

British Energy

Options for energy buyers seminar

Prepared by Commodity Research

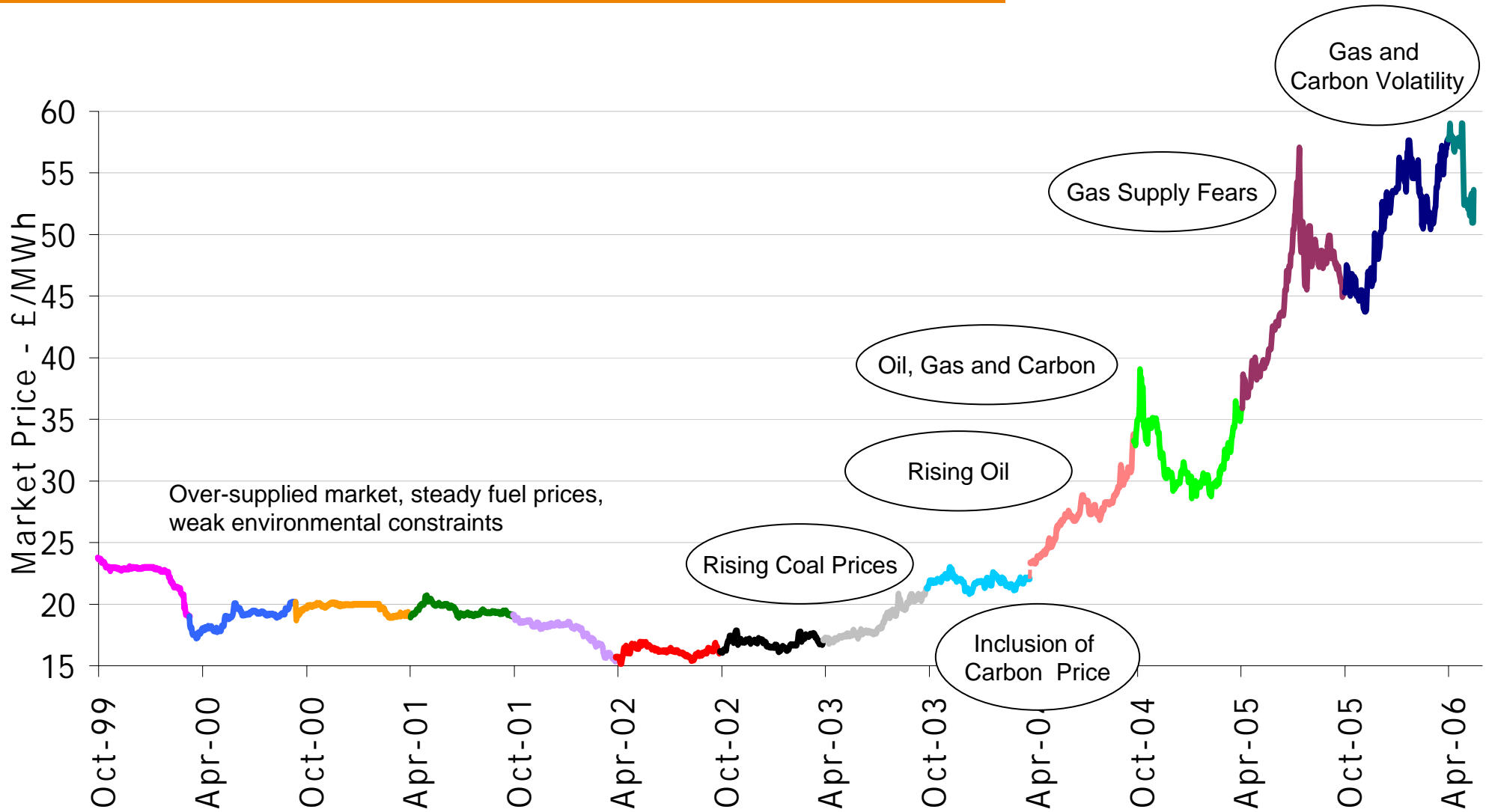
Presented by Graham Schorfield, Head of Fundamental Analysis and Price Forecasting

Version 1.0

Contents

- Forward Power Curve
- Market Interactions
 - Market model
 - Prompt (Day Ahead)
 - Forward Curve (Seasons)
- Updated Forward View
 - Further Consolidation
 - Reliance on Imported Gas
 - Environment
 - New Build Entry Price
- Conclusions

