

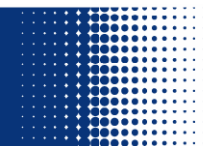


edf
ENERGY



OPTIONS FOR ENERGY BUYERS

Peter Masterson
Head of Strategic Accounts



A LITTLE BIT OF ENERGY...

...GOES A LONG WAY



ENERGY FOR BUSINESS...

ENERGY FOR LEARNING...

ENERGY FOR SPORT...

ENERGY FOR LIVING...

ENERGY FOR TRAVEL...

7%

Generating
7% of the
UK's
electricity

7.8m

Distributing
electricity to
7.8 million
homes and
businesses

172,000km

Managing and
maintaining
172,000km of
electricity cables
and wires

5m

Responsible for
supplying, serving
and billing around 5m
electricity and gas
customers

£3.9m

Investing
£3.9m in
community
projects

11,300

Employing
11,300
people in
the UK

£4,050m

Turning
over
£4,050m

❖ POWER & GAS BUSINESS MARKET SHARES

ELECTRICITY	D2D market share by volume July 2006	2002 market position
EDF Energy	18%	6
RWE npower	18%	1
E.ON Energy	15%	2
British Energy	14%	4
Scottish & Southern	12%	5
British Gas Business	7%	8
Gaz De France	6%	Not present
Scottish Power	5%	7

GAS	D2D market share by volume July 2006	2002 market position
Elf Business Energy	18%	7
Gaz De France	13%	9
Shell Gas Direct	13%	5
British Gas Business	12%	2
E.ON Energy	11%	6
Statoil UK	9%	8
Corona Energy	6%	11
RWE npower	4%	10
EDF Energy	2%	Too small to rank

Source: Datamonitor

❖ IN THE BEGINNING, IT WAS SIMPLE

All inclusive fixed price - fixed term contract

Pass through fixed price - fixed term contract

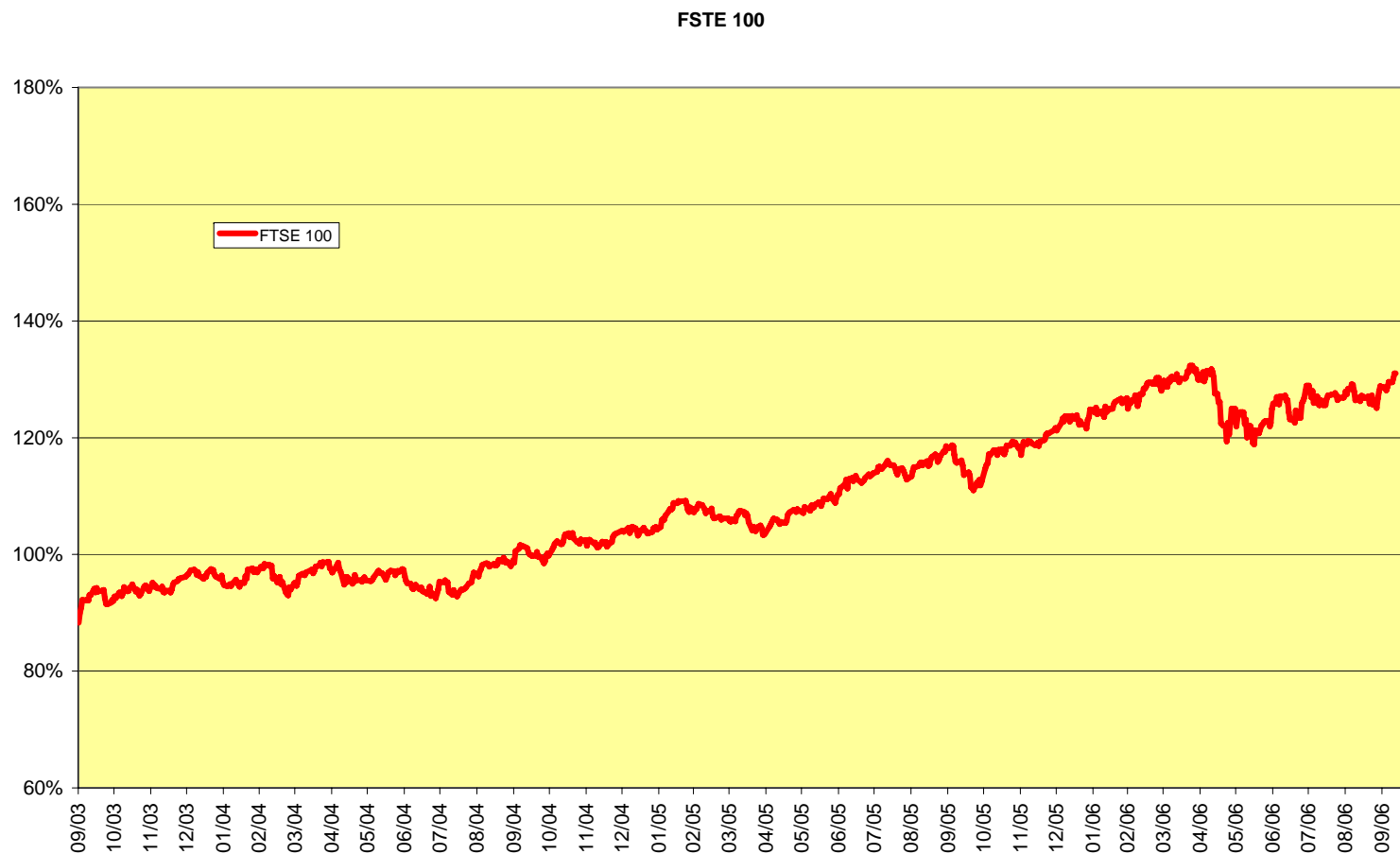
❖ THEN THE RANGE OF OPTIONS GREW...

