

OFGEM Buyers Seminar July 2006:



**Buyers options
...and Demand Side Response**

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An effort
to
order
and
simplify...



Some Buyer Options

- **I&C Product package options**
 - What options are available
 - Why choose a certain product package
- **I&C Supplier selection options**
 - What are the principle options
 - Why choose a certain supplier profile
- **Demand side response: monitoring consumption and responding**
 - Passive: monitoring & nominating
 - Active response: managing load and active balancing
- **HydroWingas profile**
 - Customer focused provider of gas supply & support services

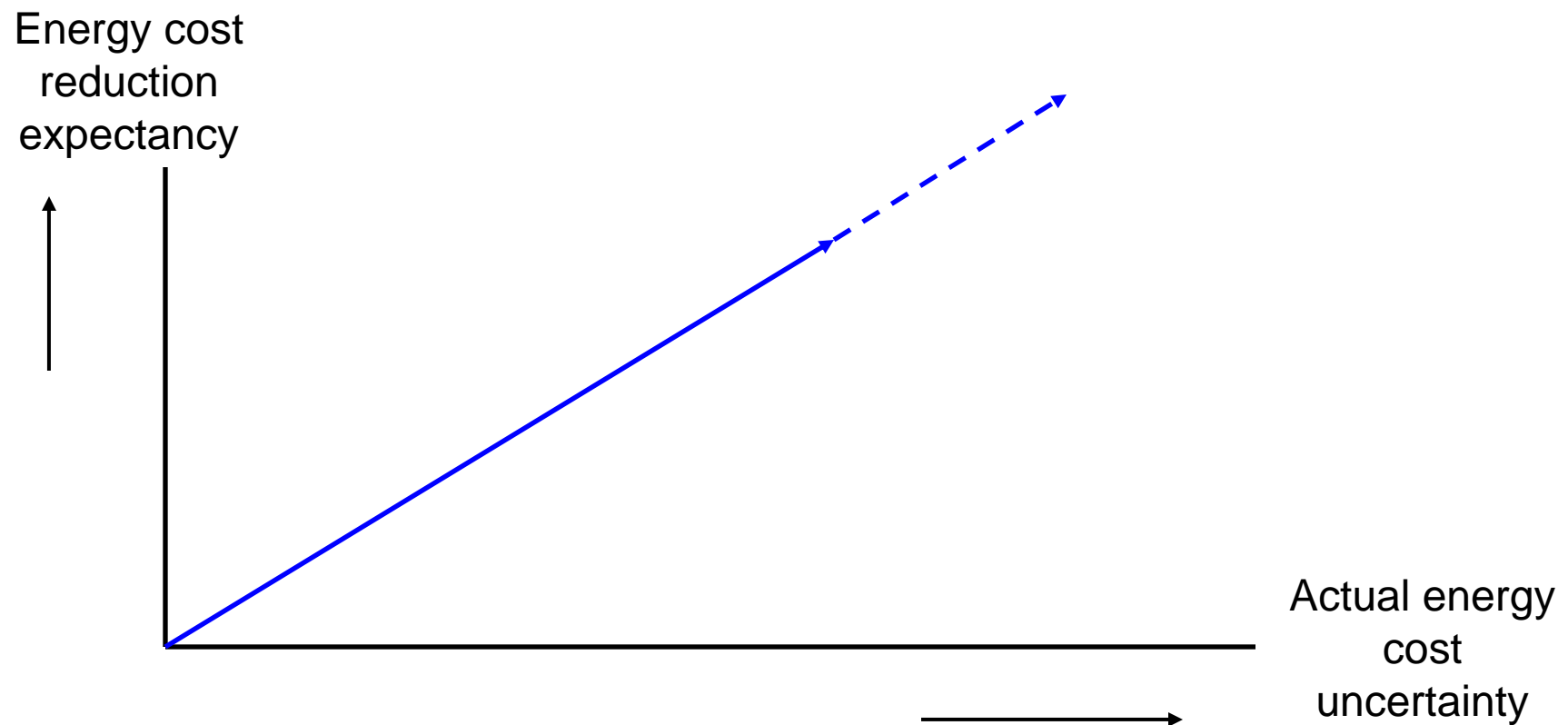
What energy cost expectancy do you need ?

versus

What internal effort can you justify ?

What energy cost uncertainty can you live with?

