

npower Business Energy Index Winter 2006





Dear Reader,

Welcome to the fourth npower Business Energy Index which seeks to identify and monitor trends in and expectations about, key energy market developments. The survey is a twice yearly barometer of issues affecting both large and small business energy users.

The subject of energy has remained a key topic of conversation for all businesses over the last six months. While wholesale energy prices may have eased recently, enduring global supply and demand issues mean a prolonged period of cheaper energy is far from guaranteed. The last six months have also further underlined the Government's commitment to tackling climate change. The publication of the UK Energy Review and support given to the Stern report, clearly identify that environmental issues are to remain a core political objective.

The end result of these economic and environmental challenges is that much of the responsibility of turning this rhetoric into action appears to reside with UK businesses. The fourth nBEI looks again to understand how businesses are coping with these demands and to gauge opinion on a variety of energy and environmental issues.

This research has been revised to offer a greater insight into the attitudes and beliefs of the UK's commercial energy users, whilst continuing to track the impact energy has on operations and the prevalence it is given within businesses. The report now comprises three sections; energy costs, energy management and a special topic.

To reflect the growing emphasis being placed on mitigating climate change, the special topic in this report is 'The Low Carbon Economy'. This is designed to gain insight into what businesses believe 'The Low Carbon Economy' is, as well as views regarding the effectiveness of measures designed to tackle climate change and gauge what priority is given to reducing CO₂ emissions.



In executing this research we are grateful for the continued support of the Major Energy Users' Council and the Federation of Small Businesses. The survey was designed and conducted by Moffatt Associates, an independent research consultancy.

With energy expected to stay high on business and political agendas for the foreseeable future, we hope the findings of these reports continue to provide a valuable insight and help inform market and policy developments.

Yours sincerely,

A handwritten signature in black ink that reads "Gordon Parsons". The signature is written in a cursive, slightly stylized font.

Gordon Parsons
Managing Director, npower business.

Research Objectives

The npower Business Energy Index seeks to identify and monitor trends in and expectations about, key energy market developments. The survey is a twice yearly barometer of issues affecting both large and small business energy users.

Specifically the survey:

- reviews energy costs, their components and their impact on customers;
- measures and monitors the incidence and efficacy of energy management measures designed to increase energy efficiency and reduce energy consumption;
- explores business attitudes and opinions on current and future public energy policies.

Each survey also canvasses opinion on a special topic and in this report the special topic is 'The Low Carbon Economy'.

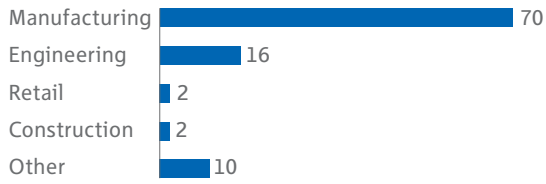
Research Methodology

In-depth telephone interviews were conducted in October/November 2006 with a representative sample of 200 UK businesses, comprising 100 small-to-medium sized enterprises (SMEs) with significant energy usage (an increase of 70 on the Summer 2006 survey) and 100 major energy users (MEUs) (an increase of 30 on the Summer 2006 survey).

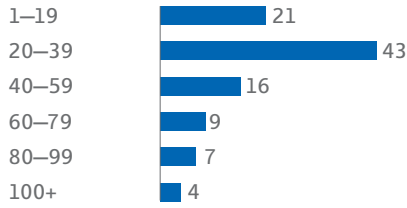
In the majority of cases the respondent was an energy buyer or a senior figure with responsibility for energy purchasing. The responses to the survey provided both comparable quantitative data and verbatim comments on a variety of energy user issues. Selected quotes from MEUs and/or SMEs are included within the main sections of the report.

Small and medium-sized enterprises' profile

Number of companies by sector



Employees (%)



Major energy users' profile

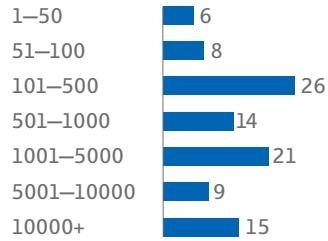
Number of companies by sector



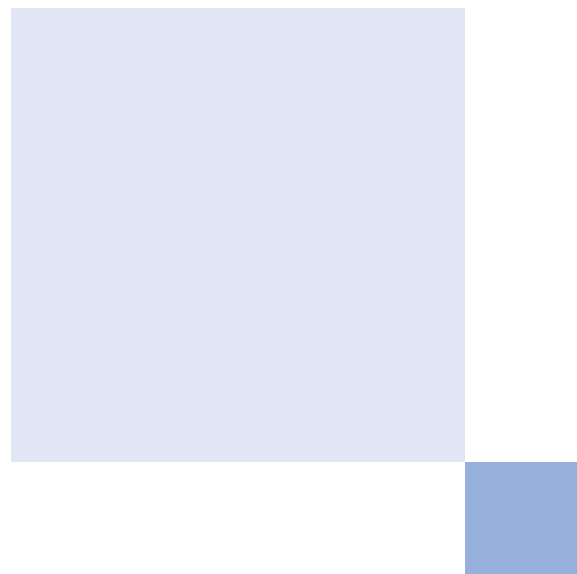
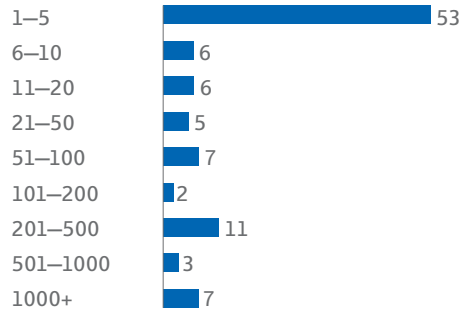
Number of companies by sector groupings



Employees (%)



Sites



Research Highlights

Increasing business impact of rising energy costs...

- Companies are reporting a significant increase in energy costs as a proportion of total operating costs – up to 12.2% compared with 9.6% 6 months ago. This figure is higher for MEUs (14%) than for SMEs (11%). Two-thirds of energy costs are attributed to electricity, with gas totalling 28% of energy costs.
- Most companies (62%) have seen their energy costs increase over the last 6 months – although 9% say their energy costs have actually fallen. SMEs were more likely to report higher energy costs (71%) than MEUs (52%). Where an increase occurred, it averaged 35%.
- The overall prediction for energy costs over the next 6 months is that they will rise by 8.5% – a significantly lower figure than in nBEI3 (13%) and nBEI2 (16%) which suggests the worst may be over. SMEs however anticipate steeper rises than MEUs.
- Looking further ahead, the overall prediction for company energy costs is that they will rise by 9% over the next 3 years. However, this composite forecast masks expected rises of 17% for SMEs but just 3% for MEUs.
- Explanations for recent increases in energy costs differed according to company size: SMEs blamed supplier charges, while MEUs attributed rises to fossil fuel price movements.

- Rising energy costs continue to have a detrimental impact on profitability according to 72% of companies. 47% of companies have responded by raising their own output prices and a similar proportion complain about the loss of competitiveness.

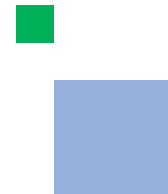
Forcing companies to explore various ways of improving energy management and reducing energy consumption...

- Energy management/energy efficiency continues to be a highly significant issue, with an average rating of 7.3/10. The significance has increased amongst SMEs but remains more important to MEUs (8.1/10).
- A large majority of companies (81%) have taken steps to increase their energy efficiency. The most frequently taken action was changing heating and lighting set-ups. Just 7% of companies do not measure their energy efficiency levels and the most popular tool for measurement is internal audits.
- Companies believe that, on average, further energy savings of 10.6% are technically possible. However, 44% of companies said they lacked resources for investing in energy saving initiatives (56% of SMEs and 32% of MEUs).
- Most MEUs are able to allocate energy costs by usage (71%) but only 37% of SMEs are able to allocate costs by usage.

