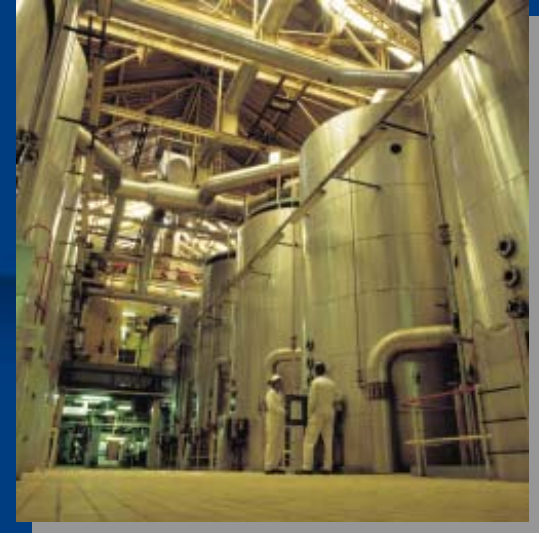


Demand Side Response

Jerry Hutton
CHP Commercial Manager



British Sugar today



Sole processor of UK sugar beet crop

Six factories, all with CHP plants, four of which use natural gas as a fuel

Highest fuel demand is when processing the beet crop between late September and February

Daily gas requirement of 560,000 therms

Why are gas prices so high?

“The market is not working”

“The oligopolistic behaviour of the producers”

“The inappropriate linkage to oil products”

Why are gas prices so high?

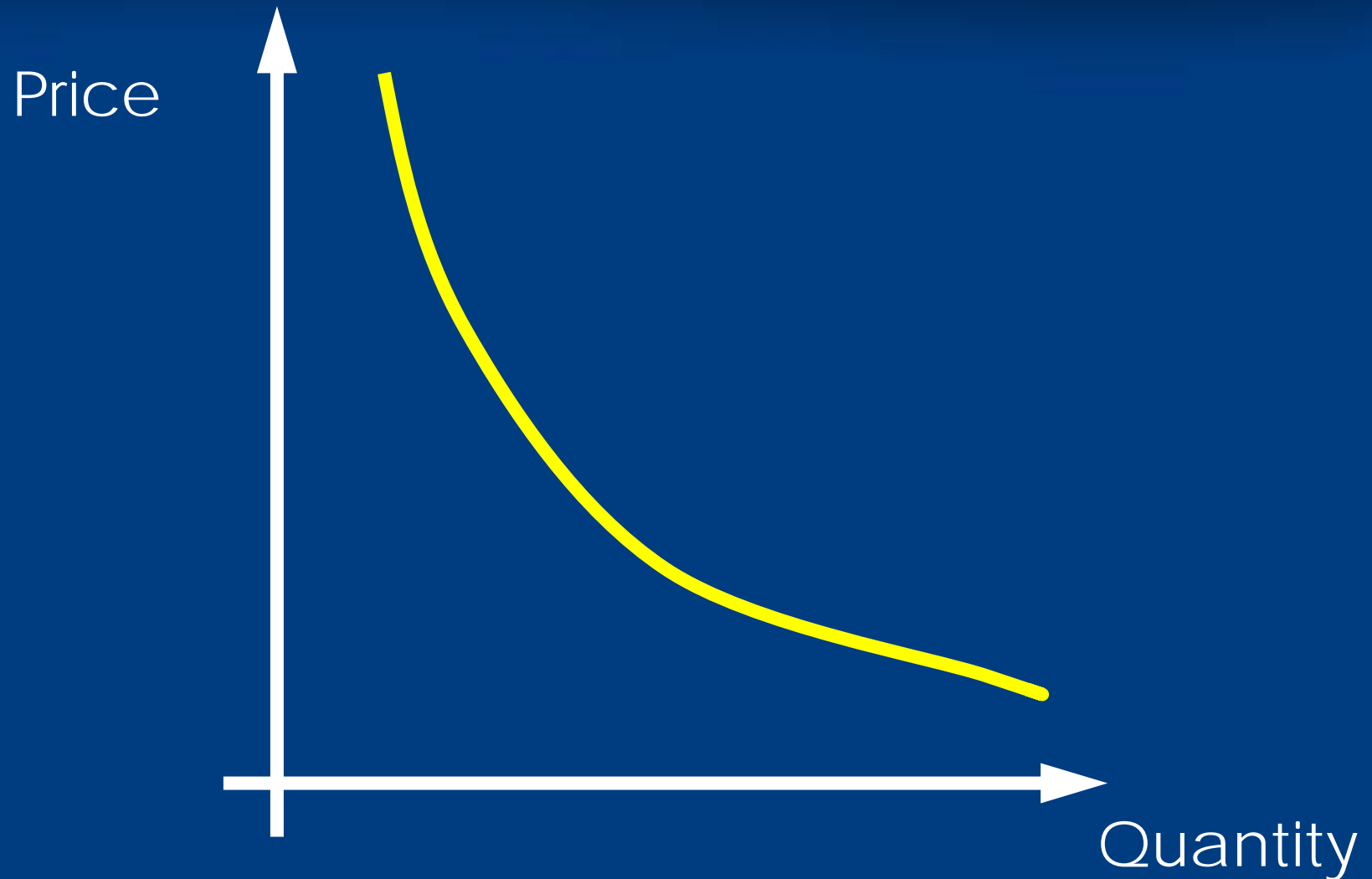
“The market is not working”