I&C Product Package Options



I&C Product Package Options

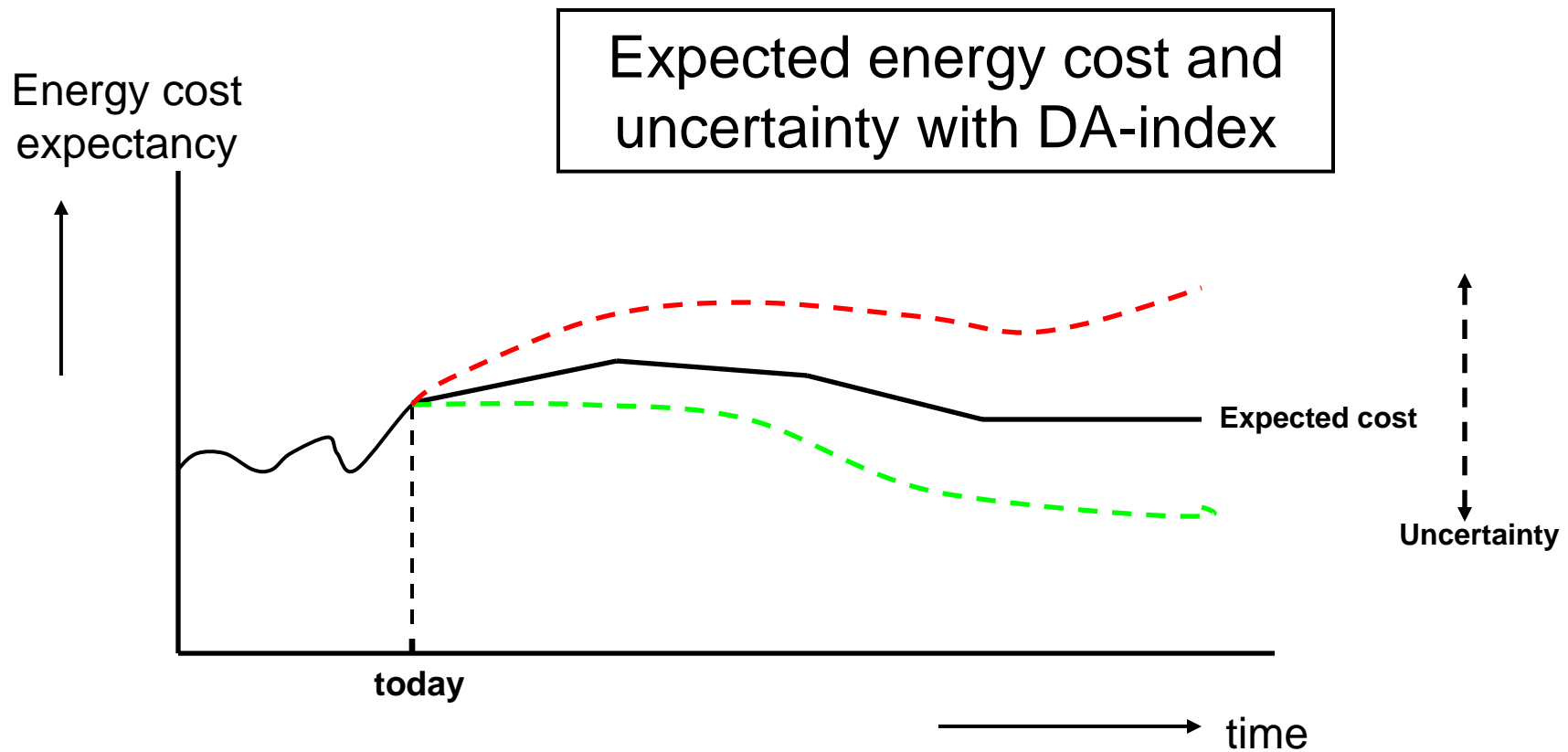
Product A: Stay on the market (spot price)

- Spot gas through Day-Ahead indexation
- Ensures market conformity/transparency
- Lowest cost expectancy without further efforts
- Pay DA price + “management fee” for balancing/administrative handling

Applicable to Buyers:

- Being able to pass on energy cost, having relative low energy cost share, competing in the local market AND
- Can afford energy cost uncertainty and related cash flow fluctuations

