Winter to date
Ofgem seminar

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MD – Energy Portfolio Risk Management

EDF Energy

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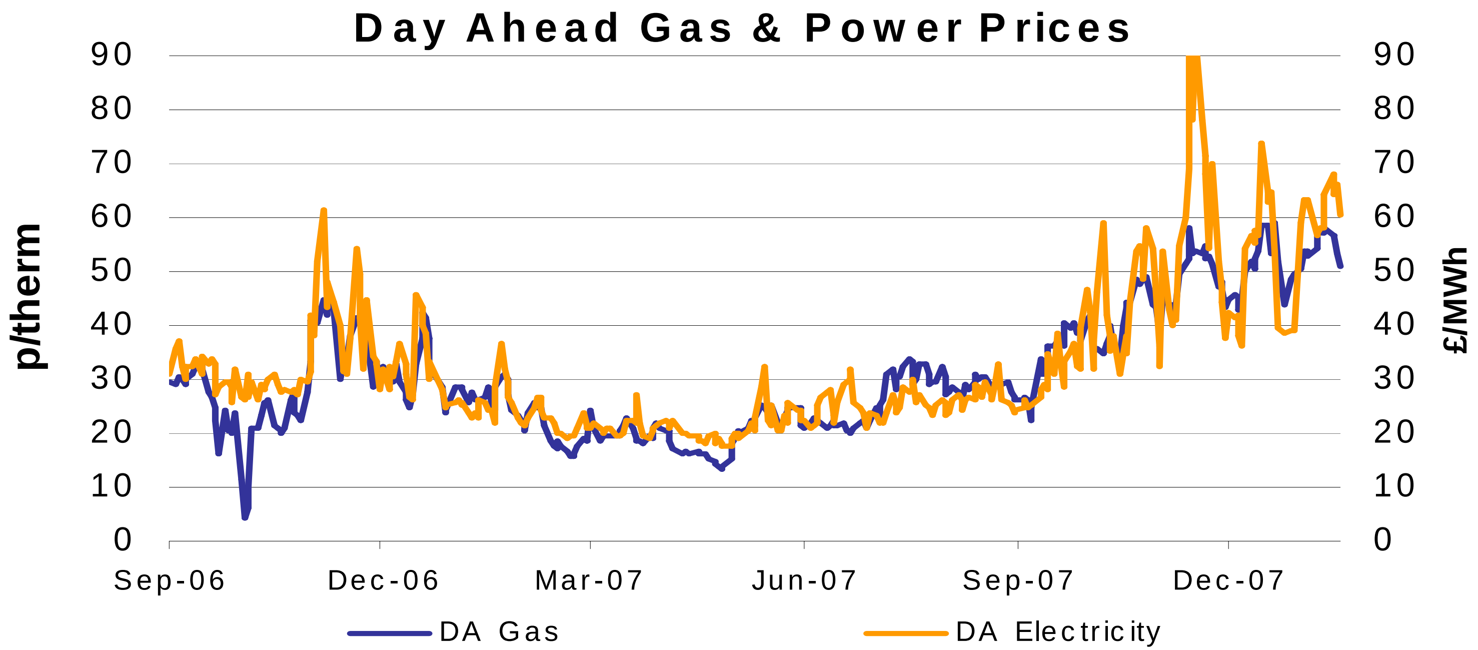
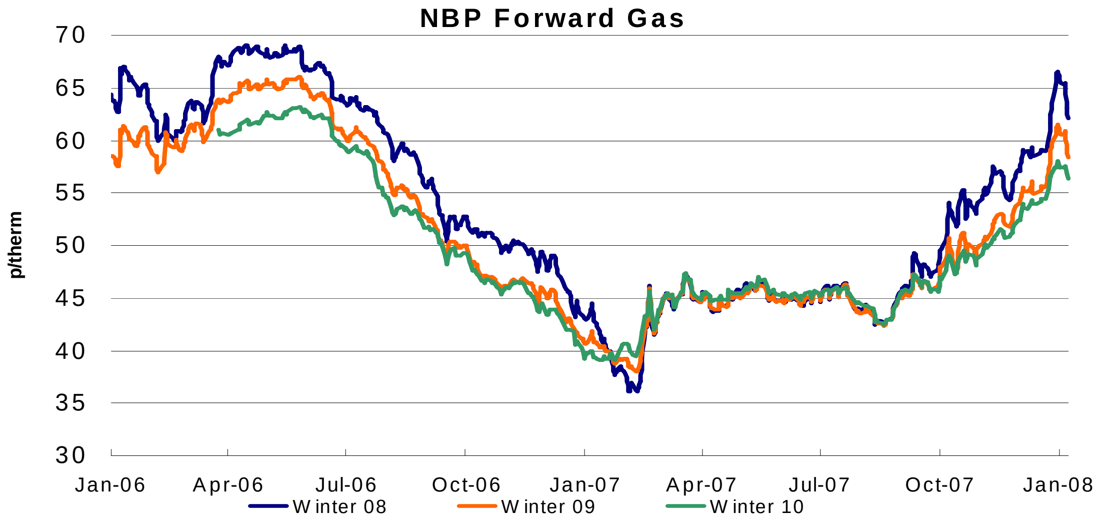
Rising energy prices – Prompt gas and power