“The oligopolistic behaviour of the producers”

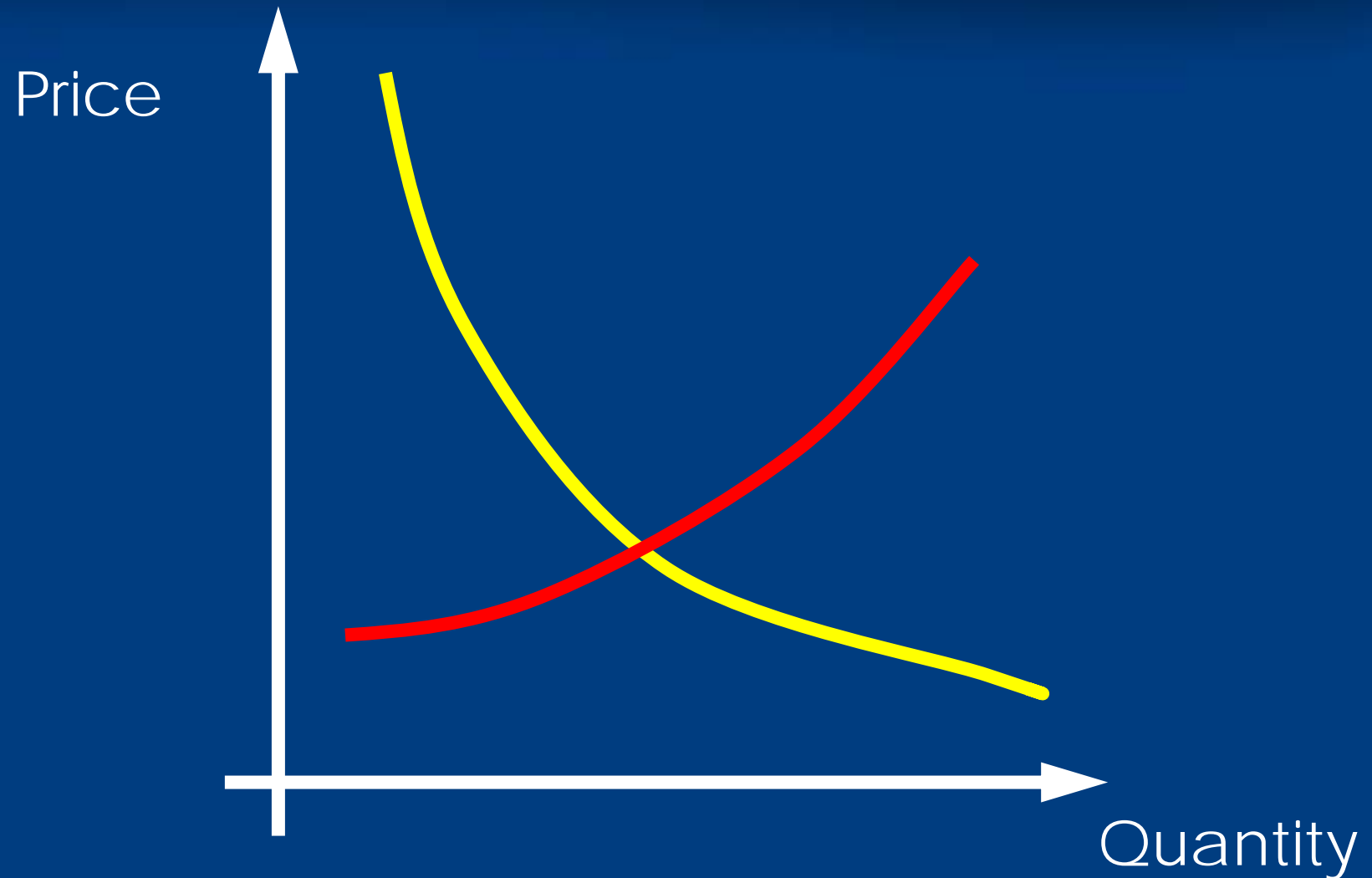
“The inappropriate linkage to oil products”

Because demand is not price sensitive?

