

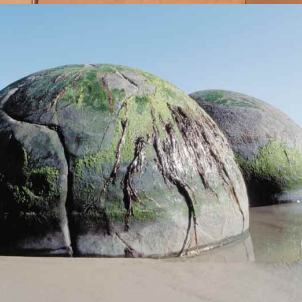
Movers and Shapers

Utilities – Europe 2002



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Introduction



Welcome to the 2002 edition of PricewaterhouseCoopers' annual survey of the leaders of major European utility companies. Previously known as *Electricité Sans Frontières*, the new title, *Movers and Shapers*, reflects the wider utility footprint of the power sector and the dynamic reshaping that is taking place both across the sector and within companies.

This year's research in Europe spans nineteen countries, going to the heart of boardroom thinking by gathering the views of 118 key executives from major utilities in all EU member countries as well as the Czech Republic, Hungary, Poland, Norway and Switzerland. We gain an insider view of the strategies and moves that are setting the pace and shaping the sector's future. What are the strategic imperatives that are forcing the pace? Who will be the leading players? What are the operational issues that are top of the boardroom agenda?

Methodology

The *Movers and Shapers* survey was conducted during November and December 2001 covering 118 key executives from major utilities in 19 countries. The majority of participants were Board Directors, directors of specific departments or department heads. Several were CEOs, Chairmen, Presidents or Vice-Presidents.

The target was to obtain a minimum of two responses per country for all 19 countries. In countries such as the United Kingdom, Austria, Switzerland and Germany, a greater number of responses were received, which reflected the larger number of companies operating in these markets. We also received a significant number of responses for companies with less fragmented markets, such as Spain and Italy. A smaller number of responses were obtained in countries dominated by a national monopoly, such as France, the Central European States, Greece and Ireland.

In some cases, we differentiate between small, medium and large companies. The following approach is taken:

Small – small to medium local players including Stadtwerke and smaller regional electricity companies;

Medium – large players in small markets such as Ireland, Greece, Austria, Portugal, as well as medium-sized players in large markets, incorporating a number of regional electricity companies, transmission companies, and German, Dutch and Nordic distributors;

Large – the large or monopoly players in Europe's bigger markets including multinationals.

Acknowledgements

PricewaterhouseCoopers thanks all the individuals who took time to contribute to this study by completing the survey.

Key findings

Enter the emerging ‘super-league’

Current levels of consolidation in the European market could leave a powerful core of players. Within this core, a future trio of mega-players – EdF, RWE and E.ON – are predicted to move apart from their rivals. But, there is still all to play for in the value optimisation game. Can current peer sentiment be realised in future capital market premiums?

Consolidation still has a long way to run

The trend of market consolidation continues as larger companies identify merger and acquisition activity as the greatest driver of shareholder value in the next two years. Smaller companies, in contrast, place reliance on achieving internal efficiencies.

Convergence is set to blur utility boundaries further

The impact of convergence between utilities and wider markets is being felt. Respondents from utility companies in the more liberalised markets in Europe now rate the competitive threat from new entrants from outside the sector as highly as that from their traditional sector-focused competitors.

Traditional sources of revenue are set to decline

Respondents predict that an increasing share of revenues will come from non-traditional sources such as trading, multi-utility operations and non-utility operations. Less will come from generation, networks and retail of a single product. Revenue from assets, such as networks and generation capacity, will create a lower share of revenues as companies recognise the need to invest more readily across the energy value chain, and in additional customer services, to deliver a better, balanced platform for shareholder value.

The Enron collapse has not halted the trading revolution

Three-quarters of respondents already view their trading activities as a profit centre and, in three years' time, around half of respondents expect to have moved to a more pro-active stance, combining speculative activity with hedging. But some companies are worried about their ability to attract trading professionals and report that they have some way to go in establishing the right risk-management framework and systems.

A dynamic environment forces change in the ‘old’ utility model

A transforming market is presenting companies with significant skills, infrastructure and capacity challenges. A large proportion of respondents report they are facing capability shortfalls, and investing in regulatory management strategies is top of the boardroom agenda.

Brand and customer service are becoming dominant

In the race for the end customer, brand and customer service are rivalling price as the most important differentiating factor in the more liberalised markets.

Environmental strategies are slow to emerge

Despite their pivotal role in the development of sustainable environmental solutions, opinion within utility companies appears slow to embrace environmental strategies. Leaders in other sectors are setting ‘best in class’ standards. It would seem that utility companies are failing to keep pace with the wider business community. A strategy mismatch exists that, if left unremedied, could encroach on shareholder value.

Market shape



The European market has undergone a seismic transformation in a very short space of time. A series of intense years of merger and acquisition activity has consolidated the market around a powerful core of big cross-border and, increasingly, global players. Many smaller entities currently remain, but further consolidation will mean that, in time, the market may well divide into two 'leagues'.

