

Be Empowered

EnergyQuote set for future expansion and increased customer focus in 2007



We are delighted to bring you the inaugural issue of our quarterly customer newsletter. Our aim is to keep you informed of the exciting developments within EnergyQuote and the latest developments in the energy marketplace.

While the last couple of years have been a rollercoaster ride for energy professionals due to the highly volatile markets, this year has started on a slightly calmer note with power and gas prices falling to levels not seen since 2004. These recent market conditions have proved an exciting challenge for EnergyQuote as we evolved and developed our risk management and strategic business services to meet the growing needs of our customers. These services have become a prerequisite when considering flexible multi-purchase supply contracts.

The high growth in energy fund products shows that there is a demand for an alternative way to procure energy, as opposed to the traditional fixed price or even the more complex flexible price approach. EnergyQuote's energy funds have performed extremely well since their launch in 2005, offering organisations the ability to achieve economies of scale. For more information on one of our funds, please go to page 2.

EnergyQuote's European division has also grown significantly over the past few years. We have been particularly successful in the Italian market due to these customers requiring a more consultative approach as they pay a premium for their energy compared to other European customers. Numerous international companies require a pan-European purchasing solution and a growing number of these find EnergyQuote's unique service highly valuable.

Rising climate awareness has raised the importance of energy efficiency among our customers with EnergyQuote frequently receiving requests for advice and support on energy efficiency issues to enable customers to meet their corporate social responsibility. Renewable energy, energy efficiency and reducing carbon footprints are high on the corporate agenda for many

customers, with a special focus on these can be addressed in this issue.

Beyond energy, EnergyQuote's water service continues to grow year-on-year. In this issue the head of our water division, Claire Holmes, shares her experiences and explains how EnergyQuote can help businesses reduce their water costs by being water wise. Historically, many businesses have overlooked the opportunity for water saving, but with changing environmental obligations this is no longer the case.

EnergyQuote's events have been well received in the market and I am pleased to announce we will host and organise more of these events in the second half of the year. Our events are held throughout the UK and are attended by professionals interested in managing or purchasing energy from both the private and public sectors. Further event information is on page six of this issue and also on our website.

Finally, it is always very satisfying when a client publicly recognises the value EnergyQuote brings to their company. Last year we were nominated by Anglian Water Services to enter its Business Excellence Awards Programme that recognises employees and suppliers contributing to Anglian Water Services' success throughout the year. We were delighted to be nominated as one of their top three suppliers last year and we have been nominated again this year, and hope to achieve the same level of recognition!

It is on this note that I end my welcome to you and hope that you enjoy reading this newsletter. We welcome all constructive feedback about this new customer communication form, or indeed any of the services offered by EnergyQuote.

Gary Worby - Operations Director

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Highlights

How will you decide to buy in 2007?

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Have you measured your carbon footprint?

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Energy Price Forecasting Conference in central London

4th October 2007



Quarterly highlights

How will you decide to buy in 2007?

Anyone renewing their energy contracts probably has a whole list of questions that need answering following the volatility seen in all markets (oil, gas and electricity) over the past couple of years.



With peak summer approaching the market could continue both volatile and unpredictable. Any surge in temperatures will increase air conditioning demand at a time when a lot of infrastructure is offline for scheduled maintenance, while the uncertainty in the oil market – US gasoline inventories below five-year average, militant activity Nigeria reducing production, Iran's nuclear enrichment programme, and forecasts that the Atlantic hurricane season will be disruptive to US oil infrastructure – could push crude oil futures up towards \$80/bbl according to some forecasts with a knock-on effect on gas and electricity. So what should you be doing now?

Summer is an ideal time to review policies and strategies ahead of the winter. A lot of guidance can be found in National Grid's Winter Consultation Report, with the latest update in June warning that while gas and electricity supply has improved there is still no room for complacency this winter. Then there is the climate factor. New government policies and initiatives to address climate change are continuously being announced, but do you wait for mandatory regulation to address climate issues or do you take voluntary actions now?

Assessing your risk

The buying strategy employed will largely depend on the risk culture of the

organisation. A risk-averse company will usually find comfort with a fixed price approach, while companies with a greater appetite for risk, and the larger rewards that can be accrued, may take a more flexible approach to buying. The success of this flexible approach will be based on the ability of the company to forecast price movements and buy (and sell) accordingly to maximise value.