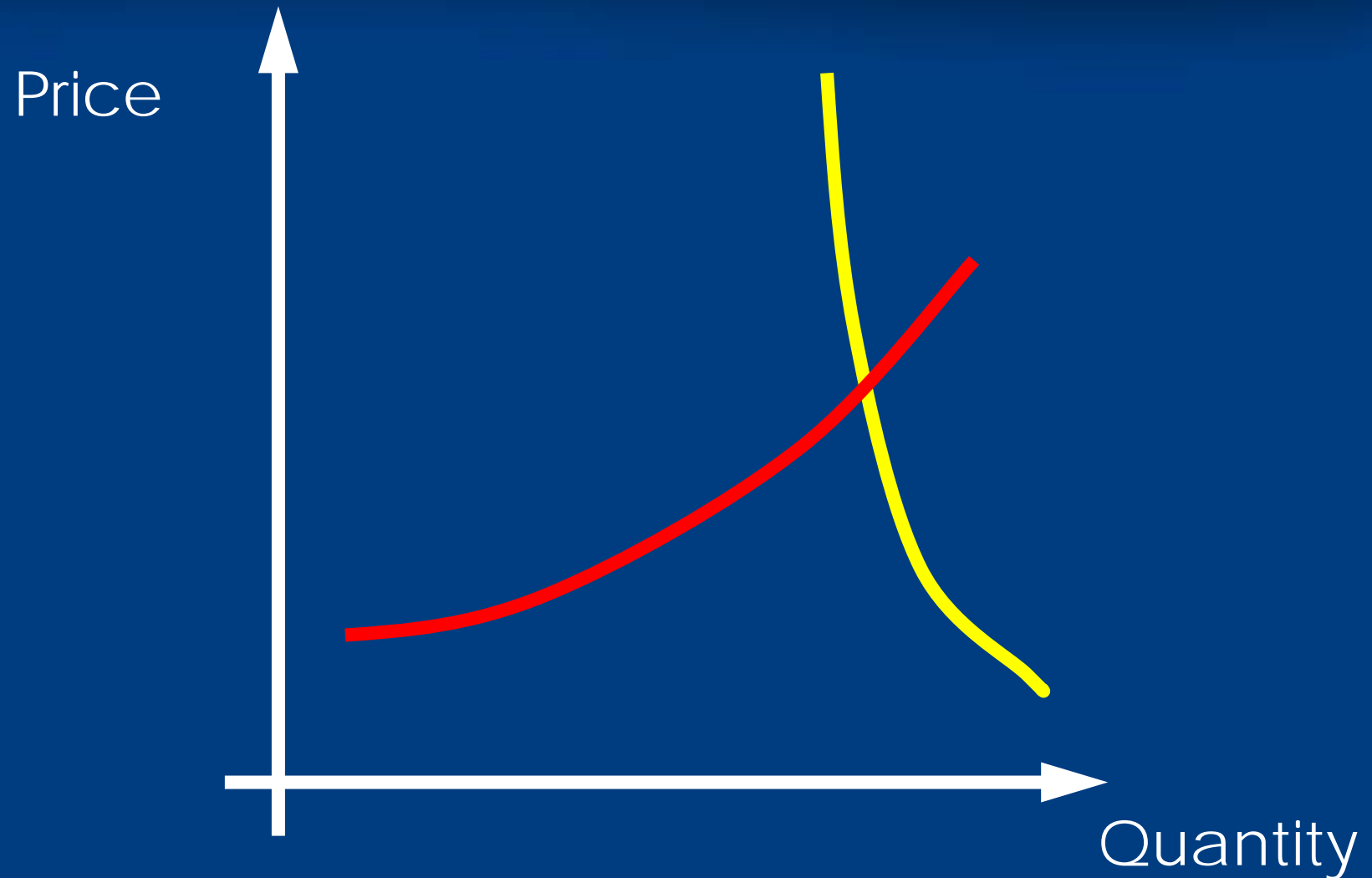
Normal Demand Curve



Market Equilibrium



Impact of Inelastic Demand



Why are we so insensitive to price?

We have experienced a long period of low prices until relatively recently

We have made our investment decisions based on 20p/therm gas

We are not used to coping with this level of volatility

We have not planned for high prices

We have not allocated the resources to deal with the current situation

What should we be doing?

Planning for higher prices!

