

For immediate release: 16th March 2005

LEADING ANALYST CALLS FOR ENERGY RETHINK, AS KYOTO STARTS TO BITE

Energy bill hikes of up to 40 per cent are set to hit UK manufacturers even harder at a time when margins are already under enormous pressure, a leading analyst warned today.

Soaring costs are not just impacting on heavy industry, but on all sizes of businesses not usually regarded as energy-intensive – including many FTSE 100 companies – according to Inenco, which advises some of Britain's biggest businesses.

Managing director Nigel Withey warned that companies faced a new “double whammy” in 2005, with his warning coinciding with the strict controls of the Kyoto Treaty coming into force today (Wed. Feb. 16).

“Energy costs for gas, electricity and oil will continue to rise and, on top of this, companies face the additional double whammy of greater investment to meet the new regulations of the Kyoto Protocol and the threat of tax increases under the Government's Climate Change Levy,” he explained.

“Many company boardrooms think all they have to do to reduce their energy bills is to get tough with their suppliers. But it's not as simple as that.”

Commenting on the latest research from Inenco, the UK's largest energy analyst, **CBI director general Sir Digby Jones** pressed for energy to be a higher priority on the boardroom agenda.

“It is especially important that companies seek to manage their exposure to high prices and the volatility of the market,” he said. “The volatility of and increase in energy prices was at the forefront of business concerns in 2004.

P
R
E
S
S

R
E
L
E
A
S
E

“CBI members have reported significant increases in their energy costs over the past year-and-a-half and, in particular, in the October contract round – where businesses were reporting increases in quoted energy prices of between 30 and 40 per cent on average.

“These energy price increases are not only affecting the strictly energy intensive business sectors – such as steel, glass, ceramics, paper, cement, chemicals and aluminium – which are traditionally most profoundly effected by increases in wholesale energy prices, but also smaller, less energy-intensive companies – for example, printing, plastics and engineering, and large multi-sided commercial companies, such as retailers.”

His comments echo concerns from Inenco, which advises companies, such as Sainsbury’s, J.P. Morgan, Marks & Spencer and J.D. Wetherspoon.

Inenco’s latest research showed that the scale of energy price increases had caught many businesses unaware, partly because they did not match some energy users’ perceptions of market fundamentals.

The company also cautioned that the impact of energy price increases was being further compounded by its knock-on effect on the costs of other input materials.

Sir Digby added, “The UK manufacturing sector is already under significant pressure and for those sectors already facing very slim profit margins, the ability to absorb recent increases in energy and other commodity prices is constrained. The energy services sector helps individual companies to manage this risk.

“In 2005, energy issues continue to be at the top of the CBI’s agenda. In particular, we shall be focusing on achieving the necessary balance between the objectives of security of energy supply, environment and business competitiveness.”

Inenco's data highlights individual companies looking to manage exposure in a number of ways by:

- Switching to wholesale purchasing, buying directly from the energy markets through specialist brokers.
- Exploring different contracts, such as floating price and interruptible contracts.
- Evaluating alternative energy sources and reducing energy consumption through behavioural changes and investment in more energy-saving measures.

Through specialists, like Inenco, some firms, including Marks & Spencer, have already started buying energy wholesale at strategic times during dips in the market price. This then enables them to minimise gas and electricity cost increases and avoid having to pass these onto customers through price rises.

Mervyn Bowden, energy manager at Marks & Spencer, who controls an annual budget of more than £30 million across 400 sites throughout the UK, said that spreading risk by make a range of energy purchases at different times of the year and in different market conditions made common sense.

“Hindsight is a wonderful thing, but unfortunately it is a view that is not available at the time key decisions need to be made. As well as wholesale procurement, Marks & Spencer also controls its energy costs through ongoing, targeted reductions in usage.

“We achieved a reduction in electricity usage last year, despite growing floor area, by three per cent and are targeting a further three per cent reduction this year. All of this helps us to reduce our CO2 emissions and reinforces

Marks & Spencer's commitment to supporting the Government's climate change programme."

But the energy issue has global as well as national implications. The International Monetary Fund has issued cautions about prospects for the global economy this year due to higher oil and energy prices.

The upsurge in world demand, especially from China, is expected to keep upwards pressure on energy costs. China is now the second largest oil consumer due to large increases in power generation, as the country's economy continues to boom.

Uncertainty over the reliability of oil production in Iraq and Nigeria, where violence and civil uprisings have impacted on its 2.5 million barrel-per-day output, as well as Saudi Arabia, following recent terrorist attacks, all increase the volatility of prices.

With the fate of Russian oil giant Yukos still hanging in the balance, prospects for stable energy prices look slim.

Oil is one of the main drivers of prices across the energy sector. It has a direct impact on gas prices, as they both fuel most of the nation's power stations. This then creates rising electricity costs and an overall upturn across the board.

At the same time, UK companies also face the increased cost of meeting the targets set by the Kyoto Agreement to reduce greenhouse gas emissions and the risk of higher taxes over emissions under the Climate Change Levy.

Nigel Withey added, "The energy sector has changed radically in recent years, with many financial players now involved, bringing stronger parallels

with the traditional commodities market and, therefore, more susceptible to price volatility.

“Senior executives who ignore these trends do so at their peril. Energy purchasing and the effective management of its use are intrinsic elements of risk management. And it takes more than turning off the odd light or PC to achieve lasting results.”

Founded in 1968, Lancashire-based Inenco is the UK’s leading provider of energy and overhead cost control to the public and private sectors. The company employs more than 140 staff and has an annual turnover in excess of £12 million.

ENDS

Issued on behalf of Inenco Group Ltd

For further information, please contact:

Richard Baguley or Neil Thornton,

GDR Public Relations Ltd

Tel: 01253-881900 or 07715-373166

P
R
E
S
S

R
E
L
E
A
S
E