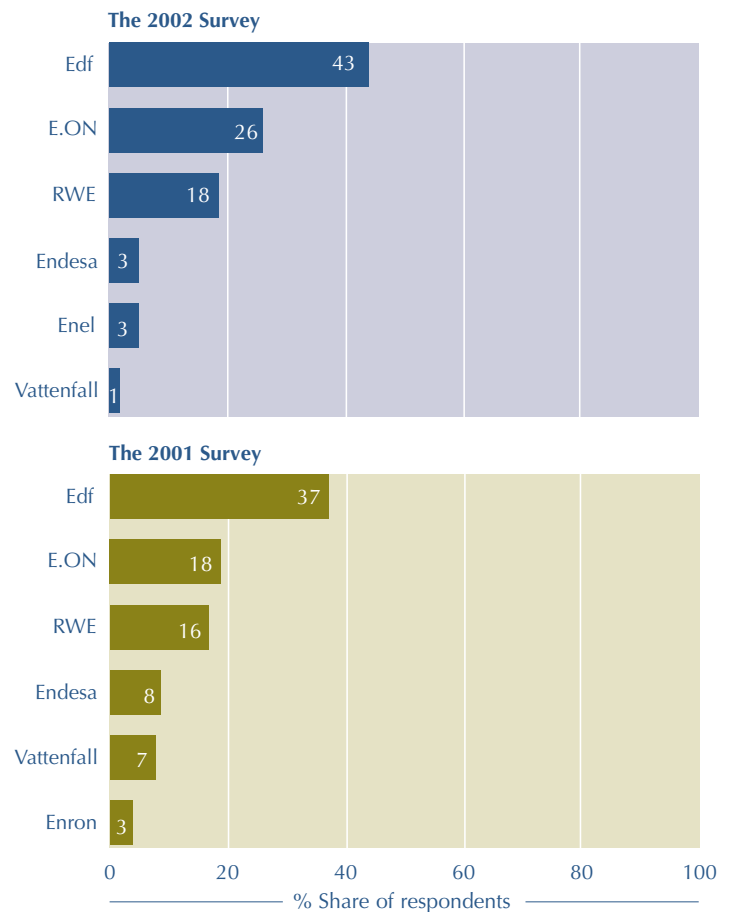
A super-league and beyond

Utility leaders, when asked last year to predict the leading players of the future,¹ cited a 'super-league' of six key players – EdF, E.ON, RWE, Endesa, Vattenfall and Enron. Interestingly, a year on, with the exception of Enron, the future 'super-league' has seen little change in the participants. However a break-away trio of leading players seems likely to emerge. EdF, E.ON and RWE have all made significant investments, and respondents have identified that this, combined with sheer size and market presence outside their own territory, is likely to lead them to become a breakaway trio of leading players.

The gulf between these and the other players is expected to widen to the extent that, if it was left to market factors alone, the prospect of consolidation within the super-league itself could beckon. The reality is that the continuing importance of national champions in utility markets, together with state interests, and some regulatory concerns, may keep this off the agenda.

But there is still all to play for in the value optimisation game. Despite the prediction from within the utility market of the breakaway status of a potential big three, a stock price premium is not a current reality. Utility players have yet to convince analysts that they deserve a premium rating in the way that petroleum 'majors' attract premium ratings in their sector.

Figure 1: Who do you think will be the leading player(s) in the European market in the future?



Source: PricewaterhouseCoopers survey of utilities 2002, PricewaterhouseCoopers *Electricité Sans Frontières* 2001

Footnote: 1. PricewaterhouseCoopers *Electricité Sans Frontières* 2001

Opportunities...

Further consolidation is a certainty within European power markets. Much of this merger and acquisition (M&A) activity will centre on medium tier and small companies. Each national market in Europe remains overpopulated with generation and supply companies. Significant scope remains for companies seeking to expand their geographical footprint.

Indeed, only 29 out of 118 respondents said their company had no plans for expansion. Nine out of ten respondents in this year's survey identified Europe as a priority for expansion. At the same time, the larger companies are also prioritising their global expansion plans with no less than half of respondents from large companies identifying North America as an expansion target and 28 per cent, especially Spanish and Portuguese companies, setting their sights on South America.

Nine out of ten respondents in this year's survey identified Europe as a priority for expansion.

Figure 2: Going global – in the next five years what geographical markets are your priorities for expansion? (by utility size)

	Large	Medium	Small
Elsewhere in Europe	86%	77%	53%
North America	50%	27%	0%
South America	28%	19%	0%
Middle East	8%	4%	9%
Former Soviet Union	8%	15%	16%
None	6%	15%	42%
Asia Pacific	3%	8%	2%

% Share of respondents

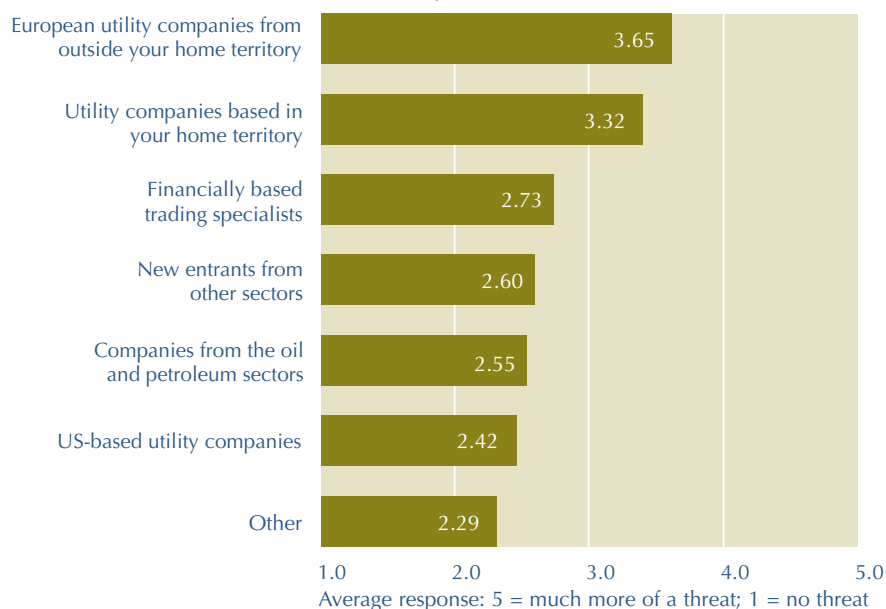
Note: For definition of large, medium, small – see *Methodology*

Source: PricewaterhouseCoopers survey of utilities 2002

...and threats

Given the intensity of competition and consolidation within Europe, it is not surprising that it is companies from other European countries that are seen as posing the greatest competitive threat. However, the convergence of the power market with other utility markets and related sectors, illustrates the direction that European companies are looking to when weighing up their competitive threats.

Figure 3: Where's the competitive threat coming from over the next ten years?



Source: PricewaterhouseCoopers survey of utilities 2002



Respondents actually rate the threat from financially based trading specialists and new entrants from outside the sector, higher than the threat from their North American counterparts within the sector. High valuations, even if values are falling for generation assets, may have dampened the historic US appetite for European takeovers but it is nonetheless a significant indicator of convergence that new entrants from outside the sector feature higher on the competitive radar screen than US rivals. Indeed, if anything, the effect of convergence is masked by the overall averages reported in Figure 3. Companies in the more open and liberalised markets – the UK, Sweden, Finland and Norway – rated the threat from new entrants joint second with that from other domestic utility competitors.

