

November 2008

The Rt. Hon Ed Miliband MP
Department for Energy and Climate Change (DECC)
7th Floor, 3-8 Whitehall Place,
London, SW1A 9HH

Dear Secretary of State,

E.ON application under s36 of the 1989 Electricity Act for your consent to a new coal-fired power station at Kingsnorth, Kent

Henderson Global Investors is a leading fund management company with over £52.6 billion of assets under management (as of 30th June 2008). Approximately £800 million of this is managed on a sustainable & responsible investment (SRI) basis, an investment approach that seeks to integrate financial as well as extra-financial analysis into the investment process.

We wrote to your predecessor John Hutton at the Department for Business, Enterprise & Regulatory Reform in March 2008 outlining our concerns about the proposed construction of a new coal-fired power station at Kingsnorth in Kent. We would now like on behalf of the Henderson SRI funds to reiterate these concerns to you in your new role as Secretary of State at the Department of Energy and Climate Change.

Our central concern focuses on the implications that consenting a new unabated coal-fired power station will have for climate change. Given this is the first of many new coal facilities seeking approval, and the precedent that any planning decision will set, it is critical that the government takes full account of key social, environmental and economic considerations.

We therefore strongly urge you to ensure a thorough strategic analysis is completed before making a decision on the planning application. Should a decision be taken on this matter without such a strategic analysis, there is a real likelihood that the UK's actions will undermine the Bali agreement on climate change, the EU's energy policy on renewables, and its own commitments to tackle climate change.

As long-term investors, we consider that credible and effective climate change policy is critical in protecting and enhancing the value of our investments on behalf of our clients and beneficiaries. We recognise that dangerous climate change represents a material threat to long term economic wellbeing. We also recognise that, as set out in the Stern Review, action to mitigate climate change will prove more economic if taken sooner – especially with regard to long term infrastructure investments such as in power plants.¹

In the electricity sector in particular, there is a clear imperative to shift investment urgently from high carbon to low carbon technologies. We share the CBI's view that the retirement of high carbon capacity over the next decade represents a singular opportunity to decarbonise electricity and in so doing build the foundations for a low carbon economy in the UK. We look to the government to establish a clear policy framework that facilitates this shift. The emergence of detailed proposals for new unabated coal plants is a clear indication that the present framework is not robust in this regard, in turn making the investment climate around low carbon energy generation more uncertain and risky.

The EU Energy Package as well as the UK's own Renewable Energy Strategy set out important parameters around the contribution renewable energy will make to the UK's future energy generation mix. These and other publications have also promoted Carbon Capture and Storage (CCS) as a critical element in future coal powered energy generation. We believe that CCS offers great potential, but the technology is still subject to an uncertain deployment timetable and economic outlook. This uncertainty, combined with the large amount of Combined Cycle Gas Turbine (CCGT) capacity in the pipeline, undermines the case for new unabated coal generation.

Consenting a new unabated coal plant at this stage therefore, before establishing a clear policy framework for achieving a transition from a high to low carbon energy generation mix, threatens to undermine confidence in the government's ability to deliver its commitments both to develop an energy generation infrastructure fit for the needs of the twenty-first century and to address climate change. Until the Government has a clear approach that is widely understood and supported by investors, we urge you not to consent unabated coal plants.

Yours sincerely,

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ⁱ The Stern Review concluded that the benefits of strong, early action on climate change would cost approximately 1-2% of global annual GDP, while inaction would cost the equivalent to 5-20% of global GDP each year.