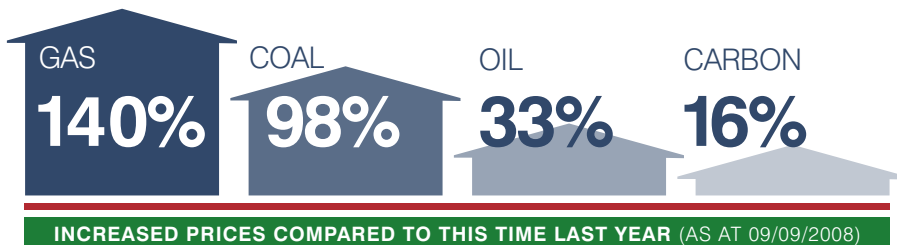


Welcome to CUC's Energy Newsletter

In this edition we take a look at how the UK energy market works. There are **three key areas** which drive the electricity price and they are examined below.

INPUT COSTS

Annual electricity contracts in the wholesale markets are currently **133% higher than they were a year ago**. The electricity price is a blend of the movements in its key input costs, which are oil, gas, coal and carbon emissions. Compared to this time last year those markets have increased as follows:



Gas and coal are the key drivers here with more than 40% of UK electricity generation coming from gas fired power stations. More than 20% is from nuclear plant, which is broadly unaffected by the carbon markets; approximately 5% comes from renewable sources and the remainder from coal, oil and other sources.

FOREIGN EXCHANGE

The price of electricity is also affected by the sterling exchange rate. Although the wholesale markets in the UK trade in sterling, their input costs are in Euros or the US dollar. The pound has fallen from \$2 to \$1.75 in less than two months; the price of oil may well have come down but the reduction has been watered down by the collapse in the exchange rate.

SYSTEM CAPACITY

The final factor affecting price is capacity; can we generate all that we need?

What happens if gas storage facilities shut down? What happens if a generator takes a generation unit off-line for maintenance? The truth is that in many senses the country as a whole runs very close to its maximum generation capacity when demand is high. If any elements of the generation and transmission system show weakness or are taken out of service it sends a spike into the price. These spikes can be short-term, but equally a significant change in capacity scheduled for several months can cause an uplift in price for a prolonged period. At the present time we have a number of capacity constraints which combined with the effects of foreign exchange weakness and high input costs have led to the electricity market maintaining its high prices despite headline weakness in the oil price.

CUC SPOTLIGHT

We have further strengthened our team this month with two additional Account Managers: **Louise McEvoy** and **Victoria Stanbridge** who have joined us in order to support our Client Managers, James Hickling and Tanya Styles.

This autumn CUC will launch a **new website** featuring news, advice and industry trends. We hope to provide a valuable resource for info about the UK energy markets.

QUESTIONS? CONTACT US TODAY

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UK ENERGY RATES

(AS AT 10/09/2008)

Electricity Annual	£84/MWh
Gas Annual	90p/therm
Brent Oil	\$100/barrel
Coal	\$175/tonne
Carbon Emissions	€23/tonne

We know energy.

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