Changing the mix

Regulation, technology and capital markets are continuing to fuel the functional disaggregation of energy markets. This disaggregation is affecting energy companies' operational processes, business strategies and market positions. They must decide what is the optimal balance between activities such as retailing, trading and generation, and the need to gain a viable retail customer base.

Customer strategies are becoming increasingly important and this is seen in the increasing share of revenues that is expected to flow from multi-utility retailing.

Unbundling is forcing players to review the functionality of their assets. Leading companies may increasingly seek managerial separation of diverse functional units that will form a dynamic portfolio. In deciding the optimal portfolio mix, players must consider all components to protect their risk profile and ensure an inherent internal hedge exists.

Figure 4: Where do you currently earn most of your revenues and how do you expect this to change by 2007?

	Average change
Retail supply of multi-utility	12%
Non-utility operations	2%
Trading	1%
Networks	-4%
Generation	-5%
Retail supply – single product	-7%

% Average change by 2007

Source: PricewaterhouseCoopers survey of utilities 2002

The respondents suggest that an increasing share of revenues will come from non-traditional sources such as trading, multi-utility operations and non-utility operations, and less from generation, networks and retail of a single product.

Utilities continue to pursue a path within the supply sector of providing multiple services to become one-stop-shop retailers, providing a range of utility and non-utility products. Assets, such as networks and generation capacity, will be the basis of a lower share of revenues as companies focus on the end customer, but increase the value companies get from trading operations.

The race for the end customer

In the race for the end customer, differentiation is critical. In competitive markets and with a commodity product such as energy, price is always likely to be a key differentiator (see Figure 5). But there are signs that factors such as brand and customer service are rivalling price. Respondents in larger utilities now put brand on a par with price. Moreover, those in UK, Norway, Sweden and Finland, the most deregulated of the countries surveyed, rated customer service above price.

Customer strategies are becoming increasingly important to European utility companies.

Respondents in larger utilities now put brand on a par with price.

Figure 5: What will be the main differentiator in the future?

	Average
Price	4.15
Customer service	4.09
Brand values and awareness	3.69
Multi-utility offering	3.49
Products and services outside utilities	2.91

Average response: 5 = major importance; 1 = not important
Source: PricewaterhouseCoopers survey of utilities 2002

Strategic shape



The current trend of merger and acquisition activity is set to continue as companies strive for scale. Rationalisation activity is attempting to strike a balance between a rush for a super regional or global footprint and maintaining the right business equilibrium.

The strategic push – building a balanced company

Size is an all-important influence when it comes to company expectations of where investor value will lie. In large companies, merger and acquisition activity is expected to be the greatest driver of returns to shareholders over the next two years (see Figure 6). But just how far companies will be able to replicate models and success across territories, and achieve true synergies across operations, remains uncertain. The jury will be out for quite some time before it is possible to judge just how successful acquisition-led versus organic growth will prove to be for utility companies.

The frenetic pace of M&A activity in the sector consumes a great deal of board attention for the larger players in particular. But large companies downgrade the simultaneous focus on internal efficiencies at their peril. It is this focus, rather than M&A, that more medium-sized companies are hoping to deliver on to maintain investor commitment. Organic growth, while significant, plays a secondary role for both large and medium sized companies alike. The diverse circumstances of smaller companies, on the other hand, means that no single route to shareholder value stands out.

The jury will be out for quite some time before it is possible to judge just how successful acquisition-led versus organic growth will prove to be for utility companies.

Figure 6: What strategy will be the greatest driver of shareholder value over the next two years? (by utility size)

	Inorganic growth/ M&A	Increasing efficiency	Organic growth	Building new capabilities
Large	3.5	2.8	2.6	1.9
Medium	2.7	3.3	2.5	2.4
Small	2.6	2.8	2.6	2.6

Average response: 4 = greatest influence; 1 = least influence
Source: PricewaterhouseCoopers survey of utilities 2002

Deal motivation

Scale is the key factor behind M&A activity with most of the merger and acquisition activity in recent years being driven by the desire of the larger utilities to capture potential economies of scale and scope and remain in the top tier of European utilities (see Figure 7). Smaller companies have merged to avoid being crushed or acquired by larger national or international competitors. In fact, most of the companies rating M&A deals highly were in fragmented markets where the need for scale to compete with other national players is key.

The acquisition of new customers is also an important M&A goal. This has probably been most obvious in the UK where recently Centrica bought Enron's industrial and commercial customer base to add to its own, enabling it quickly to gain share in this segment. Other examples include London Electricity's purchase of SWEB's supply business, Innogy's purchase of Yorkshire and TXU's acquisition of the Norweb supply business. In each case, the acquisitions were primarily driven by the need to attain a critical mass of customers in the market, and remain among the leading players in the long-term.

Most of the companies rating M&A deals highly were in fragmented markets where the need for scale to compete with other national players is key.





Organic growth

Organic growth is not expected to be the lead source of shareholder value for utility companies of any size, playing instead an underpinning role to M&A activity and increased efficiencies. Nonetheless, it will be important for companies if they are to capitalise on their most valuable asset – their existing customer base. Service enhancements, such as integrated billing and Internet account handling, are predicted to play a primary part in achieving organic growth, together with the sale of a broader product portfolio to existing customers.

The challenge for utilities will be how to deliver a winning service and product experience to existing and potential new customers, at the same time as creating internal efficiencies and driving through the synergies and cost reductions that are needed to deliver a return from M&A activity. Wafer-thin margins mean that first-class customer service cannot come at any price. Customer service investment and strategies must be perceived as first class and of value to the customer. They must also be capable of delivering a least cost route for the company to achieve the twin goals of protecting and unlocking value in the existing and potential customer base. Investment decisions need to be rooted in the rate of return on these two goals.

Increasing efficiency

Utility companies are pursuing a multi-pronged strategy to deliver increased efficiencies. A range of options, from overall rationalisation to outsourcing of specific functions, is rated of medium importance or above by respondents (see Figure 9). Not surprisingly, given the importance of M&A activity, rationalisation activity such as integration of functions and downsizing stood out, but otherwise there was little difference in the importance attached to the different efficiency routes. Technological and systems investment is playing an important part in utility strategies and boardroom expectations are placing some weight on such investment delivering efficiency gains.

Figure 8: What will be the important factors driving the value of your organic growth strategy?

