
Energy buying – which way now?

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Total Gas & Power Ltd

Options for energy buyers seminar
Glasgow, 8th September 2006

Introduction to Total Gas & Power Ltd

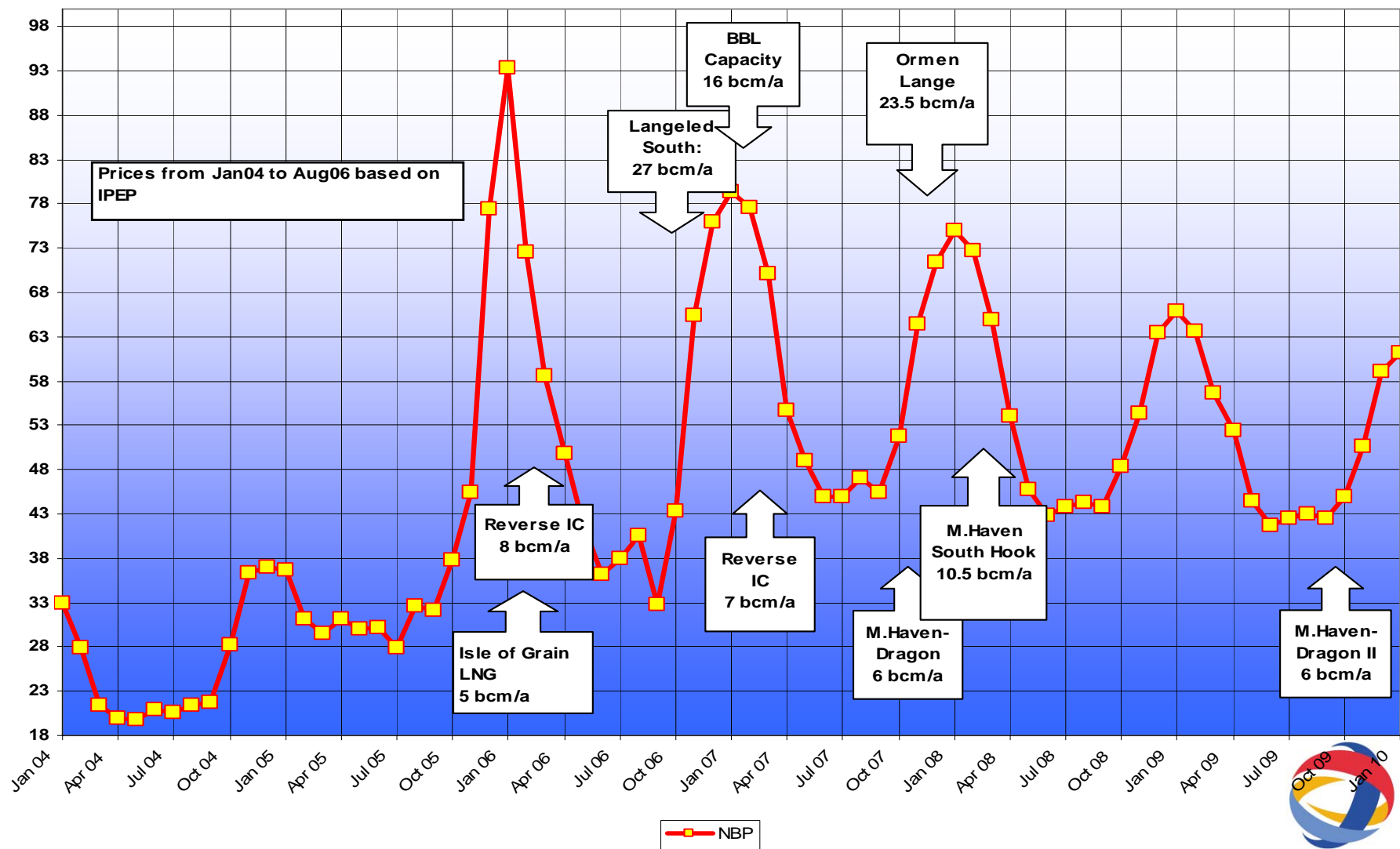
- **Part of Total Group. International Oil & Gas Major present in over 100 countries and employing 120,000+ staff.**
- **Upstream gas and power**
 - Leading gas producer – Europe and worldwide
 - Leading LNG producer – Middle east, Nigeria, Indonesia, Norway, etc.
 - Power generation assets – South America, Mid and far east. Renewables.
- **Midstream**
 - Major gas, power and emissions trader – London operation
 - LNG – re-gasification plants, shipping, trading.
 - Pipeline ownership
- **Downstream**
 - Energy wholesale activities in all key world markets
 - Energy retail activities in Europe. Established in I&C segments of UK, French and Spanish markets
 - Gas and power retailing in UK I&C sector under Elf Business Energy brand.