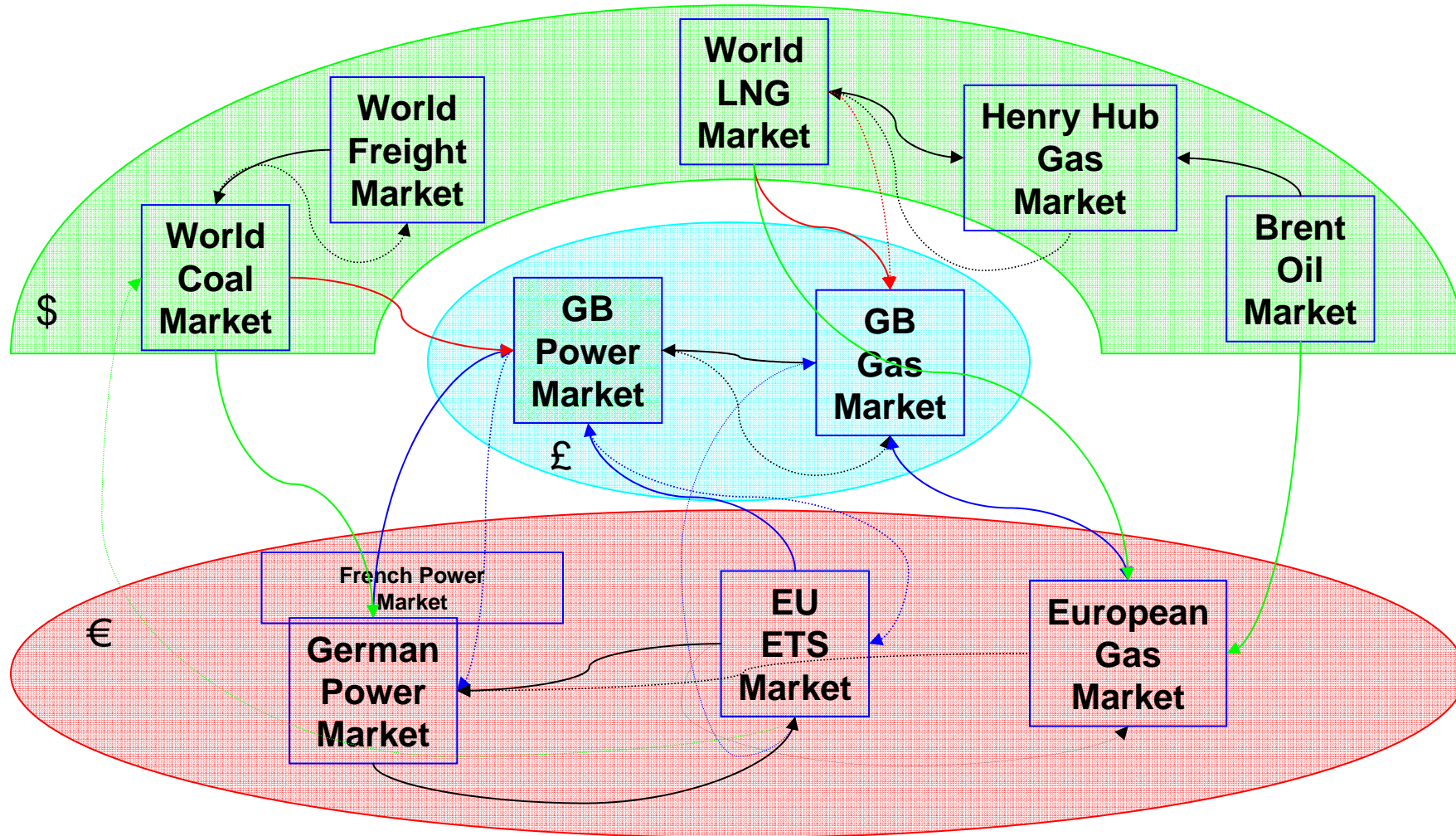
Forward Power Curve



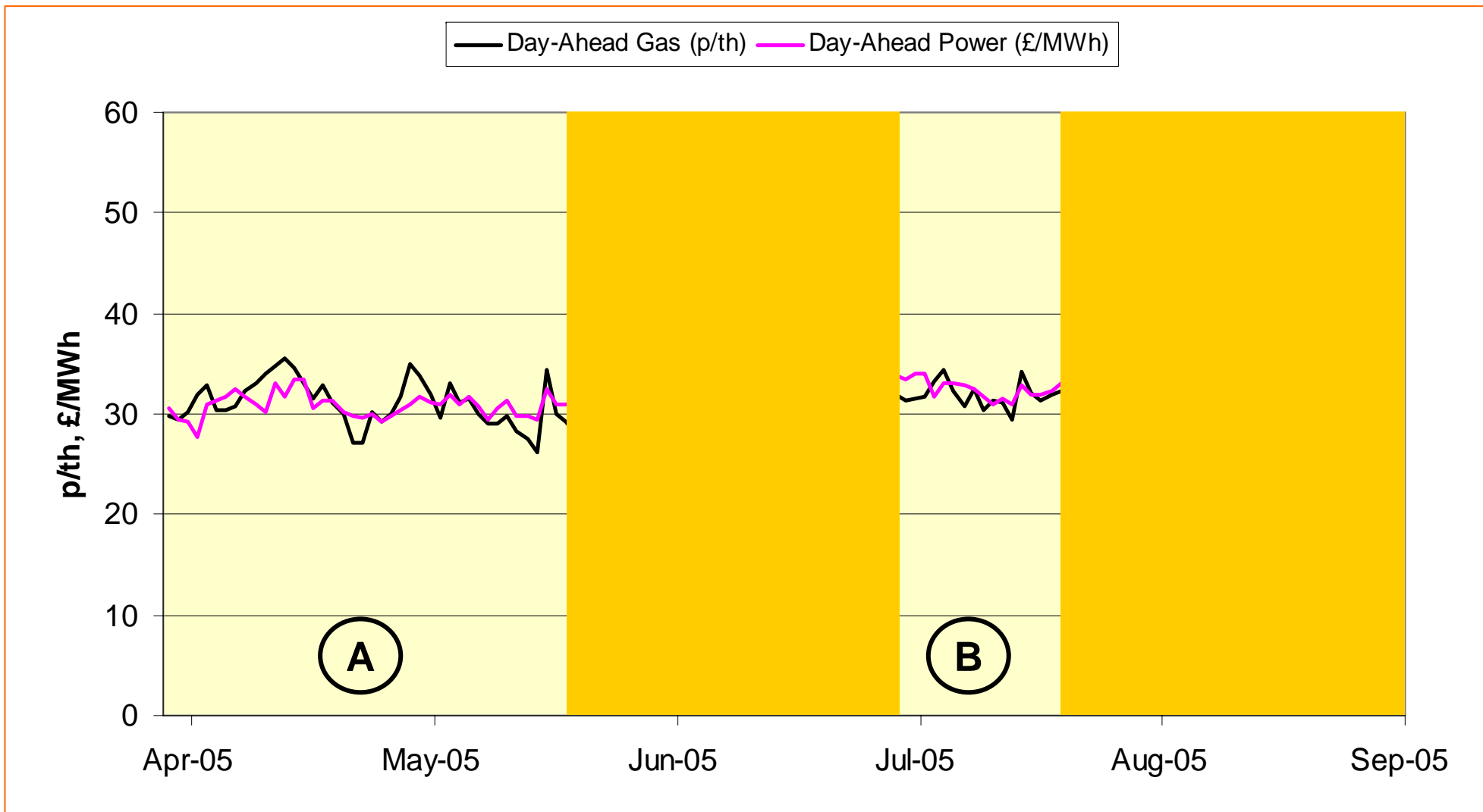
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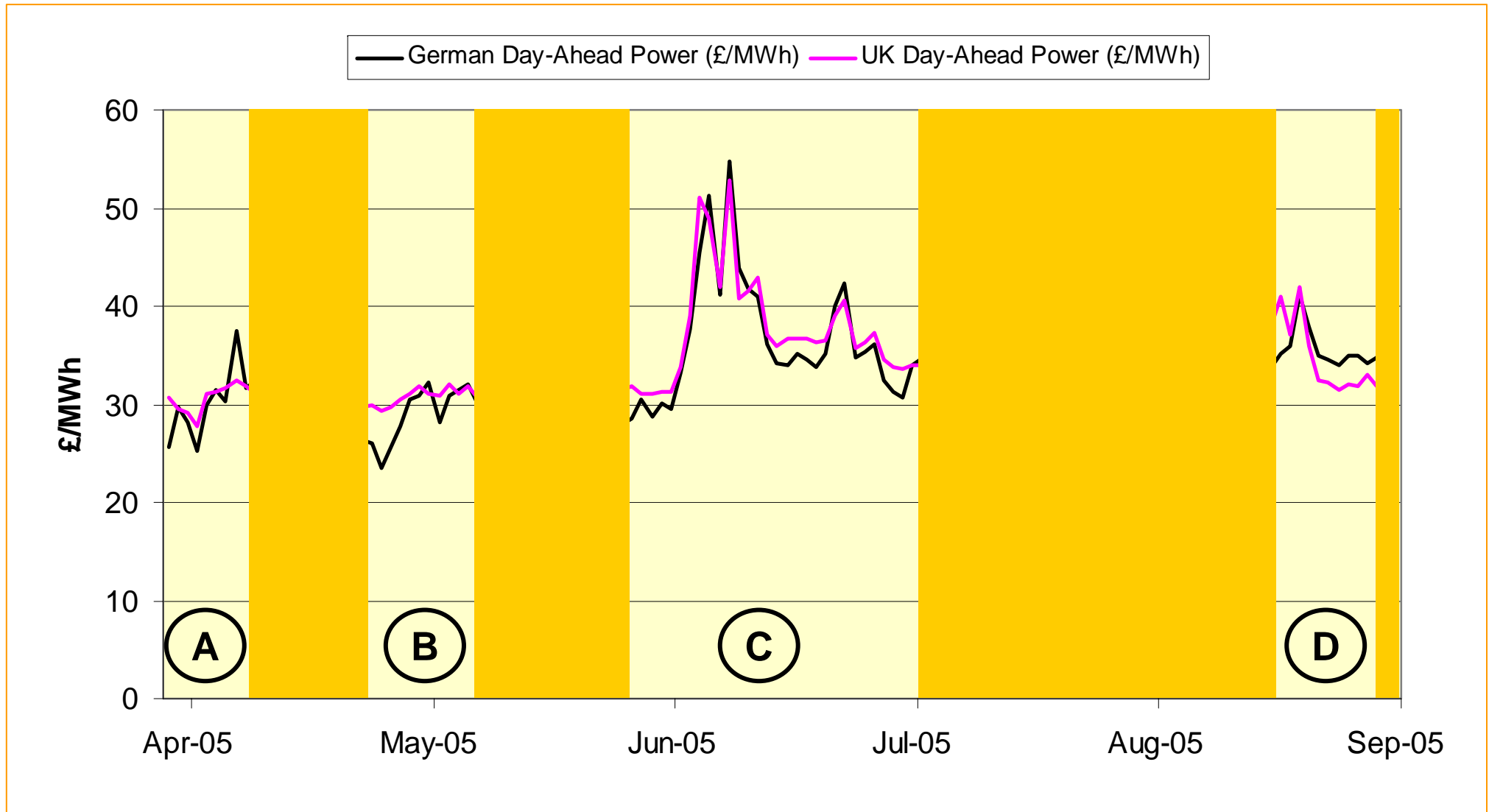
Market Model