- In terms of energy management, companies were most in need of external advice on the current availability of energy saving capital allowances (42%). Both SMEs and MEUs were keenest to receive advice from NGOs, such as the Carbon Trust. SMEs thought that energy management services were more helpfully promoted by equipment suppliers; MEUs said NGOs. The majority (60%) of MEUs already employ full-time staff for energy management purposes.
- MEUs as a whole were equally split as to whether compliance with climate change agreements had resulted in energy savings or process improvements but 62% of MEU manufacturers say compliance with climate change agreements has resulted in energy savings.

However, for the majority of companies, reducing CO₂ emissions is not a priority...

- 61% of MEUs, but only 18% of SMEs see reducing CO₂ emissions as a priority issue for their business. Of those saying it was not a priority, half of companies said it never would be.
- A majority of both SMEs (66%) and MEUs (88%) expected their business would have to meet the costs of reducing future CO₂ emissions – but most were not willing to pay a premium for energy which reduces CO₂ emissions. Of those who thought a premium acceptable, less than 5% was the preferred level.
- Businesses consider that, for better or for worse, the UK is generally doing well in terms of reducing carbon emissions: 31% said the UK was leading the rest of the world and a further 44% said it was keeping up with other countries.



Section 1: Energy Costs

In the fourth npower Business Energy Index respondents were asked a range of questions relating to energy costs and these have been benchmarked against results from the previous three surveys.

Key

SMEs are small-to-medium sized enterprises MEUs are major energy users

- (1)=nBEI Summer 2005
- (2)=nBEI Winter 2005
- (3)=nBEI Summer 2006
- (4)=nBEI Winter 2006

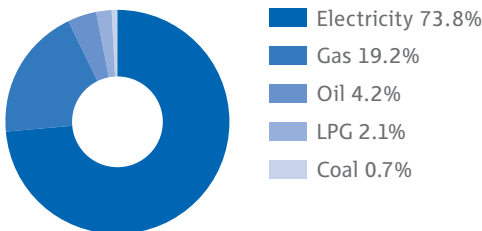
1.1 Energy costs as a proportion of total operating costs (average %)

	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Average	7.5	10.7	10.6	13.7	9.6	12.2

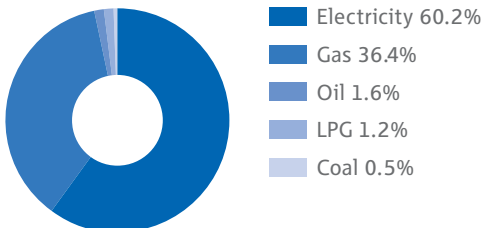
- Companies have reported another significant rise in the proportion of energy costs to total operating costs, up from 9.6% (6 months ago) to 12.2% now.
- The figure continues to be higher for MEUs (13.7%) than for SMEs (10.6%).
- 16% of SMEs and 43% of MEUs say their energy costs represent more than 20% of their total operating costs.

1.2 Components of company energy costs (%)

SMEs



MEUs



- For all companies, 67% of energy costs are attributed to electricity, the highest proportion in all of the surveys.
- There is some evidence to suggest that rising gas prices are prompting a switch to power amongst MEUs.
- For all companies LPG and coal continue to be of low significance, at 1.7% and 0.6% respectively.
- MEUs are much greater users of gas (36% of energy costs) than are SMEs (19%).

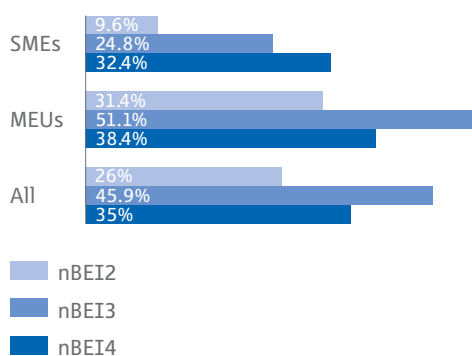


1.3 Estimated increase or decrease in company energy costs over the last 6 months (%)

	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Increased	40	71	68.6	52.0	60.0	61.5
Same	26.7	-	27.1	34.0	27.0	17.0
Decreased	0	4.0	1.4	14	1.0	9.0
Don't know	33.3	25.0	2.9	-	12.0	12.5

- The majority of companies have seen their energy costs increase over the last 6 months (62%), a similar figure to the previous survey (60%).
- This is more the case for SMEs (71% report an increase) than for MEUs (52%).
- However, a significant number of MEUs are now reporting that their energy costs have fallen over the last 6 months (14% say this was the case, up from 1.4%).

1.4 Average increase in energy costs – last 6 months



- Of companies reporting an increase in energy costs, the average reported increase over the last 6 months was 35%.
- This average reported increase was 32% for SMEs and 38% for MEUs.

By how much have your energy costs increased/decreased over the last 6 months?

Selected comments

SMEs

'Usage fluctuates up and down during summer and winter.'

'The cost per unit has increased but we've made ourselves more efficient.'

MEUs

'27% gas / 18% electricity (year on year); in 4 years gas up by 380%.'

'55% over the last 12 months; gas price is coming down since last December!'

'Due to a fixed price, contract prices have remained the same over the period.'

'Flexible contract – first 6 months of 2006 electricity up by 32%, gas 82%.'

'It is not possible to estimate the price behaviour over a period of 6 months as the market has changed several times and prices change too, but over 2 years I have seen an increase of 50%.'

'On the whole costs have gone down by about 10%. We have monthly tariffs, which may change due to market volatility.'

'There has been an overall decrease because of a flexible price contract for gas, even though electricity costs went up a little.'



1.5 Perceived significance of selected cost drivers – last 6 months

(Scale 1-10, where 10 is most significant)

	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Fossil fuel price movements	7.4	6	8	7.2	7.8	6.6
Power/gas supplier charges	7.2	6.8	4.6	5.5	5.3	6.2
Environmental obligations	6.2	5.4	5.4	5.8	5.6	5.6
Other government policies	5.2	5.1	5.2	5.1	5.2	5.1
Seasonal fluctuations	4.9	4.6	5.5	5.5	5.3	5.1

- Regarding the ‘underlying causes’ of the rise on energy costs, the most popular explanation is fossil fuel price movements (an average rating of 6.6/10).
- MEUs saw this as the key explanatory factor (7.2/10).
- SMEs believed that supplier charges were the most significant (6.8/10).

What are the underlying causes of recent changes in your energy costs?

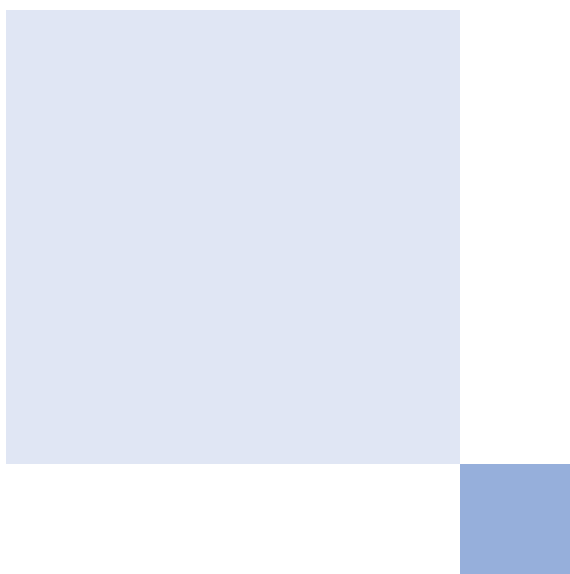
MEUs

‘Emissions trading scheme very important.’

‘It’s still the Brent crude price that leads the way but we will still have issues with gas storage.’

‘Lack of liberalisation in Europe and speculation.’

‘Reduction of competitive market – fewer players / monopolistic tendencies and indication of potential cartel operations. In a recent tender round there was only 0.1% difference between top and bottom offers.’