	Average
Service enhancements	3.85
Broadening product portfolios to existing customers	3.64
Organic acquisition of customers (acquired through switching)	3.20
Increasing scale/operation of assets or network	3.17

Average response: 5 = major importance; 1 = not important
Source: PricewaterhouseCoopers survey of utilities 2002

Wafer-thin margins mean that first-class customer service cannot come at any price.

Figure 9: What will be the important factors behind increasing efficiencies?

	Average
Rationalisation of functions	4.10
Investment in new technology/systems development	3.57
Other cost management	3.47
Use of outsourcing	3.24
Shared services	3.23

Average response: 5 = major importance; 1 = not important
Source: PricewaterhouseCoopers survey of utilities 2002

Regulation – the major obstacle

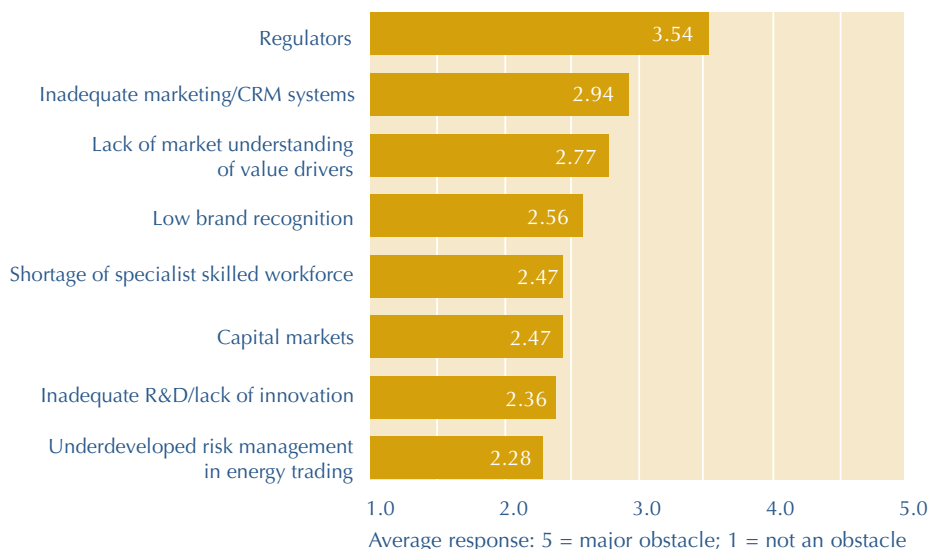
Getting to grips with the evolving regulatory environment headed the list of obstacles to maximising shareholder value (see Figure 10). The challenge of engaging effectively with new consumer markets, through effective marketing, customer relationship management (CRM) and brand development, was also identified as drag anchor on shareholder value by some respondents.

However, despite being rated as the second greatest obstacle to shareholder value, respondents did not feel that CRM needed to be similarly high on the list of priorities for future investment (see Figure 12). It appears that, with three-fifths of respondents having already invested in the area, companies believe that existing initiatives will produce the CRM capability shift that is needed and now wish to switch new investment elsewhere.

At the other end of the spectrum, under-development of energy trading risk-management systems is not currently viewed as a significant block on delivering shareholder value. However, as the next sections make clear, the consensus is that, in the future, trading will assume greater significance and building the right risk-management framework will emerge as the greatest energy trading challenge for respondents.

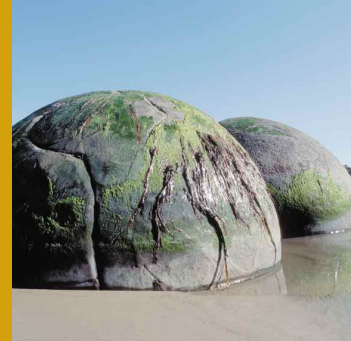
Getting to grips with the evolving regulatory environment headed the list of obstacles to maximising shareholder value.

Figure 10: What's holding your company back from achieving maximum shareholder value?



Source: PricewaterhouseCoopers survey of utilities 2002

Company shape



Liberalisation and convergence are bringing big changes in internal shape and culture to European utility companies. The demands of open markets require a relentless focus on customers and the delivery of the right business model and management practices to extract value for customers and shareholders alike. This does not come without challenges and investment.

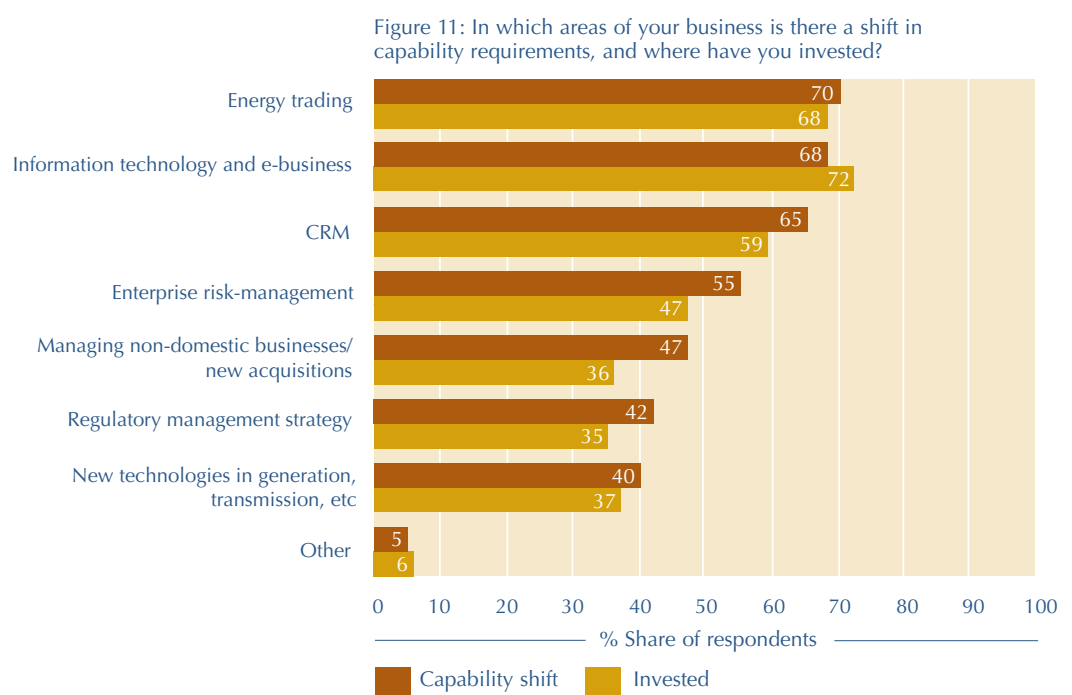
Key challenges

The transformation of utility companies throughout Europe is presenting companies with considerable skills, infrastructure and capacity challenges. The demands of a more dynamic, customer-facing market environment has created a substantial shift in capability requirements in areas such as energy trading, CRM, information technology (IT) and e-business. Not surprisingly, investment in these areas has been high, but future investment patterns are changing to reflect an evolving marketplace.

