Bord Gáis Energy
think beyond

Presentation
to
Sales Institute

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23rd March 2011

Our Environment is Experiencing Unprecedented Change

BGE Cannot Influence these Factors

We can control and Manage our Cost Base

Agenda

1 **Bord Gais Introduction**

2 **External Elements outside of our Control**
- **Irish Market Overview**
- **Value Chain Shift**
- **Our Dependence on Oil**

3 **ABC- Linkage & Case Examples**

4 **Summary**

Brief History Of Bord Gais

- Gas discovered off Kinsale
- Bord Gais Eireann established
- Anti SMOG legislation introduced
- 2000- Turnover up 16% on PYR to IR£391M
- 2001- Turnover up to €571M
- Second Interconnector to UK approved
- 2002- Tranmission network extensions
- CER established
- 2003 Turnover up to €701M Customers 450K
- 2004 Entered Electricity Market

1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2011

- 240KM Cork/ Dublin Pipeline starts
- Cork Gas Company acquired & Receiver appointed to Dublin Gas
- ,93- 30k Households added & volume sales up 14%
- ,94- Households at 222K
- ‘95 IR£67M for Yr, +48% on PYR
- ‘97- IR£290M trading capability develops
- ‘99 500KM of Dist Network added
- 2010 Big Switch
- Customer Exceeded 1Million
- Gaswest Commissioned
- Whitegate Commisioned
- SWS Acquired

Energy Supply Sales- Transformation Programme

Bord Gáis Energy

	Market Characteristics	Transformation	BAU
2007 Phase 1	▪ Limited regulation ▪ No Competition ▪ Sales Channel- Ditributor channel	▪ New organisation design implemented ▪ Managmenent Processes defined ▪ Business Rules agreed ▪ Redefined roles & Responsibilites	Delivered Market Share Growth Maintained Margins
2008 Phase 2	▪ Consultant's active in Market ▪ Reactive to Customer's needs ▪ .Modrate Customer Service ▪ Customer information non standard	▪ Installer Chanel closed out ▪ Performance review & Comp & Ben plan agreed ▪ Strategic partners appointed	
2009 Phase 3	▪ Territories & segmentation rules implemented ▪ Deregulation starting in large user category	▪ Product development function ▪ Right size Support team ▪ Professional development, learning & training for teams	
2010 Phase 4	▪ Sinlge view of account managed customers ▪ Lower value add activities delegated ▪ Profitabiltiy key ▪ Active prospectincg of territories	▪ Teams moved to Revenue and Gross margin accountabiilty ▪ Introduced ABC to support further change and provide accurate insight into cost base	

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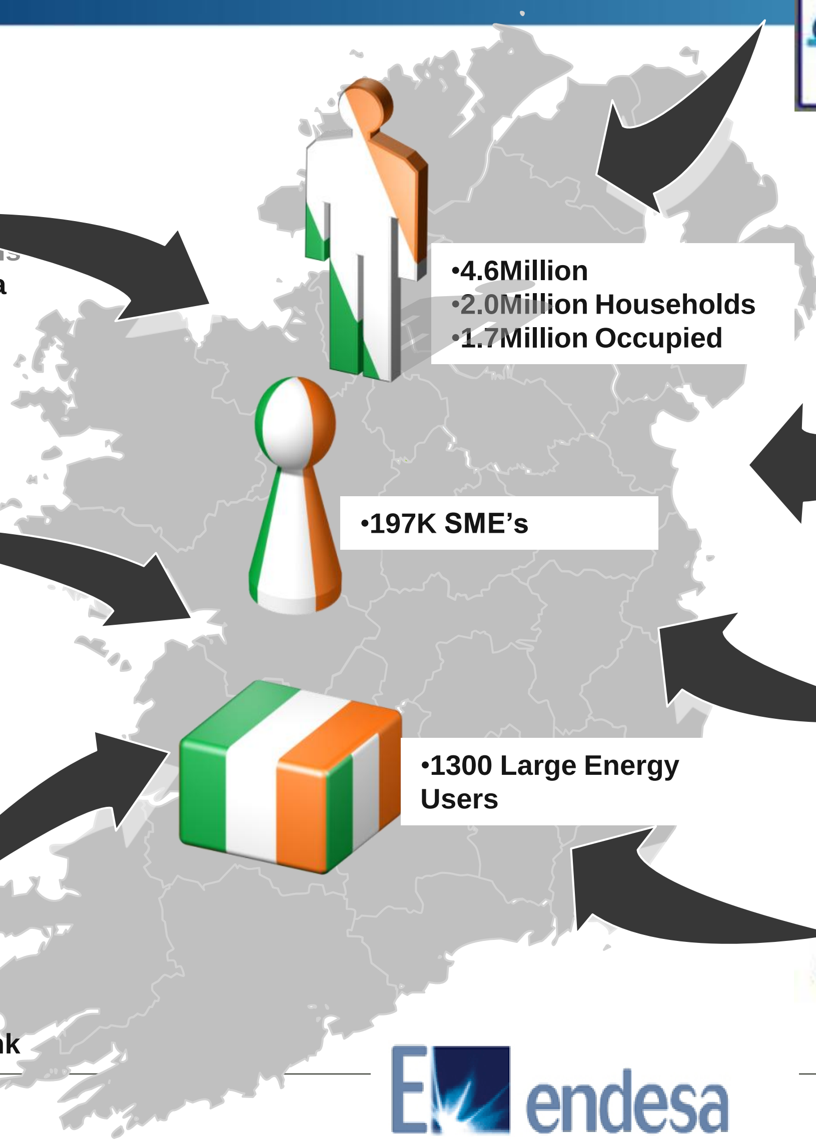
Ireland's Energy Market