Traded products

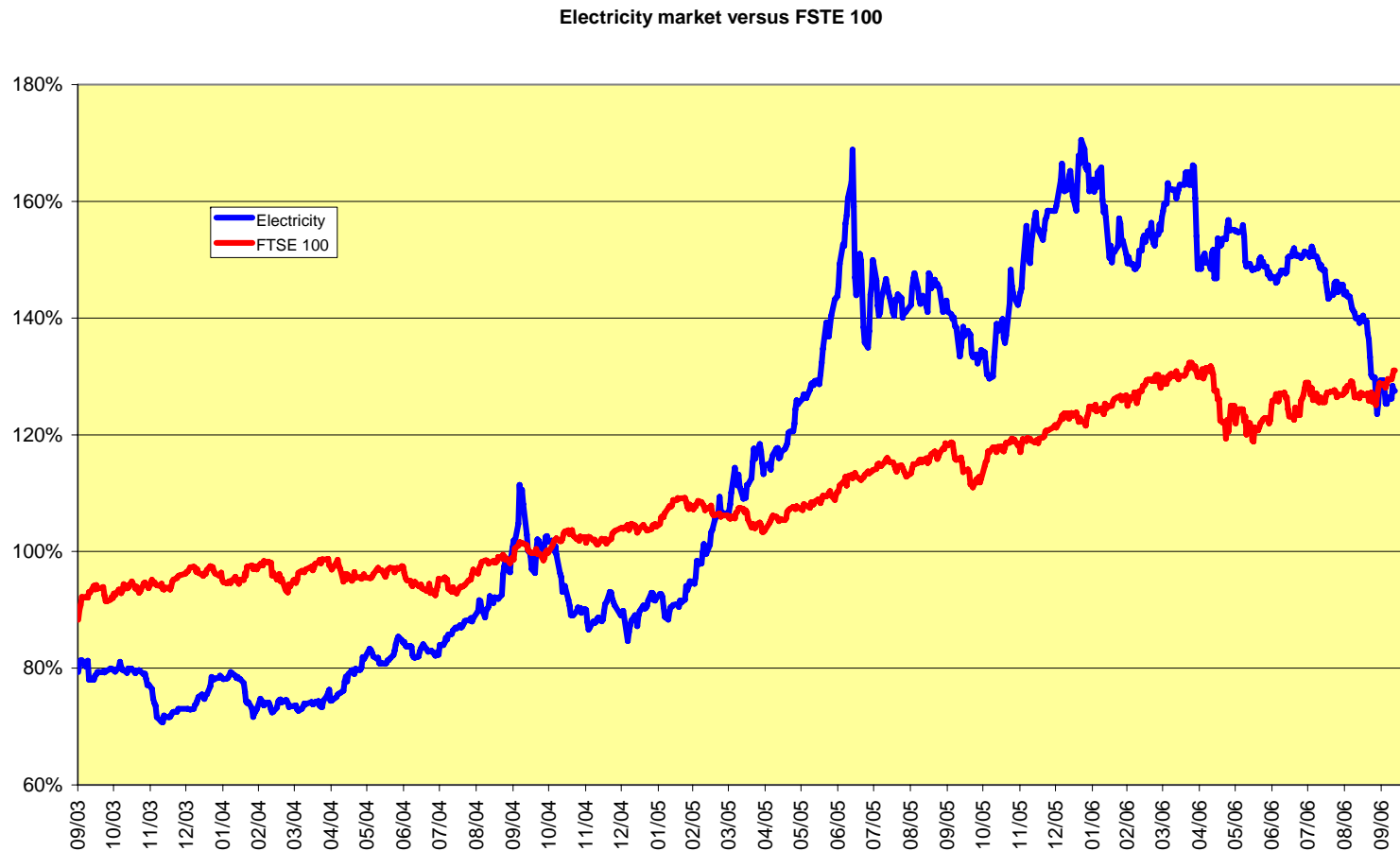
Clip Size	Lock unlock	Duration	Sign up date?
Duration	Purchase Block	Structure	All inclusive?
Reconciliation period	All inclusive?	Billing style	Green?
Baskets ?	Green?	Payment terms	Energy Management

Traditional products

ENERGY IS RISKY



❖ MORE RISKY THAN THE STOCK MARKET



❖ DEFINING RISK AND ENERGY PRICE RISK

Two components to risk:

1. Uncertainty

2. Exposure

If either is not present > no risk.



ENERGY PRICE RISK

Exposure:
have to purchase required
volume

Uncertainty:
volatile future wholesale
market price

Risk:
cost exceeds budget
OR
costs are out of step with
competitors

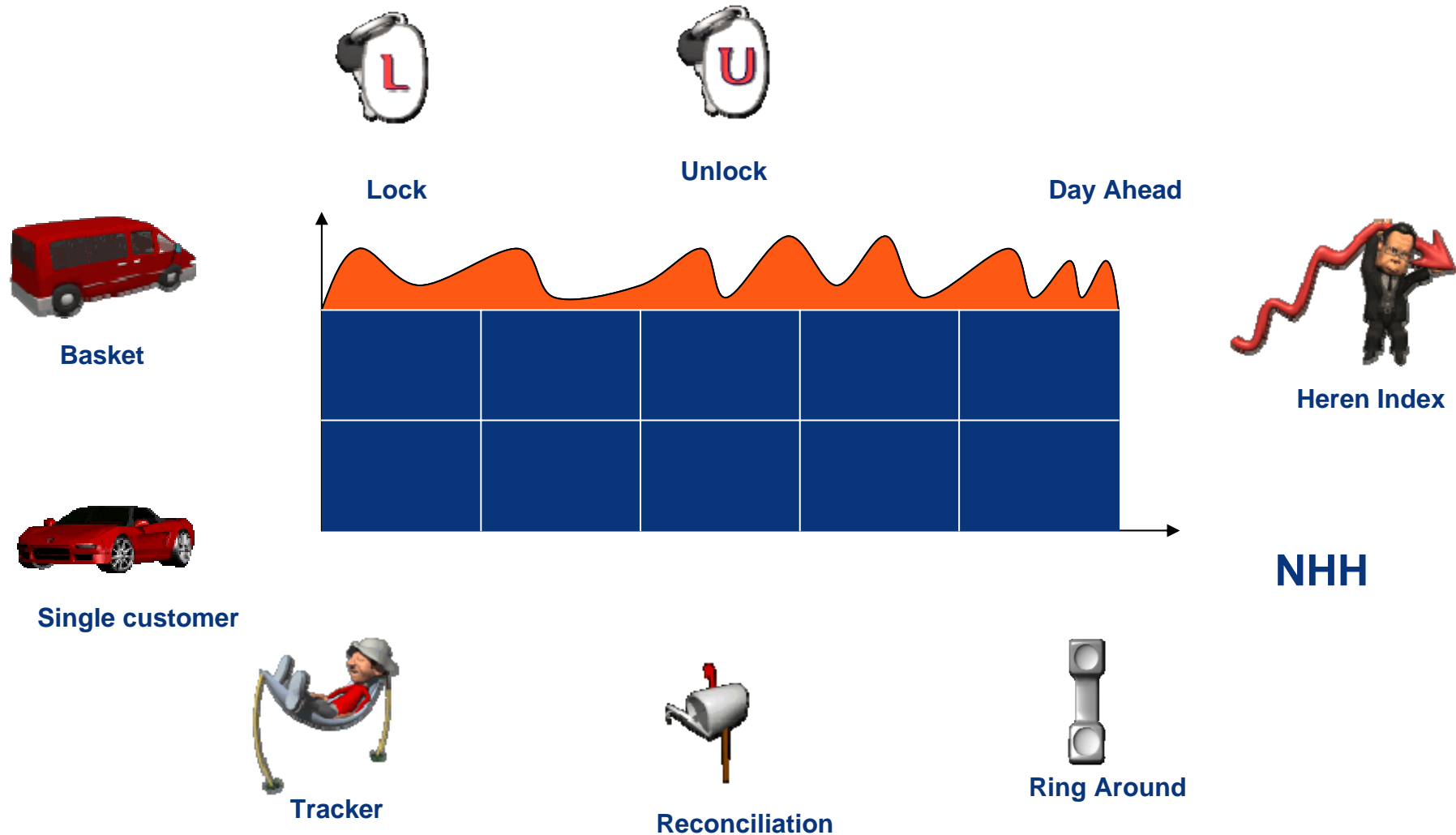
❖ WHEN TO LOCK A PRICE?



