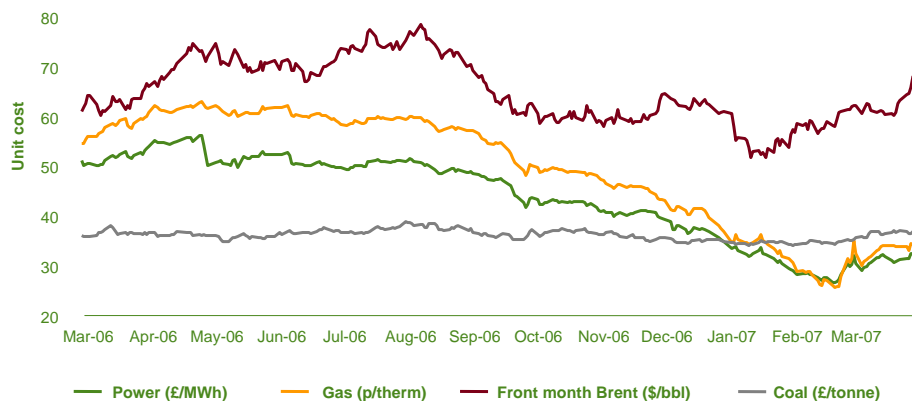


Volatility highlights strength of vertical integration

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... with recent prices driven by gas market developments

Wholesale Prices 07/08 (nominal)



Gas is key to the UK market

Source: Power - European Daily Electricity Markets, Heren Enrgy; Gas - European Spot Gas Markets, Heren Enrgy; Front month Brent - Reuters News Services, Front month coal - Daily Coal & Emissions Report, TFS Energy

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Trading electricity in the UK

- **Fragmented generation market leads to actively traded market:**

Vertical integration provides good hedge of value...

...but even vertically integrated players are not balanced at all times

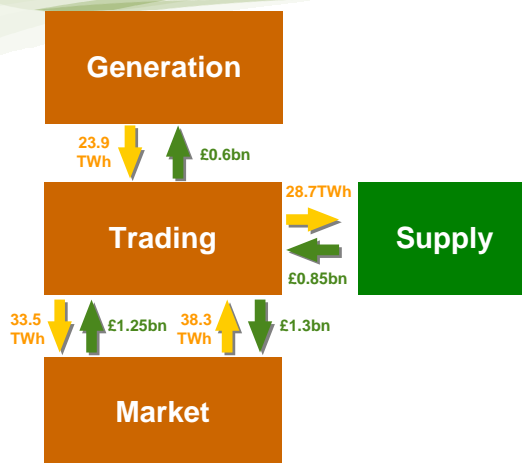
Industrial/commercial contracts do not give hedge beyond contract period – typically one year

- Liquidity best in front year – limited liquidity for products other than baseload beyond this
- Well developed broker market – final contract is bilateral between counterparties
- Limited power exchange market – counterparty is always the exchange
- Good price discovery for main traded products in liquid period
- Only allowed to trade with system operator up to 1 hour before delivery – no trading after delivery, imbalance charges apply

Most trades are forward contracts 'for physical delivery'

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Trading electricity in the UK – example



- **Generation output to Supply – but not a perfect match (shape, volume)**
- **Trading in market:**
 - to provide balance
 - to reflect churn of position
 - for incremental value
- **Trading = up to 3x physical volumes i.e. liquid market**
- **Generation returns:**
 - part of retail price
 - part from wholesale trades
 - all returns controlled by trading

Trading provides the market linkage for Generation and Supply

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Trading electricity in the UK (2)

- The structure of the industry dictates the use of four different kinds of trading mechanism (apart from the centralised Balancing Mechanism):

Internal trades between generator businesses and their wholesale trading and retail supply businesses, within vertically integrated companies

Long-term agreements (typically 15 years) between independent generators and other market participants

Traded markets for medium-term OTC contracts

Power exchange(s)