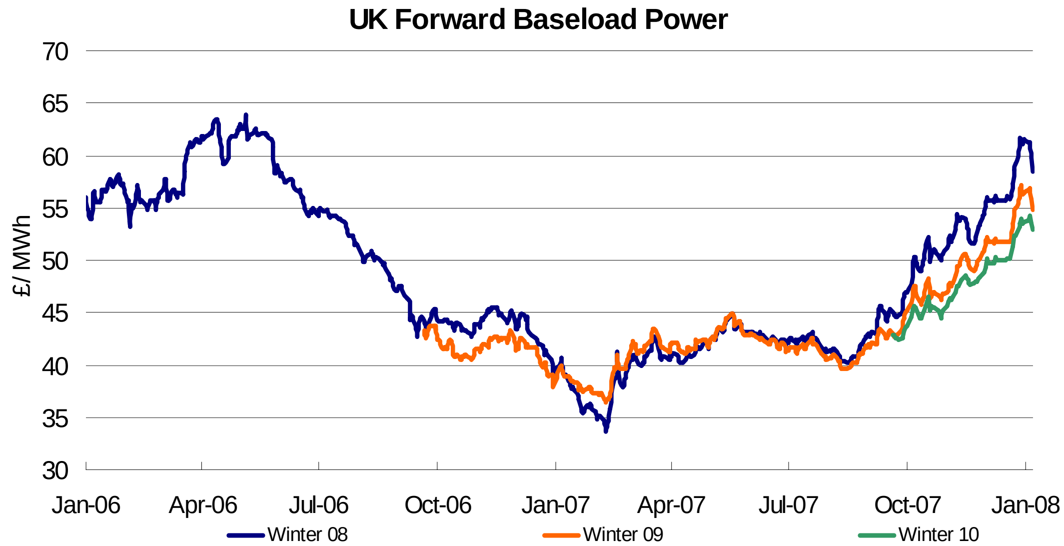
- Gas and electricity prompt prices are higher this winter than last due to:
  - Lower plant margins
  - LCPD and EU ETS Phase 2
  - Cooler weather
  - Less spot LNG gas
  - Impact of oil indexed gas at the margin