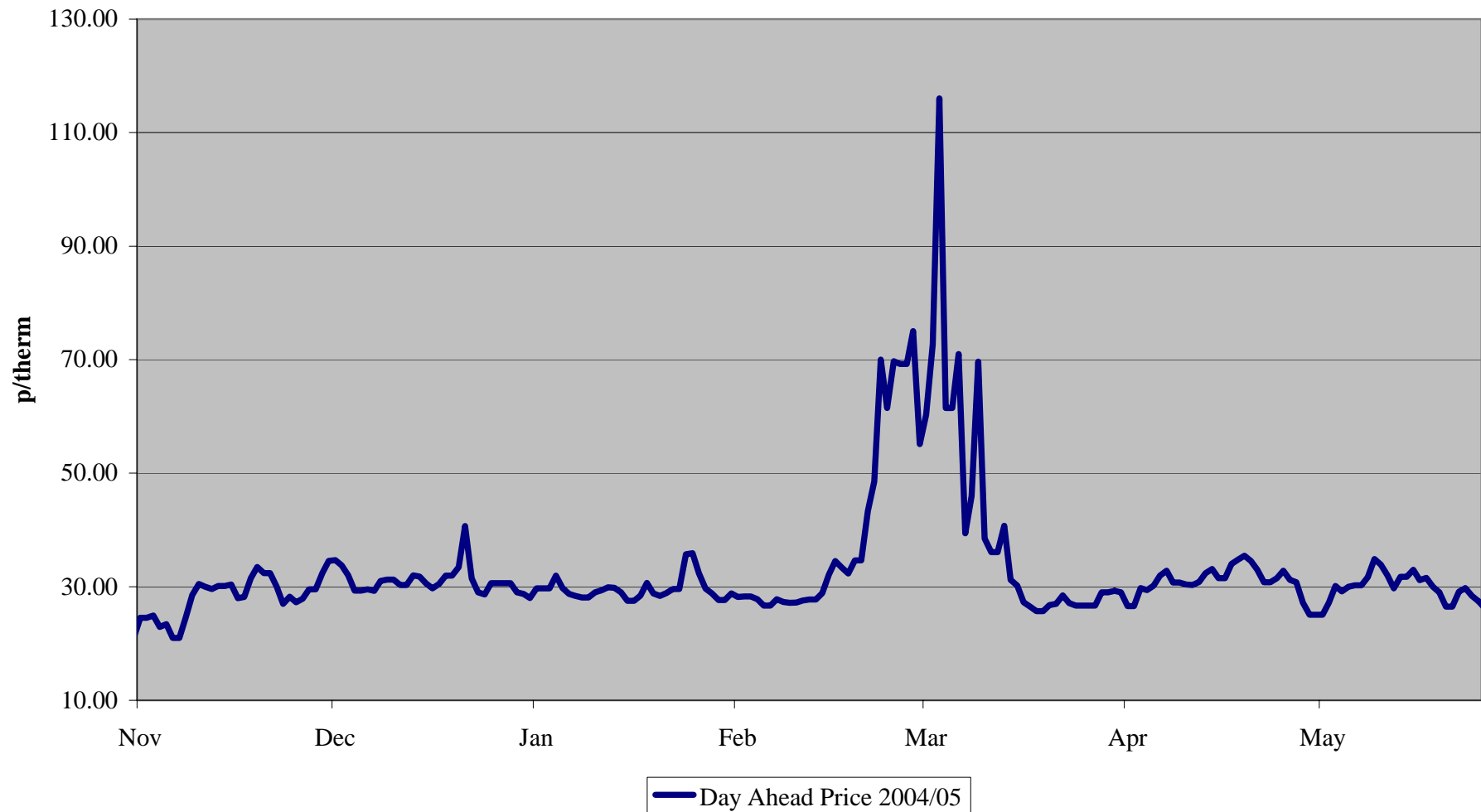
- Long Term
 - Energy Efficiency and Investment
- Medium Term
 - Energy Management
- Short Term
 - Response on the day to system tightness

British Sugar's Approach

- Team established with energy cost management as prime objective
- Long Term
 - Alternative Fuels including renewables
 - Energy Saving Capital Investment
- Medium Term
 - Monitoring and Targeting
 - Optimising Process Performance vs. Energy

Response on the Day

Daily Gas Price



Impact of Price Spike

The average price November to March was 33.75 p/therm

The average excluding nine highest priced days was 31.09 p/therm

For a business using 100,000 therms per day those nine days cost £682,625

Response on the Day

Fuel Switching

- Systems tested
- Alternative fuel available
- Regulatory constraints
- Contractual arrangements

Stop Production

- Cost Impact understood
- Systems in place
- Contractual arrangements

Response on the Day

Fuel Switching

- Systems tested
- Alternative fuel available
- Regulatory constraints
- Contractual arrangements

Stop Production

- Cost Impact understood
- Systems in place
- Contractual arrangements

You may have to do it anyway in case of a gas emergency!

Conclusion

The days of 20p gas are gone

Organisations need to plan for higher prices and have strategies to cope with the volatility

Demand side response is required to achieve an efficient gas market