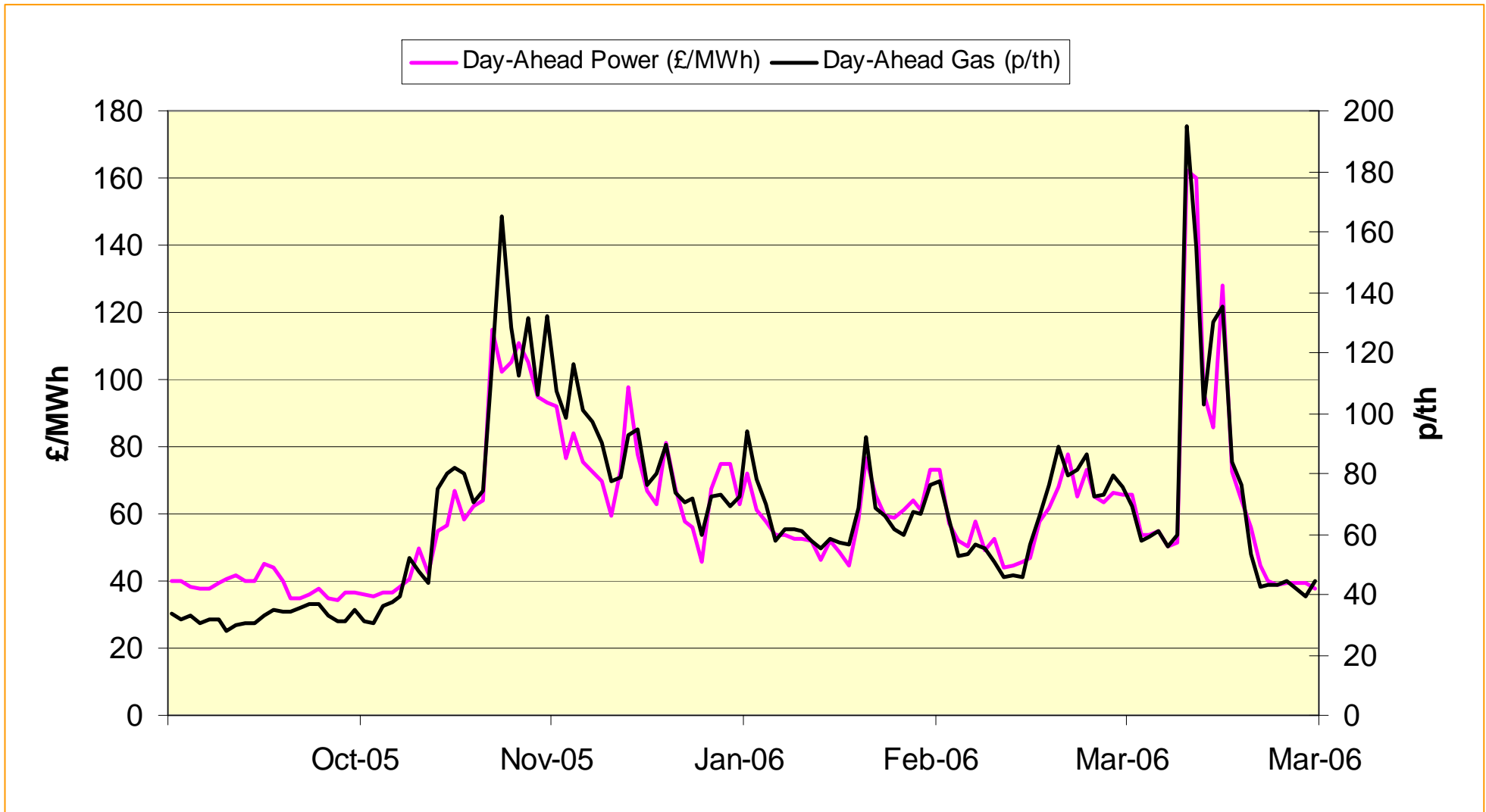
UK Power and Gas : Day-Ahead (Summer '05)