Irish Market Significantly Overpopulated

•Owned by Kellen Acquisitions
•Kellen Vehicle of Terra Firma Capital Partners

•2007 Strategic Partnership
•27% Share held

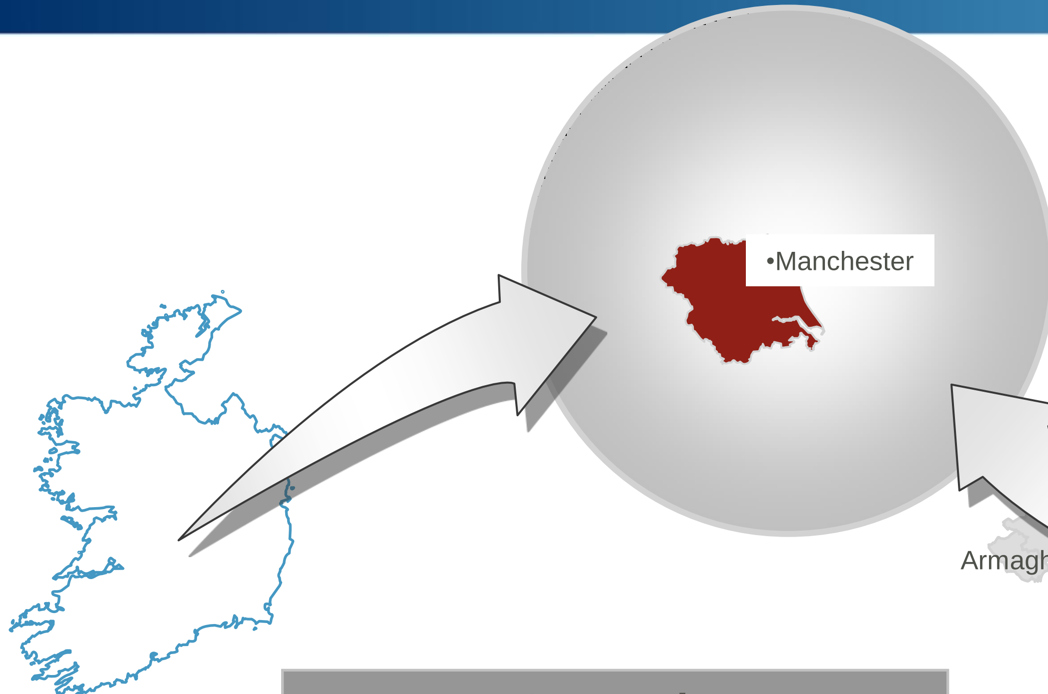
•Viridian Energy Supply Ltd
•Group Acquired by Arcapita Bank BSC 2006
•International Investment Bank



•Op Profit of €1.4Bn
•2,300 Employees

•Wholly Owned Sub of DCC
•Gas

And, In Context………



In Comparison

- Total Irish Gas Market is same size as Manchester
- Available Market is Significantly Larger in Customer Terms
- 6 Main Supply Companies

So What

- **Overpopulated with Supply Companies**

- **Irish Energy Market one of the most competitive in the world**
  - **Good news for Customers**

- **Catalyst to change COULD be…**
  - **Increased M&A activity could see private investors exit some companies**
  - **Stated intention of New Government to**
    - ***"target up to €2Billion in sales of non-strategic state assets"- Government for National recovery 2011-2016***
- ***New*ERA- New economy and recovery authority using national pension fund reserve**

In Terms of Profitability & Turnover we are by no means the biggest!

BGE needs to be efficient to Compete

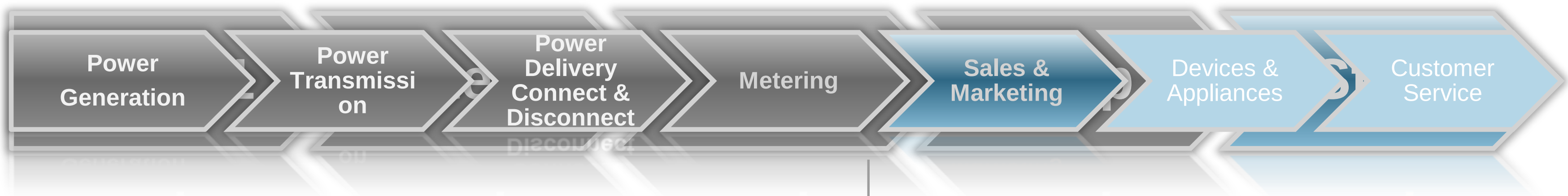
Industry Value Chain

Energy Industry Value Chain- Today

Energy Generated in a centralized location transmitted to grid & onto customer

Busniesses defined by the role they play in the value chain- ***Generation, Transmission, Distribution***