Around 85% of the Industrial and Commercial market renew annual electricity contracts for either an October or a November start date. As such there is greatest buying demand in this two-month time window, which can lead to appreciable market upside as October and November contract renewals approach. **So come October, the prices being quoted will not necessarily represent a fair valuation of the underlying costs and fundamentals.** If this is the case, why do so many customers find themselves trying to renew annual contracts during the months of July, August and September every year?

Evaluate the alternatives

There are alternative times to buy annual contracts. Companies can lock in contracts now before prices start to rise or can even negotiate an extension of the existing contract. The contract decisions taken will be guided by the risk-reward approach of the company. For example a company may decide to lock in a supply deal for two or three years, rather than review on an annual basis, but the risk here is that the company will suffer an opportunity loss if contract prices fall over the maturity of the two/three year contract.

Market risk: in the case of the energy markets is the risk that prices behave differently than predicted. Assessing your risk other than as predicted.

Specific risk: is the risk that any one individual product within the energy market is adversely affected by conditions that only affect that product.

The conventional rule within risk management is that taking on market risk brings with it the possibility of reward. Taking on specific risk will not be rewarded as specific risk can be diversified away, and the market does not reward

unnecessary risks. In the energy markets over the last few years there has been little ability to manage away the market risk, due to its volatile and unpredictable nature, but we have developed alternatives to the traditional fixed and flexible approaches to energy procurement.

EnergyQuote offers Funds to mitigate price risk

EnergyQuote has developed a suite of Fund products that operate according to a company's appetite for risk. Whilst there are several different Funds to choose from, the Guaranteed Fund is proving to be very popular as it is based on the concept of a low risk strategy; one that minimises the risk to an annual budget that can be involved in purchasing on a near-term flexible basis, whilst still allowing more responsiveness to market movements and a more comprehensive diversification strategy than any fixed term contract thereby removing any speculation from one's buying rationale.

Guaranteed Fund performs well in its first year

The Guaranteed Fund was launched in 2006 and can be regarded as a sort of hybrid between a fixed and a flexible contract: It is a product which allows you to eliminate the risk of securing your entire power requirement at the height of the market, whilst ensuring that complete budgetary certainty operates from contract start to contract end. The Guarantee Fund spreads the risk of making a poor purchasing decision from a timing perspective. (In the financial markets few fund managers try and gamble on the timing of a purchase - this is too risky; rather they will buy multiple products, instruments and investments to ensure that specific risk is avoided and the position is hedged.) The guaranteed fund is based upon two key objectives: firstly to ensure budgetary certainty prior to the start of an annual contract; and secondly to hedge against the specific risk of buying against the height of the market. In effect it guarantees the buyer that he will get average or better than average pricing. EnergyQuote's Guaranteed Fund customers have been delighted with the results that our Trading desk has achieved.

Why swap to funds?

Changing the way your business purchases its energy is not a decision that should be taken lightly. However, it is sometimes

necessary to move away from the traditional approach for a myriad of factors; whether it is to gain a competitive edge, to purchase in line with your corporate policy (after an acquisition or merger), or simply stay up to date with market developments.

We understand that every business has its own attitude and appetite for risk when procuring energy, which is why our 'Funds' offer varying degrees of flexibility and can be tailored to your own individual requirements. 'Fund' members immediately benefit from increased economies of scale as physical volume constraints are removed which allows smaller energy users to access buying methods normally reserved for organisations typically spending in excess

of £5mn on energy per annum. The benefit of these more efficient and flexible methods is access to better pricing and improved risk management.

If you would like to optimise the buying decisions that are available to you and avoid the possibility of selecting 1 of the 220 trading days which represents the height of the market then a Fund product is a robust solution. **EnergyQuote's Guaranteed Power Fund out performed the market curve for October 2006 by 12.03%.**

For further information on energy procurement products, risk management theory and models please call +44 (0)20 7605 2370 alternatively, email marketing@energyquote.co.uk or visit our website www.energyquote.co.uk.



Aim to improve your energy efficiency

It is usually the case that all businesses and public sector organisations could use less energy.

