

## Marketplace Introduction

**As the UK's second largest energy retailer, the interests of our customers are at the core of everything we do.**

Our impact on society in the marketplace is made up of the impact of what we produce and how we buy and sell. How much value or harm do our core products and services produce? Is our approach to marketing, advertising and procurement fair and honest, as well as effective?

Marketplace is the area of our Report where we try to address these issues and to report on our economic performance.

Powergen is one of the UK's leading integrated electricity and gas companies, with a business built on:

- Marketing and selling electricity, gas, fixed-line telecommunications products and other services to domestic and business customers;
- Asset management in electricity production and distribution;
- Energy trading and risk management for all wholesale commodity exposures.

We operate in the England, Wales, Scotland and Northern Ireland energy markets. The principal commercial features of the UK electricity industry in recent years have been:

- Increased competition in generation among generators (currently over 30), including generation owned by the regional electricity companies and other new entrants;
- Increased competition in supply, facilitated by open access to the transmission and distribution systems. Suppliers are free to compete with each other in supplying electricity to consumers anywhere within England, Wales and Scotland.

All electricity supply (retail) and distribution activities were separated in England and Wales in 2001, splitting the market into a liberalised supply sector and a regulated network distribution sector. Also, in 2001 a new set of trading rules, known as the New Electricity Trading Arrangements (NETA) was introduced in England and Wales.

NETA provides the framework for energy trading and wholesale sales in the UK and is based on the principle that parties wishing to buy and sell electricity should be able to enter into freely negotiated contracts to do so. The Office of Gas and Electricity Markets (Ofgem) is responsible for regulatory oversight of NETA.

The retail energy market in the UK has consolidated over the last few years into six major competitors, together with some smaller players.

During 2002, we acquired the UK retail business of TXU Europe Group plc (TXU Energi), together with control of three TXU coal-fired generation plants and certain

TXU gas supply contracts, for £1.4 billion, plus the acquisition of £0.2 billion of debt. This was a transforming deal for Powergen that made us the UK's second largest energy retailer, with approximately 9 million customer accounts. It also gave us a better balance between customer demand and generation output, helping to reduce the impact of future fluctuations in UK wholesale electricity prices on UK business profitability.

## Marketplace The issues

The Marketplace issues for Powergen UK, upon which we report here are:

- Economic performance;
- Electricity generation;
- Energy trading;
- Electricity distribution;
- Retail;
- Other activities.

Shown below are these issues mapped against our stakeholder groups to show which issues, we believe, are of most relevance to each stakeholder group.

Stakeholder Groups						
E.ON	●	●	◆	◆	▲	▲
E.ON investors	●	●	◆	◆	▲	▲
Govt. & energy regulators	●	●	◆	◆	▲	—
Environmental regulators	●	●	—	—	—	—
Employees	●	●	◆	◆	▲	▲
Customers	●	—	—	◆	▲	▲
Communities	●	—	—	◆	▲	▲
External bodies	●	●	—	—	▲	▲
The media	●	●	◆	◆	▲	▲
Joint venture partners	●	●	—	—	▲	▲
Trade unions	●	●	◆	◆	▲	▲
Contractors	●	—	—	◆	▲	—
Suppliers	●	—	—	—	▲	▲

Key	
●	Economic performance
●	Electricity generation
◆	Energy trading
◆	Electricity distribution
▲	Retail
▲	Other activities

## Marketplace

### Economic performance

A summary of Powergen UK's economic performance over 2002 is given below:

UK Operations, £m		
	Turnover	Operating profit
Electricity and gas wholesale and trading	2,104	91
Electricity distribution	289	129
Electricity and gas retail	2,417	105
Internal charges from distribution to retail	(125)	
Lease and other income and charges		83
<b>Total</b>	<b>4,685</b>	<b>408</b>

Wholesale electricity prices in the UK fell substantially in 2002 and by year end were nearly 25% below those of a year earlier, at a level below full production cost. This has principally been caused by over-capacity and fragmentation within the generation market and the introduction of a new trading system known as the New Electricity Trading Arrangements (NETA).

In response to the market challenges, Powergen has developed a comprehensive set of operational initiatives. These have included closing power stations, delivering synergies from the TXU integration, and the optimising of internal service functions.

#### Marketplace

##### Electricity generation

The principal commercial feature of the UK electricity generation industry over the period since privatisation in 1989 has been the increasing competition in generation among generators (currently over 30), including generation owned by the regional electricity companies and other new entrants.