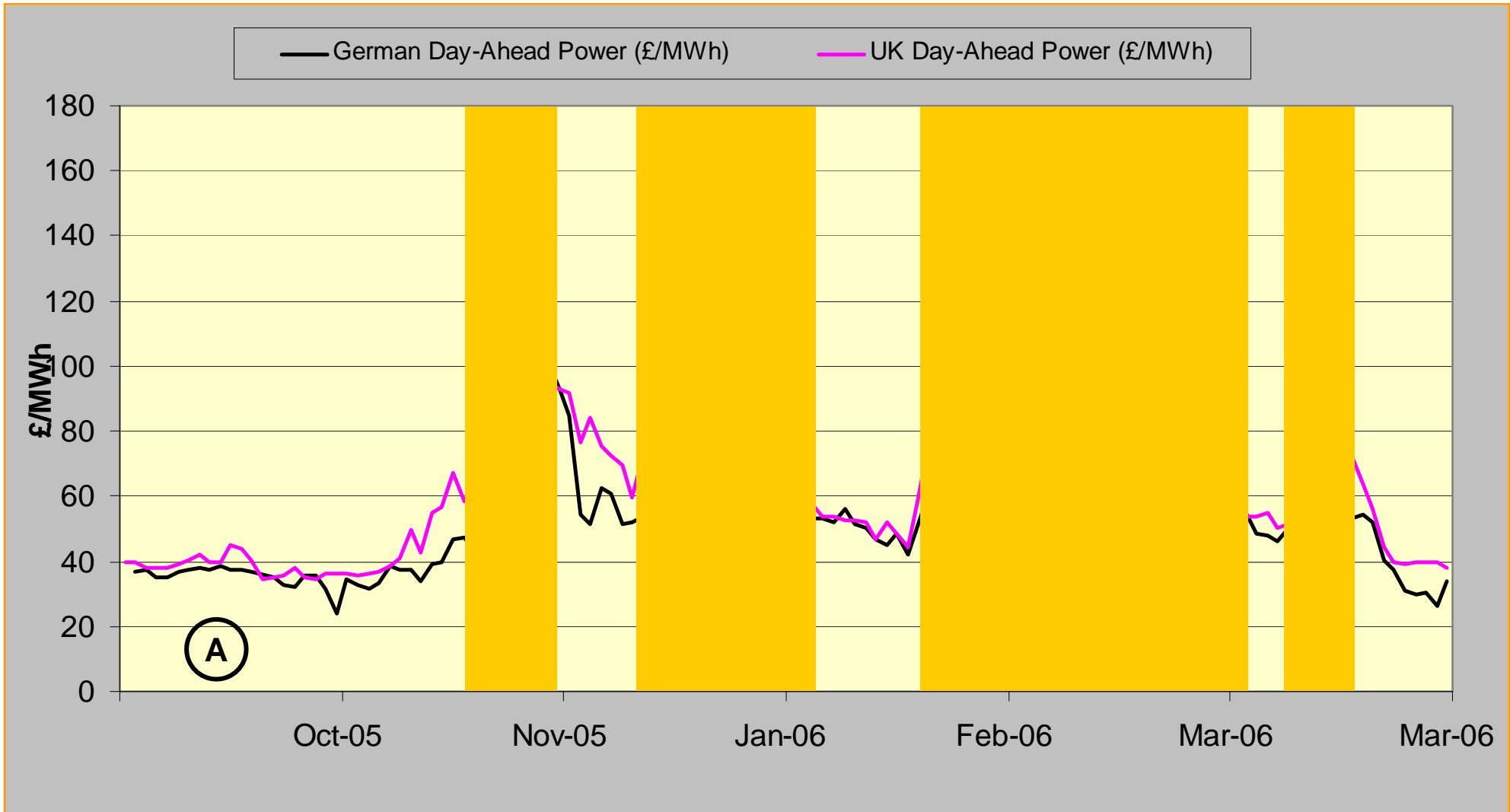
UK and German Power : Day-Ahead (Summer '05)