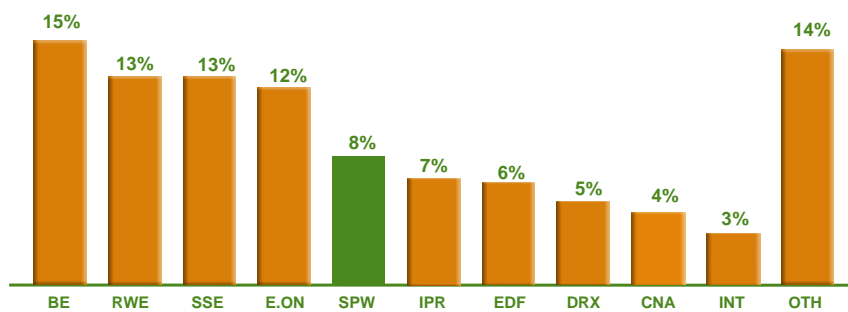
- Under the British Electricity Trading and Transmission Arrangements (“BETTA”) there is no centralised spot market or pool, so there is little public information on the means of trading electricity, used by individual players
 - The starting point for BETTA is a reliance on bilateral contract trading to establish the initial plan for each generator’s output
- The majority of trades are forward contracts “for physical delivery” (there is a small options market, but it is not well developed)
 - Parties may have to enter into brokered negotiations before settling on the transaction price

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Key generation players in the UK ...

% of total installed capacity

Total installed capacity: 81,738 MW



Competitive UK generation market with the largest player holding less than 15% of market share

Note 1: Excludes interconnector capacity with Scotland and France
Source: Department of Trade and Industry

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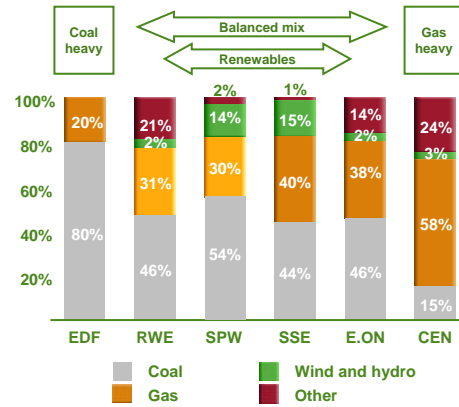
... have different strategic positions



Upstream / downstream positioning ⁽¹⁾



Fuel mix ⁽²⁾



ScottishPower has a balanced portfolio in terms of upstream downstream position and fuel mix

Note: (1) ScottishPower estimates
 (2) Estimates based on UK installed capacity
 Source: company web sites

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Integrated Generation and Supply

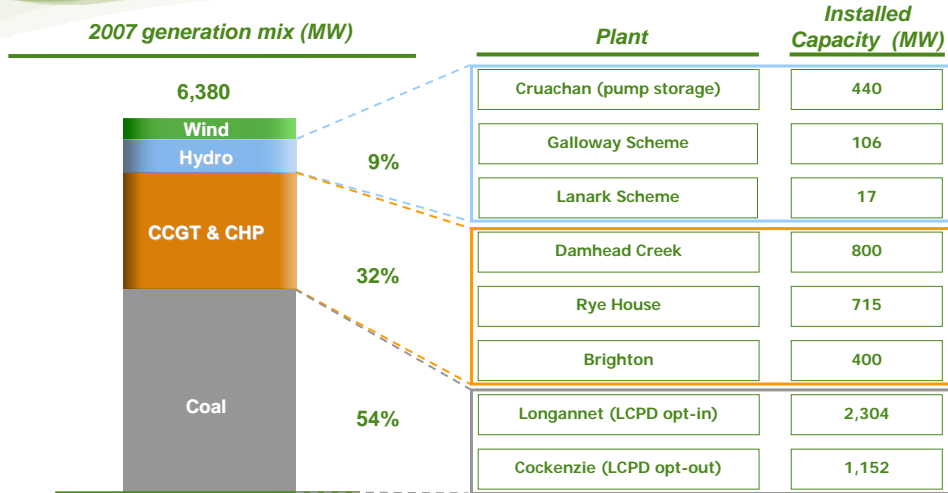
UK Conventional Generation

Market overview

ScottishPower - Generation

UK Supply

ScottishPower's generation fleet

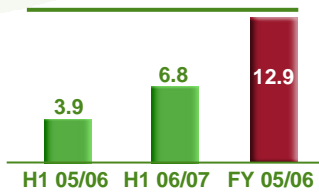


A well balanced generation mix

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Operational highlights - coal