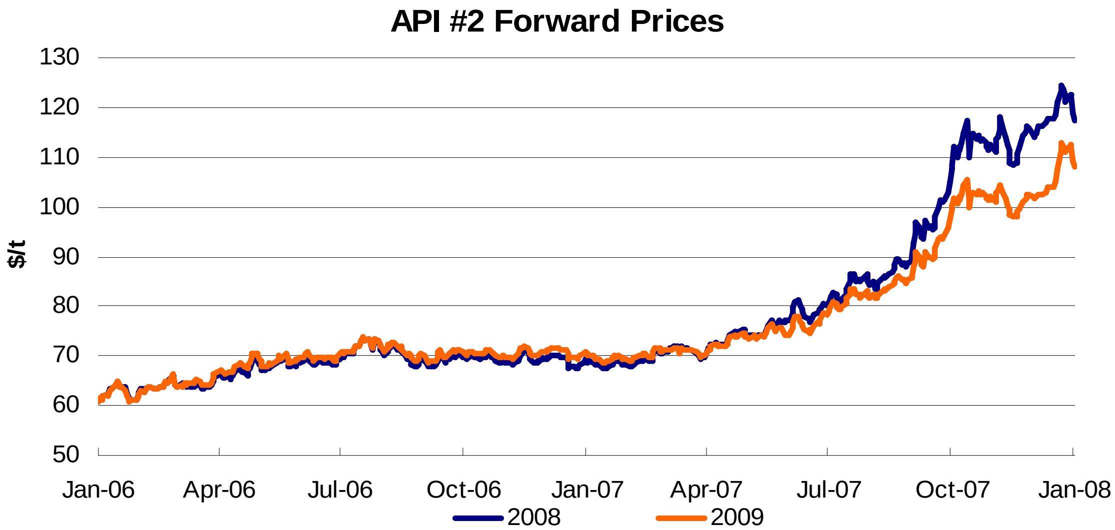
Rising energy prices – Forward gas and oil



- **Gas forward prices** have risen dramatically due to:
  - Gas prompt prices
  - Oil prices
- Less evidence of supply/demand pressures
- **Oil prices** have reached record levels due to:
  - Growing demand from China and other emerging economies
  - Geopolitical pressures and dollar depreciation