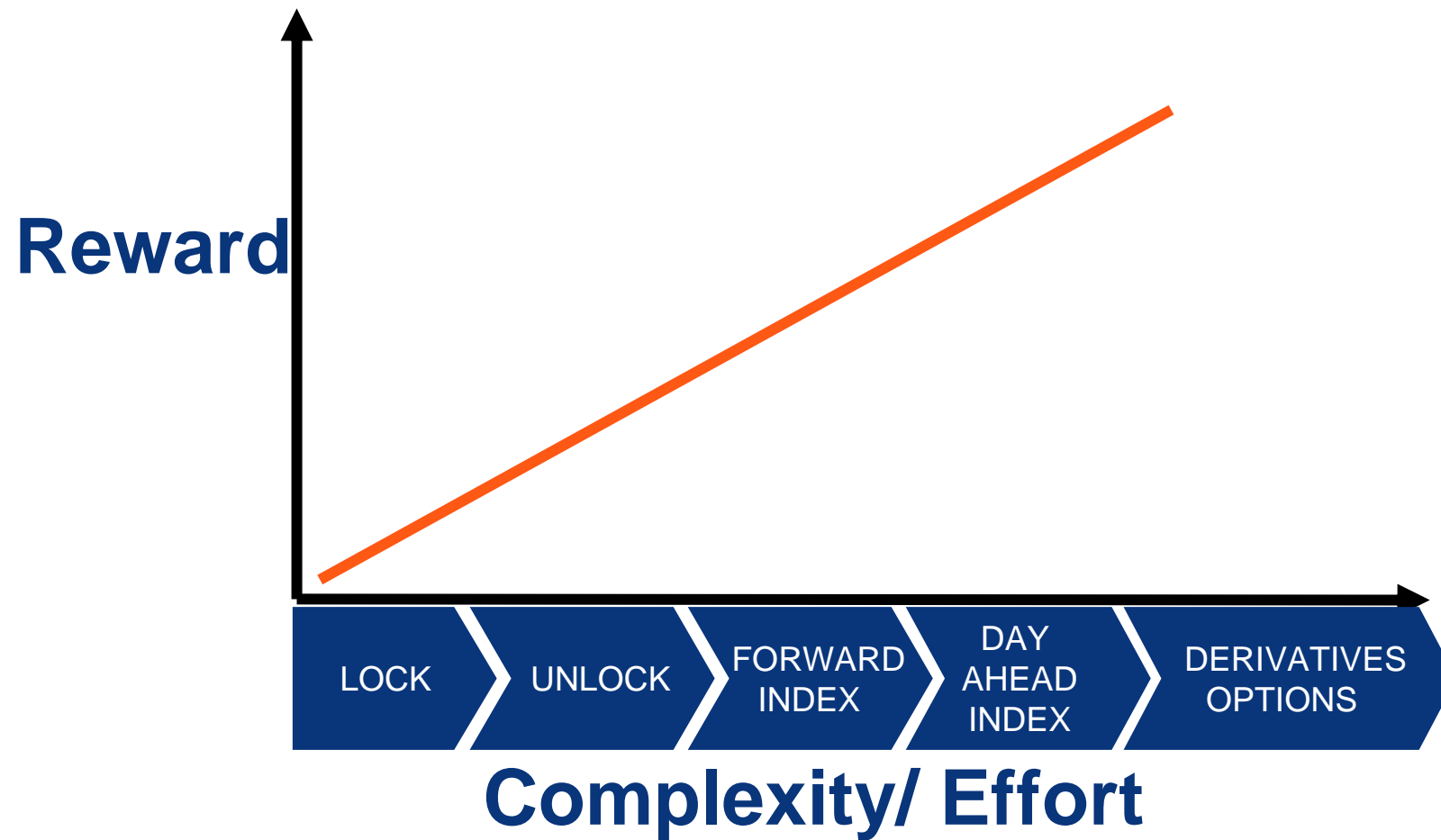
❖ WHEN TO LOCK A PRICE?