We focus on maintaining a low-cost, efficient and flexible generation business in order to compete effectively in the wholesale electricity market. We generate electricity from a diverse portfolio of fuel sources. In 2002, 47% of our electricity output was fuelled by coal, 52% by gas and 1% generated by hydro, wind and oil-fired plant.

We are continuing our efforts to secure a balanced and diverse portfolio of fuel sources, giving us the flexibility to respond to market conditions and to minimise costs.

Over 2002, our total electricity generation was 36.62 TWh, representing approximately 11% of the total electricity output sold in England and Wales.

### **Renewable energy**

The UK Government has called for 10% of all energy to be produced from renewable sources by 2010. The Policy and Innovations Unit's report to the Government recommended that 20% of electricity should come from renewable sources by 2020. We plan to grow our renewables generation business in response.

Since 1999, all our wind generation projects have been developed by Powergen Renewables Ltd., originally formed as a joint venture with Abbot Group plc. We bought out Abbot's share in Powergen Renewables in October 2002.

At the end of 2002 we had 17 operational wind farms, with a total capacity of almost 135 MW. The portfolio includes the UK's first off-shore wind farm, a 4 MW development at Blyth on the Northumberland coast, which was commissioned in December 2000.

We were recently granted consent to build a 76 MW offshore wind farm at Scroby Sands off the coast of Great Yarmouth in Norfolk. Once commissioned, the project will generate enough electricity to supply 52,000 homes.

The latest addition to the Renewables portfolio is Bowbeat, a 31.2 MW windfarm near Peebles in the Scottish Borders. This wind farm was commissioned in September 2002 and generates enough electricity annually to supply 22,500 homes.

Powergen's biomass business was established in 2002 to identify and develop opportunities for electricity generation using biomass fuel. As well as seeking to develop new dedicated power plant we are also developing co-firing opportunities at our existing coal power stations. Co-firing trials have been undertaken successfully at both Ironbridge Power Station in Shropshire (obtained as part of the TXU acquisition) and Kingsnorth Power Station in Kent. Dedicated opportunities under consideration include a wood burning power station in Scotland.

One of the key requirements for successful biomass projects is the establishment of long-term, secure fuel supplies. We are examining a full range of options for fuel supplies, including energy crops such as short rotation coppice.

## **Biffa**

In a joint venture with Biffa, we own and operate generation plants at 4 landfill sites with a total generation capacity of 8 MW. We generate approximately 56 GWh of electricity per year, sufficient to meet the needs of approximately 15,000 homes.

### **Combined heat and power (CHP)**

We also operate large scale combined heat and power (CHP) schemes. CHP is an energy-efficient technology which recovers heat from the power generation process and uses it for industrial processes such as steam generation, product drying, fermentation, sterilizing and heating. Our total operational capacity is 613 MW, with

clients ranging across a number of sectors, including pharmaceuticals, chemical, paper and oil refining. Three projects with a total capacity of 112 MW were commissioned during 2002, with a further 30 MW due to be commissioned in 2003.

## Marketplace

### Energy trading

We engage in asset-based energy marketing in gas and electricity markets through our Energy Trading business unit to assist in commercial risk management and the optimisation of our UK gross margin. Energy Trading plays a key role in our integrated electricity and gas business in the UK by acting as the “commercial hub” for all energy transactions. It manages price and volume risks and seeks to maximise the integrated value from our generation and customer assets.

Energy trading activities include:

- Management of all Powergen’s core commodity portfolios – electricity, gas, coal & oil;
- Risk management of both the retail and generation portfolios to manage the variation in customer demand;
- Balancing and dispatch of Powergen’s power stations through a dedicated 24x7 operations team;
- Managing renewable obligations for the retail portfolio through long-term purchases and trading of Renewables Obligation Certificates (ROCs);
- Purchasing and/or trading of other environmental products, including Levy Exemption Certificates (LECs) and emissions products.

We also engage in a controlled amount of proprietary trading in gas, power, coal and oil markets in order to take advantage of market opportunities and maintain the highest levels of market understanding required to support optimisation and risk management activities.

We have in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. Coal contracts with a variety of suppliers within the UK and overseas ensure that supplies are secured for our coal-fired plants, while maintaining enough flexibility to minimize the cost of generation across the total generation portfolio. Our import facilities at Kingsnorth Power Station and Gladstone Dock, Liverpool, provide secure access to international coal supplies.

The supply of gas for our combined cycle gas turbine (CCGT) and combined heat and power (CHP) plant is sourced through non-interruptible long-term contracts direct with gas producers as well as market purchases. Risk management arrangements in respect of the volume and price risks associated with our gas supply contracts are conducted through on the spot, over-the-counter and bilateral markets.