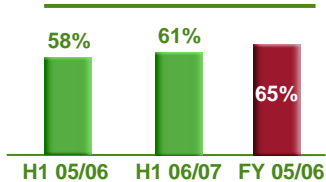
Production (TWh)



Strong spreads incentivise maximum running and support FGD investment

Investing in improving availability

Availability (%)



Low sulphur coal strategy

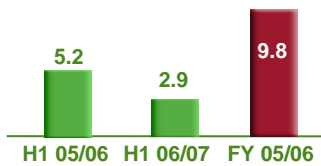
Load factors lower summer than winter – lower spreads, outage schedules

Significant value in coal generation in the UK

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Operational highlights - gas

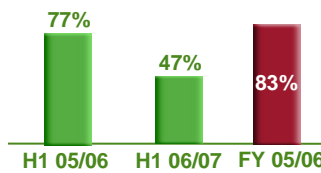
Production (TWh)



Plant run on economics rather than to meet demand

Low baseload spreads put emphasis on flexibility / 2 shifting to capture peaks

Availability (%)



Rye House one of top 2 shifting gas plants in UK

Spark spreads now improving but not yet at LPMC

Flexing gas plant running to capture peak prices

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ScottishPower gas hedging position

Both UK power and gas markets relatively liquid on year ahead basis

UK markets function effectively

Able to operate gas generation on a spread basis

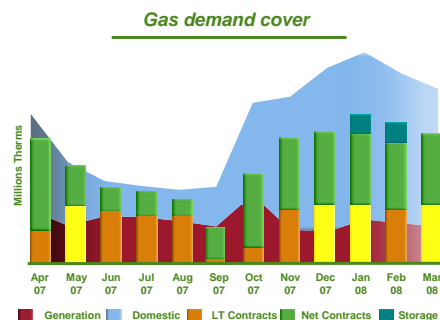
- sell power, buy fuel when in money
- buy back power, sell fuel when out of money
- churn position repeatedly to delivery

Steady buying strategy for domestic gas customers dampens wholesale movements:

- buying for customers stretches into medium term
- significant cost advantage 2005/06, 2006/07
- in line with industry / competitor approach

Gas portfolio:

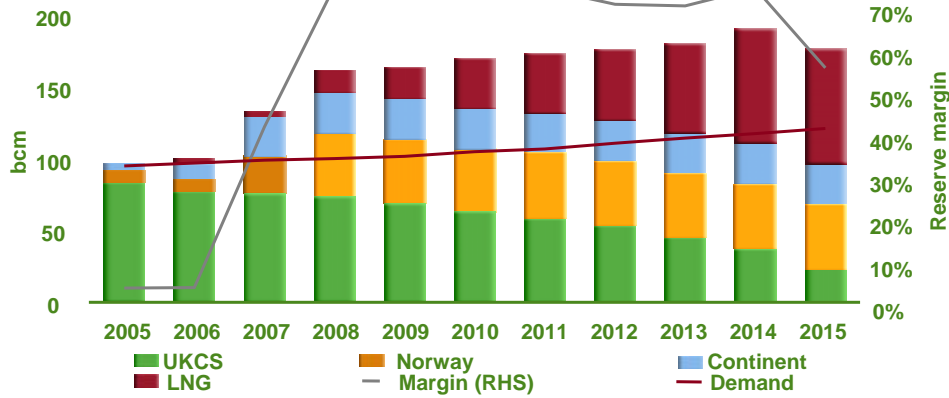
- long-term contract base with swing (~0.32 bcm)
- own gas storage at Hatfield (~0.06 bcm)