1.6 Perceived impact of rising energy costs (%)

	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Lower profits	76.7	76	71.4	68	73	72
Lower competitiveness	30	43	42.9	51	39	47
Increases in output prices	43.3	50	55.7	44	52	47
Changed equipment	6.7	25	44.3	55	33	40
Fewer operations	16.7	15	41.4	25	34	20
Changed process	13.3	19	32.9	27	27	23

- A high proportion of companies continue to report that rising energy costs have reduced their profitability – both SMEs (76%) and MEUs (68%) said this was the case.
- Half of SMEs have raised their prices as a result, and 43% complain of being less competitive.
- 44% of MEUs have increased their output prices because of rising energy costs and 51% complain of a loss of competitiveness.

How has your business been affected by recent changes in energy costs?

SMEs

'Cut into the margin.'

'We are not competitive now.'

'It has had a major impact on our business as we manufacture polythene so we import polymer for this which has close links to the prices of oil, so when they go up so does that. So, we have not just been affected by energy costs but also by our raw material costs.'

'It's very difficult to compete with foreign imports.'

'We cannot renegotiate prices. We are locked into the contract. We have to suffer the loss until our contracts are up then we renegotiate.'

'Some of our customers are being hit even worse so therefore they haven't got the money to spend so they aren't investing or putting money into their business, so they're not putting the same volume of work out, so that impacts us.'

MEUs

'We have closed two plants in the UK as a result of uncompetitive costs. We have shed 250 jobs over the last 18 months.'

'Increased energy costs have not been accepted by our customers as a reason for increased product and service charges. The lack of intervention from the UK government has disadvantaged manufacturing in the UK.'

'Put it like this. New facilities aren't being built in the UK. We have had a significant push on energy conservation but our main raw material is metal which itself has attracted significant energy related premiums in recent times. It doesn't look good.'

'There is actually not much room any more for a change in processes. All we can do is to try to optimise these processes.'

'We are now restructuring operations as a result of energy costs. We tried to pass on the costs last year to our customers who are now leaving us. We are now closing a UK facility with the loss of 800 jobs and moving production to Brazil.'

1.7 Expected increase or decrease in company energy costs over the next 6 months (%)

	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Overall prediction (%)	8.7	14.1	14.5	6.7	12.9	8.5
Predicting increase	13	52	33	34	46	86
Average increase (%)	17.3	22.3	29.3	22.4	25.9	20.3
Predicting no change	8	-	23	51	31	51
Predicting decrease	2	12	6	15	8	27
Average decrease (%)	12.5	21.3	11.3	6.3	11.6	13
Don't know	7	36	8	-	15	36

- The overall average expectation was that prices would rise by 8.5% over the next 6 months, a significantly lower figure than nBEI3 (13%).
- However, this average figure masks a strong difference of opinion: SMEs anticipate that prices will rise by 14%, while MEUs expect half that.

By how much do you expect your energy costs to increase or decrease over (a) the next 6 months and (b) the next 3 years?

SMEs

'Hope it will stay the same based on the last 6 months.'

'It is a question of how busy we are.'

MEUs

'6 months – fixed. 3 years – won't be like 3 years back, but looking to contract before end 2006 for 2007/08 contract as we believe there will be a dip in the market.'

'As of tomorrow we will be with a new supplier (1 November 2006). Prices will go up by 20% over 6 months and a net increase of 10-15% is expected in 3 years. But this also depends on how the two gas pipelines perform.'

'There should be some stability in pricing but the market is just too volatile at short notice.'

'Gas prices should come down because of the opening of a new Norwegian gas interconnector.'

'Prices remain the same over the next 6 months due to the contract with the supplier. I expect gas prices to drop by 20% over the next 3 years whilst electricity prices will go up by 15%.'

'We've already made some gains for deals into 2007. One of the issues is media reporting of freakish day trade prices which gives a false picture to consumers, employees and corporate customers.'

1.8 Expected increase or decrease in company energy costs over the next 3 years (%)

	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Overall prediction (%)	32.6	16.9	16.5	3.2	22.3	9.3
Predicting increase	14	65	17	22	31	87
Average increase (%)	49.4	22.3	38.1	22.4	43.2	22.3
Predicting no change	4	-	12	48	16	48
Predicting decrease	2	10	6	22	8	32
Average decrease (%)	20	18.4	12.1	9.1	14.1	12
Don't know	10	25	35	8	45	33

- Looking further ahead, the overall prediction of all companies is that energy costs will increase by 9% over the next 3 years.
- Those who thought energy costs would increase argued they would do so by 22%, while those expecting energy costs to decrease said the average decrease would be 12%.
- SMEs expect a higher increase over the next 3 years – their average prediction was 17%, compared to just 3% for MEUs.

In 3 years time, what proportion of your company's annual operating costs do you expect will be energy costs?

SMEs

'Don't see any change.'

MEUs

'With the end of the 2-year contract our costs will go up by 70%, I expect they will go down by 15-20% in 3 years.'

'Could become zero as we are looking at Combined Heat and Power. Cannot continue to pay £1m p.a. for energy.'

'No idea – depends on our productivity which has increased by 22% over 3 years but has all been taken by increased energy costs.'

'Probably still at the 30% mark or we won't be here.'

'We will have less manufacturing in the UK by then so we should be able to contain the energy costs that way.'

Commentary

The fourth nBEI shows that energy costs continue, in the main, to impact on UK commercial energy users, now accounting for an average of 12.2% of overall operating costs, up from 9.6% in nBEI3.

The majority of respondents (61.5%) have seen an increase in energy costs over the last six months, a broadly similar figure to nBEI3 (60%). However, while more SMEs are reporting an increase, up to 71% from 40% in the last survey, there has been a marked drop amongst MEUs, 52% down from 68.6%. Overall, more companies than ever before are now experiencing a drop in energy prices, particularly for MEUs where there has been a rise from 1.4% of respondents in nBEI3 to 14% in this report.

Global movements in fossil fuels remain the most significantly cited underlying factor behind energy prices, although there is a view, particularly amongst SMEs that supplier charges are also a major cost driver.

The latest survey also shows differences in how energy costs have impacted on businesses. While all respondents state that competitiveness continues to be affected, slightly fewer MEUs are reporting lower profits (68% down from 71.4% nBEI3). In contrast, half of SMEs have raised their prices over the last six months in response to rising energy costs, compared to 43.3% last survey and three quarters of all SMEs are still experiencing lower profits.

This difference of opinion and experience continues when looking at predictions for future energy prices. While SMEs are expecting a further 14.1% increase in the next six months, up from 8.7% in the last report, MEUs only predict a 6.7% rise, a drop from 14.5% in nBEI3. This disparity is even greater when looking over the next three years where SMEs expect a 16.9% increase, compared to just 3.2% from MEUs.

This suggests optimism on the part of MEUs that the steep rises in wholesale energy prices may ease in the future. It also demonstrates that SMEs are still expecting substantial price increases in the short and medium term. However smaller firms find it difficult to predict the future with 25% of SMEs unable to comment on what will happen to energy costs in the next 3 years.