During 2002, Energy Trading successfully managed the integration of TXU’s gas and power portfolios and ensured that power and gas was available to maintain supply to our expanded customer base.

Energy Trading has a strong control and governance culture – we were one of the first energy companies to be authorised under the Financial Services and Markets Act.



## Marketplace

### Electricity distribution



East Midlands Electricity Distribution plc, a wholly-owned subsidiary of Powergen UK, owns, manages and operates an electricity distribution network within the East Midlands service area. The area covers approximately 16,000 km<sup>2</sup> in the East Midlands of England, from north of Chesterfield in Derbyshire to south of Milton Keynes in Buckinghamshire, and from Tamworth, Staffordshire, in the west, to the Lincolnshire coast in the east, and containing a resident population of over five million. East Midlands Electricity distributes power to over 2.4 million customers in the service area. Virtually all electricity supplied (whether by our Retail business or by other suppliers) to consumers in the service area is transported through East Midlands Electricity's distribution network.

Our operation of the network is subject to our Distribution Licence. The licence establishes a price control regulatory framework that creates economic incentives to operate in a cost-effective manner while delivering the required level of service. Electricity suppliers are charged for transportation through Distribution Use-Of-System Charges at published tariff rates, which are included on their customer invoices.

The price control regulatory framework is set by Ofgem, and is reviewed on a five-yearly cycle. Permitted investment levels and operational expenditure for an asset management business, like EME, is crucial to network sustainability and service quality delivery. The next five-year period commences in April 2005 and we are actively participating in debate with Ofgem and relevant Government and other bodies regarding the next review. This provides the opportunity to ensure that appropriate incentives are included to support delivery of CHP and renewable generation targets as more of these generation types connect to local distribution networks.

We ensure high levels of customer service through:

- A call centre staffed 24 hours a day, 365 days a year;
- Providing an automatic targeted telephone messaging service giving supply restoration updates at times of supply interruption;
- Working closely with the media over major incident communications;
- Providing a customer service support vehicle for vulnerable communities;
- Regular testing and reviewing our comprehensive business continuity plans.

Over 2002, we distributed 28,379 million kWh of electricity in the East Midlands area, of which 15,338 million kWh was to larger industrial and commercial customers and 13,041 million kWh to small and medium sized enterprises (SMEs) and residential customers.

Building on the changes to organisational structures and rationalisation of operational sites in 2000, a programme of change projects was launched and delivered during 2001 and 2002, focusing on process, system and technology

improvements. The impact of these projects has been to increase the effectiveness of the field force and office-based staff. An outsourcing programme, initiated in 2000, and restructured in 2002, has been implemented creating a more flexible and cost-effective base of internal and external resources.

Over 2002, operating profits from electricity distribution increased by £11 million to £129 Million.

## Marketplace

### Retail

We sell electricity, gas, telecommunications and other services to three business segments:

- residential;
- small and medium sized enterprises (SMEs);
- industrial and commercial businesses (I&C).

Residential and small and medium sized enterprises  
 Energy Efficiency  
 Industrial and Commercial  
 Customer Satisfaction  
 Customer Retention

At the end of 2002, we supplied 9.1 million accounts, of which 8.9 million were residential and small and medium sized business customers, and 0.2 million were industrial and commercial customers.

INDICATOR: Electricity Sold 2002
Total sold to residential customers 20,369 million kWh
Total sold to commercial customers 16,363 million kWh

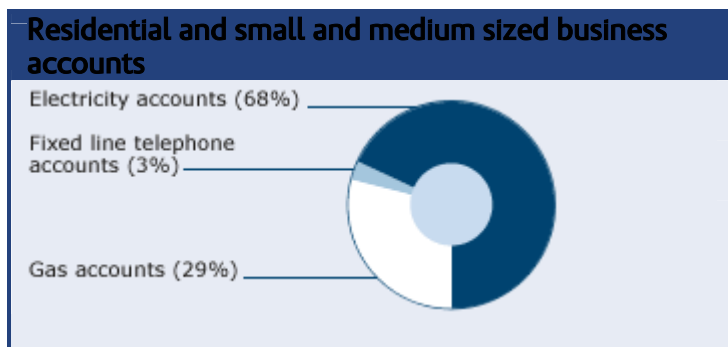
INDICATOR: Gas Sold 2002
Total sold to residential customers 1,140 million therms
Total sold to commercial customers 949 million therms

We continue to focus on reducing the costs of our retail business, seeking to increase margins through the use of lower cost sales channels and implementing systems to reduce 'back office' costs. Initiatives include increased automation of service and credit management processes, combined with the outsourcing of certain activities.

