



centrica



Integrity.

***Sustainability in Your Global Supply
and Distribution Network***

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Webinar, December 10, 2009

- Centrica is a top 30 FTSE company with growing energy businesses in the UK and North America. Group revenue in 2008 was £21bn.
- Centrica's vision is to be the leading integrated energy company in our chosen markets.
- Centrica secures and supplies gas and electricity for millions of homes and businesses and offers a distinctive range of home energy solutions and low-carbon products and services.
- Centrica businesses include British Gas, Centrica Energy, Centrica Storage and Direct Energy.

Responsible Procurement & Supplier Management at Centrica



Responsible procurement is managing the corporate responsibility (CR) impact and risks in our supply chain

This has a high degree of Board level support and has been a key driver of Centrica procurement activities in 2009

Non executive board member ensures a high degree of focus to integrate our business principles across all Centrica's businesses

- **Our impact**
 - Centrica spends billions of pounds procuring goods and services
 - Over 15,000 vendor relationships
 - Delivering value while observing business principles
- **Our commitment**
 - To work with our partners to integrate our business principles into our supply chain activities
 - To have a consistent message across all Centrica businesses upstream / downstream in the UK, North America and Canada
- **Our Aim**
 - Minimise exposure by creating robust risk assessment and mitigation systems
 - Ensure stakeholders, business partners and our Contract managers are actively engaged

Centrica's CR Policy Principles



- **Ensuring integrity in our business transactions**
 - Business partners should not engage in bribery or any form of unethical inducement or facilitation payments.
- **Dealing openly and fairly**
 - Business partners should be open, transparent and fair in communications and dealings with us and other stakeholders affected by supply chain activities.
- **Respecting human rights**
 - Our support for the UN Global Compact, UN Declaration of Human Rights and the ILO Core Conventions underlines our respect for human rights. We expect our business partners to operate in accordance with these standards.
- **Focusing on health, safety and security**
 - We expect our partners to share our commitment to place the health, safety and security of employees and others who could be affected by their activities at the heart of their operations and implement robust policies and procedures to ensure compliance to high standards.
- **Tackling climate change and environmental impact**
 - We consider the complete environmental impact of our procurement decisions and seek to reduce this where possible. We expect our partners to actively manage their own impact and help us, where possible, to meet our environmental goals.

Responsible Procurement Headline strategy



- **Our Strategy**

Apply best practice Responsible Procurement in Centrica's supply chain aligned to its business principles

- **Our Objectives**

- Understand and uphold our business principles
- Assess our supply chain to identify and prioritise risks
- Monitor performance through regular communication
- To Roll out our policy and principles as part of BAU supplier management
- Work with partners to deliver mutually agreed remediation plans where needed
- Engage with suppliers to share knowledge and expertise

- **Managing risk**

- Evaluate potential damage to our brand
- Support business continuity by minimising business interruptions stemming from poorly managed non-financial risks
- Measure risk of incidents in our partner's supply chains
- CR supplier audits not undertaken in isolation and part of set of audit criteria
- Ensure robust contingency plans in place
- Assess supply chain impacts on our customers

CR and procurement structures



- Decentralised procurement structure in place where the Centrica businesses manage their own procurement spend and activities
- In such a large organisation we also need to have collaborative engagement with our upstream business as well as international procurement teams. This enables the group procurement team to have a holistic view across most of Centrica businesses
- Have a direct link and association with the group corporate reputation team who help to develop, advise and implement the policy across the supply chain and the business
- Cross group (Centrica) RP team formed for consistent messaging and approach with suppliers
- RP Escalation team formed to handle supplier related issues to agree response and approach to be adopted
- The RP escalation team also ensures the sharing of knowledge amongst the Group Procurement team
- Board level focus with Corporate Responsibility Committee

Responsible Procurement Implementation JOURNEY so far



Key Points

- CR policy signed off with Executive Committee
- Centre of excellence established
- Two Supplier workshops completed
- Standard T&Cs now incorporate CR clauses
- External market liaisons / best practice sessions held
- Identified high supply chain risk
- Developed robust MI to track RP rollout and KPI measurement
- Contract manager training sessions held
- Trial CR audits
- Contract Manager Toolkit created
- Trial for supplier portal web access and risk assessment tool in place
- Supply chain deep dives undertaken

Summit Overview



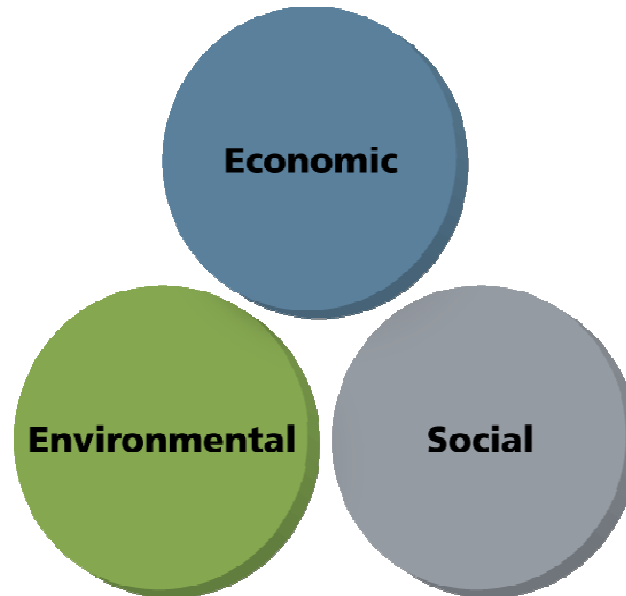
Founded 1991 10 Offices 350+ employees 25,000+ client sites