Experience shows that energy savings of between 10% and 20% can be made by employing low-cost to no-cost measures.

Not only will you be able to save money but by implementing measures you will also benefit the environment. Opting for environmentally green goods encourages green production and helps environmentally friendly technology conquer the market.

There are a number of policies and governmental bodies already in place to help businesses and the public sector improve their energy efficiency, including:

- Carbon Trust – SME loans scheme
- Carbon Trust – Salix revolving loans fund and grants scheme
- Building regulations
- Energy Performance of Buildings Directive (EPBD)
- Regional and local advice and information programmes
- Product and procurement standards, including Quick Wins
- Climate Change Levy
- Enhanced Capital Allowances



More than a mere cost-saving exercise, being more energy efficient is becoming a matter of corporate responsibility and is a core element of the UK Climate Change Programme, a movement by the government to promote energy efficiency in businesses within the UK as a whole.

The Government's energy strategy sets out four headline goals:

- To mitigate climate change
- To strengthen energy security
- To eliminate fuel poverty
- To improve economic competitiveness

Your corporate responsibility

Over the past few years much emphasis has been placed on the importance, both within the private and public sector, of investigating and implementing methods of energy efficiency within the field of business.

Addressing the fact that the UK has come out top in a European Energy Wasters' League, according to a survey of the energy habits of some 5000 Europeans, increasing public awareness and understanding of the importance of reduced energy consumption as far as possible is the first step to realising these goals.

Have you measured your Carbon Footprint?

Adhering to environmental legislation, and taking steps to reduce your carbon footprint¹, can lead to significant cost savings and provide a significant edge over your competitors.



Why should you be concerned?

Failure to act responsibly can bring you into conflict with your shareholders, stakeholders and customers generating bad publicity. More pressing is that failure to comply with environmental legislation can carry serious criminal and financial penalties.

What steps can you take?

Start by looking at the direct emissions of your operation and also the indirect emissions through your supply chain. Then

create a policy and implement actions that will help you reduce your emissions. When there is no scope to reduce your emissions consider carbon offsetting². EnergyQuote can help you measure your carbon footprint by carrying out environmental reviews and energy audits. We can create a plan to reduce your emissions and waste which will include water.

Small steps we can all take...

- Switching off the lights overnight in an empty meeting room throughout the year can save 440kg CO₂
- Ensuring that office windows are shut at night during winter can save 15g CO₂ and £2 per office per night
- Switching off a photocopier at night and at weekends can save 20kg of CO₂ a month and £35/year

¹ The measure of the impact your company has on the environment through carbon dioxide emissions and other greenhouse gas emissions.

² Offsetting is a way of compensating for the emissions produced with an equivalent carbon saving.

Take the efficiency route and achieve the following!

- Save money through lower energy bills and lower Climate Change Levy (CCL) payments
- Businesses who receive a discount of 80% of CCL by agreeing to energy efficiency targets can maintain this by continuing to save energy
- Both private and public bodies are under scrutiny from management, customers and shareholders to demonstrate environmentally sound business practices. You can therefore demonstrate that you are taking corporate responsibility seriously.

How can EnergyQuote help you?

As a specialist in the energy industry, we are at the forefront of educating clients and the commercial world as to the importance of energy efficiency. Our energy events increase awareness for the need to manage energy more efficiently. We work alongside Johnson Controls facilitating energy audits in order to ascertain how companies utilise their energy and the changes they can make in order to become more energy efficient.

Efficiency management partnership focuses on cost savings

At EnergyQuote, we always look to see how we can enhance our existing service offerings. One approach is to work in a partnership with experts in the field of energy management.

Last year, we had an opportunity to work with one of the global leaders in building efficiency, Johnson Controls, which offers products and services to optimise energy use and improve comfort and security. Johnson Controls has a proven track record of achieving profitability improvements for their customers through the delivery of Energy Management solutions.

Our initial project with Johnson Controls clearly identified the value of a business partnership in which each partner's energy skills complemented the other. Controlling energy usage through demand management is a major strength of Johnson Controls while EnergyQuote's strength is in supply side management. Not only does EnergyQuote achieve competitive prices through its e-sourcing system, our market analytics coupled with our strategic and risk management competencies ensure that our clients always have a sound procurement process and strategy in place. So wherever they are in the energy life cycle, whether it is at the strategic planning or implementation stage, EnergyQuote and Johnson Controls are ready to assist you.