#### Residential and small and medium sized enterprises

The residential business had 8.3 million customer accounts at 31 December 2002, including 5.2 million customer accounts acquired from the TXU Europe Group plc. The number of accounts in the small and medium sized business sector totalled 0.6 million at year-end 2002.

Of the residential and small and medium sized business accounts, 68% were electricity customers, 29% were gas customers and 3% were fixed line telephone customers. Individual retail customers who buy more than one product (i.e. electricity, gas or fixed line telephone services) are counted as having a separate account for each product, although they may choose to receive a single bill for all Powergen-provided services.



The average product penetration for our customer base (meaning the number of products used by each residential electricity customer) was 1.51 at 31 December 2002, up from 1.36 at 31 December 2001, and a reflection of our increasing success in cross-selling.

### Fuel poverty

The accepted definition of fuel poverty in England is the need for a household to spend more than 10% of its net income to maintain a satisfactory heating regime. This assumes that a satisfactory heating regime is one where the main living area is at 21°C, with 18°C in other occupied rooms. It is assumed that heating is available for 16 hours per day for households in work or full-time education. It is assumed that the whole house is heated except where the household is under-occupied, when it is assumed that half of the house is heated.

More than 3.5 million households in the UK suffer from fuel poverty and are unable to afford adequate heat and light. We are committed to helping eradicate fuel poverty, which arises from the combination of low incomes and poor energy efficiency in homes. We tackle fuel poverty in a number of ways, including retail initiatives, energy efficiency projects and community schemes.

We have a number of tariffs available, designed to suit different domestic customers' needs, including:

### Capped-price electricity

We launched our capped-price electricity product in July 2002 to our residential customers. Those signing for a two-year contract benefit from a price promise that fixes the kWh price of electricity for the first year and then rewards customers with a price decrease in the second year.

### GreenPlan

GreenPlan provides consumers, who want to 'do their bit for the environment', with a greener choice for their electricity supply.

Customers pay a 3.5% premium on unit rates above that for our standard electricity product. This premium automatically goes into the GreenPlan fund. Powergen matches this amount, which means that around £18 per customer per year is paid into the independent fund.



The fund is dedicated to the generation of renewable energy projects in the community and projects will include things like solar panels for village halls and wind turbines for schools. The fund is fully endorsed by the WWF, the global environment network.

Powergen makes an additional charitable contribution to the WWF for every new customer who switches to GreenPlan, to help fight climate change.

Twice a year renewable energy project proposals from not-for-profit organisations are reviewed and an independent committee decides which projects are successful in attracting money from the fund.



### Age Concern

Powergen are aware that older people are often concerned over the cost of heating and lighting, especially during the winter period. With this in mind we offer a unique tariff specifically designed to meet their needs.

Gas customers aged 60 and over receive the equivalent of an extra two hours gas fire heating for every day the temperature drops below freezing between December and February. In addition, they receive a free carbon monoxide detector and hypothermia thermometer and two free low-energy lamps.

During winter 2002/03 customers transferring to the scheme could choose between a low energy sensor bulb or a mini jug kettle.



### **Staywarm**

Staywarm is designed to offer complete peace of mind for the over-60s. However much electricity and gas is needed, customers pay a fixed low price – weekly, fortnightly or monthly – choosing to pay by Direct Debit or by cash or cheque at the Post Office. The price paid depends on the number of people who live in the house and how many bedrooms it has and the price is guaranteed for a year from the time a customer signs up. Customers can therefore keep warm all year round without worrying about receiving unexpectedly large energy bills. A number of customers have told us that Staywarm has allowed them to properly heat their homes during winter for the first time in many years, while free from the financial worry of large bills. Staywarm refers all eligible customers to the Government's Warm Front scheme, for free energy efficiency advice and grants for heating measures and insulation. Warm Front is the UK Government's principal strategy to combat fuel poverty in the UK, and is managed on behalf of the Department for Environment, Food and Rural Affairs by Powergen.

### **OneBill**

We offer a single, easy to understand "one bill" for customers with more than one product – this offers customers additional savings and simplicity.

### **Self serve**

Customers may view or query current and past bills, submit meter readings, set up and amend direct debits, and view or change their account details directly through our retail website at [www.powergen.co.uk](http://www.powergen.co.uk)

We recognise that many customers have special needs – and we try to make their life simpler where we can.