LT contracts have delivered substantial value to ScottishPower

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LNG offers attractive gas opportunities



By 2015 the majority of UK gas will be sourced from abroad and therefore LNG growth will present an opportunity for Iberdrola's energy business

Source: National Grid 7 Year Statement

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Generation and trading capability

Commercial and trading

- Highly capable and experienced trading desk covering power/gas/coal/environmental
- International coal and biomass logistics
- Strong analytical capabilities
- Benchmark favourably to EU peers (McKinsey)

Asset operation

- Diverse portfolio: coal, gas, storage, hydro, wind
- Optimising through availability and flexibility
- Top performer in Balancing Mechanism
- Benchmarked operations and safety

Capturing value across full chain

Generation

- Schedule plant to optimise value
- Capture maximum spread opportunity

Supply

- Competitive commodity cost
- Manage wholesale price risks

Incremental trading

Aggregate annual incremental contribution: approximately Eur 100MM

Turning good assets and opportunities into "best in class" returns

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UK generation: key economic drivers



ScottishPower generation volumes

Load factors: Coal 45-50%, CCGT 45-65%, Hydro 30%
Maintenance schedules / outages

R
E
V
E
N
U
E

Baseload price

Captured load-to-baseload premium

Ancillary services / balancing market flexibility

Clean dark and spark spreads

O&M costs

EBITDA margin

Attractive returns can be earned from UK generation

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Conclusion



UK market

- Tightening reserve margins
- Market based solutions

Generation players

- Competitive market with no dominant player
- Customers provide robust hedge

ScottishPower

- Balanced portfolio
- Attractive locations
- Strong operational performance
- Trading capability
- Investment opportunities

ScottishPower offers one of the best balanced generation mixes in the attractive UK generation market

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Integrated Generation and Supply

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Market overview

ScottishPower – Supply

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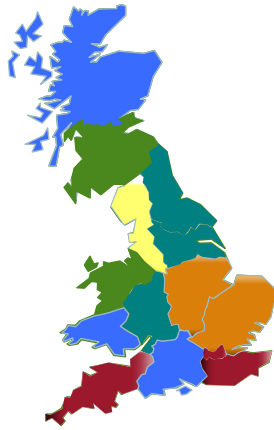
Key messages



- **Recently improving margins**
- **Business drivers**
 - Customer mix, responsiveness to wholesale prices
 - Customer retention / growth or margin
- **Competition reduced to six majors**
- **ScottishPower has an attractive portfolio of gas and electricity customers**
 - Electricity hedge from generation business

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The UK has six major energy suppliers ...



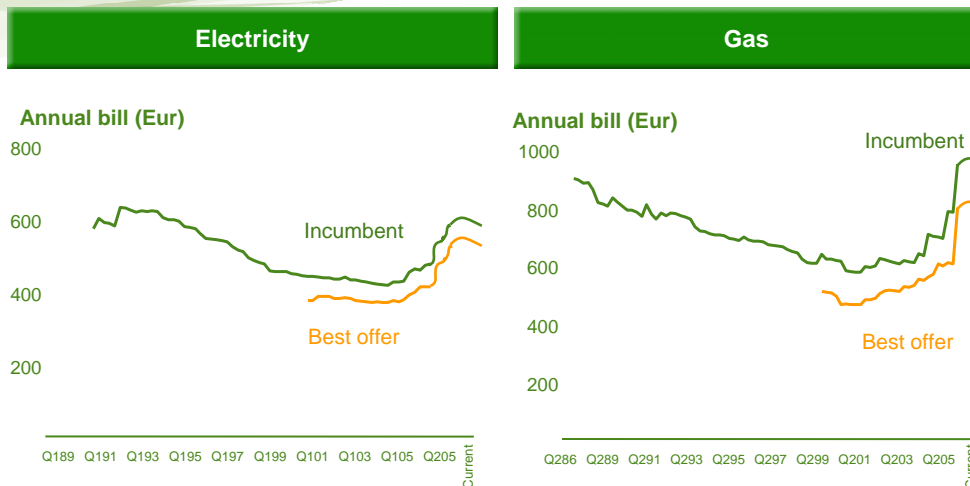
Domestic Retail Energy Accounts (MM)