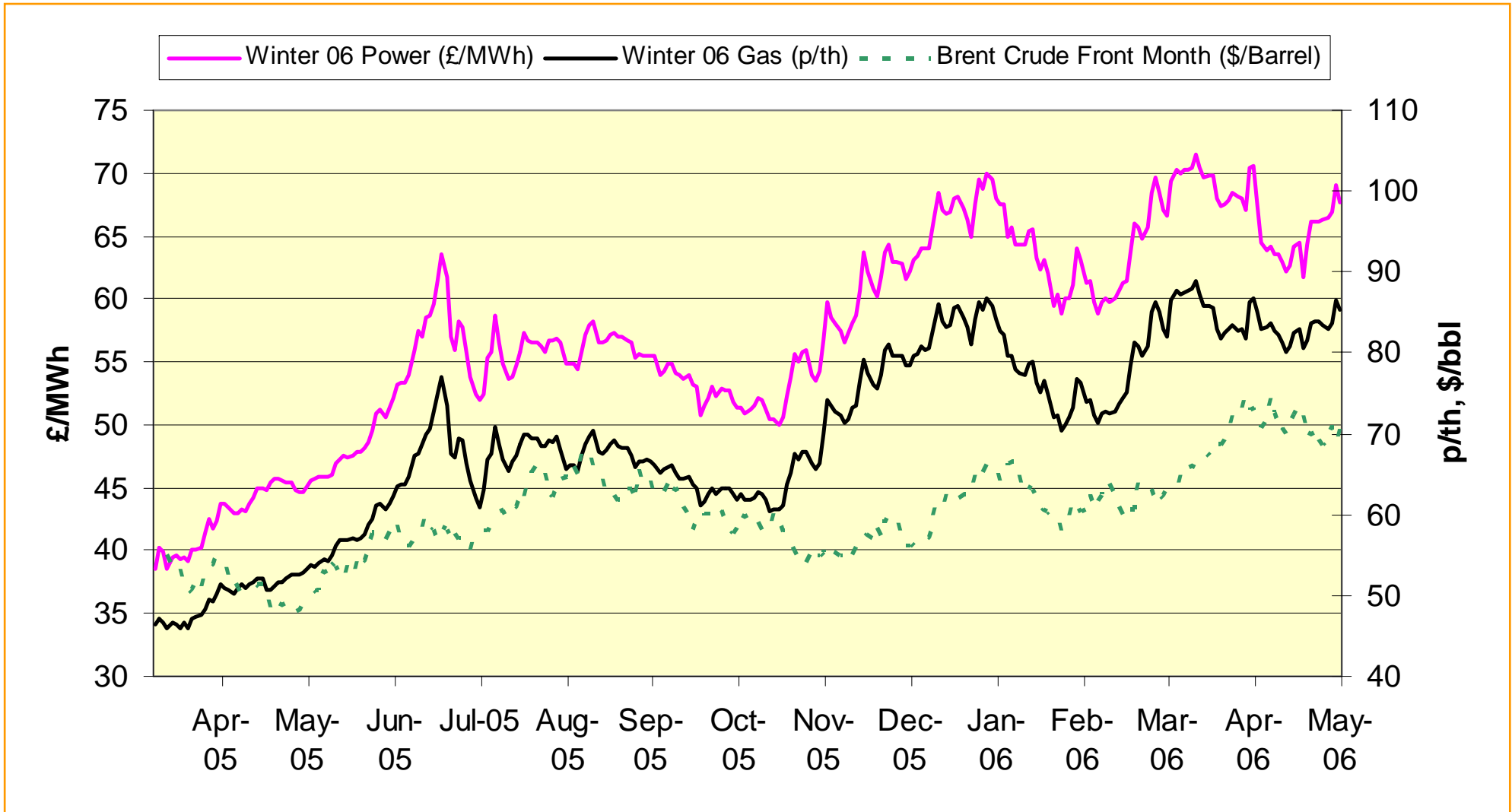
UK Power and Gas : Day-Ahead (Winter '05)