Rising energy prices – Forward power and coal

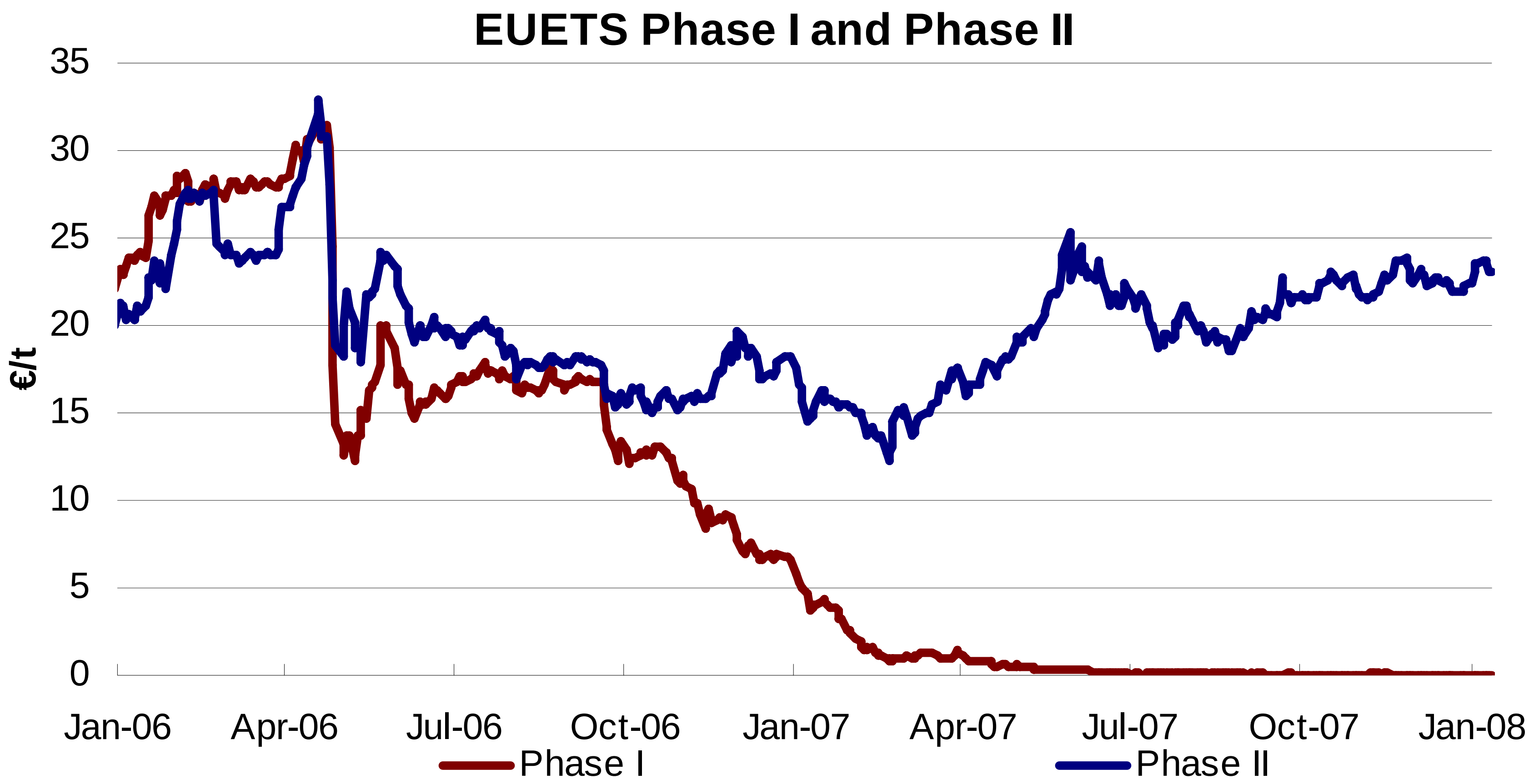




- **Power forward prices** continue to be influenced by rising gas prices but more recently:
  - Coal prices
  - LCPD
  - EU ETS phase II prices.

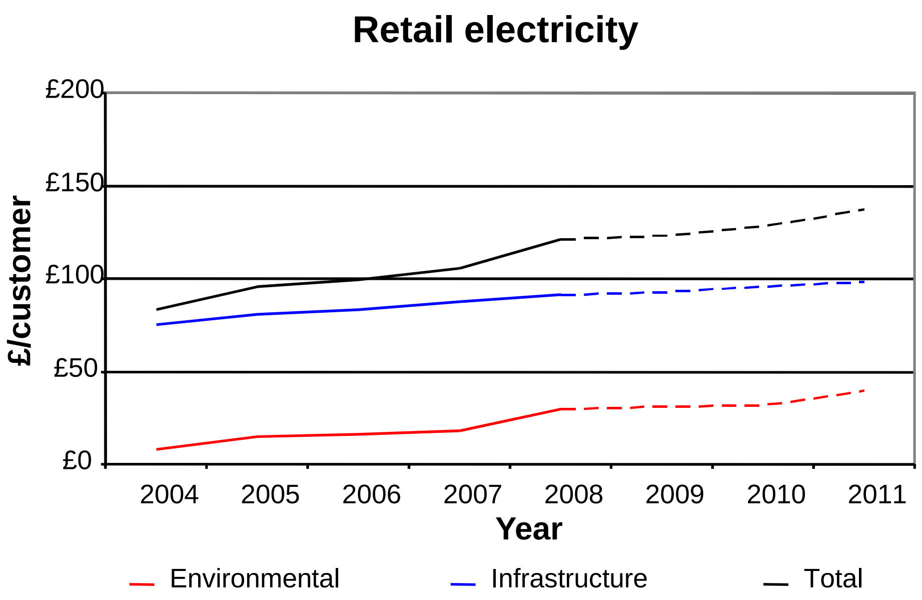
- **Coal prices** have risen steeply during 2007 due to:
  - Freight charges
  - Rain impacting Indonesian production
  - Australian rail infrastructure disruptions
  - Increased demand from India and Korea, China and Japan