- To those with sight difficulties we are able to provide braille bills, large print bills and talking bills;
- We have a 'priority services register' containing details of customers of pensionable age, the chronically sick and disabled. This entitles them to extra services, if required, such as special adaptors, talking bills and braille bills.

Our call centres are available 24 hours a day, 365 days a year, and we have dedicated freephone telephone numbers so that customers can go straight through to qualified staff who will sort out their query

We also have a dedicated House Move team to take away the complexities of managing customers' accounts during this stressful period.

### **Energy efficiency**

We are fully committed to encouraging energy efficiency across our customer base: we see this as a core activity in delivering a complete service as an energy supplier. Energy efficiency delivers the twin benefits of helping to combat climate change and beat fuel poverty.

More efficient use of energy reduces the need to burn fossil fuels and reduces the associated emission of carbon dioxide, the main greenhouse gases. Energy efficiency is also a very effective way of helping households who cannot afford to heat their

homes adequately.

### Energy efficiency initiatives

Within our Energy Efficiency Team we create, develop and project manage initiatives to allow all our residential customers to play their part in reducing the energy they use. These initiatives are marketed direct to customers or via partners such as local authorities, retailers and charities. The measures we promote are varied and cover many ways of saving energy in the home. We also work directly with registered social landlords to improve the efficiency of their housing stock helping them to meet the UK Government Department of Transport, Local Government and the Regions (DTLR)'s (now Office of the Deputy Prime Minister – ODPM's) Decent Homes Standard. We like to play an active, not passive, role in the partnerships we develop and we believe we have the skills within the team to achieve that. Some of our team are trained National Home Energy Rating (NHER) assessors and have the ability to quantify the benefits of the insulation measures carried out in the form of a stock profile. Working in the new build sector we help developers meet building regulations by providing energy efficiency Standard Assessment Procedure (SAP) ratings. We also offer NHER training for all levels of assessment and have the ability to pressure test housing to determine the energy loss through ventilation within a dwelling.



The installation of physical measures is not the only way of saving energy. Our energy efficiency advice line for both residential and business sectors offers a free service to educate and, in many cases, change behaviours in the way our customers use energy. In the residential market we have been active with low-income customers, whom we consider would benefit greatly from such advice, as well as offering a reactive service for other customers and non-customers alike. We also offer home visits for customers who need extra support and have made over 4000 such visits during 2002 as well as attending over 20 local events across the East Midlands, talking to consumers about their energy use. We set up our business advice line in 2002 which offers customers the opportunity to talk to specialist engineers about reducing energy bills and understanding what grant support may be available from programmes such as Action Energy and initiatives from the Carbon Trust. Current awareness of this service is low, and we intend to further promote it to customers to increase its use.

Our energy efficiency programme is designed to deliver the Energy Efficiency Commitment (EEC) which commenced in April 2002 and runs to March 2005. This programme is approximately five times the size of the previous EESoP (Energy Efficiency Standards of Performance) III programme, and requires suppliers to make substantial investments in the delivery of a lifetime energy saving target of 62 TWh across the sector. Half of these savings are targeted at consumers who are in receipt of a means-tested benefit or tax credit.

Our initiatives offered regionally or nationally direct to the consumer comprise the following:

- Low energy lighting;
- Private sector insulation;
- DIY loft insulation;
- High efficiency (A-rated) boilers;
- Other A-rated appliances through independent retailers.

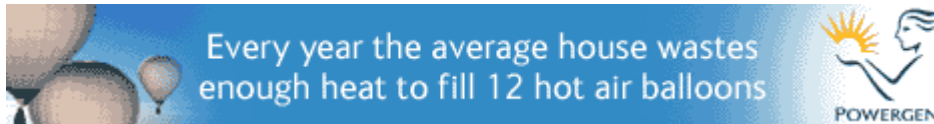
Our initiatives offered nationally to partners, such as local authorities and housing associations, comprise the following:

- Low energy lighting;
- Social housing insulation;
- Condensing boilers and heating controls;
- Powergen HeatPlant – Ground source heat pumps for heating and hot water.

After delivering our energy efficiency initiatives we research customers to get feedback from them to ensure we understand how they perceived the scheme and how we could improve their experience.

**INDICATOR: Energy Efficiency Customer Satisfaction**

The overall level of customer satisfaction with our energy efficiency initiatives in 2002 was 87%.