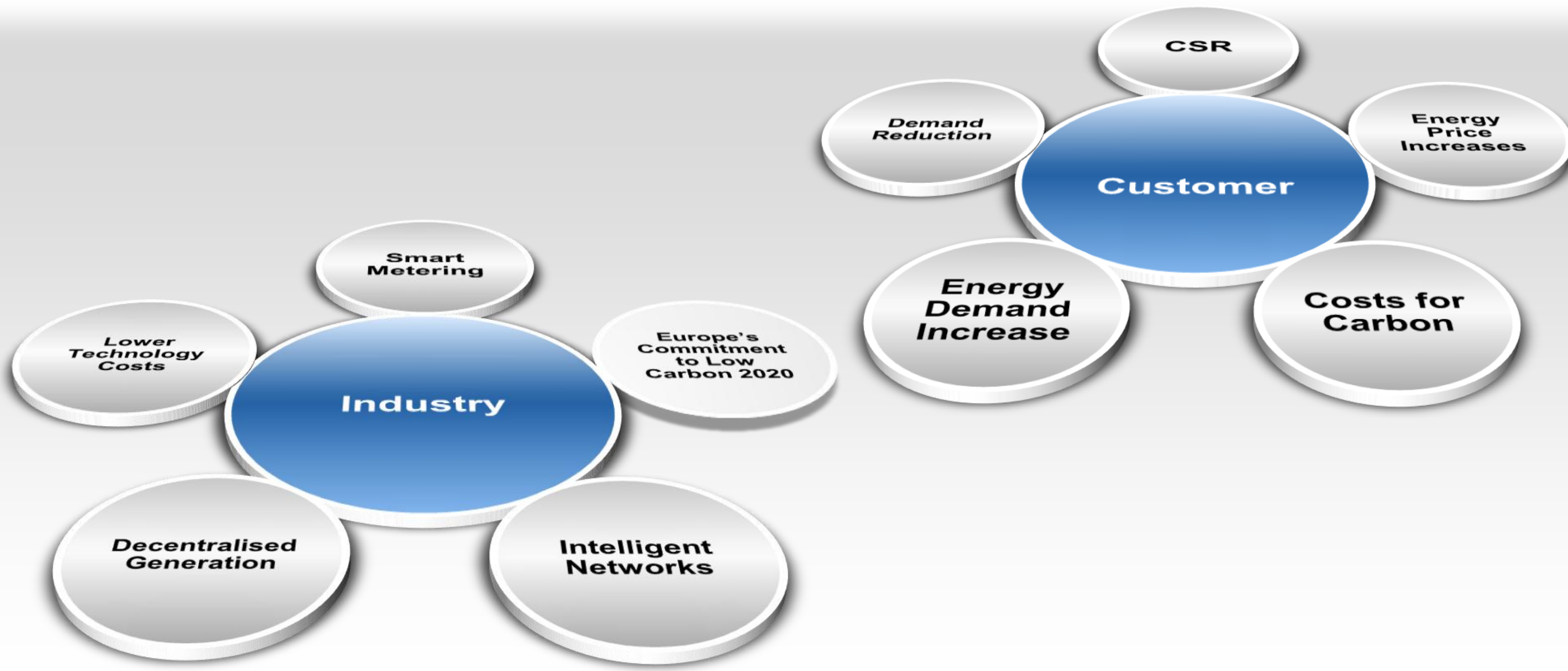
Value Chain Structured around Power Flow