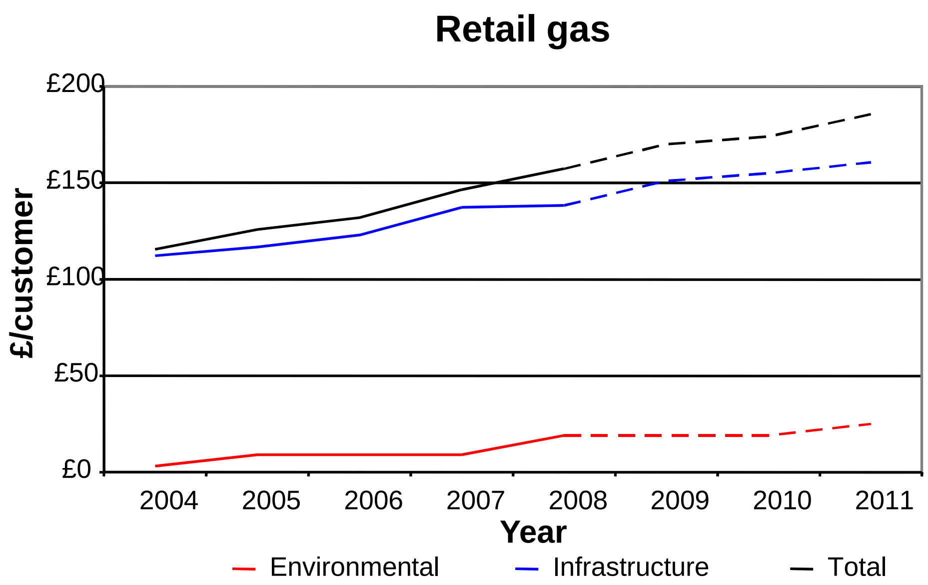
Rising energy prices – Carbon



Increasing infrastructure & environmental costs

- Infrastructure and environmental obligations have increased due to:
  - Rising energy efficiency commitments with the introduction of CERT (Carbon Emissions Reduction Target) scheme from 2008.
  - Rising impact of Renewables Obligation.
  - Rising transmission, transportation, distribution and metering costs.