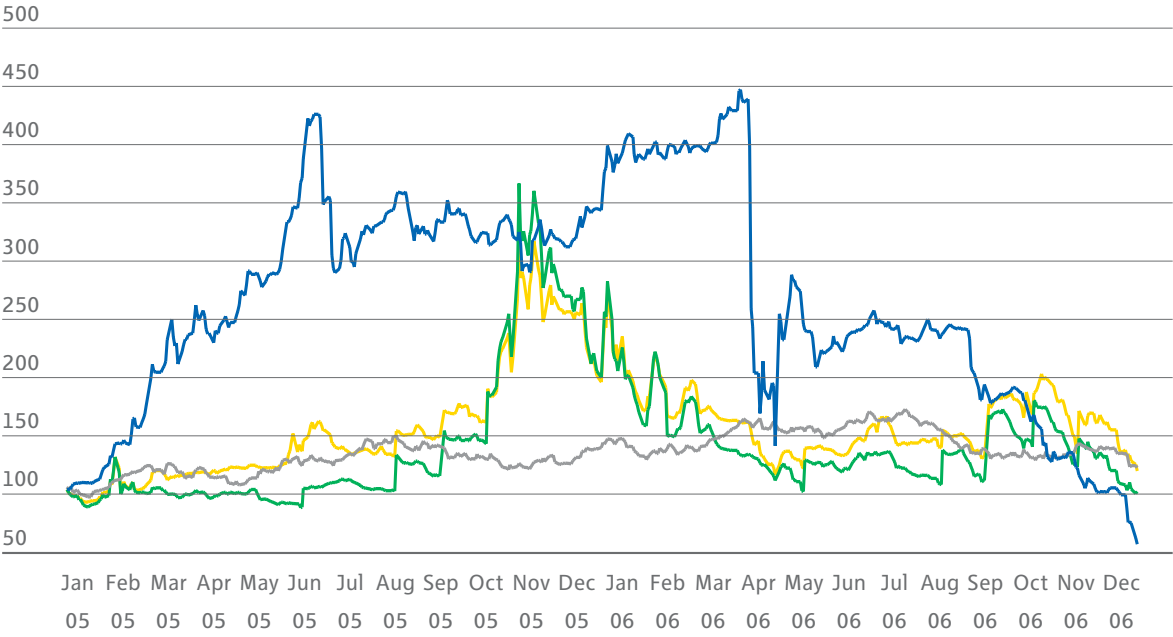
It appears that for many SMEs, energy costs were simply not that high a priority in the past but the findings of this report indicate a rude awakening, as rising prices and a lack of significant action, have taken their toll on commercial performance. Many SMEs have now come to the end of fixed price contracts and are experiencing increases in energy costs, due to the continued price volatility in the wholesale market.

MEUs, on the other hand, display a greater understanding of the wholesale market, appear more aware of rising prices and are taking steps to help mitigate the impact on commercial performance. Because of their understandable focus on core business priorities rather than energy, SMEs, on the other hand, do not seem to understand the market as well. This is evident in their assertion that supplier charges, rather than volatile wholesale costs, are to blame for the increased costs they are experiencing.

Rather than feel victims of circumstance, all companies are now addressing consumption as a means to reduce their exposure to rising prices, making energy management core to business operations.

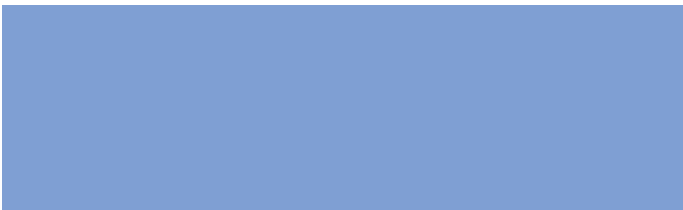
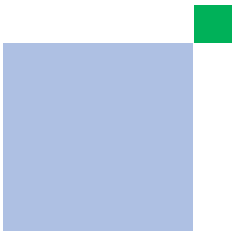
Energy trends compared

Index: 24 Jan 2005 = 100



- Power
- Gas
- Oil
- CO₂

Source: RWE Trading



Section 2: Energy Management

Respondents were asked to rate energy management and reducing energy consumption in terms of its importance to their business and their own performance in implementing energy efficiency measures. Where possible, these results were benchmarked against the results of the previous surveys.

2.1 Significance attached to energy management and reducing energy consumption

(Scale 1-10, where 10 is most significant)

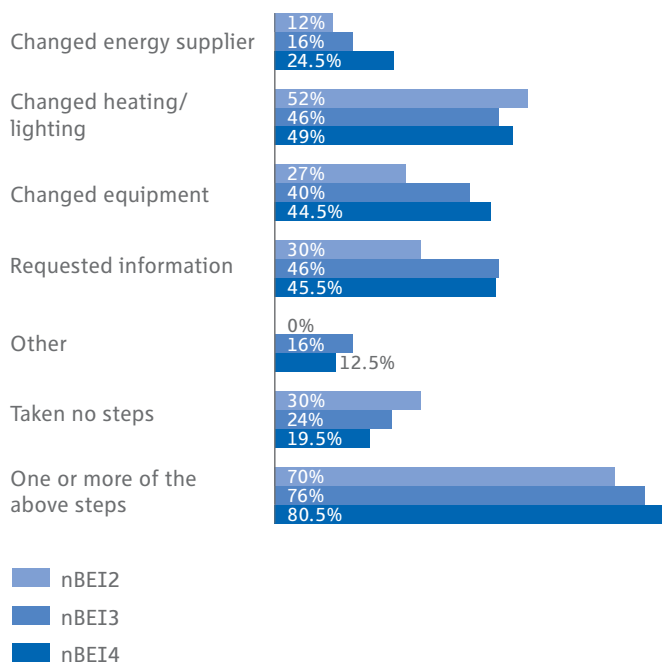
	SMEs 3	SMEs 4	MEUs 3	MEUs 4	All 3	All 4
Average	6	6.5	8.2	8.1	7.6	7.3

- Energy efficiency / energy management continues to be a highly significant issue, with an overall average rating of 7.3/10.
- Over the last 6 months it has become a more important issue for SMEs than before (up by 0.5) but marginally less important for MEUs (down by 0.1).
- But it continues to be of greater significance for MEUs in general (8.1/10) than for SMEs (6.5/10).
- The most popular response for this current survey was a rating of 8/10 (given by 21.5% of all companies), followed by a rating of 10/10 (so said 20.5%).
- Less than 10% of companies gave energy management a rating of less than 4/10.

2.2 Steps taken to reduce energy consumption and increase efficiency – last 6 months (% of companies)

	SMEs 2	SMEs 3	SMEs 4	MEUs 2	MEUs 3	MEUs 4	All 2	All 3	All 4
Changed energy supplier	23.3	13.3	28	7.1	17.1	21	12	16	24.5
Changed heating/lighting	20	33.3	36	65.7	51.4	62	52	46	49
Changed equipment	10	26.7	28	34.3	45.7	61	27	40	44.5
Requested information	20	10	29	34.3	61.4	60	30	46	44.5
Other	0	13.3	11	0	17.1	14	0	16	12.5
Taken no steps	50	40	32	21.4	17.1	7	30	24	19.5
One or more of the steps above	50	60	68	78.6	82.9	93	70	76	80.5

- Once again, the large majority of companies (81%) have taken steps to increase their energy efficiency. There has been a steady increase in this figure, up from 70% a year ago.
- MEUs are much more likely to have taken action (93%, compared to 68% of SMEs).
- The most frequently taken step to increase efficiency was changing heating/lighting.
- A quarter of companies said they had changed energy supplier in the last 6 months in an attempt to improve the ‘cost-effectiveness’ of their energy consumption (up from 16% in nBEI3 and 12% in nBEI2).
- The latest survey reveals a notable increase in SME demand for information on improving their energy efficiency.



What steps has your company taken in the last 6 months to reduce energy consumption and increase energy efficiency?

SMEs

'Compact fluorescent light reduces lighting consumption up to 80% and when dimmed it has two effects. Increased acceptance of fluorescent light; and an average of 40% energy saving, giving it a total of 88% of energy saving compared with undimmed uncondensed light.'

'We have seen whether we can work at night rather than days. It is cheaper to work nights rather than days.'

'We recover excess heat from the compressor and that is used to heat the factory. So, the hot air that normally goes out through a chimney will be diverted into the factory.'

'Installed timers on various equipment.'

'If the landlord could let us change supplier, as it is all dealt with by them we have no choice.'

'We are monitoring our air conditioning levels and we are on the look out for equipment left on.'

MEUs

'10-year cycle to change technology.'

'Changes in set-up – mainly when setting up new projects. Have reduced energy consumption by 60% since 2000 by improving existing equipment. Many small improvements.'

'In discussion with consultant to convert one of our boilers to burn off solvent fuel rather than gas – project for 2006/07.'

'Lighting – saved £73,500 (pro rata vs. 2005) 268,000kw/h saved just on one factory. Put in new boiler with variable speed drives – 30% more efficient. Variable speed fans in cooling towers. Two surveys from Carbon Trust, and follow up services.'