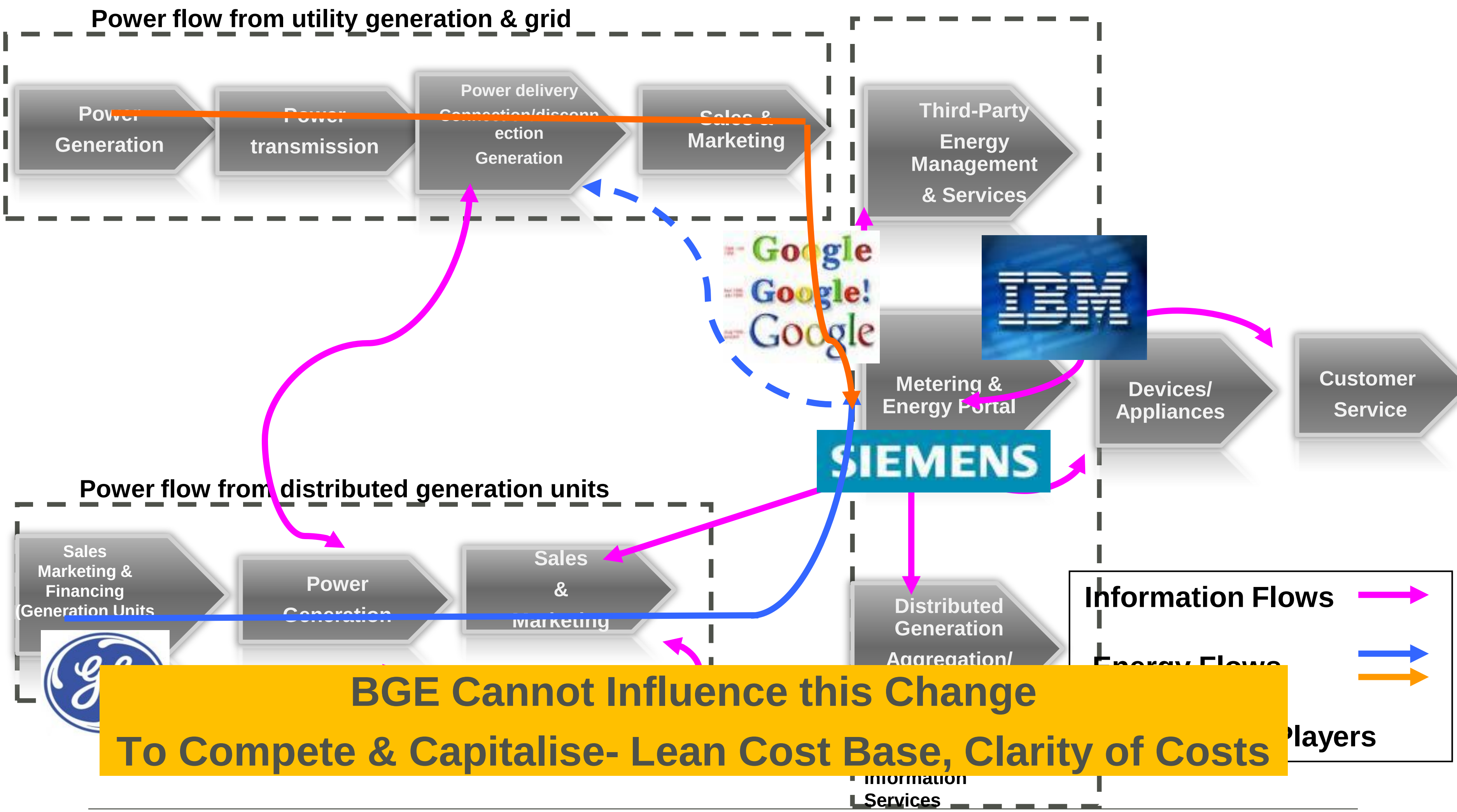
Volume of Data/ Information flow limited to number of meter Reads