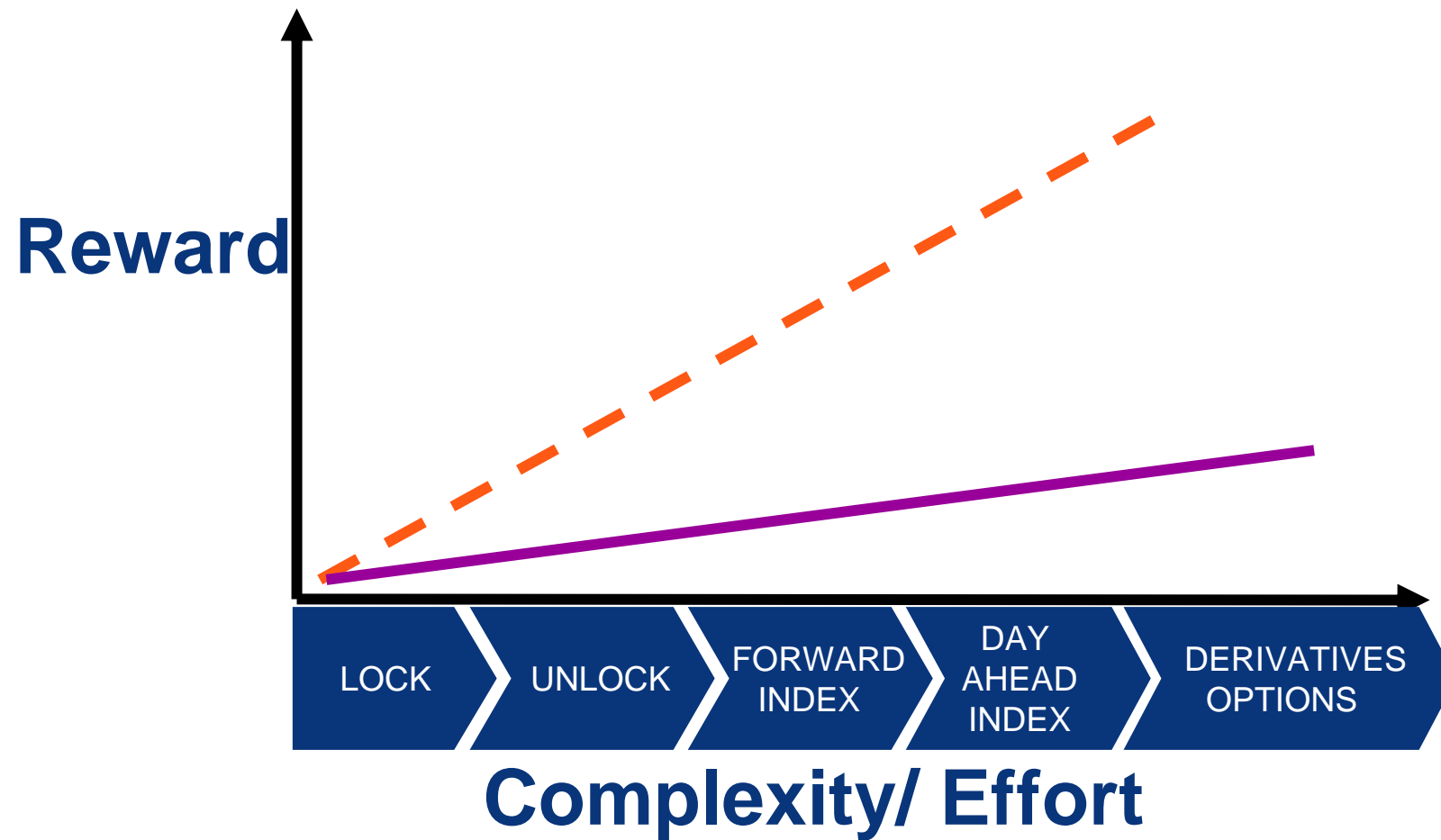
❖ RANGE OF FLEXIBLE CONTRACTS AVAILABLE



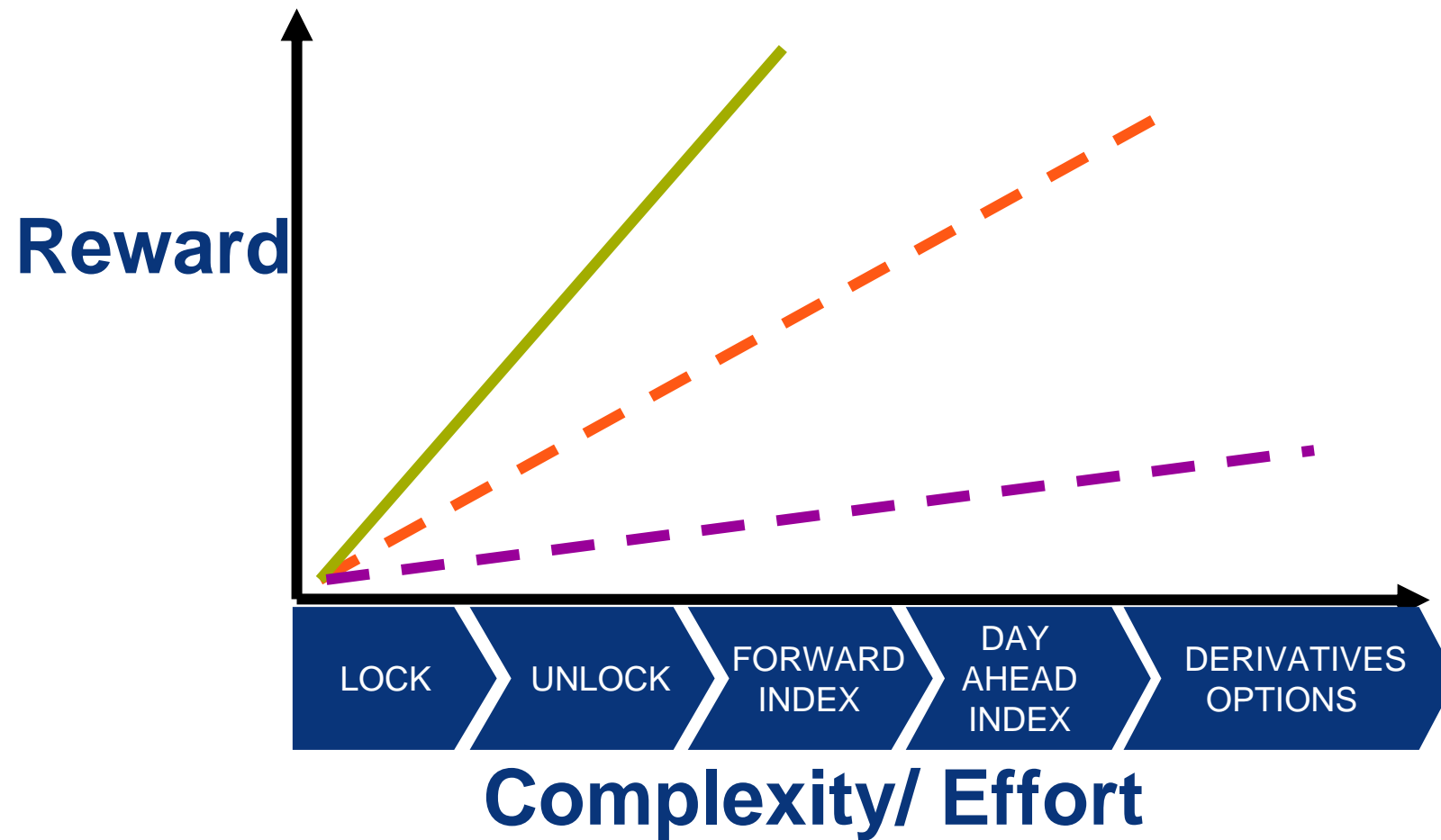
❖ COMPLEXITY VS REWARD



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❖ COMPLEXITY VS REWARD



❖ THINGS TO CONSIDER

1. Know the risks
2. Follow a strategy that your organisation is comfortable with