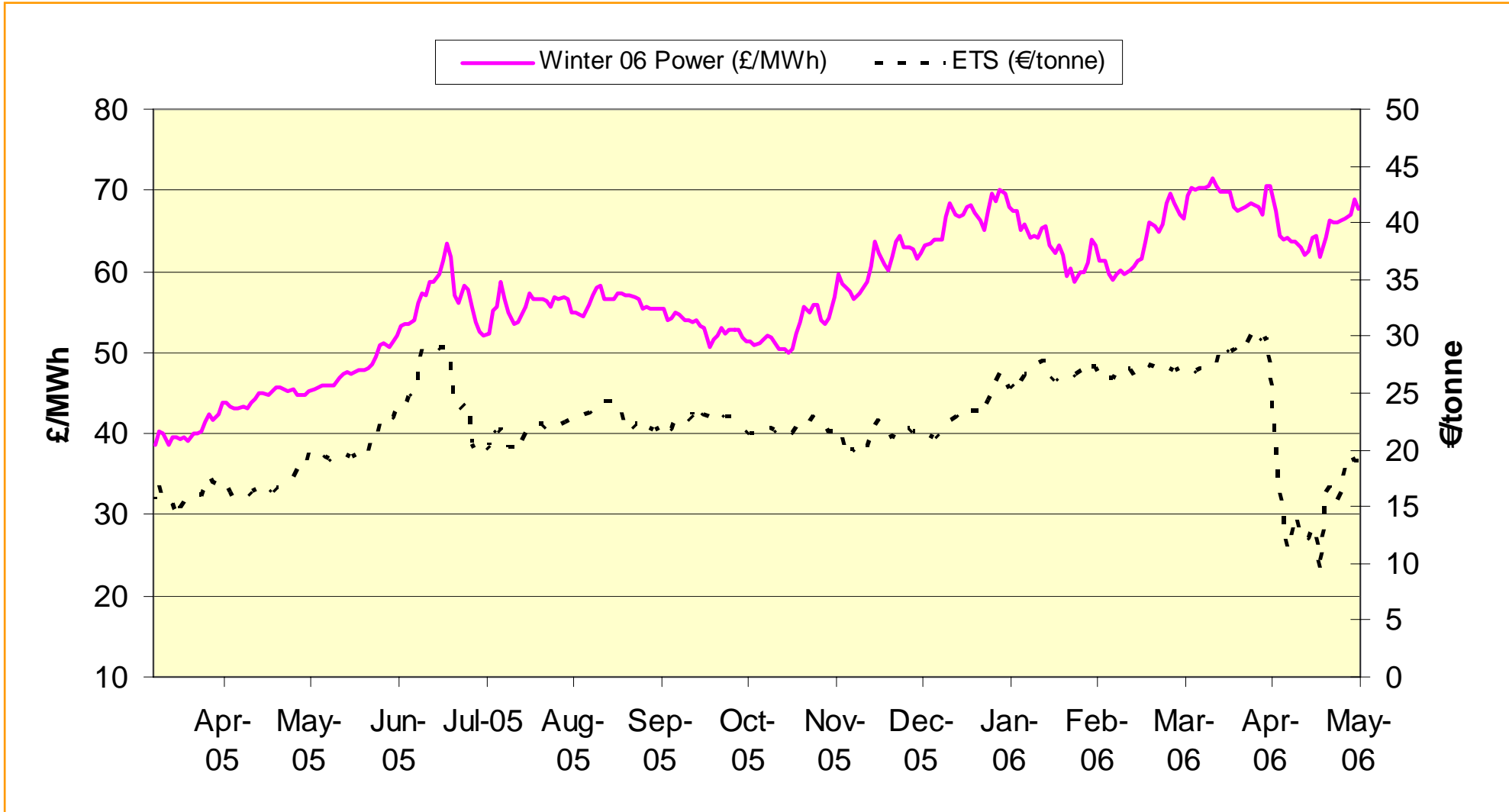
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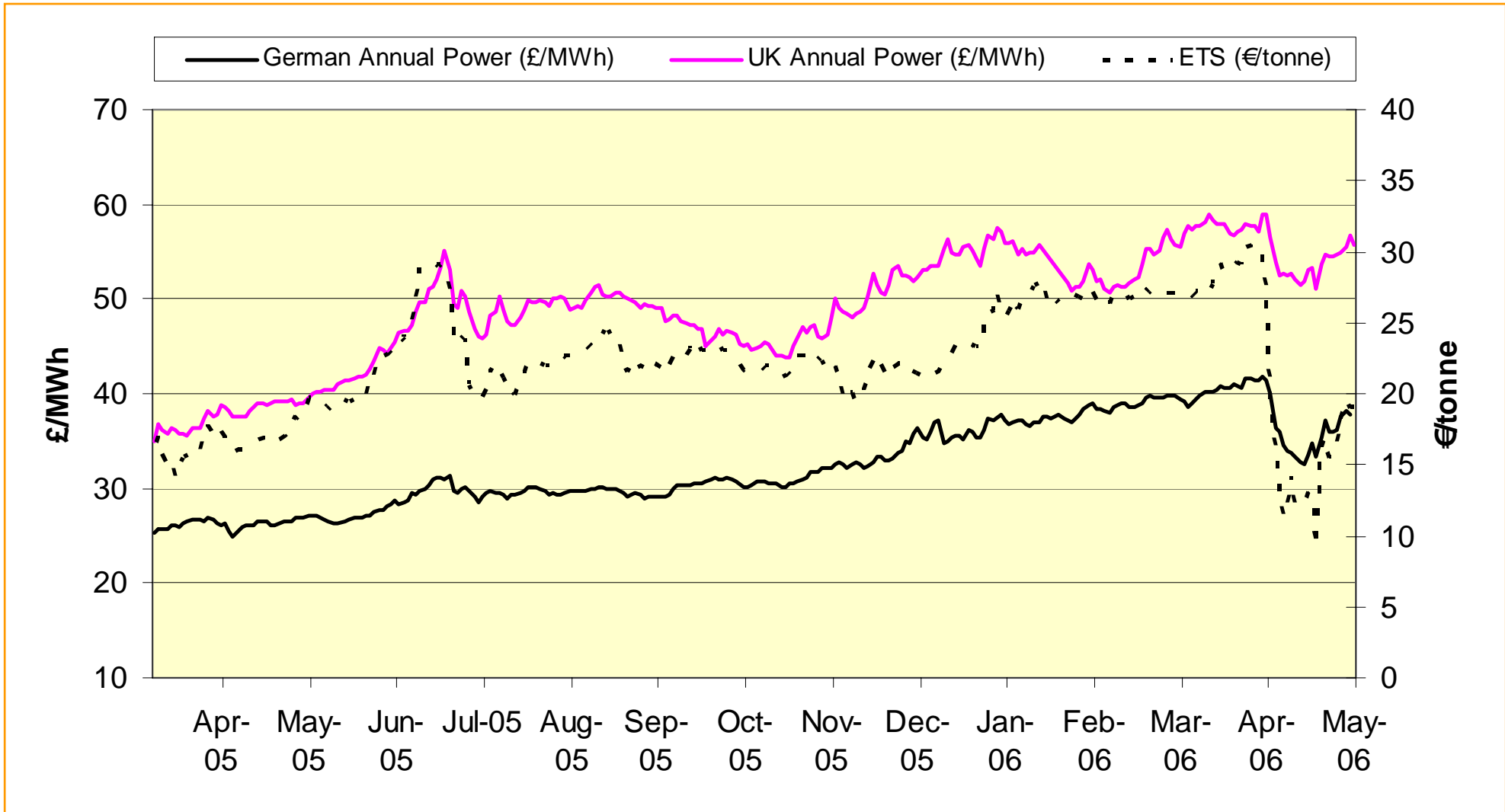
Power, Gas and Crude Oil : Forward Curve (Winter '06)