Manage \$20 Billion energy spend; over 50 million tons CO₂

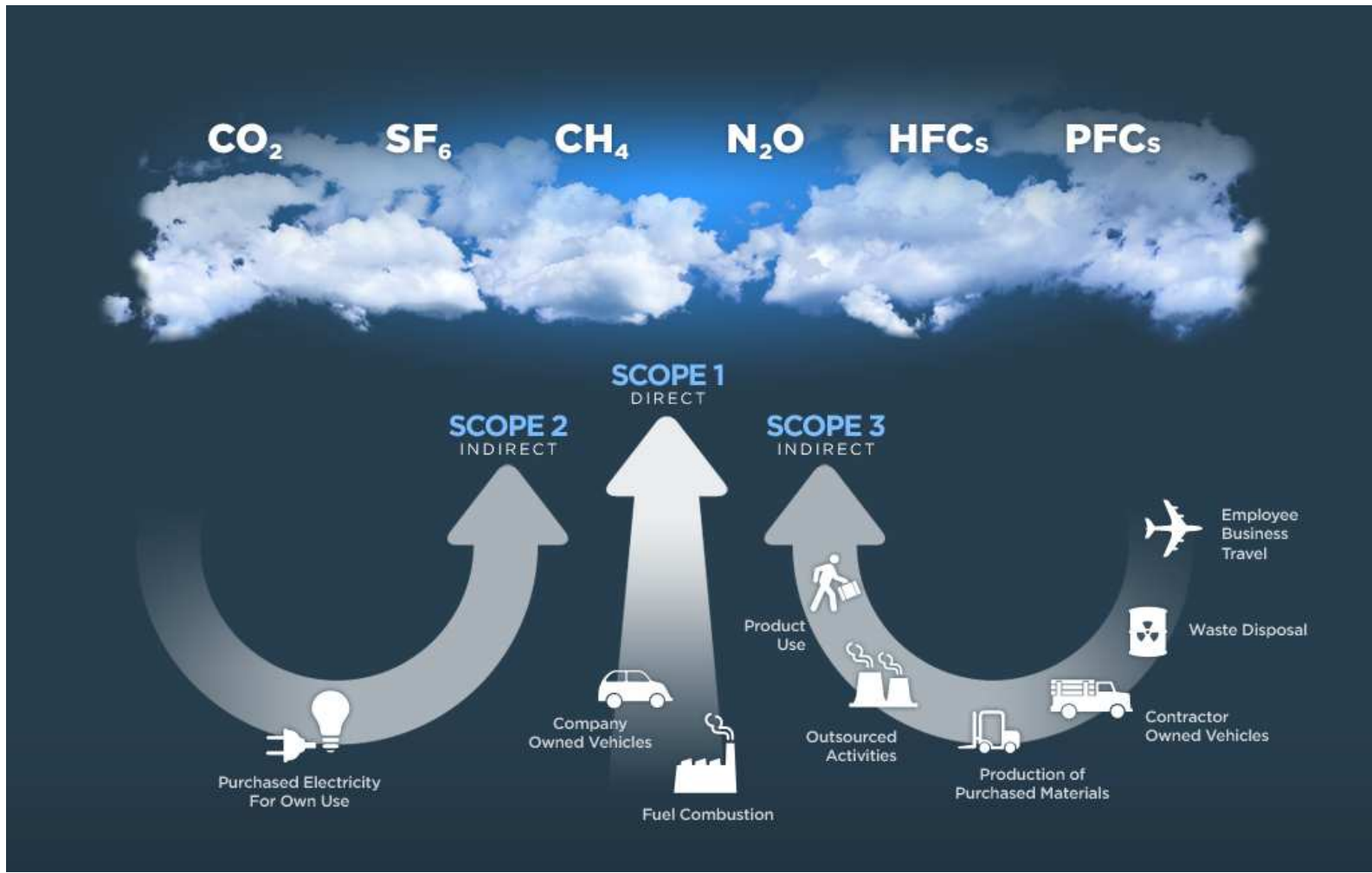
Independent & unbiased

Core business

Environmental Sustainability



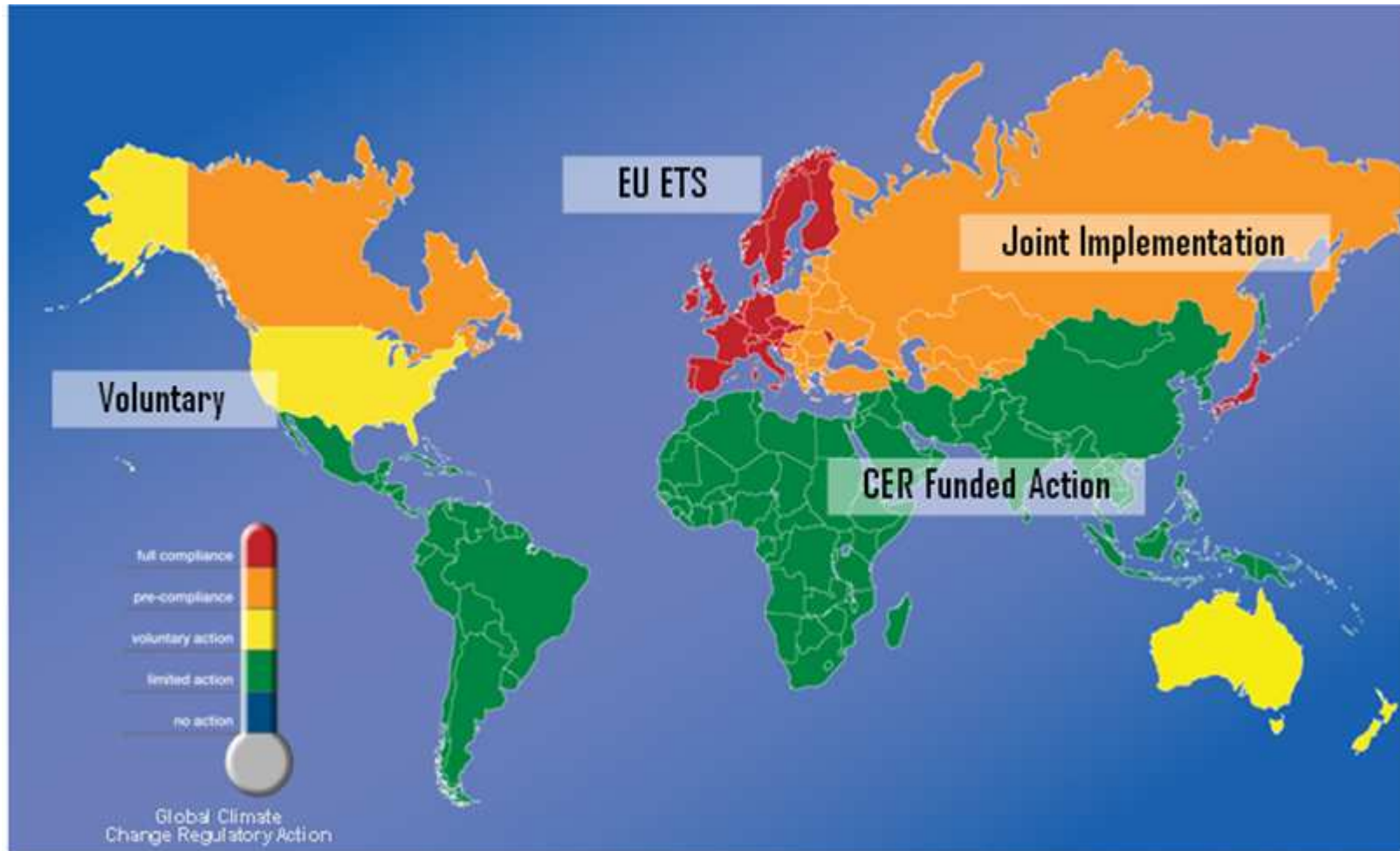
Scopes and Emissions Sources



Business Drivers

- Regulatory Preparation / Compliance
- Customer Requests
- Investor Valuation
- Societal Pressure

The Kyoto Protocol



Copenhagen Effect

- EU seeking pledges on emissions and finance
 - Drive for participation by developing nations
- Stricter National Allocation Plan (NAP) commitments in EU
 - Continued financial pressure on utilities and energy producers
 - Additional companies to be targeted and involved
- Transportation sector of interest
 - Carbon tax on energy consumption
 - Air traffic incur taxation as well

Regulatory – Carbon Reduction Commitment

A screenshot of the Department of Energy & Climate Change website. The page title is "CRC Energy Efficiency Scheme". The breadcrumb trail reads: "You are here: Home > What we do > A low-carbon UK > CRC Energy Efficiency Scheme". The main content area has a heading "CRC Energy Efficiency Scheme" and a sub-heading "What is the CRC Energy Efficiency Scheme (CRC)?". The text below explains that the scheme is the UK's mandatory climate change and energy saving scheme, due to start in April 2010, and is central to the UK's strategy for improving energy efficiency and reducing carbon dioxide (CO2) emissions. A sidebar on the left contains links for "A low-carbon UK", "CRC Energy Efficiency Scheme", "Timeline", "How will I comply?", and "How do I get help on".

DEPARTMENT OF ENERGY & CLIMATE CHANGE

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You are here: Home > What we do > A low-carbon UK > CRC Energy Efficiency Scheme

A low-carbon UK

CRC Energy Efficiency Scheme

Timeline