I&C Product Package Options



I&C Product Package Options

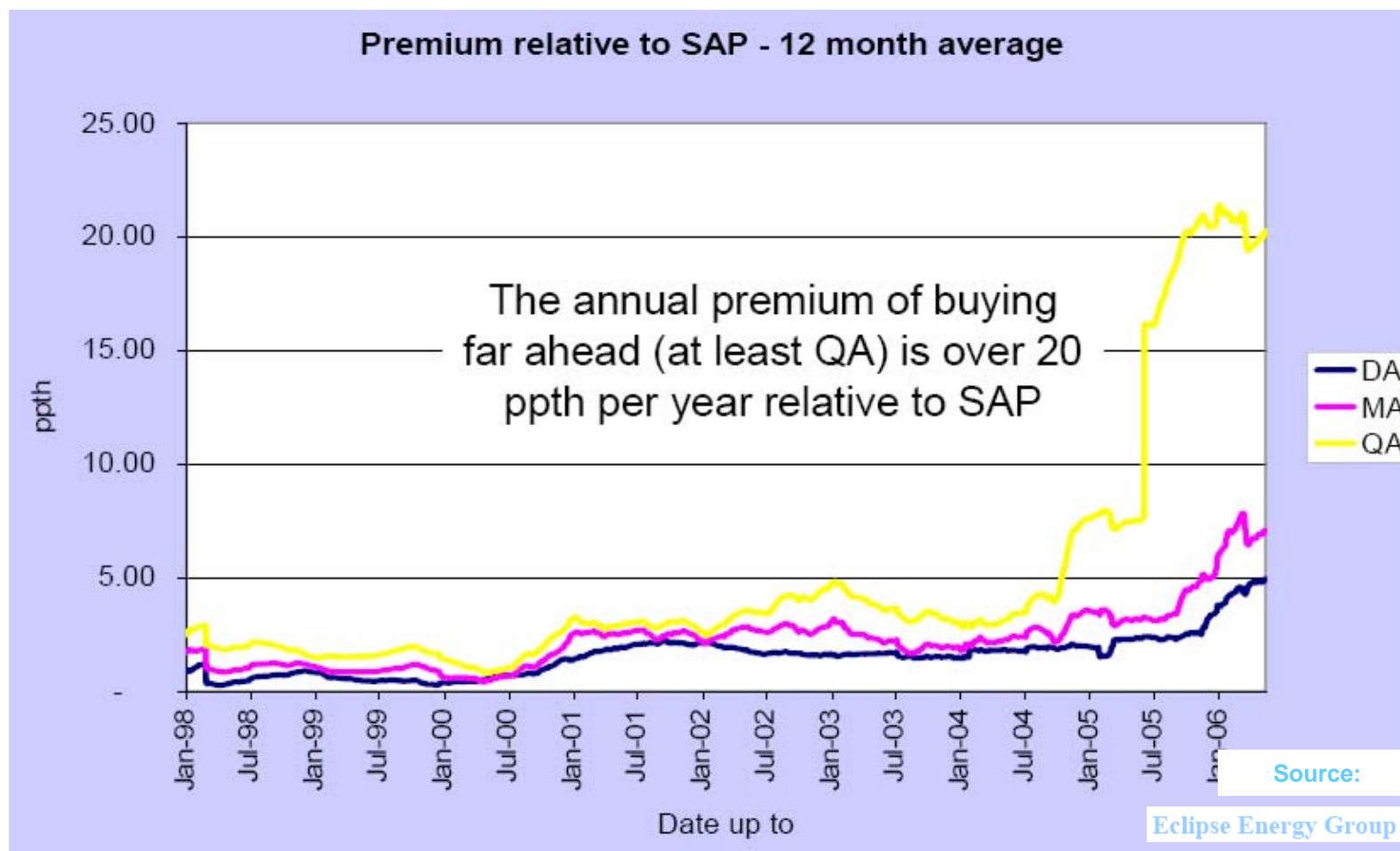
Product B: Secure energy cost level (fix forward)

- Purchase based on traded NBP forward products
- Secure energy cost level
- Pay “risk premium” in the traded market
- Pay market cost + profile, balancing and administration premium