**Low energy lighting**

We offered 1.8 million customers the chance to purchase the first dimmable low energy light bulb and are the only energy supplier to support large scale promotion of dedicated luminaries, which ensure that only low energy bulbs can be used in the fitting. So far, almost 70,000 products have started to deliver 64 GWh of lifetime savings.

By working with housing providers, we have been able to support low income households, which can benefit most from lower energy bills. We have distributed over 600,000 low energy light bulbs in this way, with a lifetime energy saving of 380 GWh. Over 140,000 homes have benefited from these offers.

**Private sector insulation**

Although we understand the need to get help for those in fuel poverty (the most vulnerable households), we are also committed to helping private homeowners improve the energy efficiency of their homes. Many people now appreciate the environmental benefits of installing insulation measures as well as the obvious savings on fuel bills.

- We are currently running 9 regional initiatives for private homeowners offering grants for a range of energy efficiency measures;

- We also have a national scheme in association with local authority Building Control Services providing subsidised prices for cavity wall and loft insulation. Homeowners also receive a pack of 4 low energy light bulbs when taking up the offer;
- To date we have helped over 8,000 private homeowners install over 5,000 cavity walls and over 4,500 units of loft insulation.

We have made energy savings totalling almost 250 GWh, which equates to an estimated lifetime saving on fuel bills of around £3.5m.

#### **DIY loft insulation**

We offer loft insulation, delivered to the customer direct for them to install themselves. This can be ordered through our energy efficiency advice line.

#### **High efficiency (A-rated) boilers**

We have partnered with local authorities and the Energy Efficiency Advisory Centre (EEAC) to offer regional discounts and incentives to promote the installation of condensing boilers.

#### **High efficiency A-rated appliances**

Working with high street retailers, we've delivered over 22,000 A-rated appliances to homes, achieving a lifetime energy saving of 44 GWh.

#### **Social housing insulation**

We work closely with local authorities and Housing Associations to get help directly to those who most need it. With projects ranging from 10s to 1,000s of homes we are committed to helping social landlords with tailor-made projects utilising numerous different energy efficiency measures from simple advice to condensing boilers & controls.

- So far, we have installed 26,000 cavity walls insulations, insulated 19,000 lofts, improving the energy efficiency of over 40,000 homes;
- We have made energy savings totalling 720 GWh, which equates to an estimated lifetime saving on fuel bills of around £10 million.



We are committed to getting help to those who most need it in the social housing sector, targeting those in receipt of benefits to tackle fuel poverty and helping to achieve both the Decent Homes Standard and the Home Energy Conservation Act (HECA) target.

- We provide free software (The Environmental Matrix for Housing – [www.Practicalenvironment.co.uk](http://www.Practicalenvironment.co.uk)) designed to help provide a means of measuring and reporting all aspects of property management using specific ISO 14001 indicators to help Housing Associations & Social Landlords manage their housing stock & implement Environmental Management Systems;
- We work with a variety of Councils and Housing Associations nationwide to implement schemes ranging from small regional initiatives to large national programmes.

### **Condensing boilers and heating controls**

We encourage housing providers to install subsidised high efficiency condensing boilers and controls.

### **Powergen HeatPlant**

This initiative is unique to us, as we are the only energy supplier offering this proven energy-saving technology which delivers low carbon heating and hot water. Although recognised for its potential in the USA and Europe, only a handful of installations have been made in the UK. We believe this technology has a useful role to play in providing affordable heating and hot water for social housing tenants, whilst producing around 50% less CO<sub>2</sub> than a conventional gas boiler. At the heart of this advanced heating system is a ground source heat pump designed to extract energy stored naturally at low temperature in the ground around a building. The heat pump transfers this energy into the domestic heating system providing full controllable central heating and hot water. Powergen has joined forces with Calorex, who manufacture the heat pump to create the Powergen HeatPlant scheme.

### **Powergen HeatStreets**

Powergen HeatStreets is a fuel poverty reduction scheme, which focuses on installing the most beneficial energy efficiency measures in private sector housing in a specific targeted area.

The concept differs from other schemes in that HeatStreets focuses on the house rather than the household, acknowledging that the fuel poor move around and people's circumstances change.

Partnership is critical to the delivery of HeatStreets. It is a partnership between the local authority, Powergen, and local installers and each has their part to play.

The local authority needs to identify the areas to be targeted appropriate to the needs of the area. It could be an estate, a suburb, a ward or the whole city. The local authority would also need to allocate some funding to the scheme and we have helped in securing funding from sources such as the Single Regeneration Budget (SRB) and Neighbourhood Renewal Fund (NRF). The number of different partners involved means that for every £1 of local authority funding a further £4 can be leveraged into the scheme.