How will I comply?

How do I get help on

CRC Energy Efficiency Scheme

What is the CRC Energy Efficiency Scheme (CRC)?

The CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) is the UK's mandatory climate change and energy saving scheme, due to start in April 2010. It is central to the UK's strategy for improving energy efficiency and reducing carbon dioxide (CO₂) emissions, as set out in the [Climate Change Act 2008](#). It has been designed to raise awareness in large organisations, especially at senior level, and encourage changes in behaviour and infrastructure. The schemes amended title serves to better reflect the CRC's focus on increasing energy efficiency.

- Targets small to medium size businesses not covered under the EU-ETS
- Covers all energy sources except transportation
- Requires companies to offset / reduce their carbon emissions by reducing energy use and/or buying emissions allowances

Life Cycle Analysis and Product Labeling



Process map steps for business-to-consumer goods:

October 27, 2009

Sweden Mandates Carbon Emissions Labels on Food

SHARE Email this story Print this post Add your comments



New labels listing the carbon dioxide emissions associated with the production of foods, from whole wheat pasta to fast food burgers, are appearing on some grocery items and restaurant menus in Sweden, which is expected to cut the nation's emissions from food production by 20 to 50 percent, reports *the New York Times*.

Customer Expectations



Working with suppliers to make shopping at Asda naturally greener



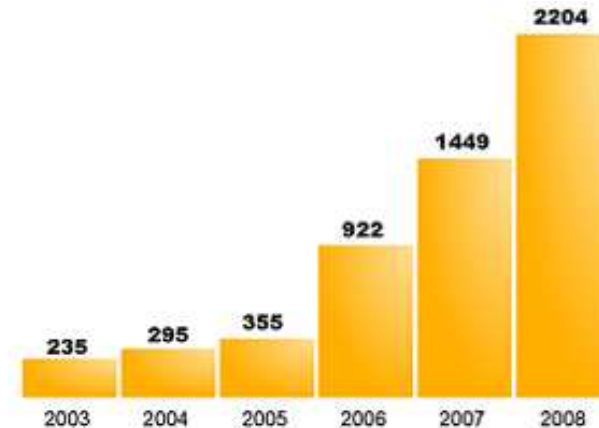
Over the past couple of years we have been working with our suppliers to reduce the amount of carbon emitted during the manufacture, growing and processing of our products — something that's known as embedded carbon.