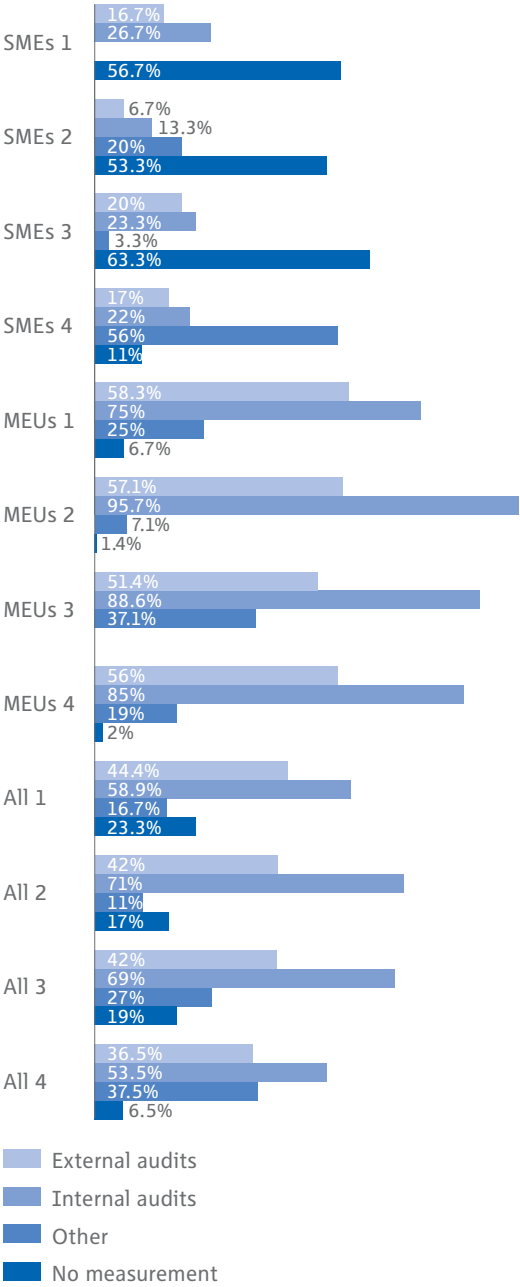
'We are working on a 3-year strategy to reduce energy costs by 25%. This includes installing high efficiency motors to replace old conventional ones and we are looking into renewable energy.'

'We have a constant internal fight between payback and capex.'

'We've improved the power to the machines. Instructed the managers with an educational programme and put in more metering.'

'Wind turbine, PV (photovoltaics), relit the town hall – all new lamps. Solar thermal hot water boiler – panels on roof of town hall.'

2.3 Measurement of energy efficiency (%)



- Just 7% of companies do not measure their energy efficiency levels – with 11% of SMEs and 2% of MEUs saying this was the case.
- As before, in previous surveys internal audits are the most popular tool for measuring energy efficiency.

2.4 What approximate level of energy savings would be technically available for your business?

	SMEs	MEUs	All		Manufacturing & Engineering	Services & Public Sector
Average	9.8%	11.3%	10.6%	Within MEUs	9.3%	14.4%

- The current (Winter 2006) survey introduced 12 new questions on energy management (hence no comparison possible with previous surveys).
- Companies believe that further energy savings of, on average, 10.6% are possible, with MEUs slightly more confident about possible savings.
- Within the MEU grouping those companies and organisations in the public sector and services are more optimistic with projected potential energy savings of 14.4%

How does your company measure its energy consumption and efficiency?

SMEs

'Hook up a computer over a week and measure peaks to see if we can improve the usage.'

'Monitor it by taking various readings from various machines.'

'Keep spreadsheet of the cost'

MEUs

'Energy efficiency accreditation from Carbon Trust and are subject to audits from this; climate care assessment to come.'

'Internal audits are being applied by energy consultants from within the NHS, who supply their services to us, as we are a NHS body.'

'Ours is a complicated site – about 150 different products. Not easy to measure individual bays, systems etc. But it is foremost in our plans to be efficient.'

'Productivity ratios of energy usage per day, per tonne etc.'

'We are part of UK Climate Change Agreement – have reduced our energy usage/unit by 25%. And part of EU carbon emission programme and reduced these by 30% in 2005. Also Carbon Trust preferred partner.'

2.5 Do you have the resources to invest in energy saving initiatives?

	SMEs	MEUs	All		Manufacturing & Engineering	Services & Public Sector
Yes	39%	68%	53.5%	Within MEUs	65%	72.5%
No	56%	32%	44%	No	35%	27.5%
Don't know	5%	0%	2.5%	Don't know	0%	0%

- MEUs see themselves as much more likely to have the necessary resources to invest in energy saving initiatives: 68% said this was the case, compared to 39% of SMEs.
- Within the MEU community the public sector and services appear to be slightly better funded in this area.

2.6 How would you rate the feasibility of introducing changes to your business to achieve a substantial reduction in energy consumption?

(Scale 1-10, where 10 is most significant)

	SMEs	MEUs	All
Reducing lighting	3.9	4.6	4.2
More staff working from home	1.6	2.4	2
Major change in manufacturing processes	2.9	3.6	3.2
Relocate activities overseas	2.6	3	2.8
Other (rating)	5.8	2.8	3.1

2.7 Are you able to allocate your energy costs by usage?

	SMEs	MEUs	All
Yes	37%	71%	54%
No	63%	29%	46%

- Overall, companies were pessimistic about the feasibility of introducing radical changes to achieve reductions in energy consumption, with 'more staff working from home' rated 2.0 for feasibility and 'relocating overseas' rated 2.8.
- Of the options mentioned both MEUs and SMEs rated 'reduced lighting' as the most feasible option of those quoted.
- There exists a large difference in SMEs and MEUs ability to allocate energy costs by usage: 71% of MEUs are able to do so but just 37% of SMEs can.

Why are you unable to allocate your energy costs by usage?

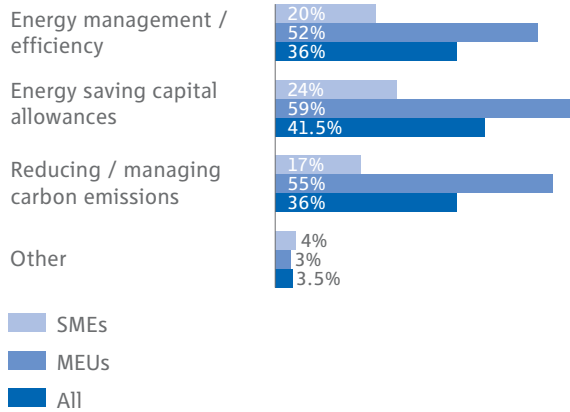
SMEs

- 'Takes too much time and cost.'
- 'Not a big enough part of our actions to warrant it.'
- 'Haven't got the equipment.'
- 'We are just given the amount we have used in the month. We don't get any details.'
- 'We only have one supply and you cannot split.'
- 'Can define the gas because that all goes to heating but can't define electricity and can't say what each machine does as we only have one meter.'
- 'We don't have the systems in place.'
- 'We are an extremely diverse manufacturing process.'
- 'Because we are on one meter.'

MEUs

- '24 hour operation – not easy.'
- 'No, because no sub-meters have been installed, there is usually only 1 meter for energy.'
- 'Energy is just coming from one source. We could however measure consumption per machine, based on its horse-power. But it is a lot of work.'
- 'So far we've got down to geographic spaces, individual elements in each space is a much bigger exercise.'
- 'We do have sub-metering but not to that degree. By department but not by process type.'
- 'We have no meters in place to do this, we can only break down energy consumption by building.'
- 'We have no sub-metering systems installed, which is difficult with 750 outlets.'