Regulatory Intervention is significant in all Sections, Significant in Retail

Drivers for Change



New Value Chain- Paradigm Shift



BGE Cannot Influence this Change

To Compete & Capitalise- Lean Cost Base, Clarity of Costs

Recent Oil Volatility-

Ireland Relies 85% on Imports for its energy needs

65% is dependent on Oil

Determinants of Outlook for Oil

Demand

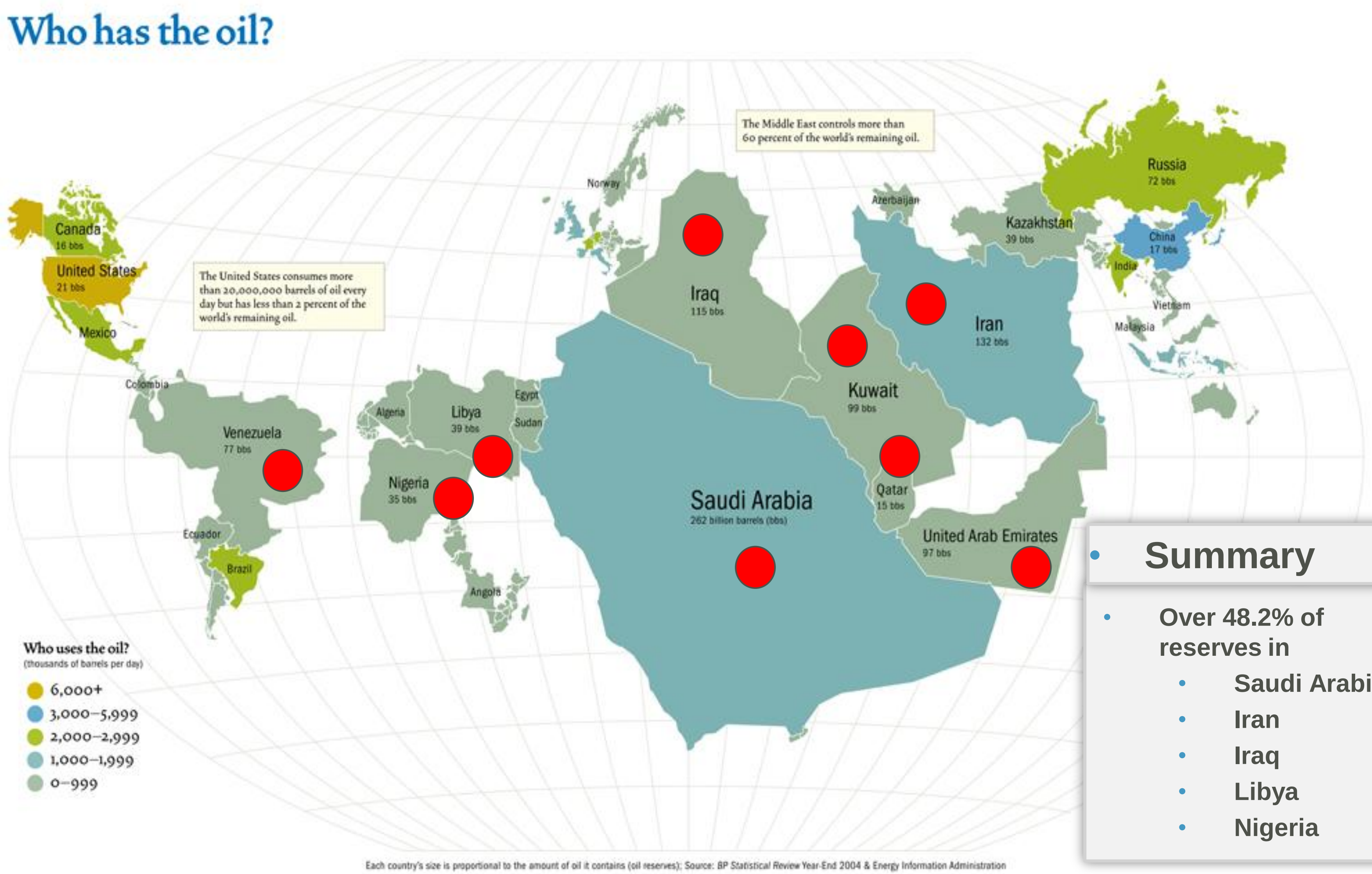
Outlook for Oil

Supply

- Global Economic Growth
- Development of Alternatives
- Investors/Speculators

- OPEC production cuts
- Investment in New Projects
- Non-OPEC supply growth
- Geopolitical Issues

Global Oil Reserves



Summary

- Over 48.2% of reserves in
  - Saudi Arabia
  - Iran
  - Iraq
  - Libya
  - Nigeria

It's About the economy Stupid- The Global One-
But it has real consequences for us!

Bord Gáis Energy

Libya

•Re

•W

ries
for Oil
ries

Oil

At

€116

Today

So What does this mean for us....?

ed fuel on the Island accounting for 65% of Ireland's energy usage

IF NOT Top 5 For most Large Organisations- Labour & Lease Costs

•10% Increase per barrel equals an €0.3389Billion in Irelands energy Bill

•Fuel Prices at the pumps have already increased by circa 20%

•Last week we Pulled our fixed our fixed SME tariff

urs, All offers closed out on Friday evenings

iffs may need to increase by close to 20% Q4 2011

side Energy prices are largely outside our control!

By

2027

GDP in China

Forecast

GREATER THAN U.S

@ €14 Trillion

As it Currently Is

rence

Iraq

structure

g

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What we sell & What we can Control

Bord Gáis Energy

46% of Customers energy bills are pass through

54% are Energy Charges

€1000

€540

€460

46% are Newtwork Charges

€540	€460
▪ Our Energy Cost Base ▪ Trading ▪ Hedging Strategy ▪ Governed by risk policy ▪ Trading cannot mitigate voaltility in the markets	▪ Standing Charge ▪ Distribution use of system ▪ Transmission use of system ▪ ESB cost base ▪ CER Review Annually

Low single digit % Gross Margin

Example based on an average SME customer- per €1000 Euro spent

What matters to our business

Bord Gáis Energy

Key Metrics	Choices	Activity & Costs
Cost to Acquire Cost to Serve Cost to Retain Cost to Win back Churn	Channel Choices Product decisions - To Launch - Amend - Retire.	Insight into Sales force activity Sales Force effectiveness. - Right tasks to right Function Direct & Indirect Opex

Channel Profitability

If we save €100k in opex it has the same effect as adding an additional €5.5m sales to the Top Line.

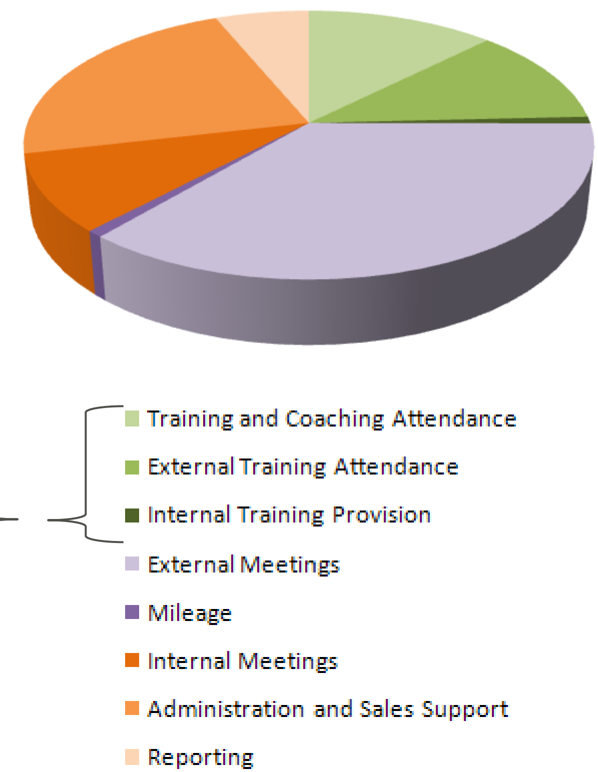
Enhance performance and agility

Then ... No development training recorded for the Sales Team in 2009

Staff Balance identified opportunities to be gained through:

- Process Improvements
- Behavioural Changes
- Technology Solutions
- Workload redistribution (redeployment and retraining)
- 3rd Party Training
- Headcount increase