We work with fresh food suppliers to map the embedded carbon in their products, identifying 'hot spots' that can be targeted to significantly reduce levels of carbon.

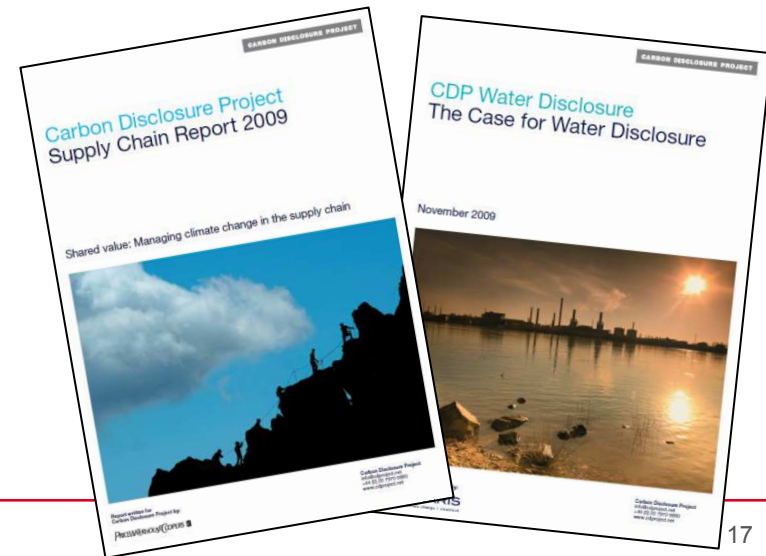
 Acer	 BAE Systems	 Baxter
 Bradesco	 Cadbury	 Carrefour
 Colgate Palmolive Company	 ConAgra Foods	 Dell
 Eaton	 EMC2	 Fiji water
 Google	 Heinz	 HP
 IBM	 Imperial Tobacco	 Johnson and Johnson
 Johnson Control	 Juniper networks	 Kellogg's
 logica	 L'Oreal	 Members of National Australia Group
 National Grid	 Pepsico International	 P&G
 Reckitt Benckiser	 Royal Mail	 SKF
 Enel	 Unilever	 vivendi
 vodafone		

Investor Valuation

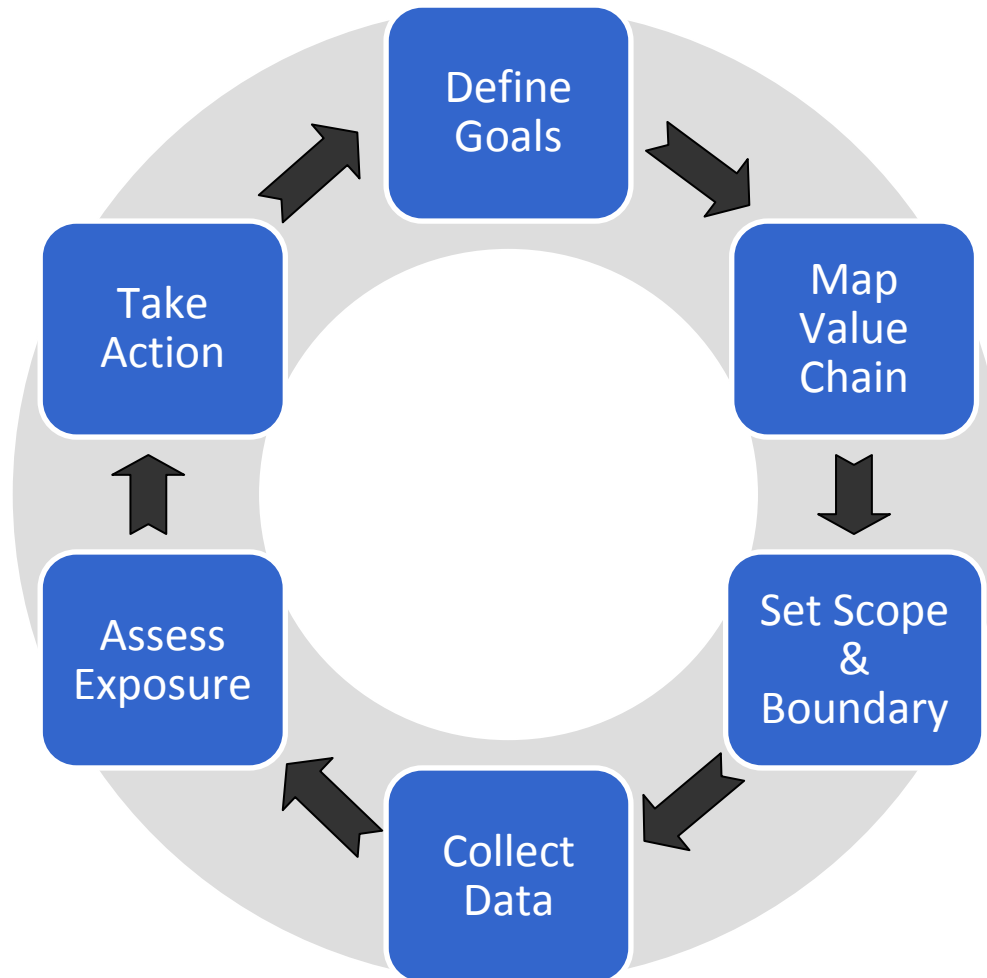
- Carbon Disclosure Project
 - \$55 trillion in investment funds
 - Seeking carbon and climate change plans
 - Expanding into water
- Established “Supply Chain Leadership Coalition (SCLC)”
- Dow Jones Sustainability Index (DJSI) among others