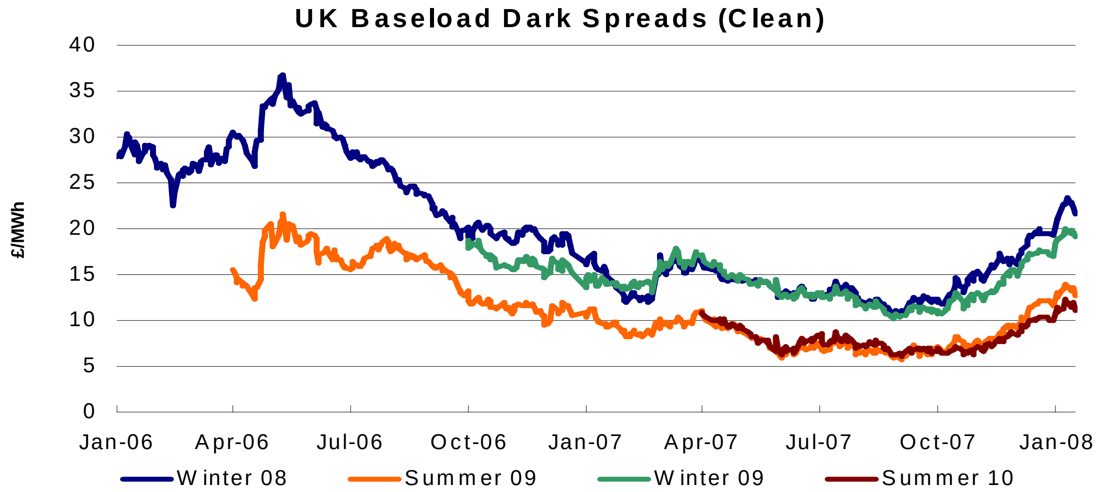


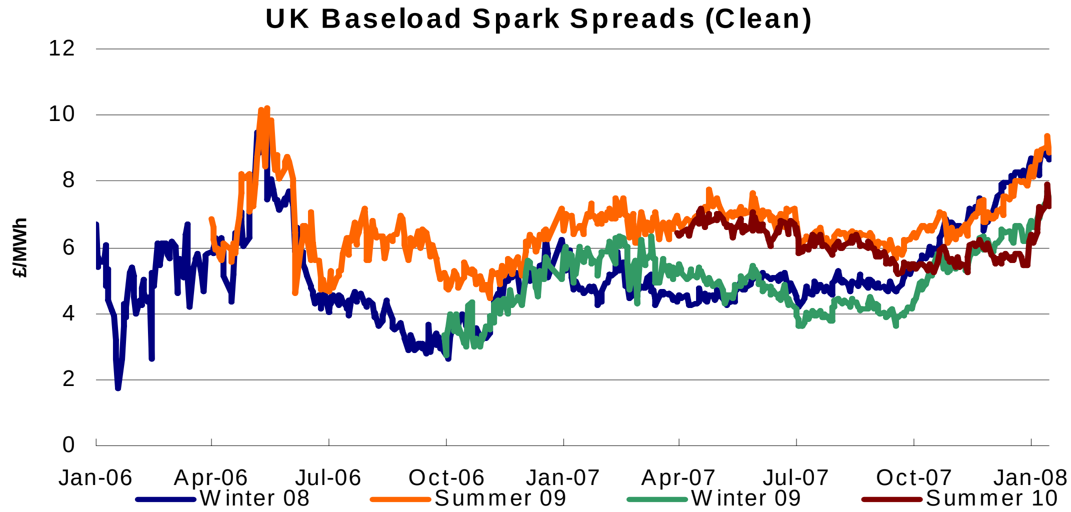
Note: projections estimated

Managing energy costs

- Energy markets are extremely volatile and small movements can wipe out profits.
- EDF Energy does not speculate but hedges its exposure on the forward market across the trading horizon.
- Credit is very important and can become a limiting factor.
- Hedging:
  - reduces our exposure to wholesale market from rising prices but
  - increases our exposure to retail market from falling prices
- Getting the right balance is key.

Generation profitability – Dark & spark spreads





- Generation profitably linked to forward spreads.
- Gains in power prices largely offset by gains in coal and gas prices.
- Spreads remain below the levels required to support:
  - Existing plant
  - New plant investment

Supply profitability – Retail spreads

- Supply profitably linked to retail forward spreads.
- The collapse in spreads experienced since 2003 have been managed through
  - Hedging
  - Vertical integration

Note: Retail spreads based average UK tariffs.

Making our tariff decision

- Tariff changes are one of the biggest decisions we make.
- Need to consider:
  - **Our financial targets**

    Are we delivering the profit required to support our investments?
  - **Our customers**

    How will this impact the vulnerable?

    What about our other customers?

    What is the impact on sales?
  - **Our competitors**

    What will be their response? Will they follow? Will they target our customers?
  - **Our timing**

    Is it better to go now with a smaller increase versus later with a larger one?

    What is our exposure to energy price movements?
  - **Our stakeholders**

    Energywatch, Ofgem, DBERR, media

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Conclusions

- Energy prices remain extremely volatile and difficult to predict.
- The recent rises in energy prices have been compounded by increasing infrastructure and environmental costs which are set to rise further.
- Both the generation and retail markets remain highly competitive.