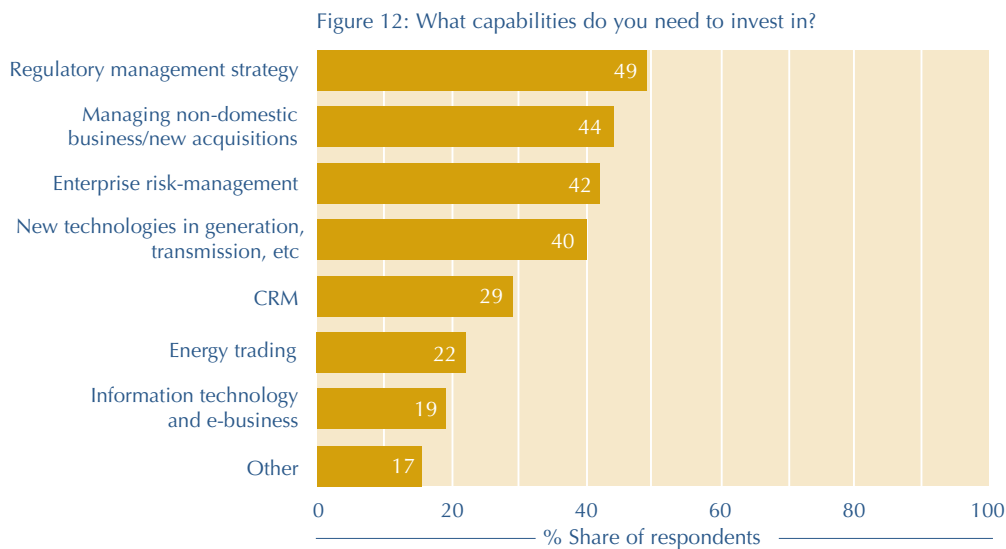
Looking ahead, a large proportion of respondents report that they are facing capability shortfalls that they will need to address with new investment. (see Figure 12).

Optimising the regulatory relationship and delivering the best balance between regulatory obligations and shareholder goals is critical for utility companies, especially those in the many European countries at the early stages of deregulation.

Half of all respondents expressed a concern about the need to invest further in this area. Nearly as many highlighted the need to develop more effective ways of managing new businesses acquired following acquisition, pointing to the challenge of learning to manage new activities in different countries and cultures. A similar number felt that they still needed to address risk-management capability shortfalls.



Source: PricewaterhouseCoopers survey of utilities 2002



Source: PricewaterhouseCoopers survey of utilities 2002

Connecting cultures

The old utility model driven by internal hierarchies is giving way to an externally focused model that is driven by the dynamic needs of shareholders and the increasingly harsh capital market environment. Strategies developed under cloistered environments are being replaced with more complex models capable of providing for the needs of different functional units. Internal policies encouraging a flatter, more entrepreneurial approach, are also driving a focus on issues of capability and skills shortage. Attracting and retaining the right mix of people is also increasingly higher on the boardroom agenda.

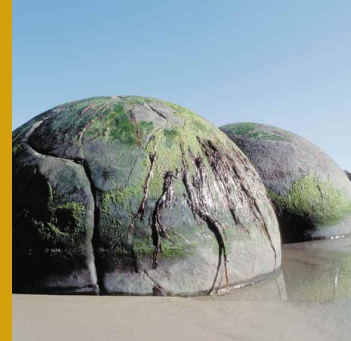
Figure 13: Working practices – which of the following is having most effect on working practices within your business?

	Average
Productivity improvements	4.13
Cost reduction	3.99
Legislation	3.50
Work/life balance requirements	3.25
Employee and union expectations	3.09
Mobility needs	3.07
Demographic changes	2.41

Average response: 5 = greatest effect; 1 = no effect

Source: PricewaterhouseCoopers survey of utilities 2002

The issue of work/life balance will become increasingly important as companies adapt to meet the changing demands of a workforce for which there is ever greater competition.



The need for leaner and more efficient companies is reflected in the fact that productivity, cost reduction and legislation top the list of issues having most effect on working practices – a finding that supports the focus on internal efficiencies discussed in the previous chapter. Here the responses reveal the importance of human capital to these companies. The findings are also a measure of the changes in human resource outlooks, and the issue of ‘work/life balance’ actually comes marginally ahead of the more traditional human resources issue of union and collective bargaining expectations.