Ramp of participation in CDP



Best Practice Approach



Recommendations

- **Clearly communicate goals, progress, and incentives**
 - Ensure consistency amongst data collected, program goals
- **Focus on multiple benefits**
 - Energy cost reduction, freight / transportation savings
- **Emphasize building long-term relationships with suppliers**
 - Build faith in continued business for participation
- **Explore cost-sharing options**
 - Quantify and seek bilateral benefits
- **Promote open communication**
 - Transparency = success in reporting objectives

We're compliance risk management experts:

We measure, manage and mitigate compliance risk for large global companies. We move compliance from “aspirational” to operational. Integrity is:

- **Global**
- **Data-Driven**
- **Technology-Powered**
- **Expert & Experienced**

Integrity Client Community



We serve hundreds of the world's great companies:

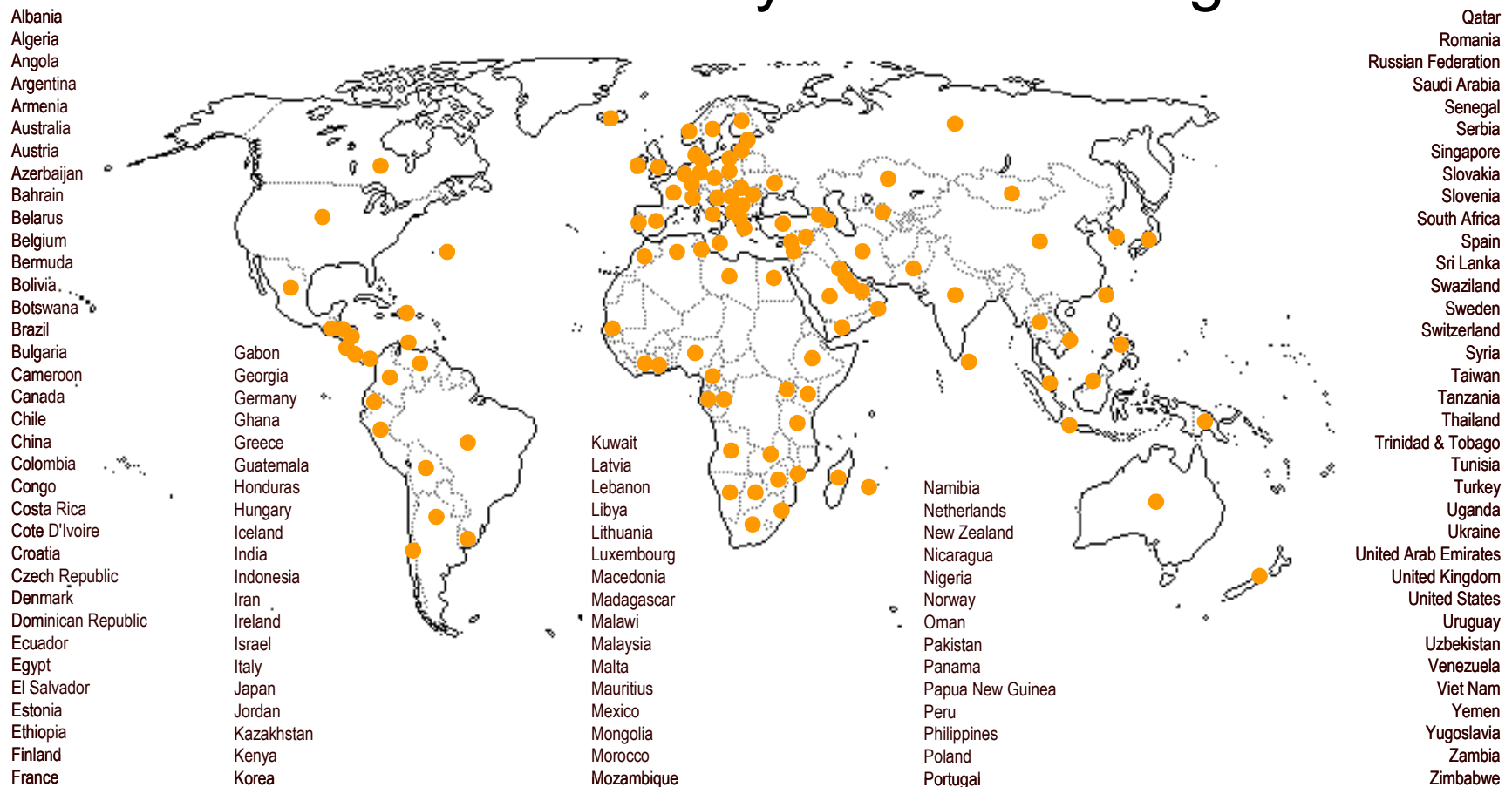


Where We Work



Integrity.

We reduce risk in every corner of the globe.