Now ... Activity split across the Sales Team



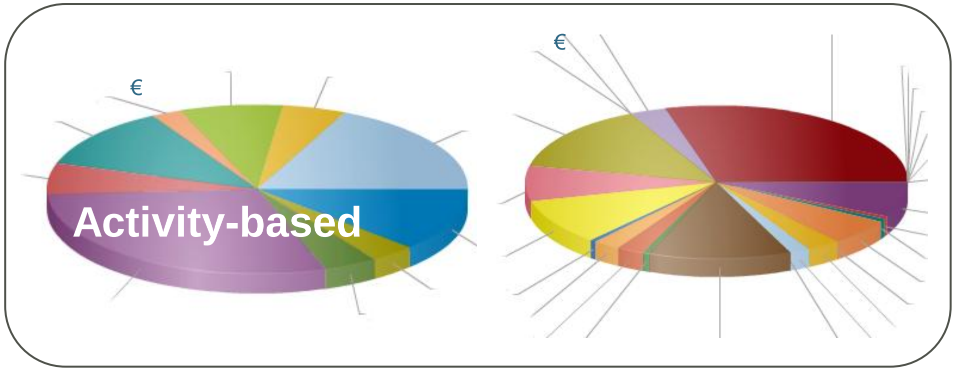
Examples of Outcomes:

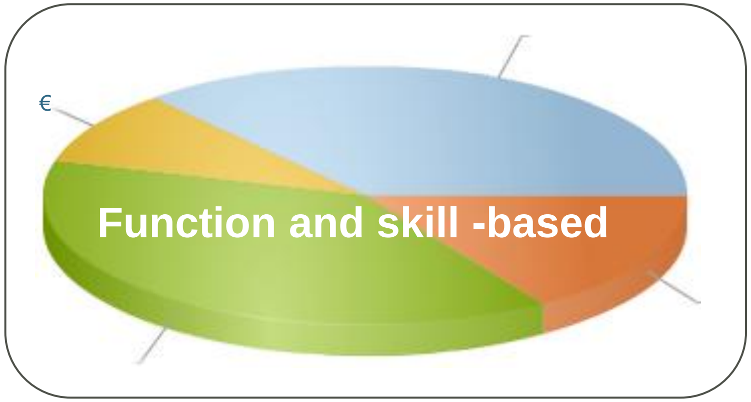
- Enhanced SalesForce engagement
- Redeployed sales support resources
- Changed internal processes
- Introduced PDAs and video conferencing
- Outsourced activities
- Recruited a Trainer and Process Analyst

Savings
- **€124k**
- **3.32 FTE**

Restructure and scale
- Sales Support team

Then ...
- One blended team with many activities
- Duplication of work and responsibilities
- Inefficient organisation of tasks