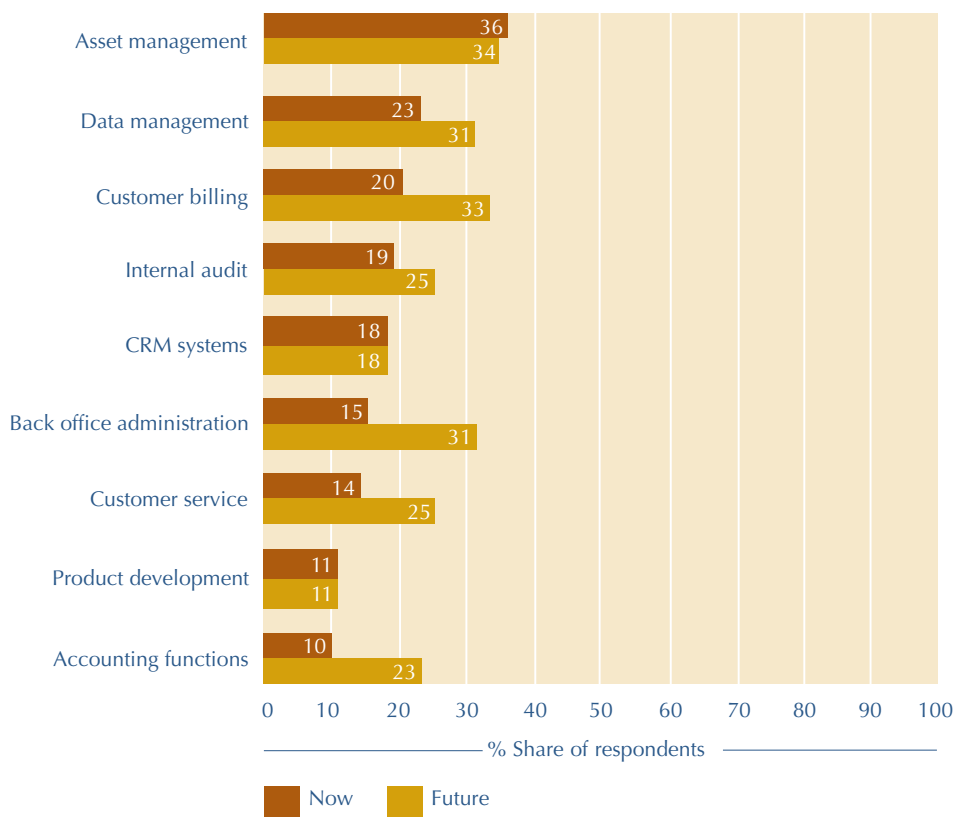
Stepping up the outsourcing pressure

Utility companies have looked increasingly to outsource the delivery of specialist functions in the quest to achieve better solutions and create greater efficiencies. The software revolution and emergence of reciprocal contractual agreements have provided utility companies with the option of choice.

Most commonly, companies have sought to outsource operations, such as metering and customer service, to allow a focus on core competences. In some cases, companies have migrated part of their operations to create their own specialist players.

The view from utility company boardrooms is that the outsourcing trend is set to continue across Europe, with expectations of big increases in the number of companies outsourcing functions such as customer billing, data management, back-office administration and customer service. At the same time, a substantial number of respondents say they will be stepping up their use of outside suppliers for accountancy and internal audit functions.

Figure 14: Trends in outsourcing – what do you currently outsource and what will you outsource in the future?



Source: PricewaterhouseCoopers survey of utilities 2002

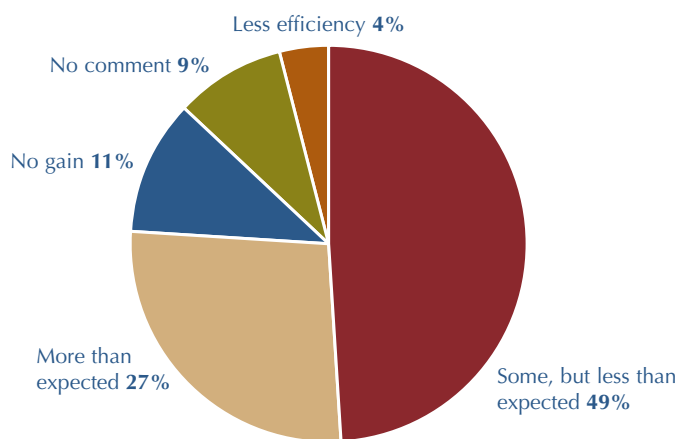
On the other hand, the recent upsurge in outsourcing asset management appears to have run its course. This could be due to the current trend back towards an asset-backed model. In the last year, merger and acquisition activity has highlighted that major players are getting back into assets. As companies move back into this model, they will retain asset management in order to lower the risk profile of this function.

However, a gap is emerging between outsourcing expectations and results. Although 27 per cent of respondents express delight with the results from outsourcing, two-thirds have yet to be convinced and nearly one in six of these report that outsourcing has actually reduced efficiency or made no difference. Half of all respondents in companies that have outsourced report that cost efficiencies have been less than expected.

The experience of outsourcing highlights the importance of rigorous setting and management of contract goals as well as the need to prepare properly before going down the outsourcing route. For example, knowing the reality of pre-outsourcing performance and spending, together with a forward analysis of expectations, is vital for utility companies if they are to get on the front foot in selecting and managing outsourcing relationships. At the same time, the survey suggests that outsourcing companies themselves may need to get better at measuring and then communicating their achievements to client companies.

Some gains but less than expected – players will be keen to bridge the gap in delivering true value from outsourcing.

Figure 15: Is outsourcing to a third-party delivering cost efficiencies?