The scheme involves a systematic roll out on a door-by-door, street-by-street basis whereby customers are informed of the scheme and the partners involved. The home surveyors are energy efficiency trained and explain the benefits of insulation, draft proofing, low energy lighting and on the basis of the customer's individual circumstances make them an offer to improve the efficiency of their home.

Customers are then given time to assess the benefits and encouraged to respond. The key feature of the scheme is that all customers can benefit and therefore feel involved and included and the SAP improvement of the dwellings in the area targeted will be quantified.

All customers on benefit will receive the measures at no cost funded by a combination of Powergen, the local authority and Warm Front

Customers will also be offered a free benefits health check to ensure those on low

incomes are receiving the financial support to which they are entitled.

The scheme contractors will ideally be local to the area to support local business, and where the scheme is large and therefore the work programme of sufficient length, contractors will be encouraged to create employment.

HeatStreets is therefore a framework to deliver areas of housing which are more affordable to heat. The overall shape of a scheme will depend on the needs of the local community with the local authority, Powergen and Energy Services working together to meet those needs.

### **National home energy rating (NHER)**

Powergen have trained NHER Assessors who can calculate the NHER and Standard Assessment Procedure (SAP) and the total running costs for every property. We offer a consultancy service to our customers through which we can advise on how they can achieve their target rating. If the customer's property fails Building Regulations then we can give them appropriate improvement options to consider.

We also survey properties for housing associations and we can calculate the NHER and SAP from the data that we collect from the property. We help them reach their target SAP, based on the Scheme Development Standards. There is a minimum and recommended target dependent on the individual size of the property

We also provide stock profile ratings to allow registered social landlords to benchmark and monitor improvements in their housing stock in line with their energy efficiency programmes.

### **Energy efficiency advice**

As part of the energy efficiency programme, we have invested in dedicated advice lines for both residential and SME customers.

The advice lines concentrate on:

- Customer-focused advice. The energy efficiency advisors tailor each call to the customer needs, whatever they may be seeking, to expand the conversation to cover all opportunities for the customers to save energy;
- The advice line follows up calls with energy audits as well as home visits. In 2002, home advisors visited 3,186 customer homes, helping to reduce customers' energy bills by advising on energy efficiency measures and distributing low energy lighting as well as cylinder jackets. This is particularly relevant to our priority customers who may be in fuel poverty;
- Identifying and helping customers who might be eligible for energy efficiency grants from Powergen and through the Government Warm Front scheme;
- Ensuring a professional and active service by working to the Powergen basic call quality index. Calls are often monitored to ensure each call is a quality call demonstrating our know-how and expertise in energy efficiency.

Powergen provides home energy reports to 10% of consumers ringing the advice line. Customers can access this service by calling our freephone number 0500 20 10 00.

**INDICATOR: Number of customers to whom energy saving advice was provided in 2002**

28,139 customers

### **SME energy efficiency advice service**

Powergen's SME customers can benefit from free access to this service, which enables them to identify the areas of energy waste within their business and provide solutions to help save money.

Experienced energy efficiency specialists at the Powergen Business Energy Help Line work to provide individually tailored advice to help reduce energy costs in businesses. Their skills cover all aspects of energy use including heating, lighting, air conditioning, refrigeration and manufacturing processes, to name a few.

If customers need more detailed help or financial support for energy investments, then our specialist team will direct them to the best Government-backed schemes that can provide the support needed. This includes the Action Energy programme that can fund services such as:

- Detailed on-site energy assessments for business premises;
- In-depth feasibility studies for energy improvements;
- Interest-free loans for energy efficiency investments.

Customers can access this unique service by calling our freephone number 08000 85 85 25.

### **Industrial and commercial**

In the industrial and commercial sector we ended 2002 with annualised volumes, including TXU Energi, of 37 TWh of electricity and annualised gas sales of 48 TWh. This means that we are, once again, a leading player in the I&C energy market.

As a stand-alone retailer, Powergen I&C is constantly striving to meet changing buyer needs and adapt to market developments. Our products and services are aimed at helping our customers manage the complexities of the energy market. 'eData' is our latest innovation, offering secure online access to metered electricity and gas consumption data.

Sales in this sector are achieved through a variety of channels ranging from traditional face-to-face account management through to online sales. Powergen is one of the few in the industry to demonstrate flexibility in account management structures. Following the recent acquisition of the TXU Energi retail business, Powergen I&C Retail has restructured its sales operations into two key channels; Major Accounts and Corporate Accounts, reflecting the differing needs of its diverse customer base.