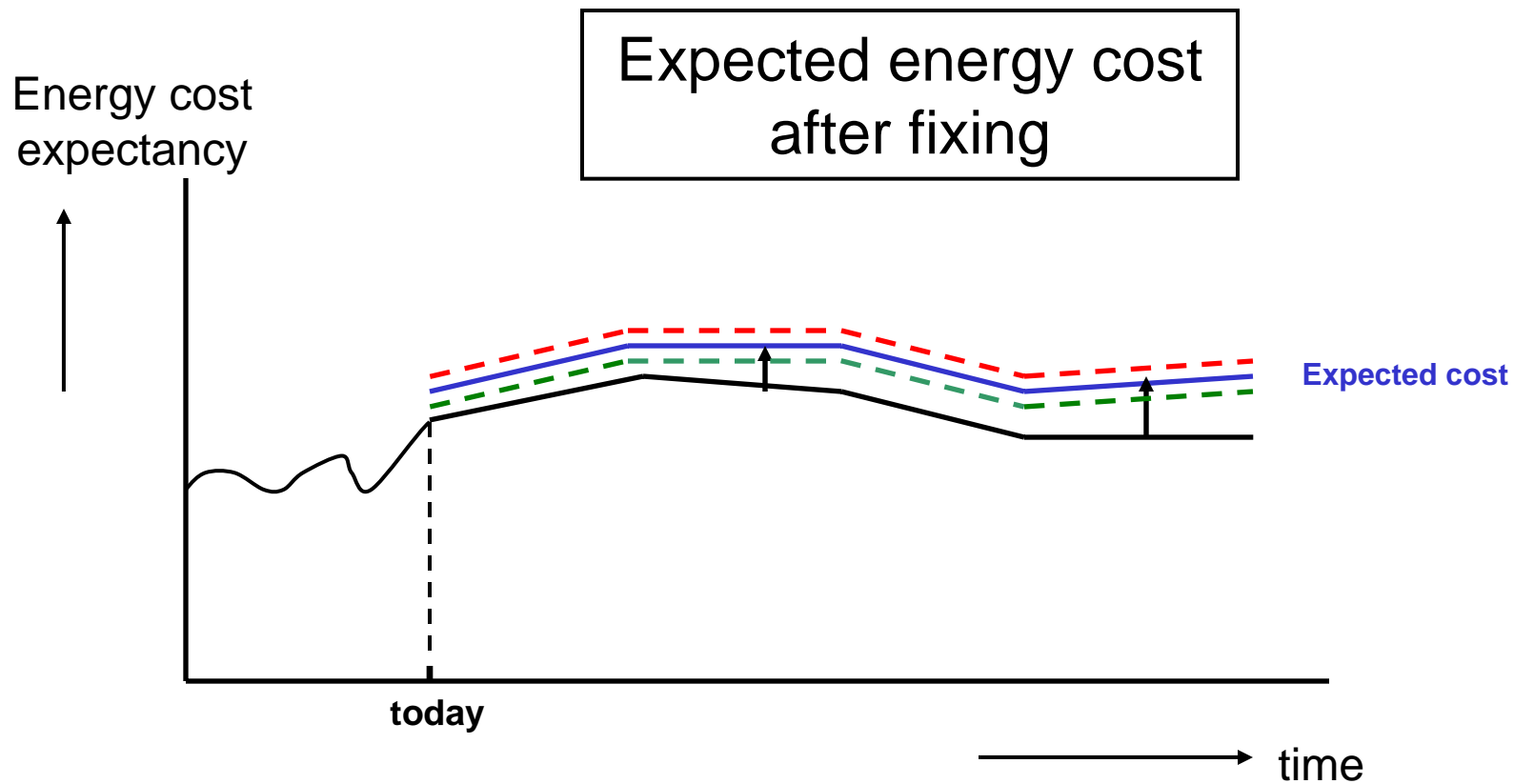
Applicable to Buyers:

- requiring to lock in a margin on their (sold) production OR
- choosing energy cost certainty (budget) OR
- cannot afford spot related risk and large cash flow fluctuations

Forward premium development



I&C Product Package Options



I&C Product Package Options

Product C: Optimise market potential (active portfolio management)

- Regular follow-up to change fixing ratio with market/portfolio changes in line with risk policy
- Enables lowest expected energy cost
- May increase cost uncertainty (risk)