% Share of respondents

Source: PricewaterhouseCoopers survey of utilities 2002

Trading shape

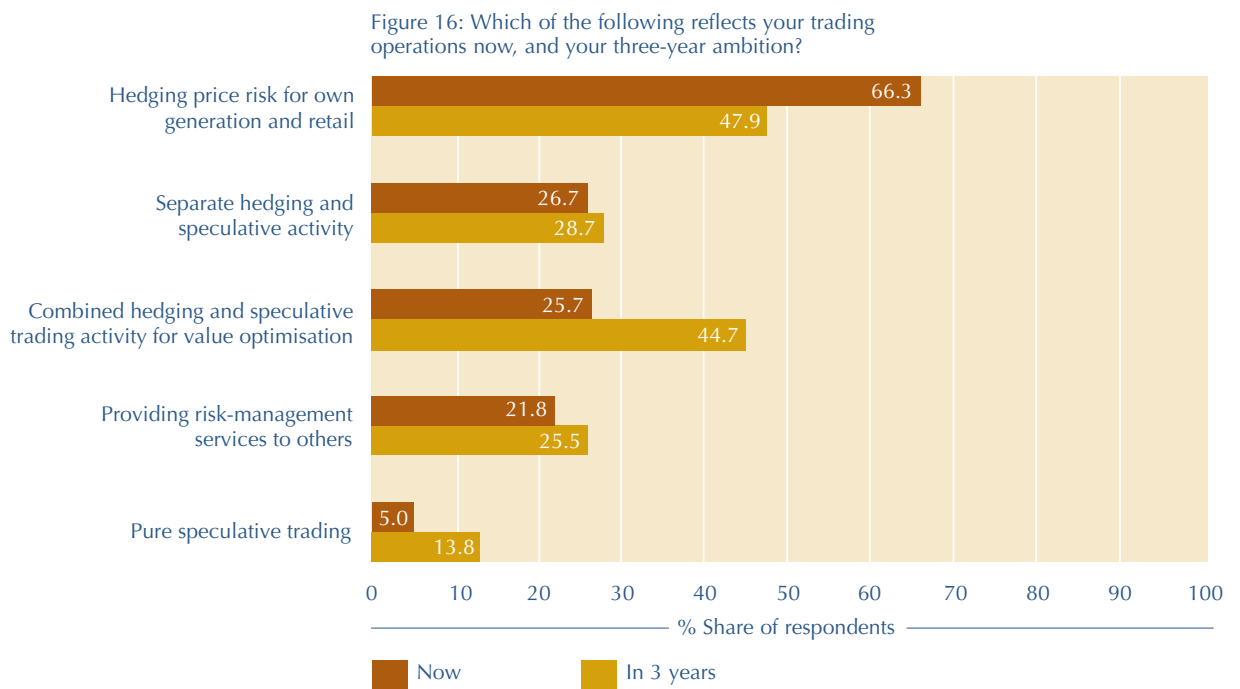


Trading has moved to centre stage in Europe's utility landscape. Liberalisation of retail markets and reform of wholesale trading markets mean that trading is assuming a new 'mission critical' role for utility companies and major energy users, influenced by the culture and practices of financial and commodity markets. Taking a clear view of the part energy trading plays as a strategic value driver for utility companies will be vital for success in Europe over the years ahead.

Value optimisation

European utility companies are increasingly alert to the need to embrace trading, not just to provide a hedge against retail or generation imbalances, but as part of a value optimisation strategy in its own right. Our survey was conducted after the collapse of energy trading giant Enron, which might have been expected to dampen sentiment for a more aggressive use of trading. The responses from European companies, though, indicate the failure of one company will not fundamentally affect the forward momentum of the energy trading revolution.

Three-quarters of respondents already view trading as a profit centre. In three years' time, around half of respondents expect to have moved to a more pro-active use of trading in the value optimisation strategies of their company, reporting that they will combine traditional hedging activity with more speculative trading.



Source: PricewaterhouseCoopers survey of utilities 2002

Only a very small number of respondents currently describe their trading ambition as 'purely speculative'. Five per cent currently place themselves in this category, but their numbers look set to nearly treble over the next three years to 14 per cent of the market. Similarly, the proportion that view trading as only a hedging activity will decline from two-thirds to under half. The companies operating in markets at more advanced stages of liberalisation are, not unexpectedly, leading the way and some of them are also providing risk-management services to others.

The post-Enron environment may make it harder for pure traders, operating without asset backing, to emerge and play a significant part in the market. The degree to which a physical hedge is needed rather than just a contractual one is a matter for debate. When asked, nearly three-fifths of respondents thought it 'likely' or 'highly likely' pure traders, without asset backing, would be part of the scene within the next five years.

Figure 17: Is trading viewed as a profit centre?

	Share
Yes	75%
No	21%
No comment	3%

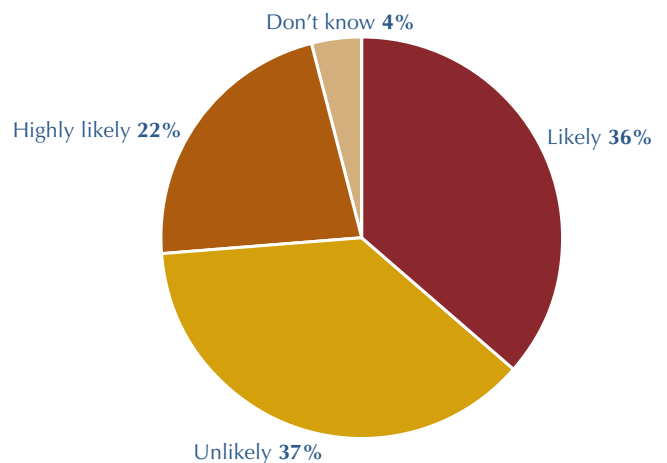
% Share of respondents

Note: Numbers may not add to 100% due to rounding

Source: PricewaterhouseCoopers survey of utilities 2002

The post-Enron environment may make it harder for pure traders to emerge, yet many respondents feel they may be part of the scene in years to come.

Figure 18: How likely do you see the emergence of significant pure traders without asset backing in the next five years?



% Share of respondents

Source: PricewaterhouseCoopers survey of utilities 2002



Trading strategies and skills

Building the right risk-management framework is recognised by companies as top of the list of challenges associated with energy trading. Many companies have already developed sophisticated resources and systems as well as expanding their trading teams in response to the new trading environment. Others are making this an immediate priority.

The challenge will be to develop clear risk controls and then to evolve strategies for using risk management to create wider enterprise value across the range of company operations. Trading strategies can no longer afford to be operated in a silo. Boards will need to be adept at identifying the top-line value-creation goals of the company and then have the analysis and systems in place to transfer risks in and out of the business in line with these goals. A company's energy trading activities will be a vital part of managing risk and creating value.

Some three-quarters of respondents in large and medium companies and nearly two-thirds in small companies expect their trading capability to be developed and delivered largely by an in-house team, although 30 per cent of the smaller company respondents indicate that they would consider formal alliances or outsourcing. Indeed, it is quite common for the smaller utilities to turn to alliances for their energy trading in medium-size markets such as Austria and Finland, and to a lesser extent in Germany. But for the majority of utility companies, in-house capability will play a critical role and, in this respect, they will be competing with each other in a scarce pool of the most highly skilled individuals.

Not surprisingly, alongside the challenge of developing the right risk-management architecture and systems, the challenge of attracting and retaining the right people features high on the list of trading challenges facing companies.

Figure 19: Where do the greatest challenges lie with regard to your trading?