What I'll cover today



Today, I'll address these areas:

1. Creating Responsible Procurement: A Compliance & Corporate Responsibility Framework
2. Benchmark Data from Peer Companies

Creating Responsible Procurement



There are 3 elements to a Partner Compliance & Corporate Responsibility Program:

1. Ensure senior management support
2. Establish system of internal controls
3. Monitor and audit business partners and evaluate the program's effectiveness

Critical components include:

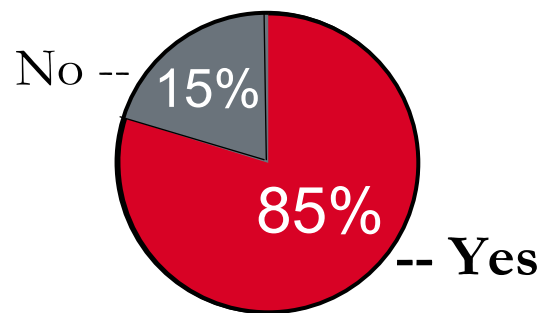
1. Consistent communication (internally & externally)
2. Periodic risk assessments
3. Develop standards & policies (business principles)
4. Include reps & warranties in contracts & *policies*
5. Seek acknowledgment/certification from business partners
6. Provide periodic training to business partners
7. Deploy due diligence questionnaires
8. Validate business partner data
9. Conduct regular audits of business partners
10. Vet and re-vet business partner relationships to ensure compliance

How are other companies thinking about this?

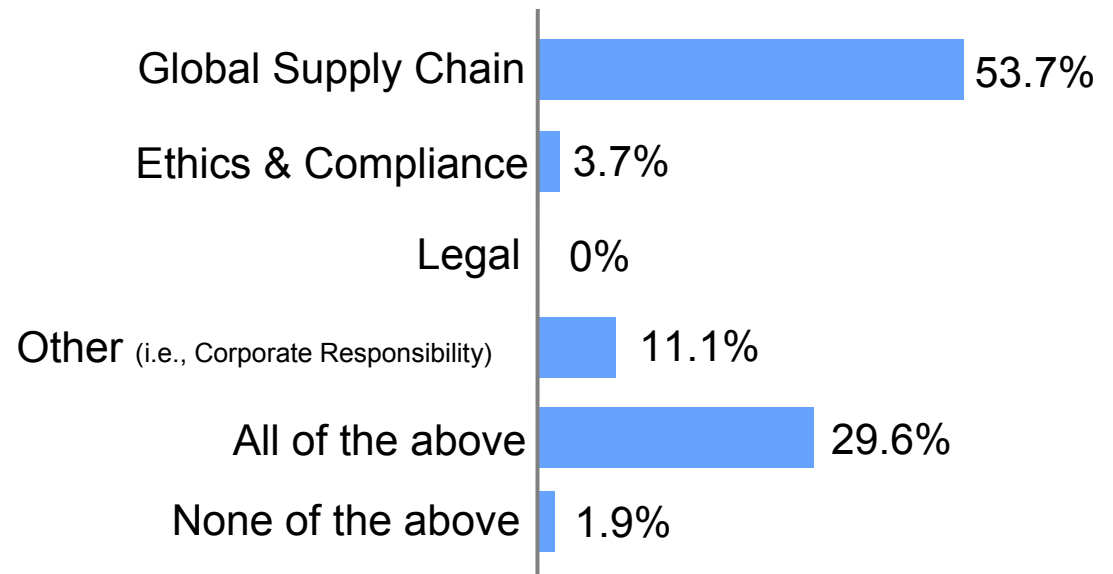


Some statistics:

Is supply chain risk management an important priority?



Which functional area within your company is primarily responsible for managing business partner compliance?

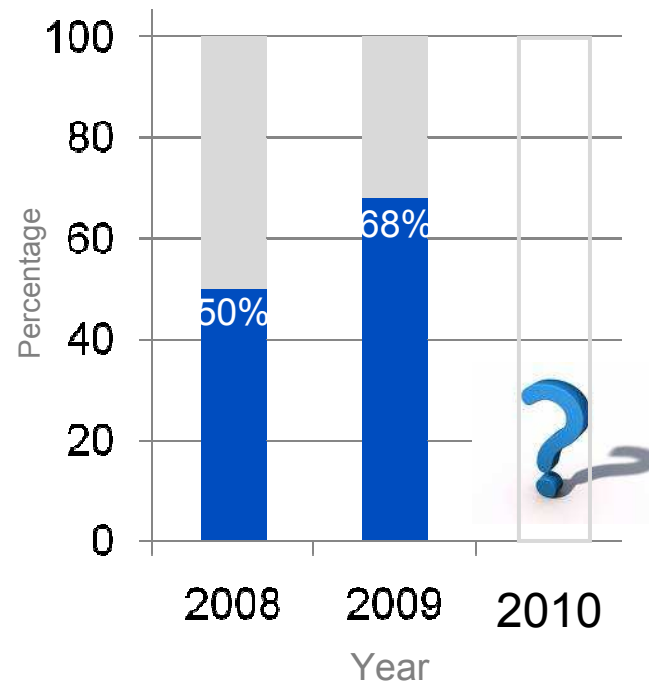


Data derived from 2009 Integrity-Compliance Week Global Integrity Survey

How are other companies thinking about this?



Trend Watch: Communicate your Business Principles to business partners.