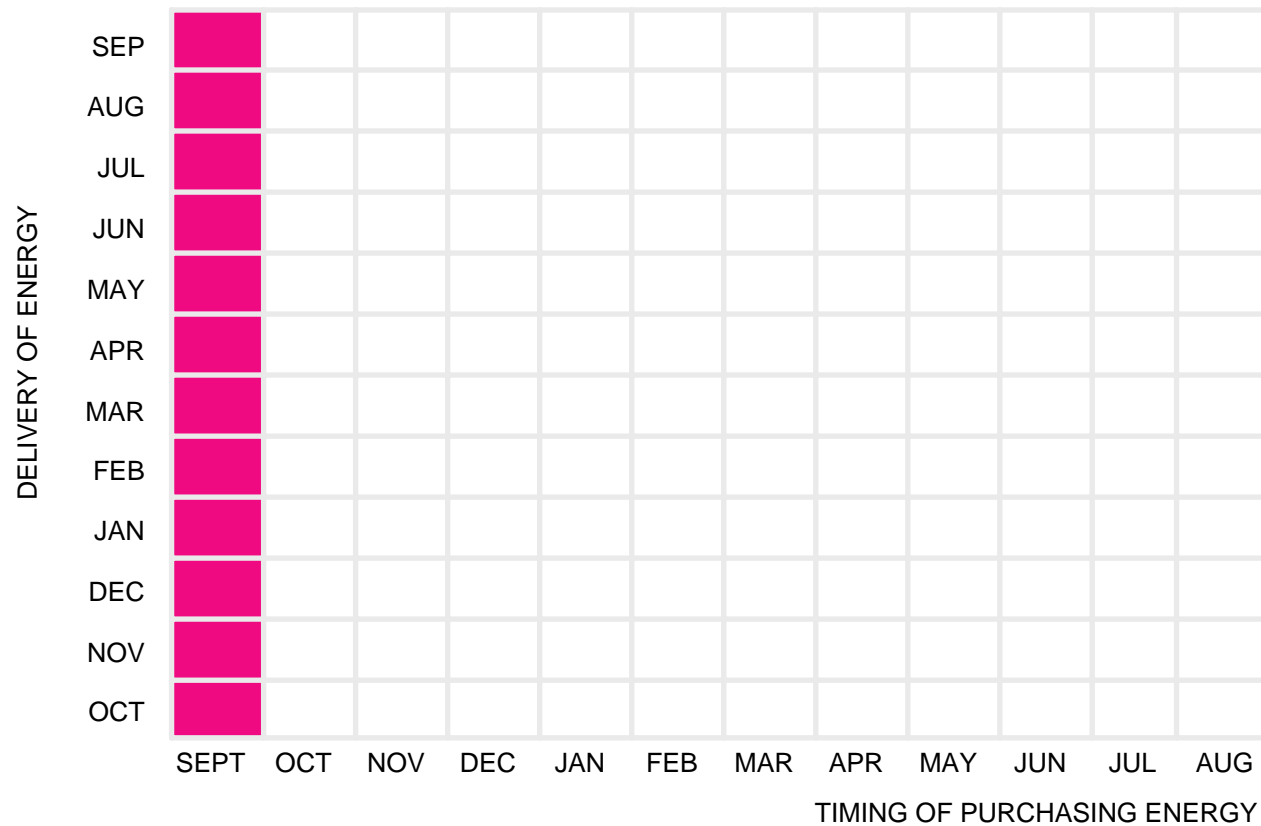
Objective is normally:

- to remain within a budget – not be a high risk taker!
- Not to be out of step with the competition

Two broad types of purchasing strategy:

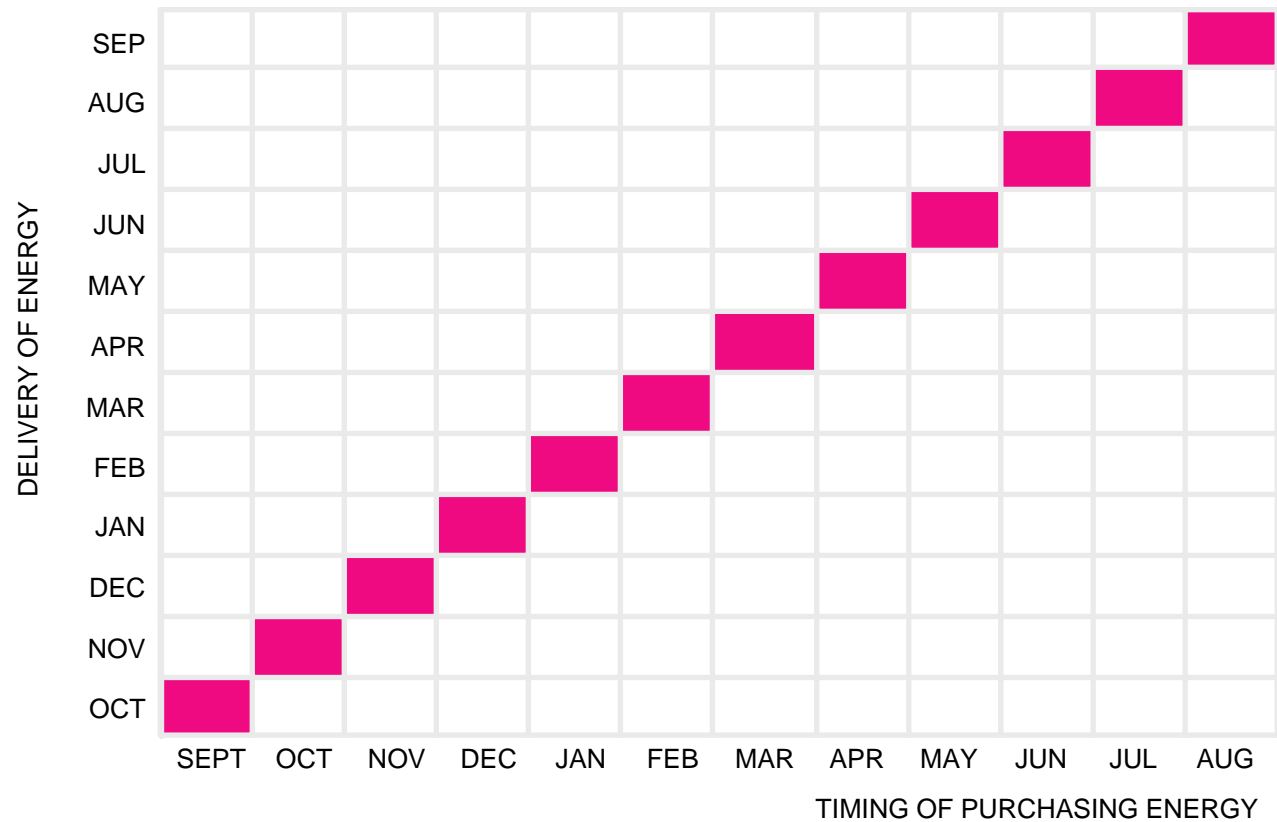
1. Driven by a pre-defined purchasing schedule
2. Driven by market triggers