2.8 Do you need external advice / support for the following?



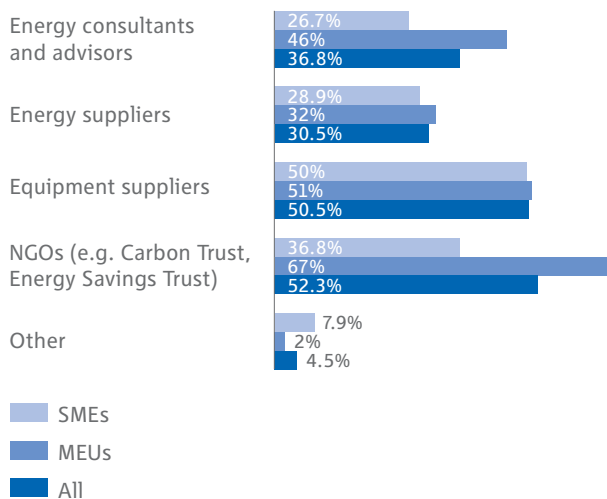
- Companies were most in need of external advice or support on energy saving capital allowances (42%).
- A majority of MEUs were in need of external advice for each category mentioned.

2.9 From where would you prefer to receive advice?
(Scale 1-10, where 10 is most significant)

	SMEs	MEUs	All
Energy consultants and advisors	3.9	4.1	4
Energy suppliers	4.5	3.6	4.1
Equipment suppliers	4.3	4	4.1
NGOs (e.g. Carbon Trust, Energy Savings Trust)	4.6	5.5	5
Other	6.8	2.8	3.4

- Of the options given, both SMEs and MEUs were keenest to receive advice from NGOs, such as the Carbon Trust.
- This preference was stronger for MEUs (5.5/10) than for SMEs (4.6) who appear to be keen to take advice from a number of sources including energy and equipment suppliers.

2.10 Do you consider that the following promote their services and/or products, in a manner helpful to your business?



- A difference of opinion was held over the promotion of services: SMEs were more likely to consider equipment suppliers the most helpful (stated 50%), while MEUs preferred NGOs (stated 67%).

Do various agencies promote their services and/or product in a manner helpful to your business?

MEUs

‘Not impressed by Carbon Trust. Tinker at edges not core of problem. We need capital to invest – they could help us by finding this.’

‘One off visit from Carbon Trust not too useful – problem is finding ‘qualified’ consultants. Need better consultants and more government support.’

‘People come and tell us the things that we know and then tell us we have a management problem because we haven’t dealt with things.’

‘The energy consultants are not fantastic in promoting their activities whereas the NGOs are very aggressive.’

‘We’ll talk to anyone if it helps. There are plenty out there and it doesn’t take long to work out who could help and who can’t.’

‘We’ve gone through all of this over the past ten years and there is very little out there to really help us.’

The next five questions were put solely to MEUs

2.11 Do you employ staff full time for energy management? (%)

	MEUs	Within MEUs	Manufacturing & Engineering	Services & Public Sector
Yes	60	Yes	45	82.5
No	40	No	55	17.5

- 60% of MEUs employ staff full time for the purposes of energy management.
- Amongst MEUs the public and services sector is more likely employ more energy management professionals.

2.12 Is CHP applicable to your business? (%)

	MEUs	Within MEUs	Manufacturing & Engineering	Services & Public Sector
Yes	43	Yes	33.3	57.5
No	57	No	66.7	42.5

- A slight majority of all MEUs claim that CHP is not applicable to their business.
- However, in services and public sector there is a small majority in favour of CHP, possibly reflecting Government initiatives to encourage CHP.

2.13 What proportion of your energy cost is related to building services as opposed to industrial processes? (%)

	MEUs	Within MEUs	Manufacturing & Engineering	Services & Public Sector
Less than 10%	51	Less than 10%	76.7	12.5
Less than 20%	7	Less than 20%	8.3	5
Less than 30%	2	Less than 30%	3.3	0
Less than 40%	2	Less than 40%	1.7	2.5
Less than 50%	0	Less than 50%	0	0
More than 50%	38	More than 50%	10	80

- There is a clear and predictable distinction in the relative importance of building services and industrial processes.
- Processes are a greater (77%) consumer of energy for manufacturers whilst building services are a greater (80%) consumer of energy in the services sector.

2.14 Do you employ building and/or process energy management systems? (%)

	MEUs	Within MEUs	Manufacturing & Engineering	Services & Public Sector
Yes	72	Yes	60	90
No	28	No	40	10

- A clear majority of MEUs (72%) said that they used building or process energy management systems.
- Consistent with the feedback in the employment of energy management professionals, there is a significantly higher penetration of energy management systems in the MEU service sector.

2.15 Has compliance with climate change agreements resulted in significant and permanent energy savings or process improvements for your company? (%)

	MEUs	Within MEUs	Manufacturing & Engineering	Services & Public Sector
Yes	50	Yes	61.7	32.5
No	50	No	38.3	67.5

- MEUs as a whole were equally divided as to whether compliance with climate change agreements had resulted in energy savings or process improvements for their company.
- However not surprisingly the CCL has a greater impact on manufacturing and engineering with 62% claiming that climate change agreements have resulted in significant and permanent energy savings.



Commentary

Energy management continues to emerge as a new business discipline. The majority of companies are increasingly looking to reduce their exposure to wholesale energy costs and believe that the most effective means to do this is by reducing consumption.

The latest nBEI reflects this trend with energy management continuing to be rated highly significant by all respondents, although it is still seen as more important to MEUs (rated at 8.1 out of 10 in significance) than SMEs (6.5). This sentiment is also translating into action with more companies undertaking steps to reduce consumption than ever previously reported. Changing heating and lighting systems remains the most popular choice, although changing equipment and requesting information are also frequently undertaken.

Gaining a better understanding of energy consumption has also become more important, with more companies than ever before measuring energy efficiency levels, now 93.5% up from 81% in the last survey. SMEs in particular have significantly increased their monitoring, with 89% of companies undertaking some form of measurement, up from 36% at the last survey, although few are able to allocate energy costs by usage (37% of SMEs).

Even with this greater level of monitoring and management, companies still believe that further energy savings are achievable, with an average of just over 10% believed technically possible. However, a significant number of companies claim not to have the resources to realise these savings, with 56% of SMEs and 32% of MEUs unable to invest in further energy management measures.

This is further emphasised by the attitudes towards major changes in business operations, even if they return substantial energy savings.

Only reducing lighting was seen as remotely feasible to companies, with just a small number of respondents believing flexible working and major changes to manufacturing processes were possible.

These findings indicate there is still reluctance on the part of some companies to 'grasp the nettle' of energy management, or to look beyond simple steps for potential savings. This may be partly explained by the fact that many companies, particularly MEUs, report a need for further guidance and information on the financial support and expertise available to help improve energy efficiency. However, despite believing this advice is best from non-Government Organisations such as the Carbon Trust, there is some scepticism that practical help is available.

When asked specifically, 60% of MEUs said that they employed full-time energy management staff with 72% operating a building or process energy management system.

Opinion is equally divided as to whether or not compliance with climate change has resulted in permanent energy savings, although this rose to 61.7% of manufacturers who were surveyed.

Overall, evidence from the nBEI shows that energy management is being taken more seriously than ever by companies but there remain barriers to further improvements. A lack of resources and practical support for companies seems to be hampering the chance for even greater efficiencies.

Section 3: Low Carbon Economy

The final topical section of this npower Business Energy Users' Index open to both SMEs and MEUs, focused on ascertaining industry perceptions and opinions surrounding 'the Low Carbon Economy' and the implications of political initiatives to reduce green-house gases.

Despite extensive debate surrounding the issue of climate change, industry as a whole has very different perceptions about the meaning of the phrase 'Low Carbon Economy' .

What do you understand by the term 'Low Carbon Economy'?

SMEs

'Less pollution.'

'Reduce your carbon footprint.'

'Understand it as an economy that has reduced carbon emissions and uses less fossil fuels.'

'Green – environmentally friendly.'

'Using less energy.'

'Less emissions. Green fuel and wind power and things.'