For more information on how we can help you improve your efficiency call us on Tel: +44 (0)20 7605 2370.

Find out more about our partnership with Johnson Controls in the adjacent article.



In the spotlight

Go green - Taking the green option

To address climate change and “go green”, companies have three broad options: they can purchase renewable energy from their supplier; they can reduce their energy consumption through energy efficiency measures; or, they can simply invest in carbon credits to offset their emissions.



Each option has a different cost-benefit scenario and companies can link the various options, say 30% purchasing renewable energy, 50% energy efficiency and 20% carbon credits, to

meet their budgetary and corporate social responsibility targets.

Currently most businesses are exempt from formal mandatory carbon constraints, but it will only be a matter of time before all businesses become carbon constrained under government legislation. It is therefore timely for companies to start looking at voluntary climate approaches, particularly as recent surveys show that most customers would prefer to purchase products and services from a company that is actively managing and reducing its carbon footprint.

The first stage in the climate process is to develop a corporate social responsibility statement that outlines the targets and timeframes, and sets out the methodology to achieve these targets. In the next issue we will look in more detail at climate policy and action.

Our water expert Claire Holmes



Through the industry knowledge and expertise of Claire and her team, EnergyQuote is able to offer a valuable service to the business community.

Claire joined EnergyQuote in 2004 and her primary role is developing and promoting the company’s water services, which identify whether there are cost saving opportunities for organisations undertaking simple water reviews.

Examining water usage, for example by looking at water invoices, can identify numerous potential benefits that can be achieved through better management. EnergyQuote’s on-site surveys examine all facets of water usage, highlighting any inefficiencies and measures that can be undertaken to improve performance. These surveys can also lead to improved water management if a more formal

system for managing water usage is adopted, and ensuring inefficiencies are eradicated.

Claire began her career in the water industry in 1996 when she joined a small consultancy as a water surveyor and over the past decade she has built up an extensive network of industry contacts. Claire goes to great lengths to communicate the benefits to UK businesses of being water-wise, which can both control water costs and care for the environment, and she has been very successful in highlighting these business opportunities.

“Very often our customers are surprised by the level of impact that can be made with water initiatives being self financed and often large annual savings achieved.”

She also speaks at numerous seminars and water industry conferences, and has had articles published in leading publications.

Claire has made a significant contribution to the water industry through promoting it and educating users, working with both large and small organisations. Her knowledge of the industry and the supplier relationships she has developed provide EnergyQuote with a strong position in this sector. The water division developed by Claire is growing year-on-year and provides an invaluable service to UK businesses. **If you would like to find out if EnergyQuote can help you reduce your water related costs, then please call us on Tel:+44 (0)20 7605 2385.**

Coupling of EU energy markets: Forecasting has a role to play

Earlier this year, EU energy commissioner Andris Piebalgs welcomed the successful coupling of the Belgian, Dutch and French electricity markets. The Commission said it considers the development of regional markets as an intermediate step towards the constitution of a single European market, adding that several projects dealing with the integration of the electricity markets in North-West Europe are currently underway.

True integration of European markets will be a somewhat lengthy process and until

then energy prices are still going to be affected by demand and supply across continental Europe. For major European energy users the ability to forecast where energy prices are going to be this year and beyond is paramount to their procurement strategy, and it is advisable that a certain degree of market intelligence and analytics should be relied upon. EnergyQuote together with Global Insight, whose forecasts of markets, prices and costs are internationally recognised, provide a forecast view of energy prices for the next 12, 24, 36 and 60 months. **Our third Price Forecasting Conference is being held on 4th October in London. For more information contact our European Advisory Desk on Tel: +44 (0)20 7605 2353.**



Our customers

Customer satisfaction survey highlights opportunities

We believe that understanding our customer's needs is fundamental to the range of products and quality of service we deliver. Last year we undertook a customer satisfaction survey to find out what EnergyQuote does well, where there is room for improvement, and what customers would like to receive from us.