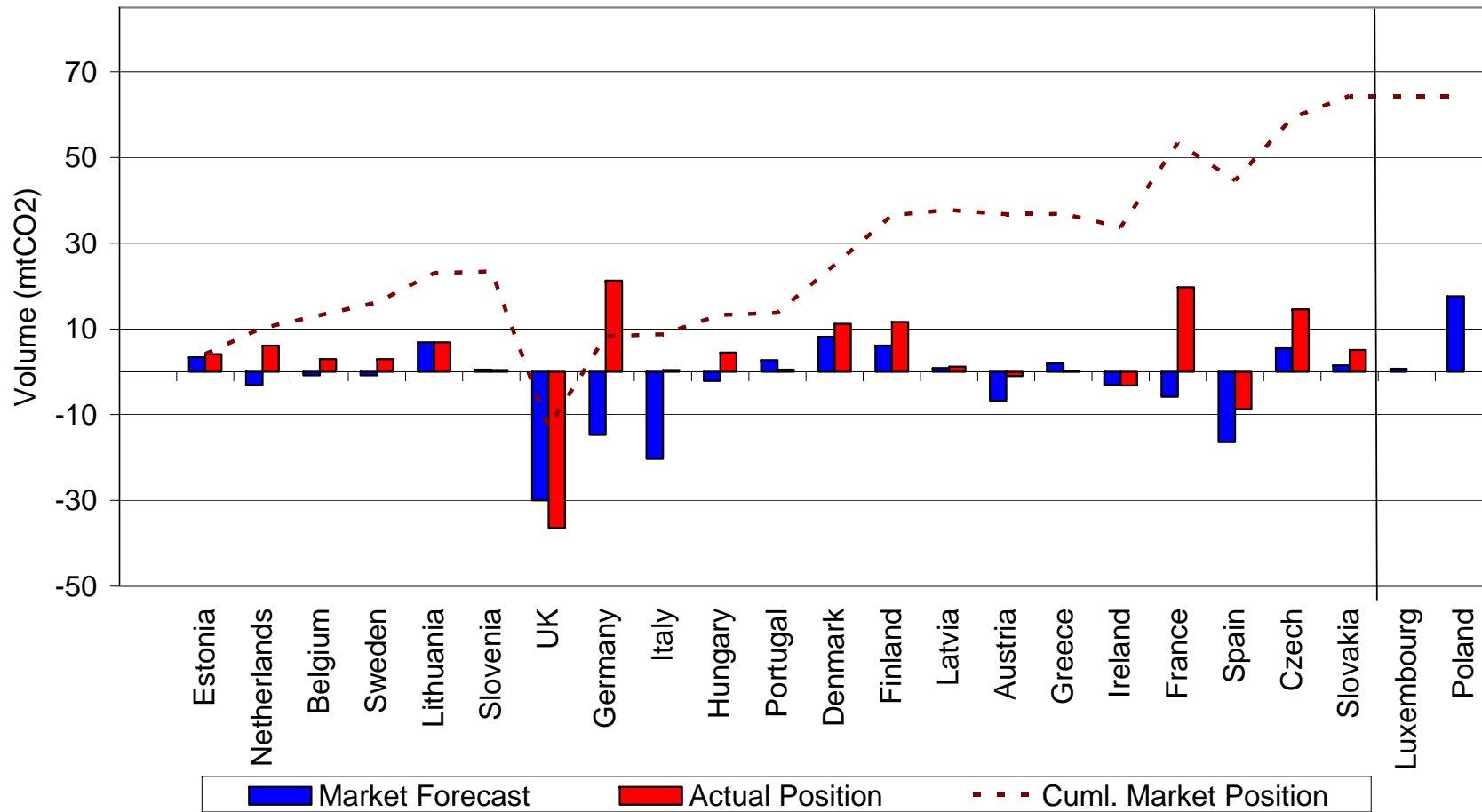
Power, Gas and ETS : Forward Curve (Winter '06)



UK and German Power : Forward Curve (Winter '06)



Carbon market (EU ETS)



Carbon market possible dynamics

- Why when the market is forecast at around 70mt long for 2005 is the price still rising?
- Consider the dynamics in play:

Power Producers

Power Consumers

LONG

Typically in countries like Finland, Denmark, Czech Republic, France, Lithuania, Estonia, Slovakia

Slower to enter the traded market?

Length will come to market at end of Phase I?

Spread throughout EU25

Risk aversion stops length coming to market until end of Phase I?

Too small a position to make trading set up worth while?

SHORT

GB, Spain, Italy, Belgium are by far the 4 largest short positions

Need to purchase as they generate in order to Risk Manage their positions

There aren't many of these!!!!

(Italian Cement sector at 1mt short is the largest sector)

Contents

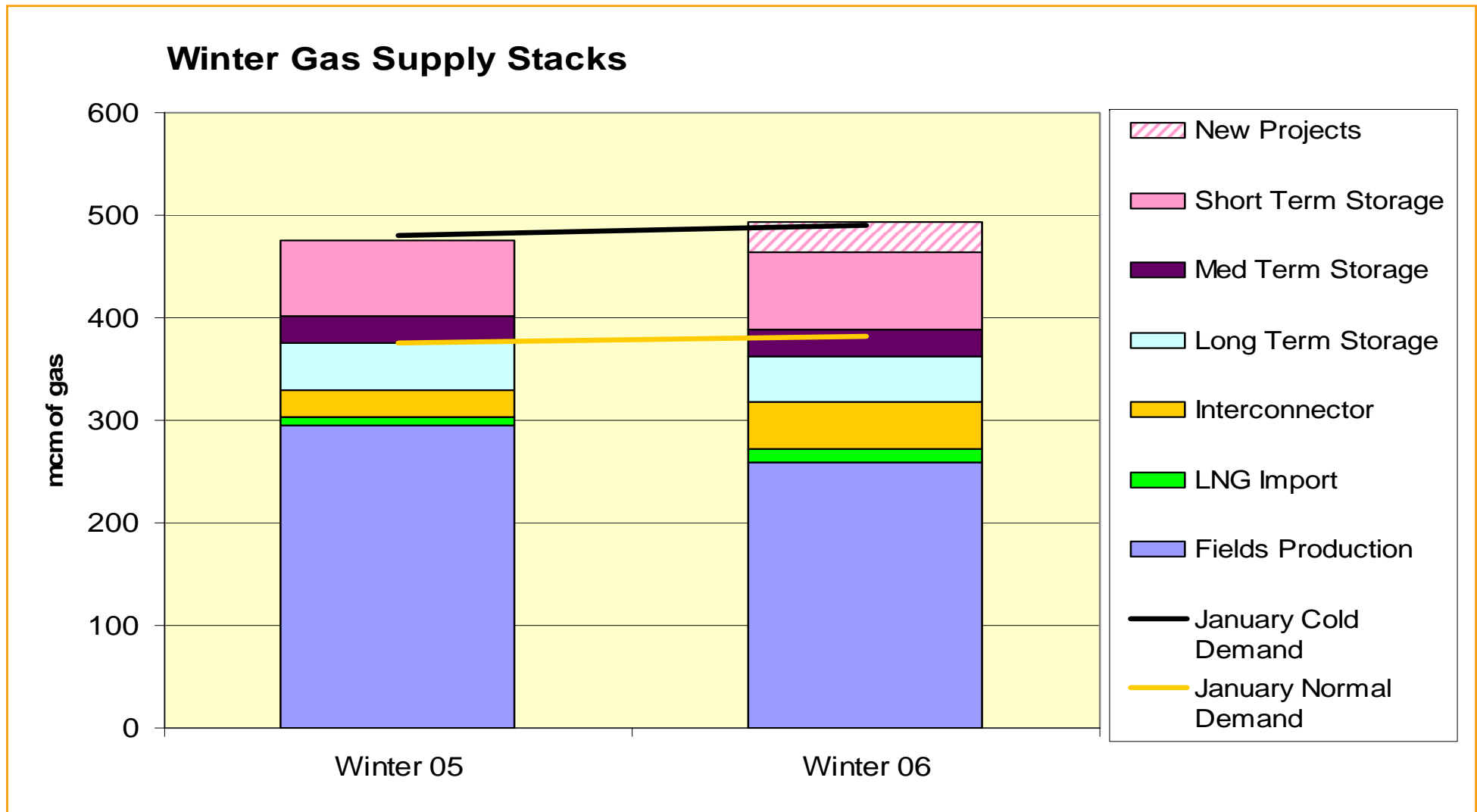
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Further Consolidation

