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% 7.8m 172,000km 5m £3.9m 11,300 £4,050m
Generating 7% of the UK’s electricity Distributing electricity to 7.8 million homes and businesses Managing and maintaining 172,000km of electricity cables and wires Responsible for supplying, serving and billing around 5m electricity and gas customers Investing £3.9m in community projects Employing 11,300 people in the UK Turning over £4,050m
## POWER & GAS BUSINESS MARKET SHARES

<table>
<thead>
<tr>
<th>ELECTRICITY</th>
<th>B2B market share by volume July 2006</th>
<th>2002 market position</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDF Energy</td>
<td>18%</td>
<td>6</td>
</tr>
<tr>
<td>RWE npower</td>
<td>18%</td>
<td>1</td>
</tr>
<tr>
<td>E.ON Energy</td>
<td>15%</td>
<td>2</td>
</tr>
<tr>
<td>British Energy</td>
<td>14%</td>
<td>4</td>
</tr>
<tr>
<td>Scottish &amp; Southern</td>
<td>12%</td>
<td>5</td>
</tr>
<tr>
<td>British Gas Business</td>
<td>7%</td>
<td>8</td>
</tr>
<tr>
<td>Gaz De France</td>
<td>6%</td>
<td>Not present</td>
</tr>
<tr>
<td>Scottish Power</td>
<td>5%</td>
<td>7</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>GAS</th>
<th>B2B market share by volume July 2006</th>
<th>2002 market position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elf Business Energy</td>
<td>18%</td>
<td>7</td>
</tr>
<tr>
<td>Gaz De France</td>
<td>13%</td>
<td>9</td>
</tr>
<tr>
<td>Shell Gas Direct</td>
<td>13%</td>
<td>5</td>
</tr>
<tr>
<td>British Gas Business</td>
<td>12%</td>
<td>2</td>
</tr>
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<td>E.ON Energy</td>
<td>11%</td>
<td>6</td>
</tr>
<tr>
<td>Statoil UK</td>
<td>9%</td>
<td>8</td>
</tr>
<tr>
<td>Corona Energy</td>
<td>6%</td>
<td>11</td>
</tr>
<tr>
<td>RWE npower</td>
<td>4%</td>
<td>10</td>
</tr>
<tr>
<td>EDF Energy</td>
<td>2%</td>
<td>Too small to rank</td>
</tr>
</tbody>
</table>

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…

<table>
<thead>
<tr>
<th>Traded products</th>
<th>Traditional products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clip Size</td>
<td>Duration</td>
</tr>
<tr>
<td>Lock unlock</td>
<td>Sign up date?</td>
</tr>
<tr>
<td>Duration</td>
<td>Purchase Block</td>
</tr>
<tr>
<td>Purchase Block</td>
<td>Structure</td>
</tr>
<tr>
<td>Structure</td>
<td>All inclusive?</td>
</tr>
<tr>
<td>Reconciliation period</td>
<td>All inclusive?</td>
</tr>
<tr>
<td>All inclusive?</td>
<td>Billing style</td>
</tr>
<tr>
<td>Baskets ?</td>
<td>Green?</td>
</tr>
<tr>
<td>Green?</td>
<td>Payment terms</td>
</tr>
<tr>
<td></td>
<td>Energy Management</td>
</tr>
</tbody>
</table>
ENERGY IS RISKY

FTSE 100
MORE RISKY THAN THE STOCK MARKET

Electricity market versus FSTE 100
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?

Daily average traded prices Winter 06/07

£/MWh

0 10 20 30 40 50 60 70 80

14/01, 23/04/04, 01/08/04, 09/11/04, 17/02/05, 28/05/05, 05/09/05, 14/12/05, 24/03/06, 02/07/06, 10/10/06
WHEN TO LOCK A PRICE?

“The opportunity to make a bad decision every day”
RANGE OF FLEXIBLE CONTRACTS AVAILABLE

- Lock
- Unlock
- Day Ahead
- Basket
- Single customer
- Tracker
- Reconciliation
- Ring Around
- Heren Index

OFGEM – OPTIONS FOR ENERGY BUYERS
Wednesday 8th November 2006
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COMPLEXITY VS REWARD

Reward

Complexity/ Effort

- LOCK
- UNLOCK
- FORWARD INDEX
- DAY AHEAD INDEX
- DERIVATIVES OPTIONS
COMPLEXITY VS REWARD

Complexity/ Effort

Reward

LOCK  UNLOCK  FORWARD INDEX  DAY AHEAD INDEX  DERIVATIVES OPTIONS
COMPLEXITY VS REWARD

Complexity/ Effort

Reward

- LOCK
- UNLOCK
- FORWARD INDEX
- DAY AHEAD INDEX
- DERIVATIVES OPTIONS
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

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.
Flexible purchasing is sophisticated and demands a good understanding of risk and the market, and a robust policy to guide purchasing decisions.
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
  – It's 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 stakeholder 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?

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Head of Strategic Accounts
peter.masterson@edfenergy.com
Ph: +44 (0)7875 11 0082
THANK YOU

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