We would like to thank everyone who responded to the survey. We are pleased that the results show EnergyQuote appears to be providing a good and useful service to customers with 94% of respondents saying they are satisfied with their dealings with the company. Compounding this satisfaction level, over nine in ten respondents said they would recommend EnergyQuote to others.

Survey respondents also said they would like to hear more about EnergyQuote's range of services, which is why we have developed this quarterly customer newsletter to keep customers better informed. Our customers also feel we could improve was the speed of response to queries. We have taken this on board and have invested heavily in our relationship management team to accommodate our growing customer base, and have created the Impact Team whose role it is to resolve all issues relating to the trading process and supplier contract queries or trading process.

We are currently undertaking a pan-European customer satisfaction survey to establish how we can best align our services to meet their individual needs. Our pan-European clients often have very specialised requirements due to the number of countries they operate in and the cultural differences they need to embrace.

EnergyQuote supports Geopost, one of the corporate sponsors of The Variety Club

GeoPost UK is the second largest postal operation in Europe providing express parcel deliveries, postal and international courier services within the UK and Europe. As a conscientious business, Geopost is also a corporate sponsor of The Variety Club, which has raised over £170m for children since its formation in 1949.

Geopost alone has donated 48 Sunshine Coaches to date and EnergyQuote was delighted to be asked to help raise further money for their 49th donation this year. The Charity Golf Day took place on 21st June 2007 at The Belfry, one of the most famous golf courses in the world. EnergyQuote was lucky enough to sponsor the first hole and the total revenue raised was £11,666 with GeoPost matching the total allowing for the purchase of Geopost's 47th Sunshine Coach.

A fantastic day was had by all and EnergyQuote would like to take this opportunity of thanking Geopost for allowing us this opportunity to support the Variety Club via our association with Geopost. For additional information on either Geopost or the Variety Club, please visit their website.



<http://www.geopostuk.com>



<http://www.varietyclub.org.uk>

"It is clear that increasing the communication that we have with our customers, keeping them informed of the services available and being on-hand to offer advice and reassurance will only help improve our existing customer satisfaction levels."

Events

The Energy Event 2007

12 -13 September, Birmingham
www.theenergyevent.co.uk

The energy show of the year, we will be exhibiting so why not come and visit us at stand 96.

EQ Conference: European Energy price Forecast 2008-2013

4 October, London
www.energyquote.co.uk

Obtain definitive 5 year forecasts for each energy market in Europe.

Feedback

Your Feedback is important

Please let us know what you think of our first issue of 'Be Empowered'. What do you like and what do you want to see more of?

Email:
marketing@energyquote.co.uk



Supplier landscape

Supplier-independent

EnergyQuote is proud of the fact that we are supplier-independent energy consultants. The supplier landscape has significantly changed from when EnergyQuote first began trading in 1992, following deregulation of the UK energy markets. Then there were over fifteen suppliers to choose from, but today, following a series of mergers and acquisitions, there are just six main suppliers: EDF Energy, EON UK (Powergen), Centrica (British Gas), RWE npower, Iberdrola (Scottish Power), and Scottish & Southern Energy.

Over the years we have built solid relationships with all these suppliers, as they need to know that as energy consultants EnergyQuote is able to match supplier products with customer needs. We aim to work closely with all suppliers so that our clients are able to obtain the best prices and service. By negotiating contracts through our e-sourcing platform on behalf of our customers, we can ensure that only the best prices are accepted and all suppliers are given equal opportunity to quote for, and win, the business. Here, we focus on one supplier. British Energy, like EnergyQuote, aims to deliver products tailored to their customers needs and have been recognised by the industry for the third year running as having the best customer focused service.



British Energy Group is a FSTE 250 company, responsible for generating more than 20% of the nation's electricity. The electricity generated is sold through its trading subsidiary, British Energy Power and Energy Trading Ltd.

Guided by the expertise of its Commodities Research team, Power and Energy Trading is responsible for ensuring the British Energy portfolio remains balanced using three routes to market at its disposal: wholesale trading, structured trading and retail. The combination of electricity generation capacity and a specialist trading operation makes British Energy a strong supplier of choice for anyone wishing to trade power on a long-term or short-term basis.