	TOTAL ⁽¹⁾	Change from Deregulation		Electricity market Share ⁽²⁾	Gas market share ⁽²⁾
ScottishPower	5.1 ⁽³⁾	70%	↑	13%	9%
E.ON	7.5	1%	↑	20%	13%
RWE	6.0	7%	↑	15%	10%
EDF	4.6	11%	↓	13%	6%
Scottish and Southern Energy	6.7	63%	↑	16%	10%
British Gas	15.7	21%	↓	22%	52%

...with ScottishPower demonstrating excellent performance in the competitive market

(1) Internal estimates
 (2) Source: Ofgem, Mar 2006
 (3) Excludes Industrial/Commercial and small business customers

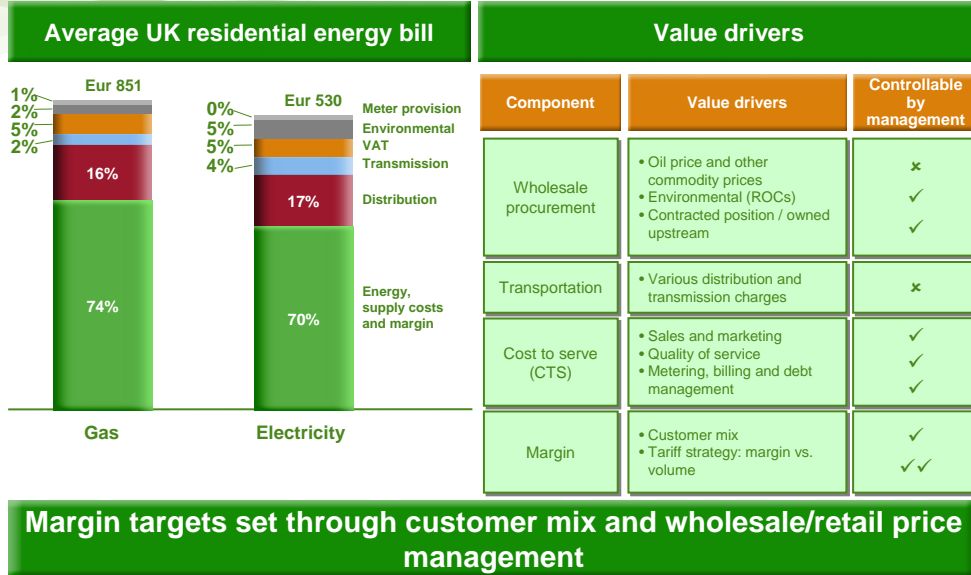
Supply competition has reduced customer bills in real terms ...



Recently real energy bills have risen on the back of all time high wholesale prices