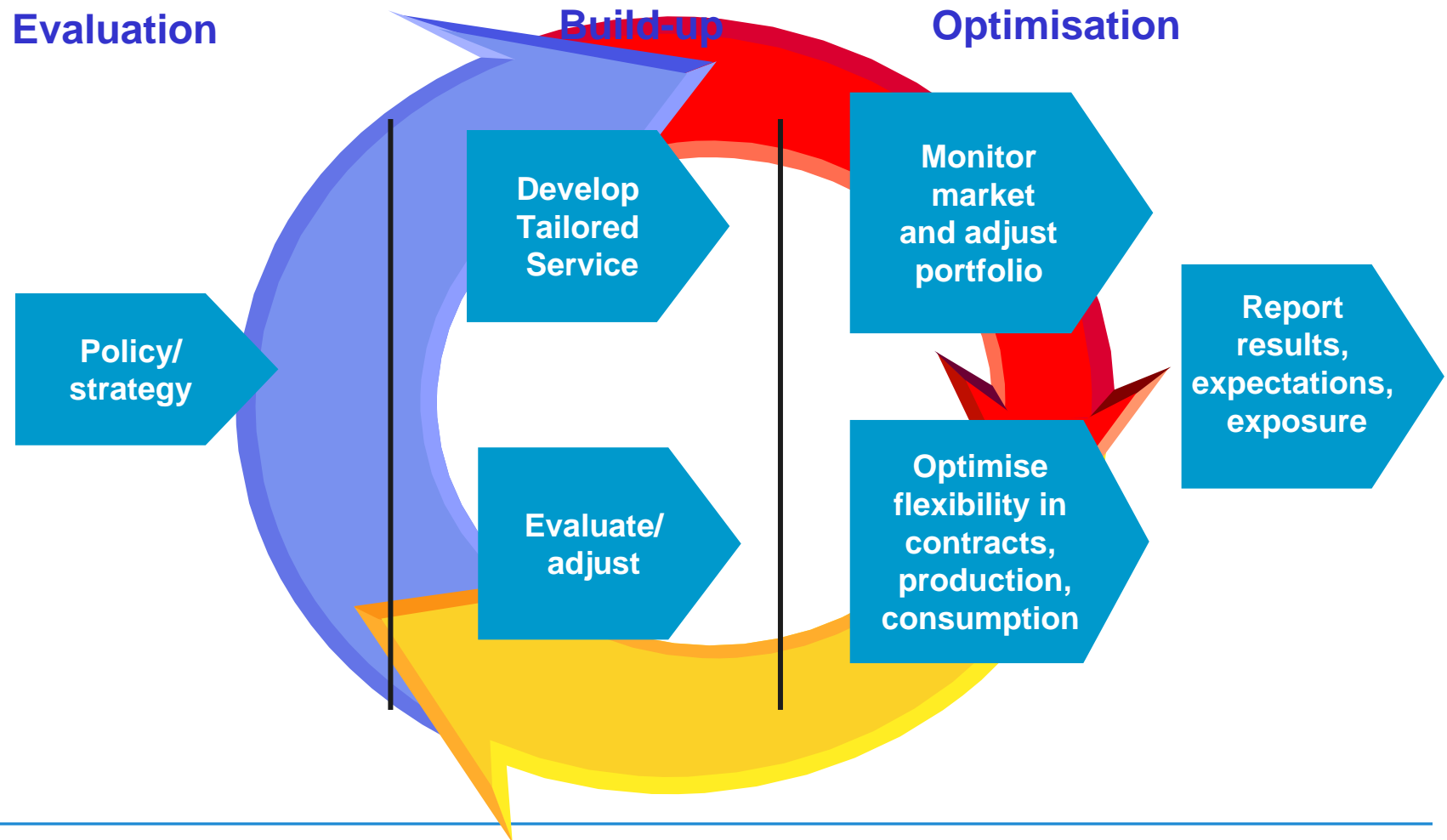
Applicable to Buyers:

- Seeking to reduce expected energy cost by continuous optimising against market
- AND
- Able to justify (afford) build up of internal competence and (management) attention to follow up energy sourcing activity
- Able to “absorb” risk

Active portfolio management: important elements

1. Establishment of your risk policy/strategy
2. Information access
 - Market reports and shared market views
 - Your consumption information
3. Decision support services
 - Access to trader or account manager to discuss market, portfolio and possible fixing/unfixing transactions
 - Tools to optimise the value of flexibility (load management, virtual storage, TOP, other)
 - Tools to monitor expected energy cost and to estimate cost uncertainty
4. Transparent access to traded products:
 - Transaction execution at “real-time” prices
5. Your internal organisation and competence build-up
 - Financial management
 - Regular portfolio reporting (position, cost, risk)