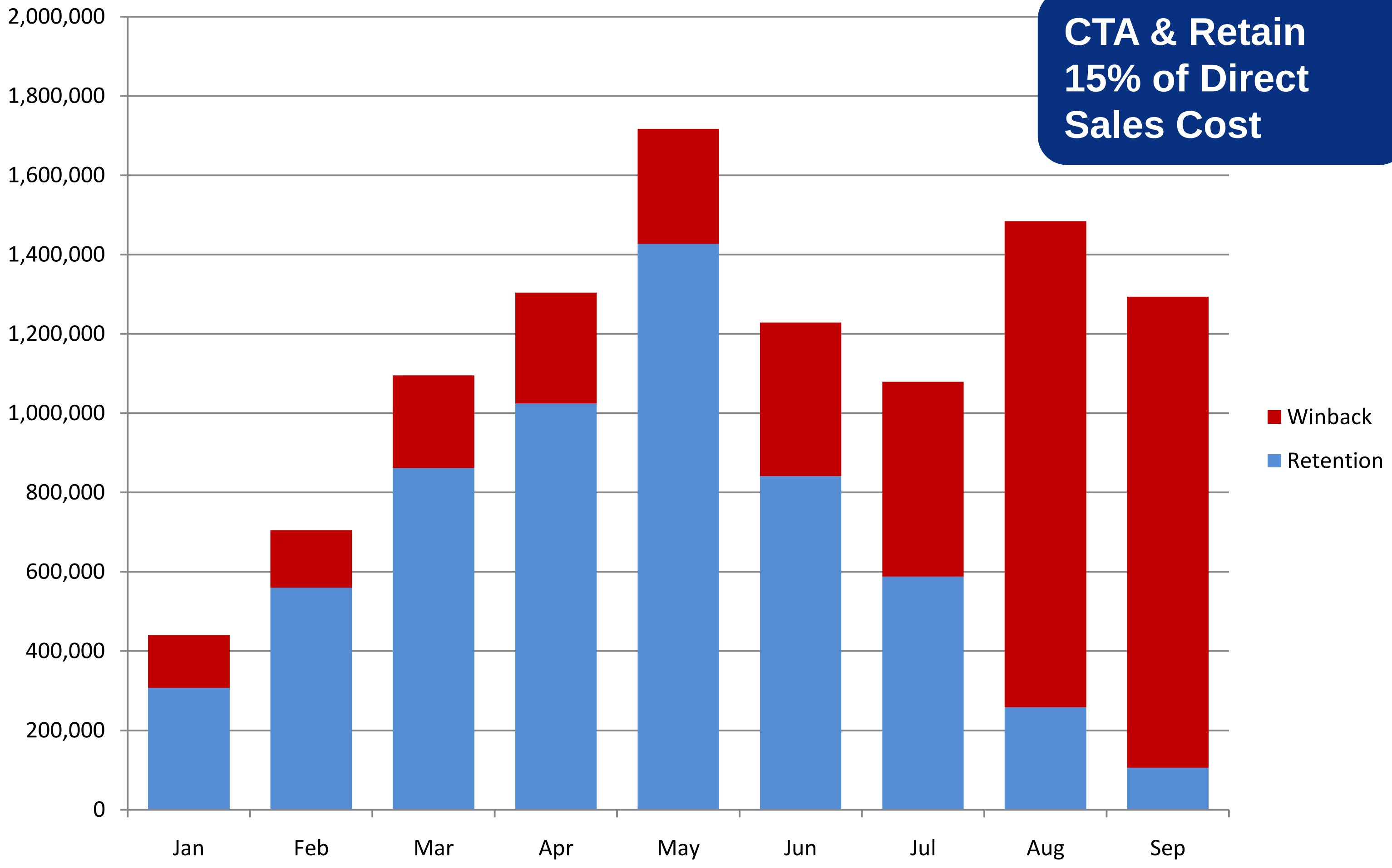


Now ...
- Four skilled teams
- Defined work and responsibilities
- Tracked and transparent organisation of tasks

Savings
- **€80k**
- **1.88 FTE**

Focus on Winback and Retention
–significant revenue gains

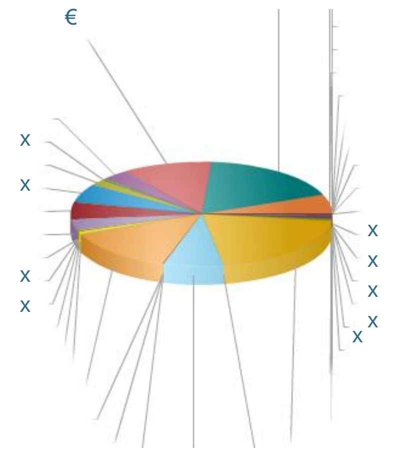
CTA & Retain 15% of Direct Sales Cost



Activity and staffing cost alignment

Then ... Key Account Manager (Band 5)
Low value-add activities:

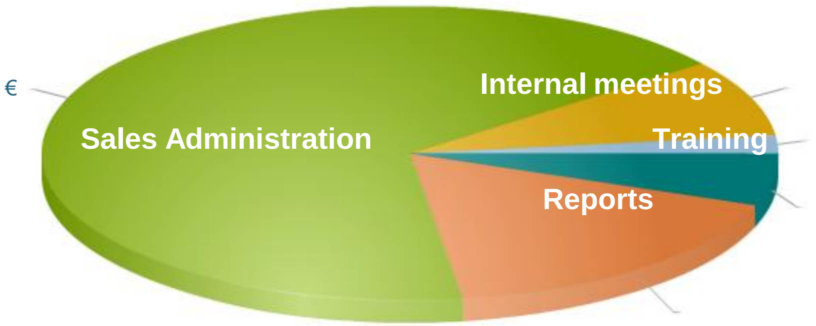
- 3rd Party Interactions
- Reporting
- Customer Query Resolution



Savings
- **€74k**
- **0.93 FTE**

Now ... Key Account Manager (Band 5)

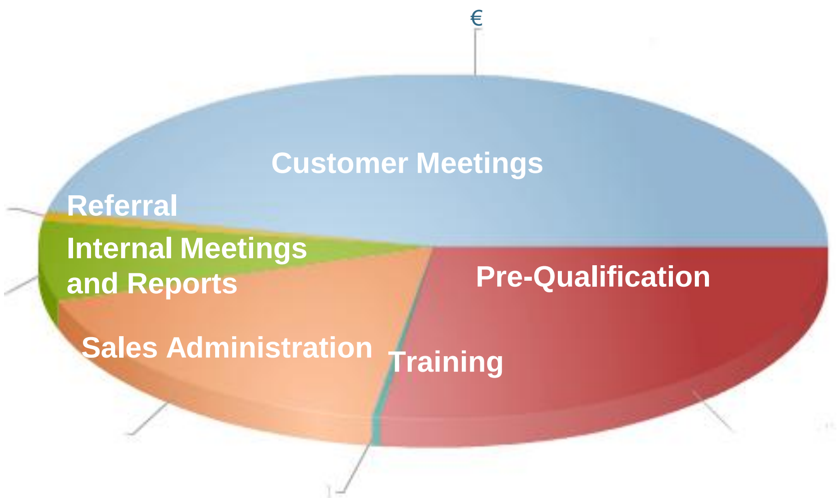
Now ... Stakeholder Support (Band 7)