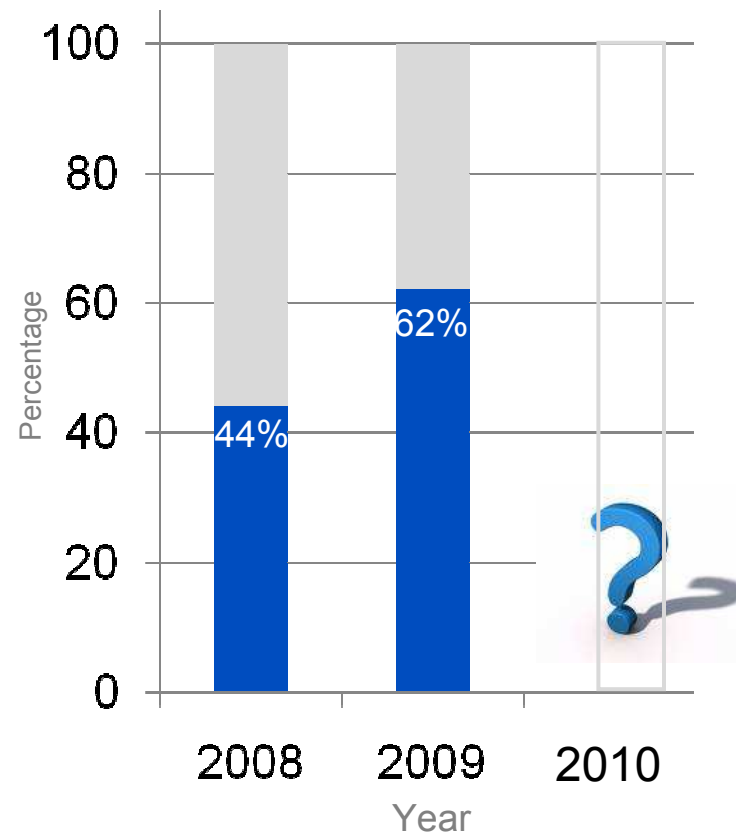


Data derived from : Integrity 2008 Global 2000 Survey and 2009 Integrity-Compliance Week Global Integrity Survey

How are other companies thinking about this?



Trend Watch: Retain right to audit business partners in code.

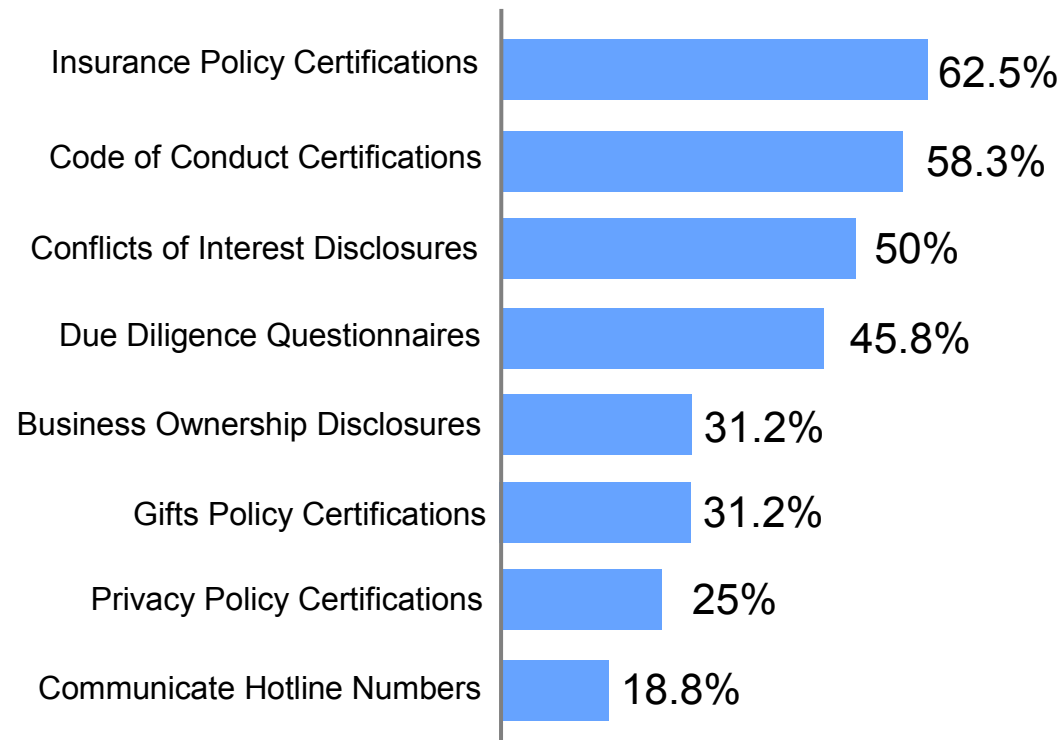


Data derived from : Integrity 2008 Global 2000 Survey and 2009 Integrity-Compliance Week Global Integrity Survey

How are other companies thinking about this?



What are companies documenting among business partners?