An overview of approach



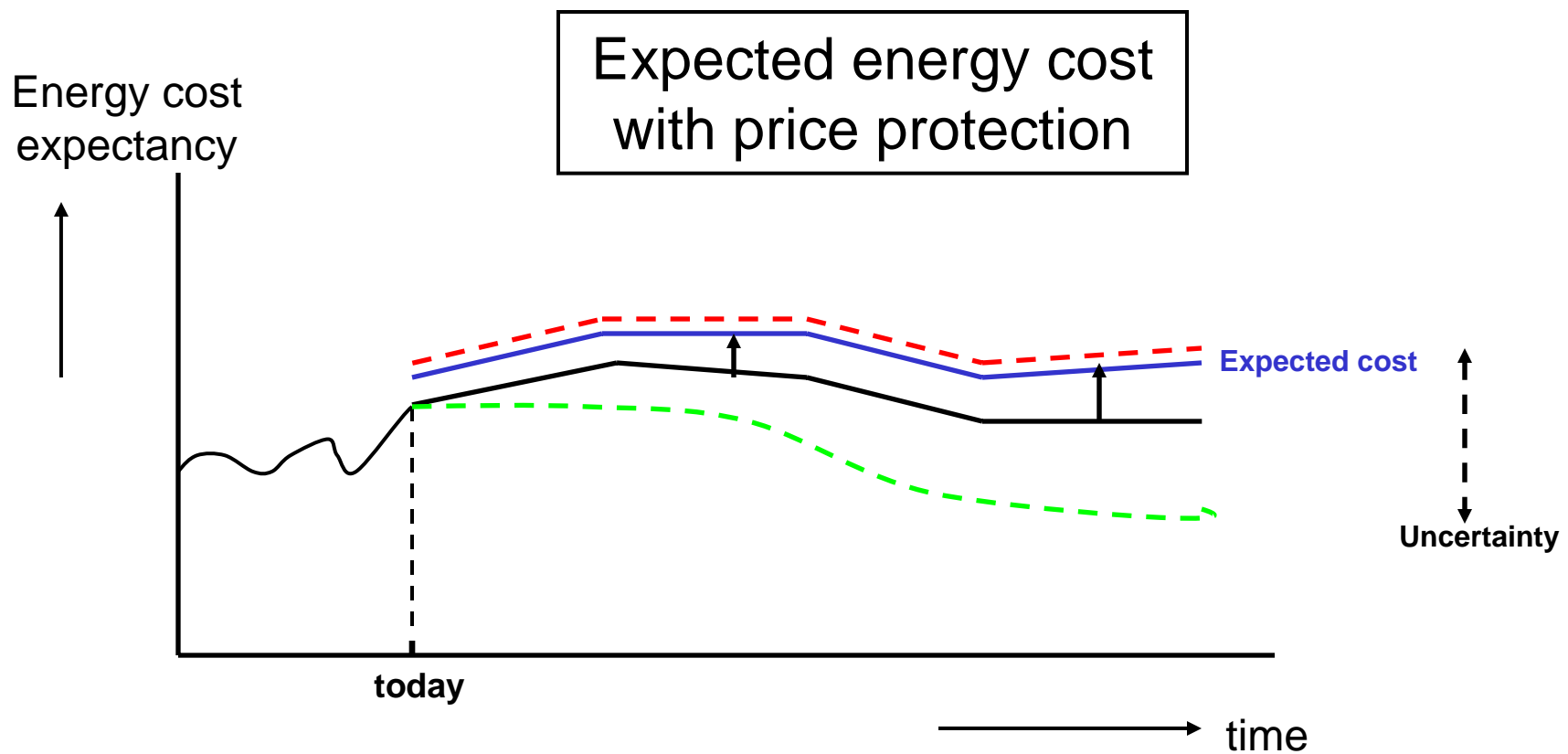
Product Package Options

Product D: Structured products

Examples :

- Price protection at certain price level (cap option)
 - Provides for DA-indexation
 - Protection limits daily price “X” in case price higher than “X”
 - Premium paid for protection
- Virtual storage
 - For certain amount of days, pay summer/winter forward price difference
 - Obtain the right to choose which days to inject, which to withdraw

I&C Product Package Options



Product Package Options

Product D: Structured products)