	Average
Building risk-management framework or systems suitable for the new trading environment	3.98
Availability or retention of energy trading professionals	3.85
Availability of real-time front-office trading platforms	3.53
Organisational restructuring to incorporate new energy trading activity	3.47
The increase of counter-party risk	3.28
Reassessment of appropriate allocation of capital between risk and physical assets	3.21
Communication of the energy trading strategy to shareholders	3.16

Average response: 5 = most significant; 1 = least significant

Source: PricewaterhouseCoopers survey of utilities 2002

Figure 20: What is your main route to maximising trading capability? (by utility size)

	Large	Medium	Small
In-house team	77%	73%	63%
Formal alliances	17%	15%	23%
Outsourcing	3%	8%	7%
Don't know	3%	4%	7%
Total	100%	100%	100%

% Share of respondents

Note: For definition of large, medium, small – see *Methodology*

Source: PricewaterhouseCoopers survey of utilities 2002

Environmental shape

Environmental strategy and corporate performance are recognised by many companies as being increasingly interlinked. Not only is a sustainable environmental footprint seen as vital for a sustainable business model, but the relevance of environmental factors to brand, competitor differentiation, internal efficiencies and other value drivers must become an inherent part of strategy.

The strategy shortfall

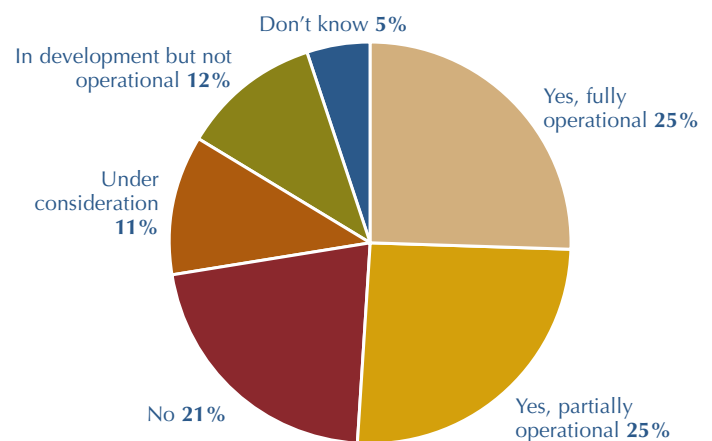
Despite their pivotal role in the development of sustainable environmental solutions, the majority of utility companies appear slow in developing sophisticated environmental strategies. The majority of survey respondents appear content to allow regulatory forces to drive change. Few expect competitor activity or technological advances to be a driving force and most expect that renewable energy will be viable as a profitable activity only with government support.

Yet utilities companies ignore the demands of the consumer market at their peril. Leaders in other sectors are setting 'best in class' standards and integrating these issues into their strategy. Indeed, it would seem that by waiting to be driven by regulators, utility companies are failing to keep pace with the wider business community. A strategy mismatch exists that, if left unremedied, could encroach on shareholder value.

Even in the area of climate change, where regulatory pressure most clearly impinges on utility companies, only a quarter of respondents say that they have put any specific climate change strategy into full operation. A third of respondents simply say that they either do not have a climate change strategy or that it is still under consideration.

Leaders in other sectors are setting 'best in class' standards. Utility companies must keep pace with the wider business community.

Figure 21: Do you have a strategy for climate change?



% Share of respondents

Source: PricewaterhouseCoopers survey of utilities 2002



An understanding of current emissions and energy usage must underpin corporate strategy and provide the fundamentals for environmental operating targets. To engage a multitude of stakeholders, companies must maintain a robust reference to the ongoing emissions and usage measurements, as well as communicating how they will address any challenges that arise.

Companies must be prudent and ensure these strategies focus on more holistic business-wide environmental strategies rather than solely on emissions targets, linked to regulatory agendas.

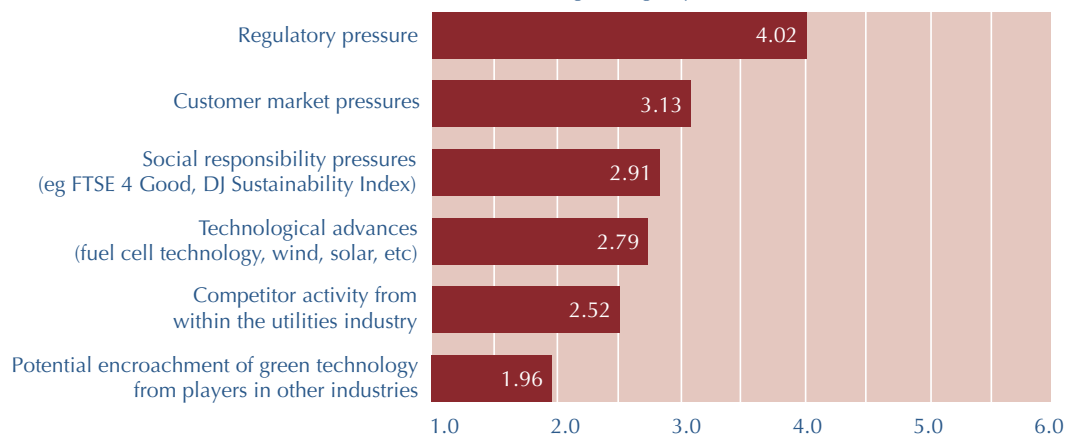
Examining responses by country, the most environmentally advanced appear to be the Germans, Italians and Danes. In these countries, 75 per cent of respondents stated that they had a climate change strategy that was either partially operational or fully operational.

Renewable energy

Nonetheless, although the majority of respondents remain sceptical, a significant minority, between a quarter and a third, believe that there is a viable business route for the development of renewable energy without government subsidy. If this is the case, there may be sufficient critical mass for renewable energy potentially to change the metrics of the marketplace. Already, many energy retailers are offering consumers 'green energy' options. However, none have really developed a strong brand proposition.

It would appear that, against a background where an international political climate struggles to reach consensus, the impetus to achieve a 'greening' of the utility marketplace remains some way distant.

Figure 22: What do you predict will be the greatest driver of environmental greening of your business models?



Average response: 6 = greatest driver; 1 = no influence

Source: PricewaterhouseCoopers survey of utilities 2002

Figure 23: Is renewable energy a viable (profitable) business option?

	Share
Yes, but only with government support	59%
Yes	28%
No	10%
Don't know	3%
Total	100%

% Share of respondents

Source: PricewaterhouseCoopers survey of utilities 2002

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