### Customer satisfaction

We aim to deliver a first rate service to our customers. A satisfied customer is likely to stay loyal and to sign up for additional products and services.

Since March 2002 we have carried out internal research of customer satisfaction on an ongoing basis. From inbound calls to our call centres, 500 customers per week are asked to take part in a simple automated telephone survey, which takes about 2 minutes.

It is hoped that the information will enable us to spot issues with our customer service, which can then be addressed and improved.

Data for March – December 2002:

#### INDICATOR: Customer Satisfaction

- No. of successful calls – 11,756;
- Overall satisfaction – 76.5%;
- 63% of customers were satisfied with the time taken to answer the call;
- Helpfulness of the agent was rated at 91%;
- Call resolution was rated at 72%.

### Complaint handling

We take any complaints concerning our products and services very seriously. We have a central customer service team who deal with all complaints and ensure action is taken to resolve every issue. Regular analysis of these complaints takes place to identify weaknesses in systems and processes. This process allows our Service Liaison Team to identify trends and work with relevant departments to address the underlying causes of the problems.

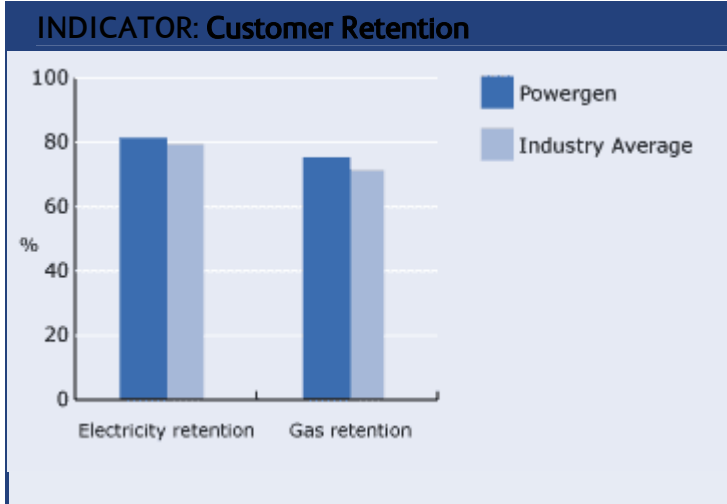
We have consistently performed well in energywatch's quarterly complaint statistics. energywatch compares companies' performance in three different categories; sales, transfers and accounts for gas and electricity.

#### INDICATOR: Customer Complaints

Throughout 2002, we were ranked as one of the top 4 companies receiving the least complaints in each of the 3 recorded areas. Current figures can be viewed on [www.energywatch.org.uk](http://www.energywatch.org.uk)

### Customer retention

Our annual retention rates exceed the industry average for both gas and electricity:



(Note: these data do not include TXU customers who became Powergen customers at the end of 2002)

**Marketing and advertising**

We target residential and small and medium sized business customers through national marketing activity such as media advertising (including print, television and radio), targeted direct mail, public relations and on-line campaigns.

We also seek to continue to exploit the high level of national awareness of our brand and have taken steps to enhance its strength, including sponsorship of a high profile, national sports competition, the Powergen Cup in rugby union. Following the acquisition of TXU Energi, we now also sponsor the Powergen Challenge Cup in rugby league and Ipswich Town Football Club, whilst supporting these sports at grass roots level. We continue with our long-standing sponsorship of the ITV National Weather: it should be noted that we were the first company to sponsor a programme on television (namely the weather bulletins).

In addition to the selective use of face-to-face sales, we continue to operate telemarketing centres in Dearne Valley, in Yorkshire, at Tannochside, near Glasgow, and Sherwood Park, Nottingham, as well as running several customer service call centres across the East Midlands.

**Marketing & Advertising – Advertising complaints**  
 Over 2002, only one advertising complaint was upheld.

## Marketplace

### Other activities

Powergen Property manages our property portfolio and the sale of our surplus sites. Our centralised UK Services team manages the provision of a wide range of support activities, including IT, personnel, finance and procurement to all UK-based businesses.

Our engineering and scientific development activities, carried out at our Power Technology Centre, near Nottingham, are focused on supporting our strategic business objectives and technology challenges in the UK and the US through delivery of R&D programmes, providing innovative services and products, and growing profitable new income streams. During 2002, these activities covered a range of our business interests, including the development of renewable energy resources.