❖ 1.1 SCHEDULE - ANNUAL LOCK IN



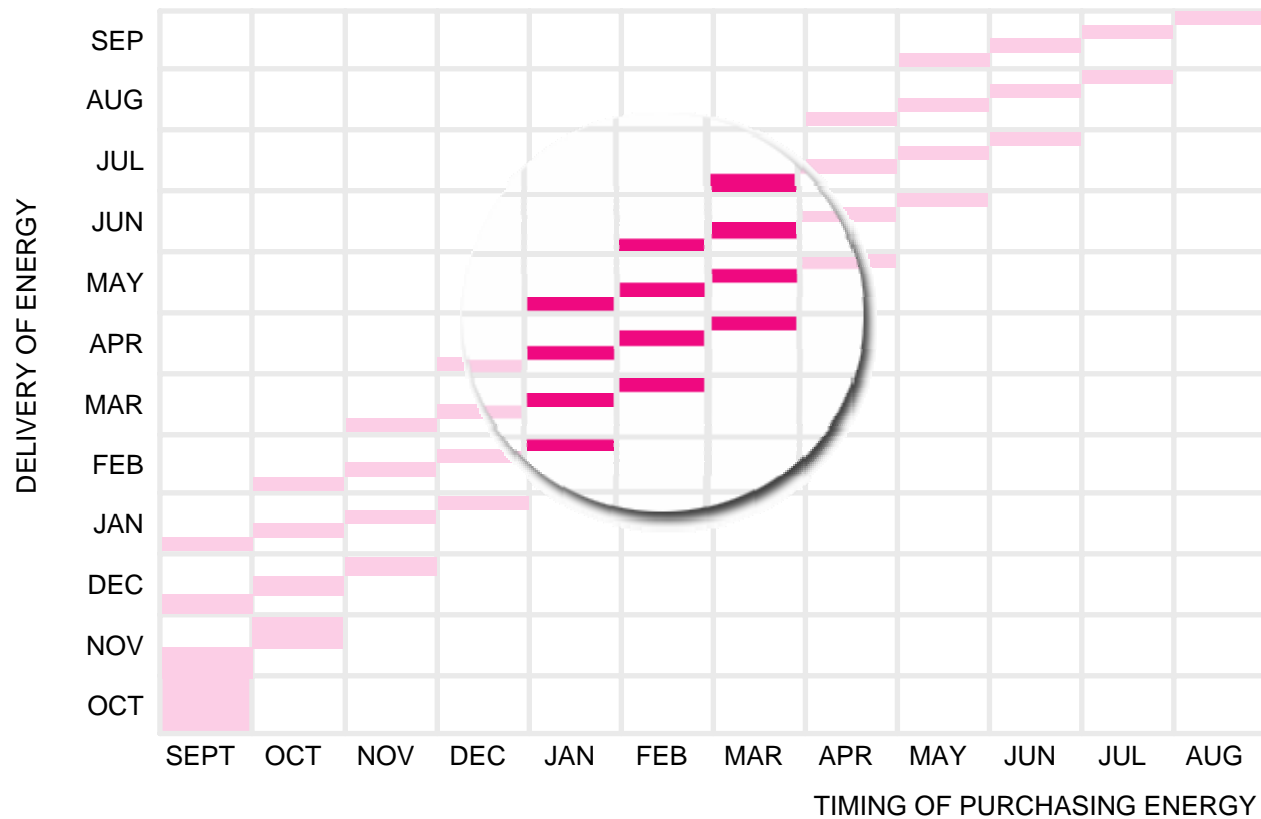
THE ENTIRE ELECTRICITY VOLUME IS BOUGHT IN A SINGLE PURCHASE SO THE TOTAL COST OF THE CONTRACT IS KNOWN AT THE OUT SET.

❖ 1.2 SCHEDULE - ROLLING MONTHLY LOCK-IN



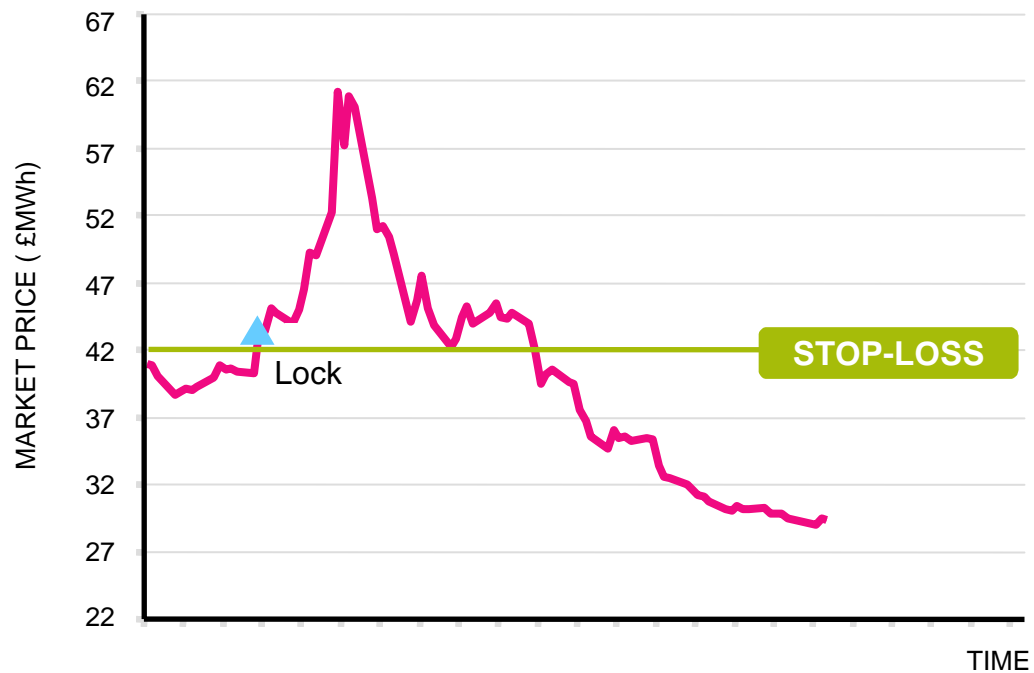
ELECTRICITY IS PURCHASED CLOSE TO A PURCHASING DEADLINE DATE ON A MONTH BY MONTH BASIS.