Source: Ofgem

... with retail margins driven by mainly controllable parameters

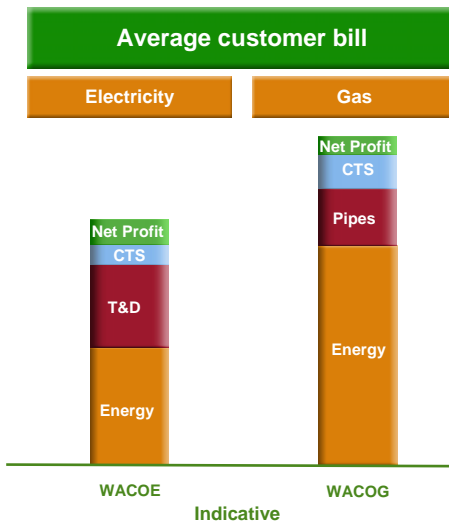


Source: Ofgem, Datamonitor

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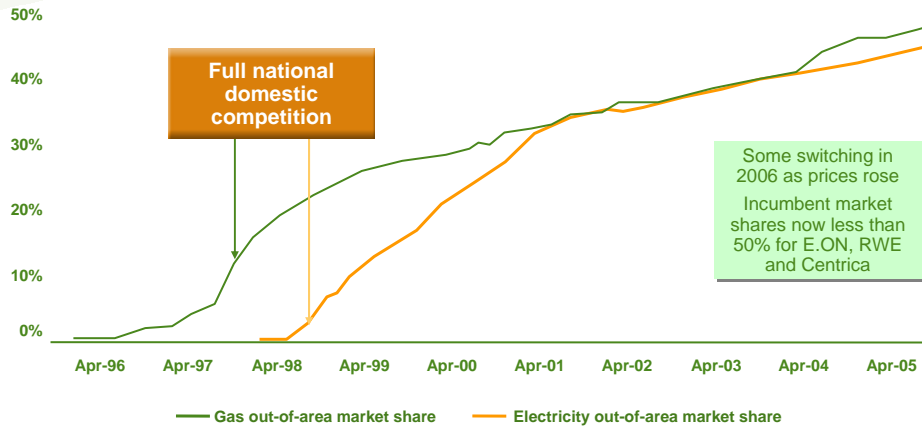
Supply economics improving

- Retail tariffs tend to lag wholesale prices
- Series of tariff increases throughout 2005 and 2006
- Fall in wholesale prices since summer 2006 peak
- Competition for customers intensifying as economics improve
- Tariff proposals under continual review



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Market share of new entrants has slowly developed since opening ...



... driven by price, increased marketing spend and customer service

Source: Ofgem

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Integrated Generation and Supply