The retail business, British Energy Direct Ltd., offers a market leading service designed exclusively for the UK's Industrial and Commercial community. An experienced player in a highly complex market, it is dedicated to developing powerful partnerships that are capable of transforming a business by tailoring its approach and solutions to the individual customer requirements.

The company's depth of experience, market expertise and specialist knowledge ensures it delivers the highest standards of information, advice and customer care to all its customers, and providing them with an opportunity to benefit from working in a close relationship with a specialist electricity supply partner. The strength of its business approach is borne out by the fact that, for the past seven years, the UK's Industrial and Commercial energy users have ranked British Energy first for customer satisfaction.

British Energy responds to tender requests in a timely and accurate manner and provides competitive prices on EnergyQuote's online pricing platform. The company provides information regarding registration of meters, invoicing and any other information that enables EnergyQuote to resolve customer queries. The Intermediary Relationship Manager acts as liaison between British Energy and Energy Quote to resolve any queries and initiate any suggestions that would potentially improve this relationship.

Scottish & Southern invests in sustainable energy fund

Scottish and Southern Energy is to invest £10m in a new fund, the Sigma Sustainable Energy Fund II, to target sustainable, renewable and energy efficient technologies. The fund will be managed by a subsidiary of Sigma Capital Group, an AIM-listed fund management company that also owns Sigma Technology Investments Limited, an investor in the fund. Bank of Scotland Corporate and West Coast Capital are also investing in the fund, which will have an initial value of £35m. The 10-year fund will have an investment period of five years and has been established for investment mainly in the UK but also throughout Europe. Ian Marchant, Chief Executive of SSE, said: "SSE is already involved in a wide range of leading-edge projects with the objective of meeting demand for electricity while reducing emissions of carbon dioxide. I believe that this new fund will give us new opportunities to work with a range of companies, which have developed technologies to help deliver more sustainable means of producing and using energy. It complements our existing plans to reduce the carbon from energy production and to reduce energy consumption and is a real step forward towards a more sustainable future."

Hanson switches to npower green energy

Construction materials supplier Hanson Aggregates has switched its energy supply to renewable sources in a deal with npower business. It will receive 10GW of electricity generated by sources including wind, water, bio-fuels and solar. Two sand and gravel quarries in Essex and an aggregates terminal on the Thames at Dagenham will be supplied under the deal. Hanson also procures energy under a flexible supply agreement, which gives access to the wholesale traded power market and enables the company to purchase blocks of power over a period of time at competitive prices. "This is an important move in reducing the carbon outputs generated in aggregates production," said Hanson's Southeast Operations Director, Ian Cross. "It supports our commitment to combat climate change and to operate sustainably."



2007 Energy White Paper: Meeting the energy challenge

If energy policy in the 2003 Energy White Paper (EWP) was built around natural gas then there is evidence that energy policy in the 2007 EWP is being built around nuclear and clean coal, given that these are the only major revisions to the 2003 paper. Four years on from the last EWP the

market has certainly changed structurally but the challenges faced today are not dissimilar to those faced in 2003. At EnergyQuote, we follow with interest what is happening in the industry and how government initiatives may impact our clients. In the chart are some of the finer points raised in this year's EWP.



Gas: Gas is the dominant UK energy source and will contribute 40% of the country's primary energy demand by 2020, up from 38% today. The challenge faced by gas is that by 2020 the UK will be dependent on imports for 80% of its gas demand. To reduce supply security risks through import dependency the government wants to maximise recovery of gas reserves from the UK Continental Shelf, with between 16bn and 25bn boe of hydrocarbon reserves remaining.



Nuclear: In terms of nuclear's contribution to clean and secure energy there is no disputing the value of nuclear in the UK energy mix. And with the progress made on waste management in the past four years the challenge posed by waste has also rescinded. But the government has yet to convince the market of the economics, and until it does nuclear will continue to pose a frustrating challenge in UK energy policy.