1.3 SCHEDULE - PROGRESSIVELY HEDGED ROLLING MONTHLY LOCK-IN



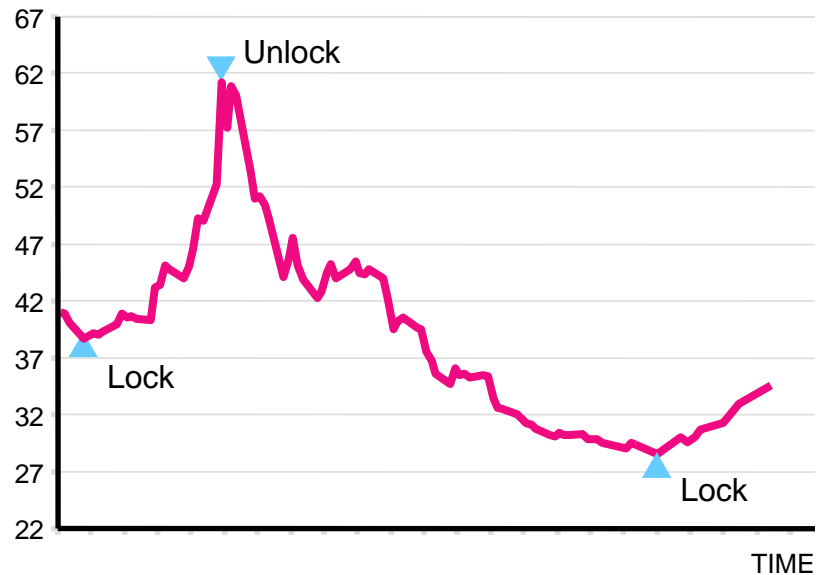
PART PURCHASES FOR SEVERAL BLOCKS ARE MADE EACH MONTH TO PROGRESSIVELY HEDGE THE PRICE OF EACH BLOCK.

❖ 2.1 MARKET TRIGGERS - STOP LOSS

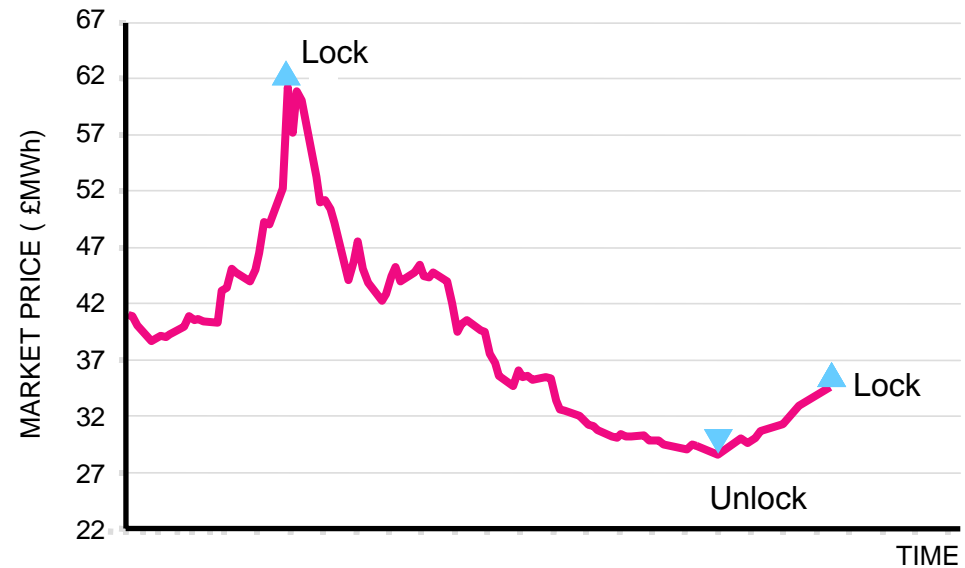


THE BUDGET IS THEORETICALLY PROTECTED BY AN UPPER LIMIT: THE STOP-LOSS.
THIS LIMIT CAN BE SET FOR SEASONAL AND MONTH STOP-LOSSES.

2.2 MARKET TRIGGERS – LOCK / UNLOCK PER BLOCK



BEST CASE SCENARIO

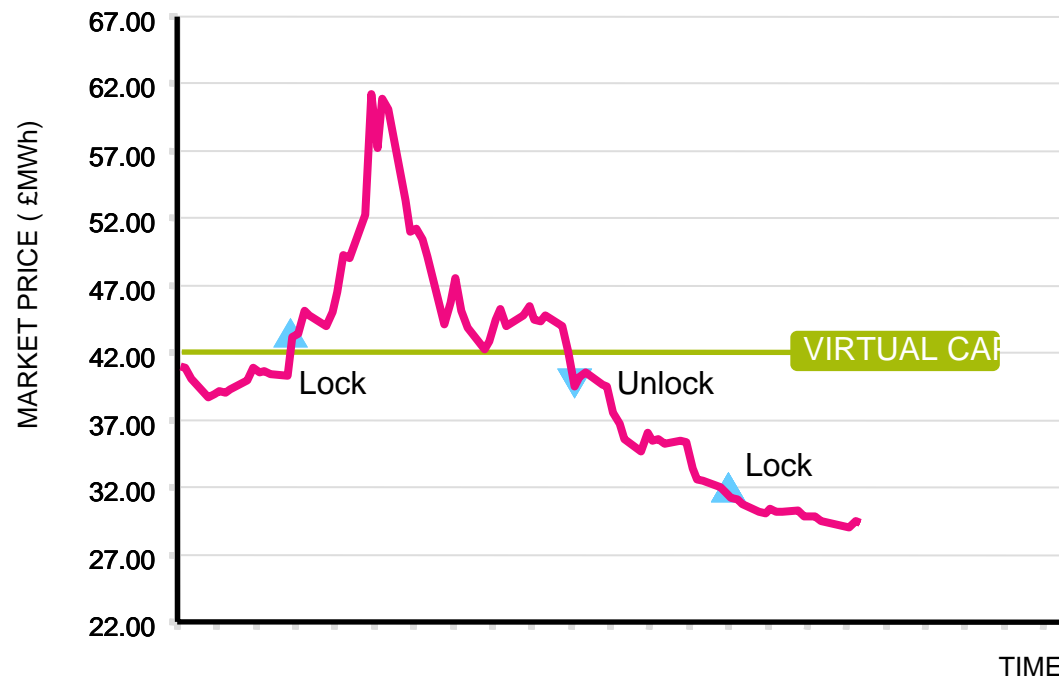


WORST CASE SCENARIO



THE AIM IS TO BENEFIT FROM THE VOLATILITY OF THE MARKET.
HOWEVER AS THE MARKET IS HIGHLY UNPREDICTABLE, THERE IS A GREAT DEGREE
OF RISK ATTACHED TO THIS STRATEGY.