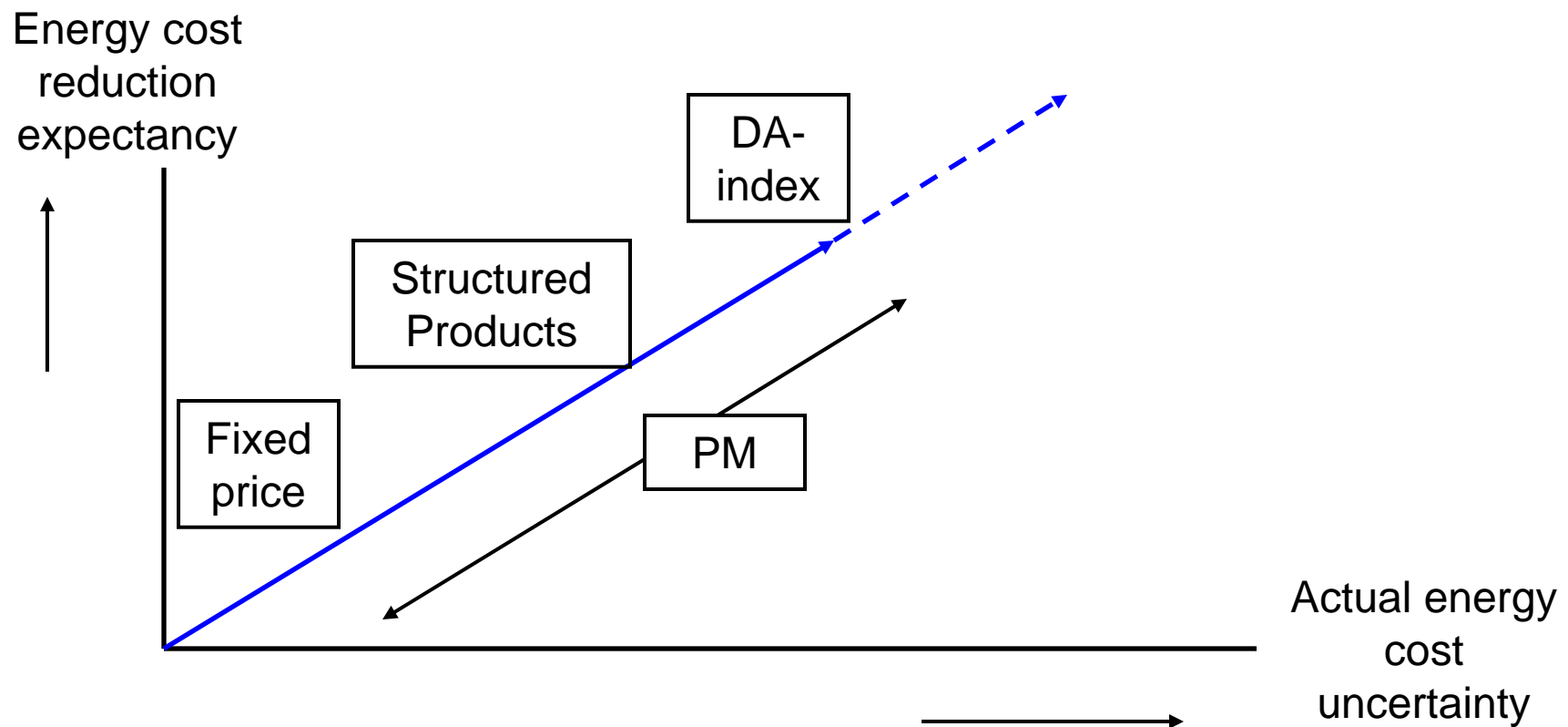
Examples (continued) :

- Indexation to a global energy reference (HFO, LSFO)
 - Locks in difference between UK gas market and respective oil market, tracks the oil volatility in stead of gas volatility
 - Freezes difference in competitiveness towards international (oil-based) competition
- Indexation to continental energy cost (f.e. TTF)
 - Locks in difference between UK gas market and the Dutch market
 - Freezes difference in competitiveness towards Continental competition

Applicable to Buyers:

- seeking to reduce competitive exposure to non-UK competitors

I&C Product Package Options



I&C Supplier Selection Options

What type of supplier/service provider will provide you best with your required services and has the best incentives to do so ?

I&C Supplier Selection Options

Gas suppliers for Products A and B:

- Traditional suppliers with gas assets
- Dedicated suppliers, trading their sales portfolio without physical gas assets

Suppliers/Service providers for Product C:

- Portfolio/risk management agents/consultants in combination with a licensed gas supplier
- Traditional suppliers with gas assets
- Dedicated suppliers, trading their sales portfolio without physical gas assets

Suppliers for Products D

- Financial institutions, (financial) trading houses
- Suppliers that integrate these products in supply solutions

I&C Supplier Selection Options

Most suppliers are able to offer you Product A and B

Supplier selection means:

- Product A: - comparing “management fees” that cover balancing and administration efforts
- Product B: - comparing “management fees” i.e. premium above the traded forward product for profiling, balancing and administration efforts

Remaining judgement on quality factors
(invoicing, information, communication)

I&C Supplier Selection Options

Product C is more complex to assess, some considerations:

- Suppliers may offer full portfolio management services but due to the handling of their own assets, the credibility of their recommendations weakens. The transparency of access to traded products may decrease. This may however be overcome with a clear organisational split between customer portfolio management/trading and asset portfolio management/trading.
- Fierce competition has led to offering of this type of services below cost, sacrificing quality.

I&C Supplier Selection Options

Product C: some considerations:

- A common concept in the UK is the combination of risk/portfolio management agents/consultants, whom do focus on customer interests and offer you risk/portfolio management services, with a licensed supplier to execute transactions for customers and supply gas.

I&C Supplier Selection Options

For Product C, supplier selection SHOULD mean:

- Select suppliers with clearly split customer portfolio management and asset management.
- Select suppliers with sufficient trading activity
- Select suppliers that provide transparent access to traded products without “hidden margins”
- Compare decision support services and tools:
 - Do you get to speak directly to a trader and/or a portfolio manager?
 - Do you get support to establish and operate your risk policy/strategy
 - Will you receive frequent portfolio reports for your internal reporting?

I&C Supplier Selection Options

For Product C, supplier selection SHOULD mean:

- Compare suppliers on track record, realised savings for customers, possibly through references.
- Check if combinations of supplier/consultants have good joint experience and track record
- Be aware that good performance may easily deliver the tenfold of “management fees” in terms of reduced gas cost.