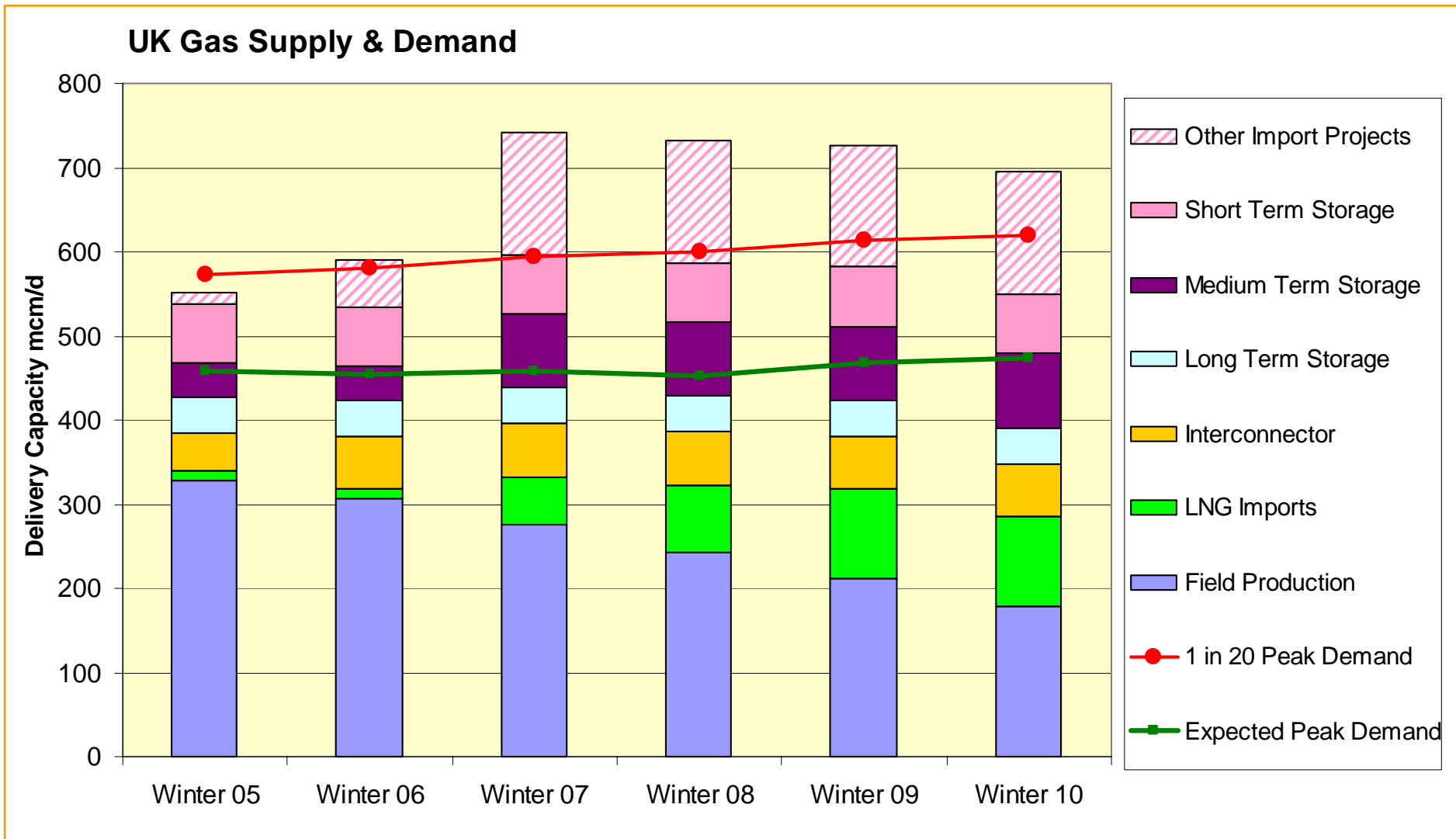
- Continued consolidation of generation market share to VI players
 - Great Yarmouth CCGT (420MW) purchased by RWE £155m (£370/kW) – Nov '05
 - South Humber CCGT (510MW) purchased by Centrica £150m (£294/kW) – Oct '05
 - Saltend CCGT (1.2GW) purchased by International Power £315m (£263/kW) – May '05
 - Enfield CCGT (390MW) purchased by E.ON £109m (£279/kW) – May '05

- Recent power market supply failures = total 5 companies
 - Team Group
 - Eledor
 - Reepham
 - Utility Link
 - Zest4 - customers picked up by British Gas

Reliance on Imported Gas - Winter '06



Reliance on Imported Gas - Winter '05 to Winter '10



Environment

- Major market uncertainty from:
 - 2008 – 2012 due to ETS Phase II
 - 2008 – 2015 due to LCPD
- ETS
 - Unknown allocation until June 2006
 - Unknown alternative source of credits include
 - Countries - Russia, Ukraine, Japan, Canada
 - Kyoto Mechanisms – CDM / JI
- LCPD
 - 11.7 GW of coal plant is constrained to 20,000 running hours
 - Must close by 2015
 - Major impact for NGT balancing system & cost of balancing

Summary

- It is a more volatile world
- Prices might not return to historical levels because of:
 - Support from Oil Market & supply shortages
 - Support from Environmental Markets
 - Support from European Power Price Floors
 - UK Supply / Demand Balance will give support at the same time

Conclusions

- Based on these market interactions, the key things for Energy buyers are:
 - Understand the market
 - Build a solid long term relationship that adds the most value
 - Tailor your product to your specific circumstances
 - Take care with Risk Management

'We at British Energy understand the markets and we bring that understanding to our relationships. We are currently working on how best to deliver this to you the customer '