'Running business with a low carbon footprint i.e. how much energy you use and how much you give back i.e. plant a tree'

'Basically, a system whereby the government will punish those people using high energy.'

MEUs

'A carbon free economy.'

'A move away from fossil fuels.'

'An energy efficient economy.'

'Defines taxation and the polluter pays.'

'Government putting the nail in the coffin of UK manufacturing.'

'Low carbon is different from energy saving – reducing carbon emissions. Leave all your lights on so long as you produce it from sunlight / yourself.'

'Government speak for energy efficiency.'

'Nuclear solution with less generating capacity of conventional fuels.'

'Outsourcing to the sub-continent; reduction in manufacturing; nuclear generation programme and renewable generation; more expensive energy.'

'The use of more sustainable and renewable energy.'

'Use a minimum amount of energy in industrial processes.'

'What I know is rather woolly, it is about carbon trading that is caused by gas/oil burning. We have looked into CHP but it is not cheaper because savings caused by reduced emissions will be offset by the premium put on greener energy.'



3.1 Is reducing CO₂ emissions a priority issue for your business? (%)

	SMEs	MEUs	All
Yes	18	61	39.5
No	80	39	59.5
Don't know	2	0	1

- A large majority of SMEs stated that reducing CO₂ emissions was not a priority for their business (80%), while a small majority of MEUs said that it was (61%).

3.2 If No, when could it become a priority? (%)

	SMEs	MEUs	All
In 2 years	12.5	7.7	10.9
In 5 years	18.8	20.5	19.3
In 10 years	8.8	7.7	8.4
Never	42.5	64.1	49.6
Don't know	17.5	0	11.8

- Of those companies saying lower CO₂ emissions was not a priority for their business, some 30% thought that it would be within 2-5 years.
- However, half of the 119 companies for whom it is not a priority now, said it would never be a priority.

Are you as a business willing/prepared to pay a premium for energy which reduces CO₂ emissions? If YES, then why and what level of premium would be acceptable?

SMEs

'It will become part of a company requirement in the years to come, so it wouldn't be a question of whether you want to or not.'

'We would. People think it would be put into the government coffers instead of using it for what it is meant for.'

'Maybe because I'm thinking in terms of wind being a cheaper investment long term and reducing my costs long term.'

'I think it is a fantastic idea for our City to be run on windmills.'

MEUs

'Depends whether you want to be seen as green – we want cheapest energy costs.'

'It is a part of the parent company's environment action plan.'

'It may become more of an issue when the costs of emissions go up significantly.'

'It used to be but not now. We used to have a department with six energy managers and admin support – it is now defunct and is outsourced. We are not interested in energy savings. Don't think it is worth it.'

'It's really a part of our CCL deal.'

'Reducing energy is a priority – would only become a priority if legislation drove us that way.'

'Yes. But in our industry we need to use more technology year on year as products become more technical and this requires more energy. We cannot win.'



3.3 Will your business be expected to meet the cost of reducing CO₂ emissions in the future? (%)

	SMEs	MEUs	All
Yes	66	88	77
No	27	2	14.5
Don't know	7	10	8.5

- A clear majority of both SMEs (66%) and MEUs (88%) expected their business to have to meet the costs of reducing CO₂ emissions in the future.

Do you consider that your business will be expected to meet the cost of reducing CO₂ emissions in the future?

MEUs

'Government will force us to. In fact it's already happening through the Part L Building Regulations.'

'I think that we will get no choice from the politicians, but they won't have thought it through on a practical basis.'

'I'm already faced with having to buy 2000 tonnes of offsets.'

'Not at least until about 2015.'

3.4 Are you as a business willing or prepared to pay a premium for energy which reduces CO₂ emissions? (%)

	SMEs	MEUs	All
Yes	38	46	42
No	57	54	55
Don't know	5	0	2.5

- Most businesses were not willing to pay a premium for energy which reduces CO₂ emissions and this was true of both SMEs (57% would not) and MEUs (54%).

Are you as a business willing/or prepared to pay a premium for energy which reduces CO₂ emissions? If NOT, then why not?

SMEs

'It's such a small percentage of what we do, I don't think it's relevant.'

'We already pay too much.'

'I believe the providers should be taking this step, they're making a lot of profits and they're not using those profits to reduce carbon emissions, they're expecting other people to clean up their mess.'

'No because we are on a tight enough budget as it is.'

'Because it could affect our competitiveness.'

'Because it just makes us totally uncompetitive and has absolutely no effect on the problem. My carbon emission is so insignificant. It's only a mere political gesture to think we can do anything that can make a difference. It's merely another way of collecting tax.'

'If applied to everyone then it would be fair, and if it is an option then I don't think we should as it will reduce competitiveness.'

MEUs

'70-80% of our operating costs are energy, we can't afford more expensive costs in this area; besides according to the government regulations energy suppliers are already obliged to provide part of their energy from renewable sources.'

'Because the government policy is a joke. We compete with overseas producers who have lower labour and energy costs. That makes them cheaper already. The government should instead tax these imports so that cheaper energy can be supported in this country.'

'Increased costs cannot be passed through to our customers – we aim to generate some of our own green energy.'

'It should be delivered at the same price – there should be a reduction in fact. We have our wind turbine which will deliver at a lower price (in about 9-12 months).'

3.5 If Yes, then what level of premium would be acceptable? (%)

	SMEs	MEUs	All
Less than 5%	50	58.7	54.7
Less than 10%	31.6	10.9	20.2
Less than 20%	5.3	2.2	3.6
Less than 30%	5.3	28.3	17.9
Don't know	7.9	0	3.6

- Of the minority of businesses willing to pay a premium for energy which reduces CO₂ emissions, the 'acceptable' level of premium was 'less than 5%' and this was true of both SMEs and MEUs.



Are you as a business willing/or prepared to pay a premium for energy which reduces CO₂ emissions? If YES, then why and what level of premium would be acceptable?

MEUs

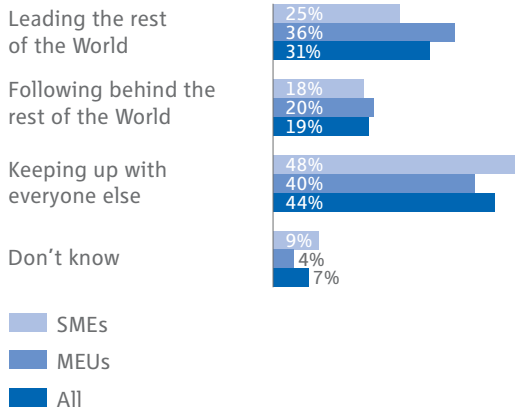
'Already do on about 50% of our consumption. Premium about 5-10%.'

'The costs paid for a reduction have to be feasible. If we had to pay £1 million to see a £25,000 reduction this would not be feasible. But if we had to be, say, £60,000 for a £25,000 reduction per year this would be OK as the costs would lead to savings. The point at which the seesaw will swing seems to be key.'

'We buy renewable energy and pay equivalent of CCL as premium – 0.43p/kwh for 100% certified renewable energy (on about 10p/kwh) therefore don't pay CCL (or the VAT on CCL).'



3.6 How do you think the UK is performing in terms of reducing carbon emissions?



- Businesses generally recognised the UK’s leadership in trying to reduce CO₂ emissions: 31% of companies thought that the UK was ‘leading the rest of the world.’
- A further 44% of businesses thought that the UK was ‘keeping up with everyone else.’
- Just one in 5 businesses thought the UK was lagging behind (18% of SMEs said this, and 20% of MEUs).

How do you think the UK is performing in terms of reducing carbon emissions?

MEUs

‘A politician’s dream, industry’s nightmare.’

‘As a nation probably badly. Industry is probably doing quite well but being penalised in the process.’

‘We are doing a terrible job. So much more could be done. Lots down to the world economy not the UK economy. UK is doing what it can without discriminating against UK industry too much.’

‘Compared to the US and China very well / compared to Germany and Sweden not very impressive. We are missing targets but better than some.’