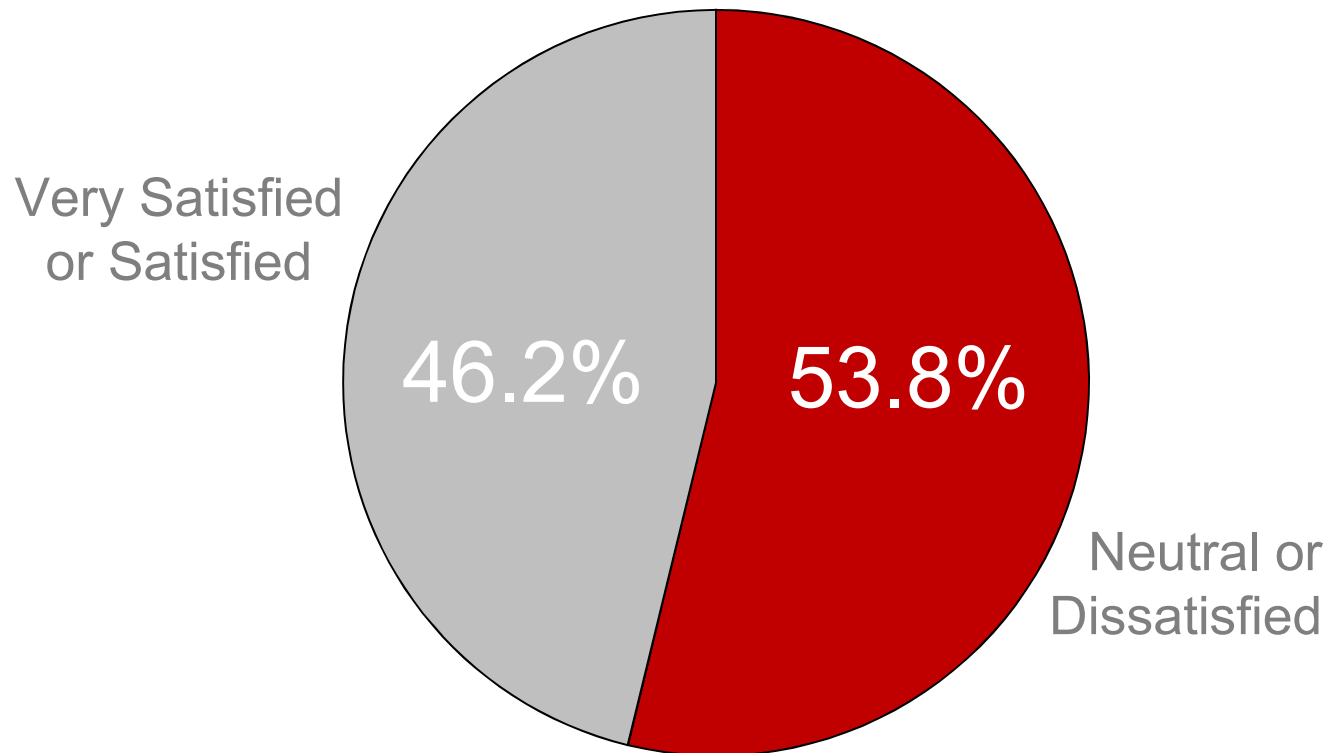


Data derived from 2009 Integrity-Compliance Week Global Integrity Survey

How are other companies thinking about this?



How satisfied are you with your company's approach to Supply Chain risk management and these controls?

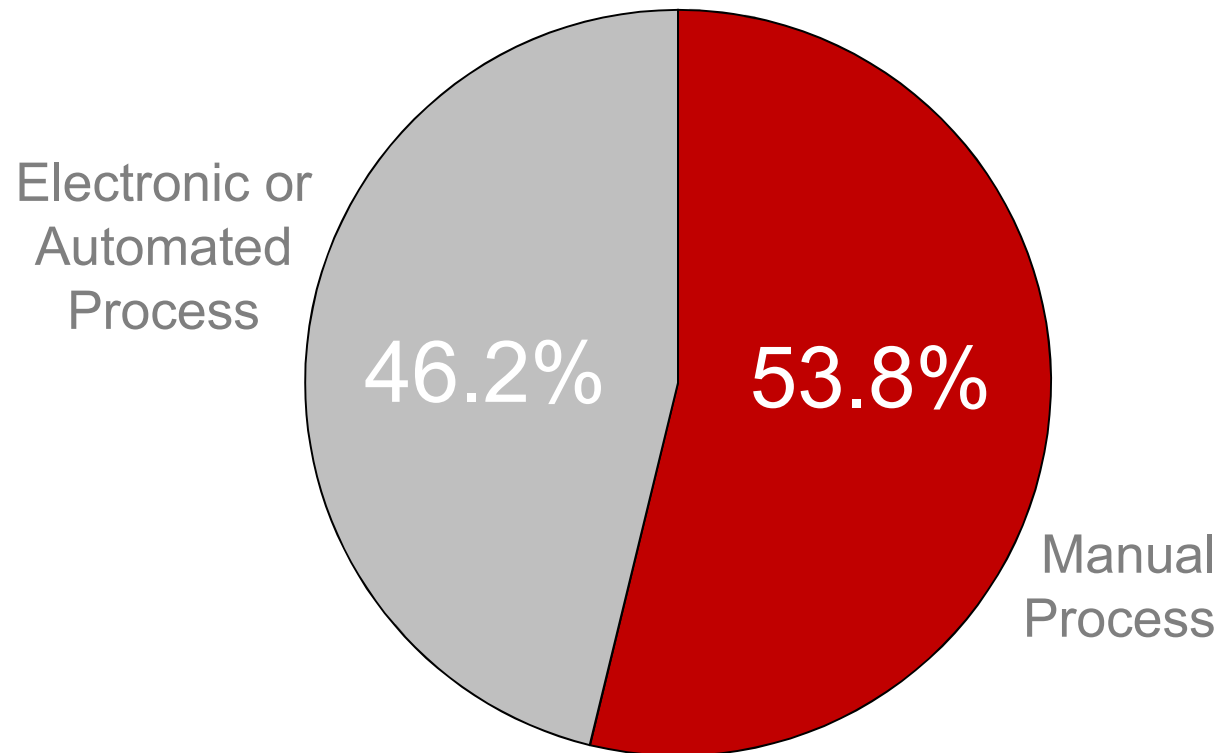


Data derived from 2009 Integrity-Compliance Week Global Integrity Survey

How are other companies thinking about this?



Interestingly, the same percentage of dissatisfaction correlates to companies using manual processes?



Data derived from 2009 Integrity-Compliance Week Global Integrity Survey

Conclusion



So, the picture is becoming clearer:

- ✓ The majority of companies are worried about business partner risk
- ✓ There is a trend toward more formalised controls
- ✓ Automated programs may yield more satisfaction

For Questions or Contacts



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