

# Alternative Energy: National rights issue

*The populations of most developed countries have come to view cheap, available energy as a basic right. As the world begins the task of developing renewable energy sources, the cost and complexity in providing this is becoming apparent.*

May 22, 2010

## National Grid rights issue

On May 20, the board of the UK's electricity grid utility, National Grid, upset the market by announcing a £3.2bn rights issue to fund the development of a smart grid. The news caused a sharp fall in the company's stock price because up to that time, the board had denied the need for the additional capital.

## Smarten up

The smart grid, however, is essential if the UK is to meet its renewable energy and carbon reduction targets. One of the biggest differences between fossil fuels and most forms of renewable energy is predictability of supply. Increasing, or reducing, output at a coal fired power station is relatively straight forward. To increase output, burn more coal. To reduce output, burn less coal.

## King coal – not King Canute

UK legend tells the story of a 10<sup>th</sup>-century King, King Canute, who had his throne carried to the sea at The Wash in eastern England where he sat and commanded the tide not to come in and wet his feet. Of

course, the tide did come in and Canute is reported to have declared: "Let all men know how empty and worthless is the power of kings, for there is none worthy of the name, but He whom heaven, earth, and sea obey by eternal laws."

Whether or not the legend of King Canute is true or not, the relationship between man and natural forces still persists. Tidal power is produced when the tide flows, wind power when the wind blows and solar power when the sun shines. None of these can be controlled with certainty to match up with the football world cup final which will represent a demand spike in electricity.

As coal, or other fossil fuel, produced electricity can be increased and decreased with certainty. Coal (and fossil fuels) are definitely king when it comes to matching supply and demand.

"The fact is that electricity cannot be readily stored, so supply must match demand is a major issue facing the development of renewable sources. A smart grid is essential to the significant growth of renewable energy."

Christopher Cloke-Browne  
Managing Partner  
BRAVE PARTNERS LLP

## Impact on investment

National Grid is now clearly serious about investing in a smart grid for the UK. This is an essential piece of infrastructure for the development of renewable energy sources. The new Government is clear that it wants renewable energy, but there are no public funds for it. This investment in the grid will therefore come from the Private Sector and the costs and timings are as yet unknown.

As a result, there is considerable doubt over the delivery cost for renewable energy which will make it harder for investors to back projects. The result will be more scarce and more expensive funding.

The new Government is committed to funding energy saving products and projects by providing grants that will be repaid over a long time horizon out of fuel cost savings. BRAVE Partners believes that this style of project will be more successful and more investable for the immediate future.

## BRAVE Partners' services

The BRAVE partners have extensive experience and success in assisting entrepreneurs and small businesses in developing their plans within highly regulated environments. The firm maintains a close watch on the energy markets and infrastructure in order to assess the optimal plans and entry points for clients.

## Interaction

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- National Grid surprised the market by announcing a rights issue to invest in smart grid technology.
- BRAVE Partners believes that this is an essential step in making progress on renewable energy investments.
- There is still considerable uncertainty over the timing and cost of smart grid technology.
- BRAVE Partners believes that this will have a significant impact on renewable energy investment, favouring energy saving, rather than renewable energy production.
- BRAVE Partners has experience and expertise to assist new energy related businesses to develop and finance their business plans.

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