DSR: Demand Side Response

How does monitoring your consumption
and possibly adjusting load help you
reduce energy costs ?

Demand Side Response: monitoring

Daily monitoring consumption allows to:

Estimate and nominate daily consumption, and through that:

1. Achieve more competitive offers by reducing the requirement for your suppliers to include unnecessary high imbalance and profiling premiums,
2. Help the TSO to predict load better

In addition: adjusting load allows in addition to:

1. Reducing average energy cost per unit consumption
2. Actively balancing your position, avoiding the need for your suppliers to charge imbalance premiums at all
3. Concretely help the TSO balance the system

Demand Side Response: requirements

DM is beneficial and has the potential to quickly earn back the investment made

Market exposure is a must:

1. Market indexed supply contract OR
2. Supplier should allow selling back at applicable market price

The financial benefit must out weigh:

1. Internal efforts to measure, register and estimate consumption
2. Costs of additional metering equipment
3. Marginal cost consequences of reduced consumption

Ideally, an upfront price trigger should be determined for load reduction to kick in

Demand Side Response: Outlook for Winter 2006/07

Far greater involvement with DSR this year than last year.

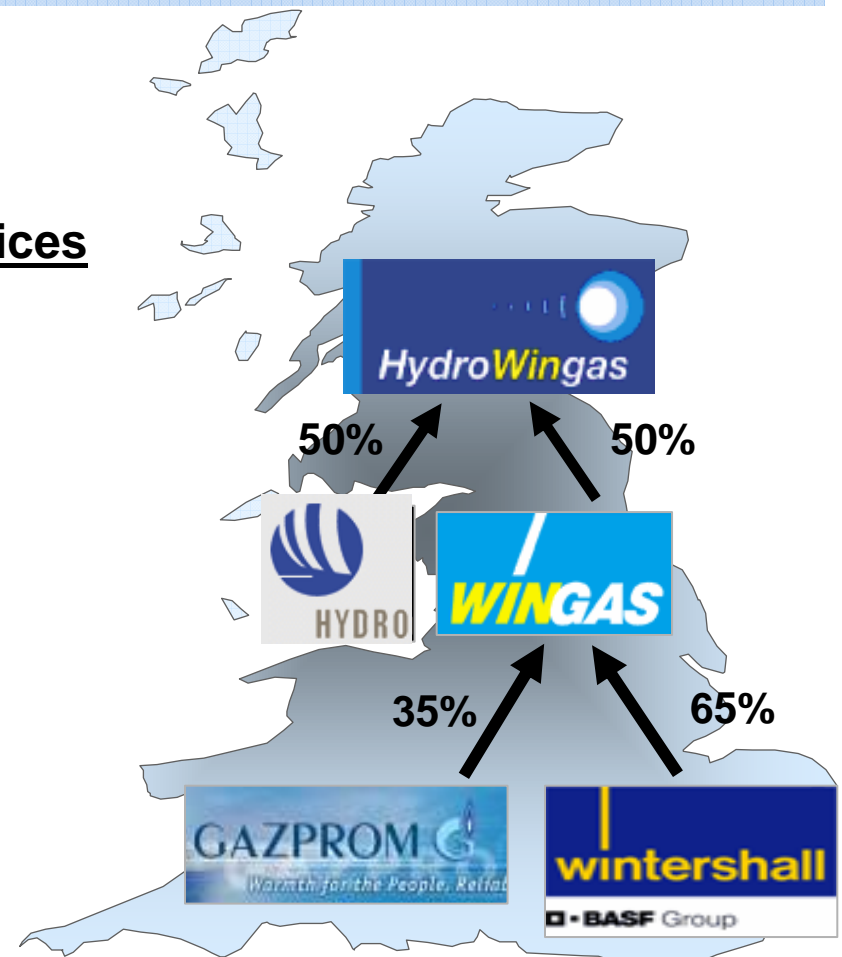
Forward arrangements with gas suppliers on price and volume risks at advanced stages

The supply of alternative fuel has been already negotiated in many cases

Re-engineering of customer infrastructure through various incentives now has commercial potential, not only in the reduction of volumes consumed but also in the capability to interrupt for commercial reasons

What can you get from HydroWingas ?

- You can get **transparent access** to the traded NBP products
- You can use our **decision support services** for you to take decisions on your energy consumption and sourcing portfolio.
- Having access to Norwegian and Russian gas, you may expect good **security of supply**
- By investing and expanding activities, our shareholders are providing for more gas to be landed in the UK, thus contributing to **more healthy market** conditions in the UK.



Thank you for your interest