‘Not a good thing – nobody else seems to be doing it. Our neighbours don’t seem to be taking it as seriously as we are and this becomes anti-competitive.’

‘Pretty well, but it’s costing us. It’s affecting our competitive position. We have fuel duty escalators, CCL and EUETS; you name it there’s a tax on it. It really is a huge overhead and administrative burden.’

‘The UK and Europe are leading the world. I see this with our mother company in the US. There the reduction of CO₂ emissions has not got the same importance as in Europe. They are way behind.’

‘UK businesses just relocate to Poland where energy is cheaper. Tony Blair wants the UK to be a leader in environmental technology, but New Zealand with some measuring devices and Germany with solar panels are leaders. What is the UK known for?’

‘We like to believe we lead but it is difficult. Energy saving is not easy unless the government subsidises it – even energy saving light bulbs have not come down in price. The government for example won’t deal with the airlines.’

Commentary

'The Low Carbon Economy' and what it means to both SMEs and MEUs, is the focus for the fourth npower Business Energy Index. The opinions, understanding of the concept and implications of regulatory initiatives to reduce green-house gases are explored with businesses of all sizes.

What is initially evident from the responses in this section is a lack of common understanding as to what the 'The Low Carbon Economy' is. This is despite increasing media and political attention on climate change issues over the past year and the phrase becoming a frequently used part of the business vernacular. Opinions are very diverse and also display some negative perceptions. Verbatim comments include; 'the nail in the coffin of UK manufacturing' and 'basically a system whereby the Government will punish those people using high energy'.

This suggests that many companies are not aware of, or do not understand, the potential benefits to be gained from integrating environmental initiatives into business operations; or that they have not made the connection between the low carbon economy and reducing energy consumption, with its inherent economic benefits. The Low Carbon Economy also brings the potential for competitive advantage through brand and corporate social responsibility and commercial opportunities from involvement in new regulations, such as emissions trading.

When asked if reducing carbon emissions was a business priority, a substantial number (59.5%) of respondents stated it was not. Breaking this down by SME and MEU response shows another marked difference of opinion between the two groups. Perhaps not surprisingly over 80% of SMEs said reducing CO₂ was not a current business priority, and 42.5% of those said it never would be. In comparison over 60% of

MEUs believed it was, although attitudes seemed even stronger amongst the other 40%, of whom over 64% asserted it never would be.

Regardless of their views on the importance of reducing emissions, 77% of companies believed they would be expected to pick up the cost, through legislation such as emissions trading.

The majority of respondents, however, (55.5%) disagreed with any premium being placed on energy that produces less CO₂, such as wind and hydro power. Although CCL exempt, it appears, with energy prices still a concern for businesses, the benefits of reducing environmental impact are still felt to be outweighed by the potential additional expense. Of those that were in favour, 54.8% believed a premium of less than 5% would be acceptable.

Finally, when asked how they believed the UK was faring in terms of tackling carbon emissions compared to other countries, the majority felt the UK was keeping up with the rest of the world, with 36% of MEUs believing the country was a global leader. This is despite the many negative views held towards the benefits of moving towards a low carbon economy.

From the findings of this survey, it appears more work needs to be done by the Government and the energy industry to demonstrate that reducing energy costs and tackling CO₂ are not mutually exclusive.

npower Concluding Commentary

Today, all companies face challenges on several fronts; economic, environmental, legislative and societal. The dramatic rises in energy prices witnessed in the last few years, as well as ongoing price volatility, against a backdrop of increasing legislation and growing concern for environmental issues, have therefore put energy firmly back on the agenda. This is clearly reflected in the findings of the latest npower Business Energy Index, with businesses all now reacting to these challenges and making energy a greater priority.

This is most apparent in action on energy management, where SMEs in particular have significantly increased both measurement and management initiatives over the last six months. This is encouraging as previous surveys highlighted concerns that SMEs were not sufficiently engaged in the energy debate with other business matters taking priority.

The survey showed that all companies are now adopting a higher level of monitoring than at any previous time since the nBEI began. This is crucial as understanding is the foundation of effective energy management. Knowing when, where and how energy is being used allows an informed decision, meaning initiatives to reduce consumption are more productive. However, to meet effectively all the challenges facing commercial energy users, energy management should be seen as only part of the solution.

As the survey has shown, most large organisations and many smaller companies, already have an energy policy and employ schemes such as monitoring and targeting to provide a rudimentary level of understanding about consumption. All too often these policies, systems and organisational structures are not geared up for the energy challenges of today.

Much more attention needs to be focused on risk management and energy has several areas of risk associated with it including; price risk, volume risk and several varieties of emissions risk, those directly associated with schemes such as EU ETS and more general reputational risks.

The most effective means of doing this is by combining both supply and demand side management. Taking this perspective considers the entire end-to-end process from how energy is purchased, right to when and where it is consumed, in order to address effectively overarching concerns.

Companies in the vanguard are taking this more joined-up approach to energy but evidence from this survey shows there is still much to be done to help other companies understand the benefits. This is evident in terms of resources available for, and the viability of, further energy management activity. It is also apparent in the misgivings from some respondents towards 'The Low Carbon Economy' and the priority given to reducing carbon emissions.

As seen in previous surveys, the results continue to suggest a tendency for companies to look for 'quick wins' in energy management. This approach implies a focus on traditional energy management programmes, where



investment is focused on retro-fit, add-on, projects such as improved lighting, better heating controls or variable speed drives. In an ideal world, these should be considered the basics and should be fully implemented in all situations.

With a more sustainable approach, activity switches to more radical initiatives to re-engineer complete energy systems. This focuses on optimising whole systems instead of components. The evidence is that this approach produces a step change in reducing emissions through more efficient energy use and maintenance costs, 50% or more in many cases.

This brings us to 'The Low Carbon Economy' which in some cases is being viewed as a threat and in others a low priority. Many businesses are not making the connection between economic, legislative and societal factors facing them.

The report shows that more can be done to help companies realise the environmental benefits of a sustainable approach to energy and to put their energy costs in the context of the global wholesale energy market. This is true even in the SME market where emissions reductions are only ever likely to constitute a major issue amongst the most energy intensive companies.

A sustainable approach to energy can represent a commercial opportunity rather than a threat or additional burden. Non-Government Organisations and the energy industry as a whole, need to meet this challenge. There have already been inroads made but it is evident that more practical support is required.

The Government also has a role to play. Legislation has been a major driver in 'The Low Carbon Economy' to date and although proving successful in some areas, there are perhaps grounds to rationalise the myriad of measures impacting on business to enhance take-up and remove the misconceptions. The best solutions are those that are transparent and market-driven.

Few will argue against mitigating costs as a business priority. A level playing field is seen as essential for delivering real environmental benefits on a global scale, without damaging the competitiveness of British-based businesses. Given this caveat, the UK's energy intensive industries are increasingly prepared to take up best practice in terms of carbon reductions.

Reducing costs and carbon emissions are not necessarily mutually exclusive and indeed will be increasingly linked in future. The low carbon economy should be seen as an opportunity and with the right support and information, companies can adopt solutions that are sustainable both for business and the environment.



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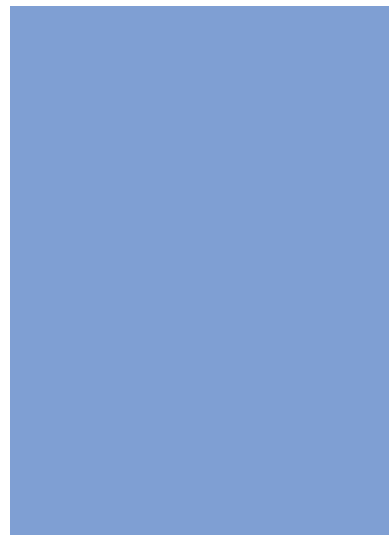
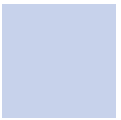
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RWE npower

Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire
SN5 6PB

T +44 (0)1793/87 77 77
F +44 (0)1793/89 38 61
I www.rwenpower.com