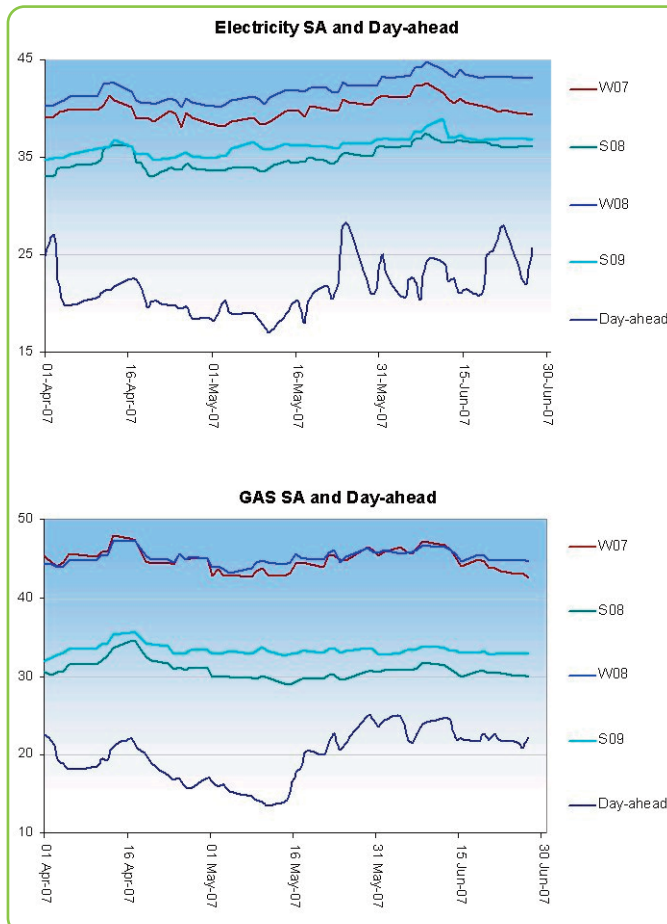


Coal: Of all the three main base load generation fuels coal has the most potential. With respect to supply there are more proven recoverable reserves of coal than gas or uranium, and these supplies are in less politically unstable regions with most of the UK's coal imports coming from South Africa and Australia. Coal's generation economics are also more favourable than wind power and construction time for new plant is significantly shorter than that of nuclear.

In conclusion:

It is evident that the UK is facing an energy gap by the end of this decade and widening in the next decade, principally caused by retiring coal and nuclear plant and increasing demand. While the government remains somewhat fixated by climate change the real energy challenge is provided by supply security and to mitigate this challenge the future of gas, nuclear and coal have to be adequately and promptly addressed. It will be interesting to see exactly what affirmative action the government will take to help industrial and commercial energy buyers and we will be reporting these to you as and when they occur.

Contract pricing – April to June 2007



Electricity - During the past three months, electricity prices along the curve retained a mildly bullish sentiment on the back of strength in coal and carbon together with an embedded risk-premium for capacity shortages during a potential summer heat wave, although softer gas prices limited the gains. But at the prompt the gas price was most influential in dictating price direction, while the level of generation margins caused by outage and restart of nuclear plants and relative lack of market liquidity were supplementary pricing indicators.

Long-term prices remain supported due to sustained bullishness in the second phase carbon market (increase of 100% during the past four months), coal (range-bound over \$70/t) and oil prices (range-bound in \$65-70/bbl). But if gas prices continue to be weakened, particularly ahead of enhanced supply infrastructure and lower demand during the rest of the summer, softer electricity prompt may eventually knock down some of the risk-premium embedded in the long-term forward contracts.

Gas - The past three months have reflected the correlation of curve prices to prompt developments and oil price movement. While the bearishness of last winter was characterised by lower-than-average demand and robust supplies through the Langeled and BBL pipelines (accounting for about 75mcm/d of additional supplies into the UK market) and continued into April, the vulnerability of the UK market to fluctuations in supply through the Langeled pipeline was exposed in May once Langeled flows began to dwindle due to the maintenance of various gas fields, including the giant Troll gas field. Prices however softened again once the Troll maintenance was completed.

During the next quarter, the front-season is expected to soften on expectations of a warmer-than-average winter, healthy storage levels and additional gas supplies from Langeled North (beginning 1 October although test volumes may be delivered even earlier), and additional LNG terminals at South Hook and Dragon. But the risk premium provided by the oil market may also result in LNG cargoes diverting to the US this winter, presenting upside curve price risk.