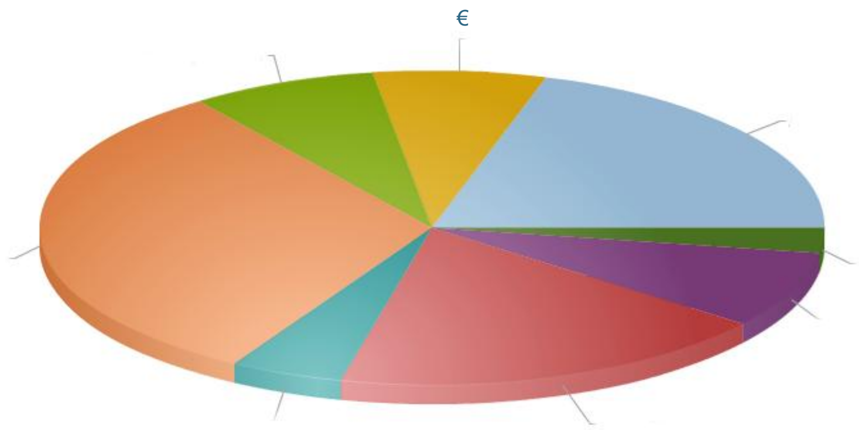
Deep insight for future decisions

- for example cost to outsource

Existing Outsource Partner



Existing Function in Sales Support



Existing Decision Making Factors in Place

Deep insight into the cost of current outsourcing activities for benchmarking purposes

Defined function and metrics

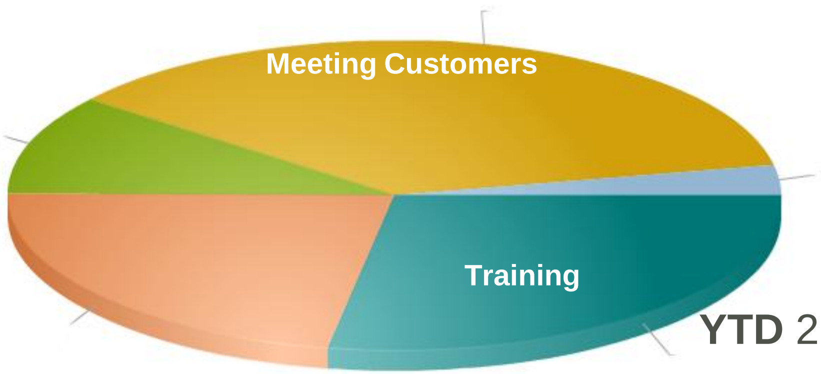
and

Deep insight into the cost of the function activities

There is a new Challenge

Then ...

- 43% of time on Customer Meetings
- Of which 1.1% = new business related



Now ...

- 47% of time on Customer Meetings
- Of which 23% = new business related

YTD 29% of available time spent on Training

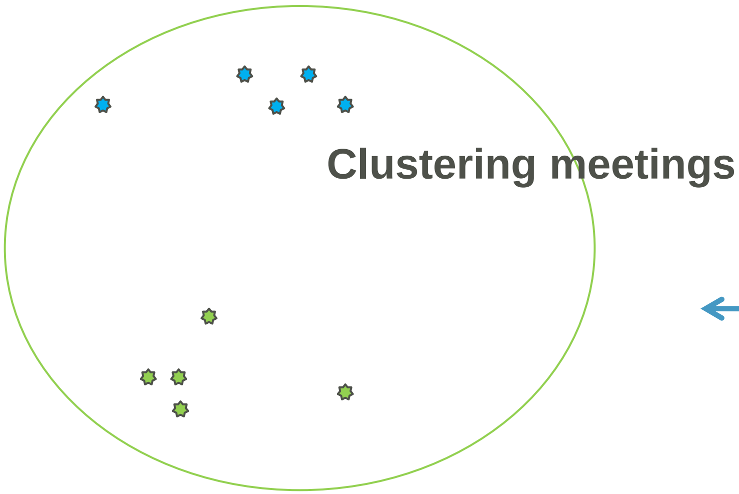
For rest of 2011: 47% + 29 % = potentially spend 76% on customer meetings

This will require a behavioural change ...

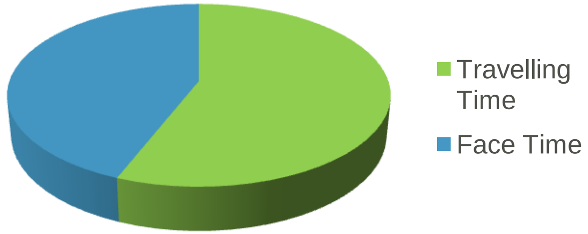
Operational efficiency opportunities through metrics

Now … Key Account Manager (Band 5)

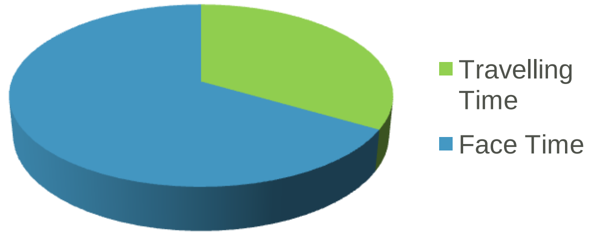
Meeting Prospects
- Travel Time
- Face Time



Inefficient



Efficient



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Summary

- Activity Base Costing provided true insight into our core operational costs
- We know our most profitable Channels for acquisition
- We can assess & identify our most profitable Customers
- Helped us to identify inefficiencies in the business
- Served to support rationale for business change initiatives
- Made discussions about Resources Less emotive & More Factual
- Enabled us to Manage outsource partners more effectively
- CEO has adopted it across wider business

It has to be actively Managed

Thank You

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