UK Conventional Generation

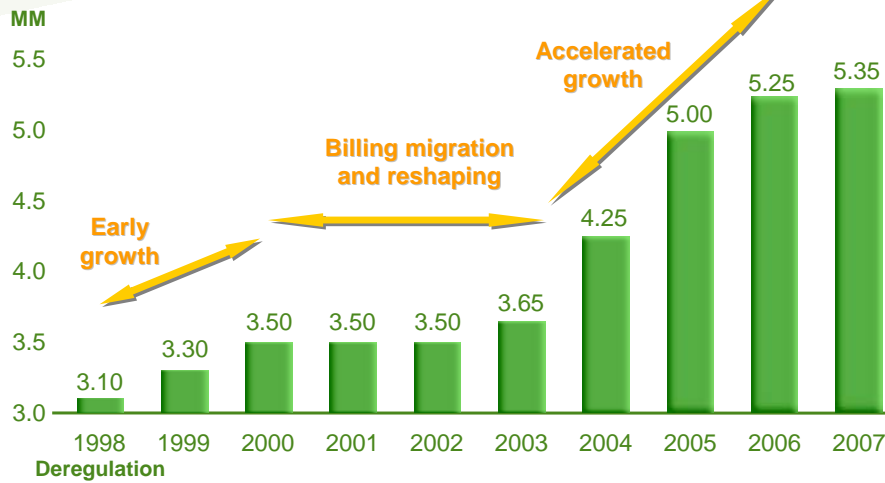
UK Supply

Market overview

ScottishPower – Supply

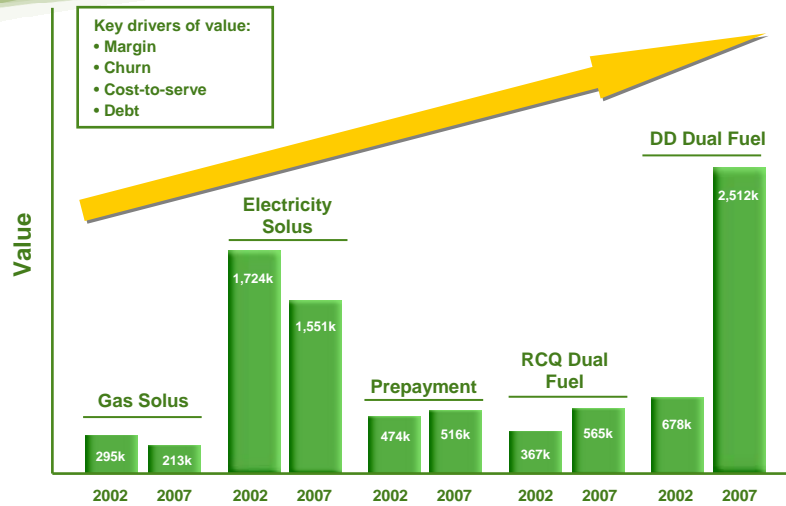
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Customer base of ScottishPower has increased ...




Customer numbers have increased by over 70% since deregulation

... with clear initiatives to increase value per customer ...



Maximising value from the customer base

... and ScottishPower has key strengths in the retail gas and electricity market




<p>Sales and marketing</p> <ul style="list-style-type: none"> • 1st for on-line services ⁽¹⁾ • Proven and flexible sales resource • Product innovation and speed to market • Highest customer Direct Debit penetration in industry 	<p>Operations</p> <ul style="list-style-type: none"> • 1st for metering and billing services ⁽¹⁾ • Top UK performer in bill quality • Lowest cost-to-serve in industry ⁽²⁾ • Award winning Six Sigma and Operational Excellence programme⁽⁴⁾
<p>Customer services</p> <ul style="list-style-type: none"> • 2nd overall for customer satisfaction ⁽¹⁾ • 73% reduction in year on year complaint levels ⁽³⁾ • 75% first contact resolution • World class telephony and support system 	<p>Customer collections</p> <ul style="list-style-type: none"> • 13% working capital reduction over 2 yrs • Lower quartile bad debt write off levels • Leading debt management systems

Continuous operational improvement

Source: (1) Uswitch survey (2) Datamonitor (3) Energywatch, March 2007 (4) 2007 European Six Sigma Awards

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Further opportunities to enhance the value of the business

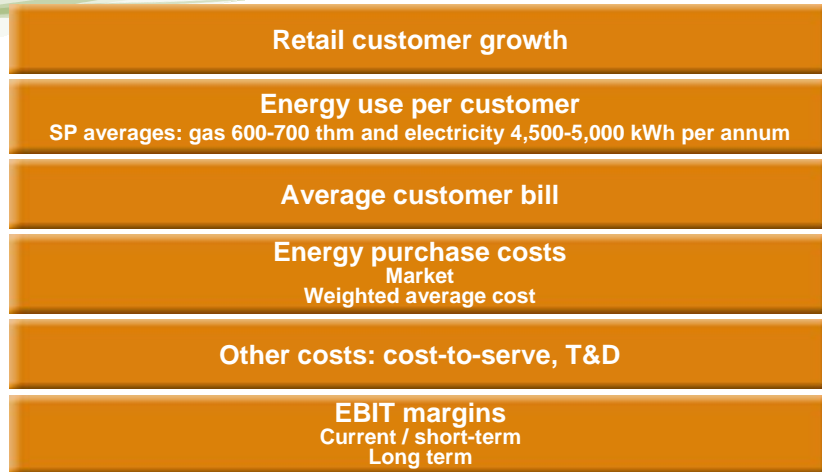


- Customer growth when economic conditions are right
- Reshaping customer base towards secure/direct debit payment
- Cost-to-serve reductions through increased self service and focus on 'getting it right, first time'
- Smart metering: lower cost-to-serve and debt through consumption aligned with bill and payment
- Competitive edge through differentiated customer service - optimise industry leading on-line capability
- Optimise output from Energy Review: grow and develop, where appropriate, the energy efficiency business model and capability

Continual operational improvement

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UK supply: key economic drivers



Recently improving margins in UK supply are supported by levelling off of wholesale power and gas prices