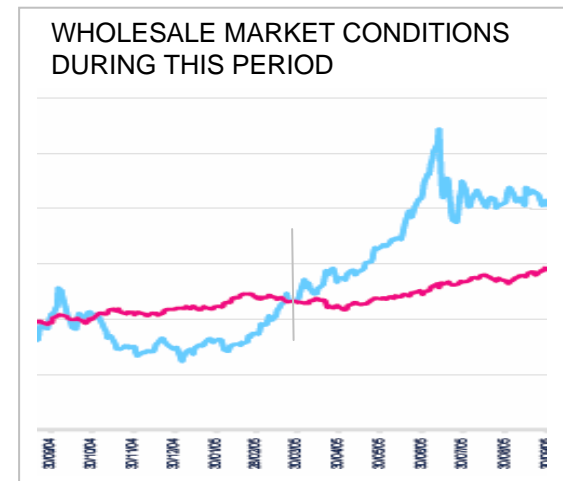
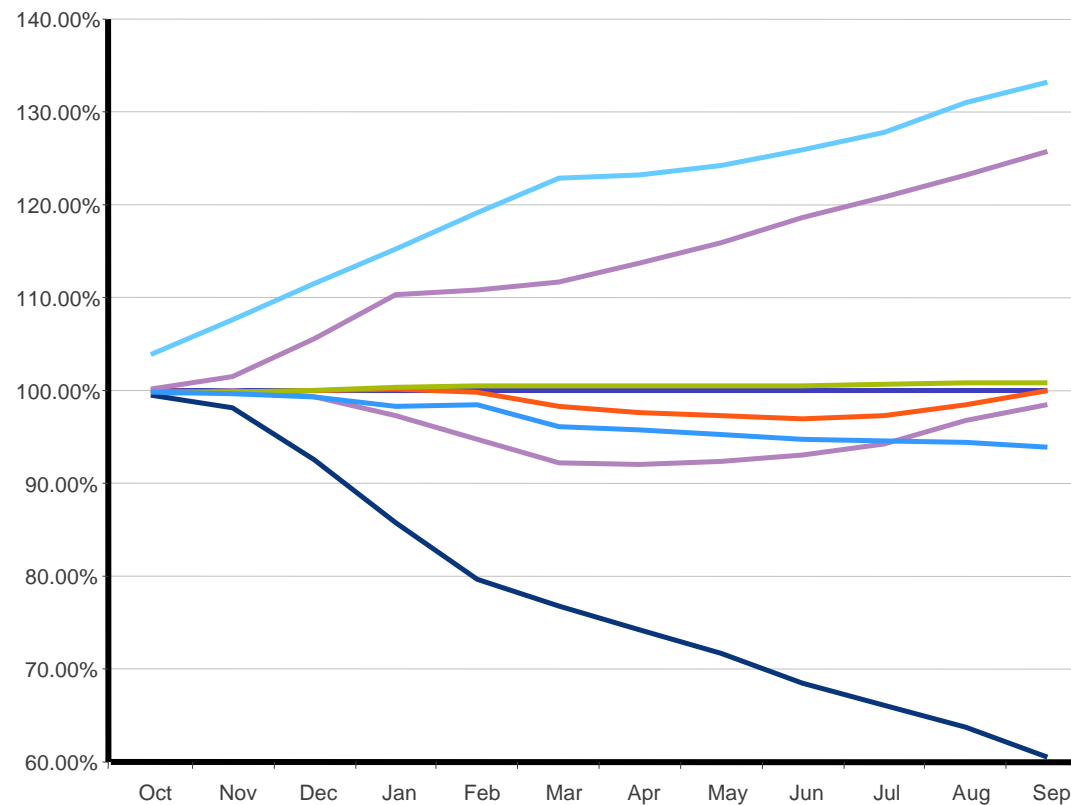
2.3 MARKET TRIGGERS - LOCK / UNLOCK TO CREATE VIRTUAL CAP



THIS STRATEGY PROVIDES A VIRTUAL CAP. HOWEVER DUE TO VOLATILITY AND A LARGE BID / OFFER SPREAD, THIS SHOULD NOT BE VIEWED AS A FREE VIRTUAL CAP.

❖ RISK POLICIES' AFFECT ON BUDGETS

Flexible purchasing is sophisticated and demands a good understanding of risk and the market, and a robust policy to guide purchasing decisions



- 1. Fixed Price
- 2. Month By Month (Oct)
- 3. Month By Month (April)
- 4. Minimum Risk Position
- 5. Stop Loss
- 6. Lock Unlock Best Case
- 7. Lock Unlock Worse Case
- 8. Lock Unlock Virtual Cap

❖ EDUCATING ABOUT RISK MANAGEMENT

POLICY

- A framework to guide day to day energy purchasing activity in a way that is acceptable to the company.
- Offers more protection and assurance for the energy buyer.
- A manual that covers:
 - Governance structure
 - Process / Procedures
 - Purchasing authority levels
 - Optimisation – exposure limits
 - Monitor and manage portfolio
 - Its a living document

GOVERNANCE

- To enable quicker decision making while ensuring the company knows the risks its exposed to.
- Formalises best practice – put energy on key business risk register
- Energy Risk Management Committee
 - Includes representatives from other stake holder groups
 - Decision making authority split to cover for absentees
 - Frequency of meeting
 - Energy manager should not be left carrying the can

❖ HELPING CUSTOMERS UNDERSTAND

1

RISK POLICIES AND MANAGEMENT



2

FLEXIBLE PURCHASING SIMULATION



3

WHOLESALE MARKET INFORMATION



❖ FREQUENT MARKET INFORMATION & UPDATES

By helping our customers keep abreast of changes in the wholesale cost of energy, they can make more informed decisions about when to buy their energy requirements.

- **Daily** updates on current wholesale market prices
- **Fortnightly** updates with concise, insightful analysis of factors leading to recent changes, and possible short term future movements



❖ CUSTOMER DESK

ACCESSIBLE EXPERT SUPPORT FOR OPERATING FLEXIBLE CONTRACTS

- Direct access to a wholesale energy trader
- Reports which quantify your exposure to the market
- Daily market reports
- Tracking of wholesale market with reference to your purchasing strategy
- Notification of changes to the markets' position, including notice of any agreed purchasing or selling triggers
- Proactive product price management
- Managing the execution of wholesale market deals with you and on your behalf
- Direct telephone number to one of our authorised traders



❖ THE FLEXIBLE RUSH

Significant switch towards flexible buying

- Critical for customers to understand energy buying and how to manage the risks in an acceptable way for the company

Flexible contracts:

- change the way you arrive at your budget
- allow for greater collaboration between customers & suppliers
- should not lead to last minute or highly risky decision making
- With more complex structures the transition is intellectually challenging and requires developing new skills in house in order to operate them effectively.

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Make it a flexible contract you feel comfortable with.



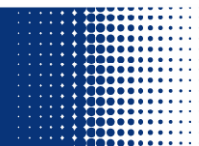
ANY QUESTIONS?

Peter Masterson

Head of Strategic Accounts

peter.masterson@edfenergy.com

Ph: +44 (0)7875 11 0082



THANK YOU

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