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Conclusion

UK market



- Improving conditions in retail
- Balance between margins and customers

Supply players



- "Major six"
- Competition to achieve economies

ScottishPower



- Attractive mix of gas and electricity customers
- Balanced portfolio
- Increase in dual fuel customer base

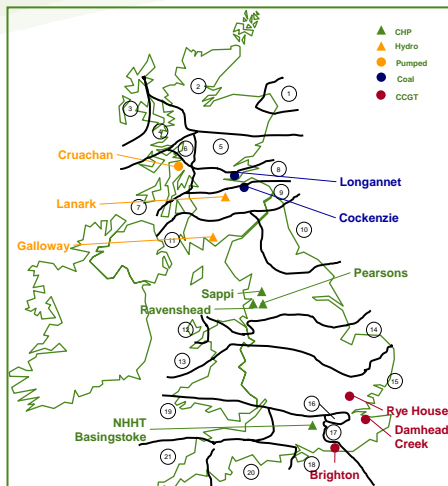
ScottishPower has been a successful player in the supply market since deregulation

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Appendix

ScottishPower's conventional generation assets ...



Plant	Installed Capacity (MW)	Fuel	Age
Longannet (LCPD opt-in)	2,304	Coal	37
Cockenzie (LCPD opt-out)	1,152	Coal	40
Damhead Creek	800	CCGT	7
Rye House	715	CCGT	14
Brighton	400	CCGT	7
Cruachan (pump storage)	440	Hydro	41
Galloway Scheme	106	Hydro	70*
Lanark Scheme	17	Hydro	80

... represent a balanced generation mix

① to ⑳ Transmission Network Use of System charge zones

* Approximation, plants range from 1935-1985 opening years

... include coal generation ...

Longannet



Installed capacity	2,304 MW
No of units	4 x 576 MW
Operational date	1970
Location	Fife
Employees	320

- Opted in LCPD - £170m investment secures plant to 2015
- Turbine blade upgrade
- Developing blueprint for supercritical retrofit (carbon capture ready)
- First UK plant to burn biomass / WDF
- 20MW dedicated biomass planned for site
- Benchmarked operational performance

Cockenzie



Installed capacity	1,152 MW
No of units	4 x 288 MW
Operational date	1967
Location	Edinburgh
Employees	150

- Opted out LCPD
- Exploring potential for supercritical retrofit
- Burning biomass up to 5%
- Flexibility in Balancing Market

Strong dark spreads drive investment in coal plant to maintain operations for next 20 years

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... gas generation ...

Damhead Creek



Installed capacity	800 MW
Operational date	2000
Location	Kent
Employees	40

- Modern, efficient plant
- Acquired by ScottishPower in 2004
- Damhead Creek's prime location in Southern England enables it to benefit from relatively favourable transmission charges
- Valuable gas contract

Rye House



Installed capacity	715 MW
Operational date	1993
Location	Hertfordshire
Employees	40

- Converted from baseload to one of the most flexible CCGTs in UK
 - <5 p.a. pre acquisition
 - up to 200 starts p.a. currently
- Control systems and valves replaced to optimise performance. Improved monitoring
- Transferring best practice to other assets

Rye House is one of most flexible CCGTs in the UK

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Brighton



Installed capacity	400MW
Operational date	2000
Location	Sussex

- American Electric Power (parent company to SEEBOARD) and ScottishPower built Brighton together in 2001, each holding a 50% stake in the plant
- In October 2004 ScottishPower bought out the remaining 50% it did not already own
- Plant offline until late summer 2007 for station transformer repair

... and hydro generation



	Cruachan	Galloway	Lanark
Installed capacity	440MW	106MW	17MW
Operational date	1965	1930s/1985	1920s
Location	Argyll & Bute	Galloway	Lanarkshire

- In 2004 Cruachan upgraded to increase power output by 10 per cent
- Flexibility for SO
- Sub 20MW hydro secures ROCs

Hydro assets were recently upgraded to increase output by 10%

End of Technical Session II
Introduction to ScottishPower & its markets

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