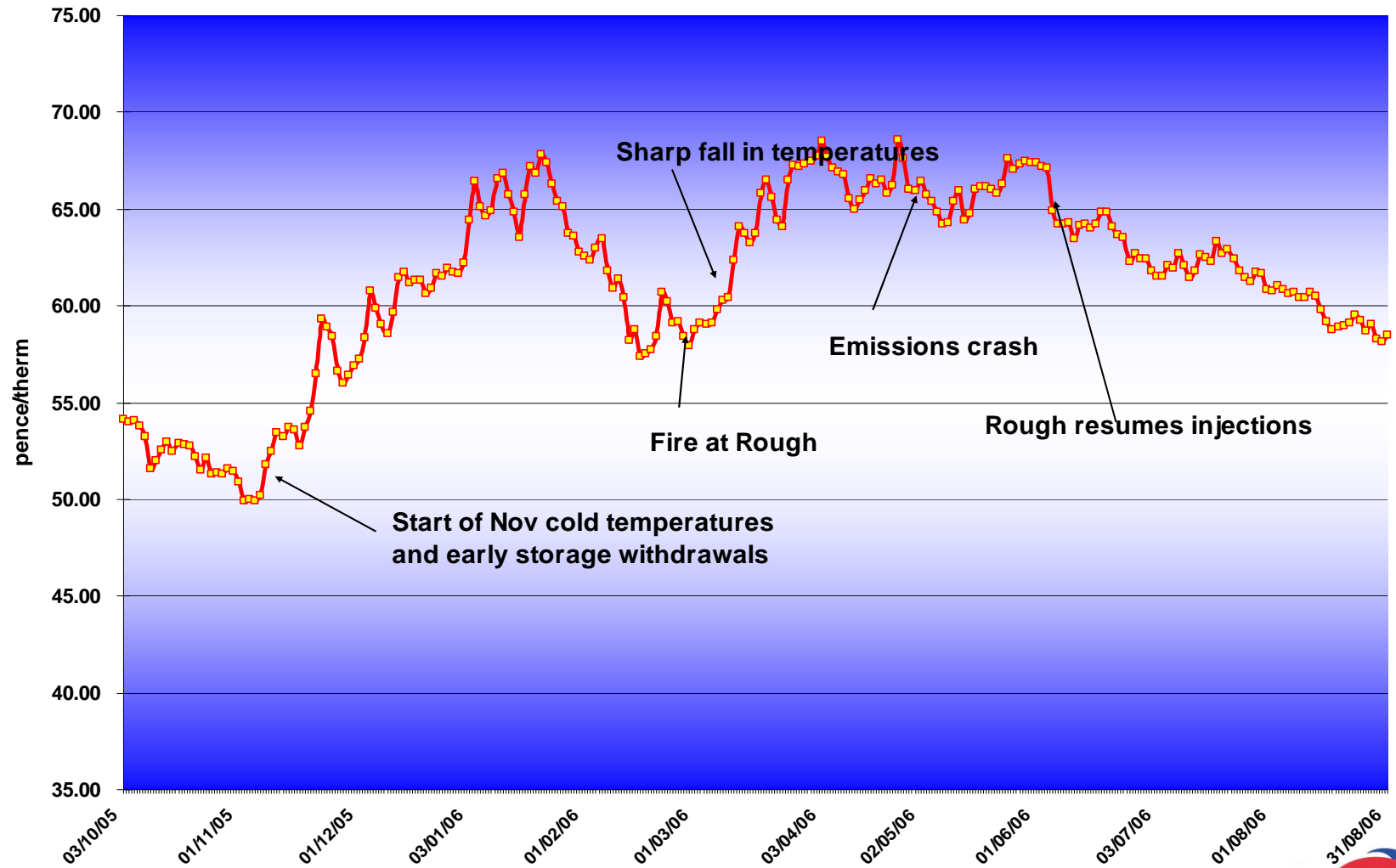
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Gas - market prices and key events

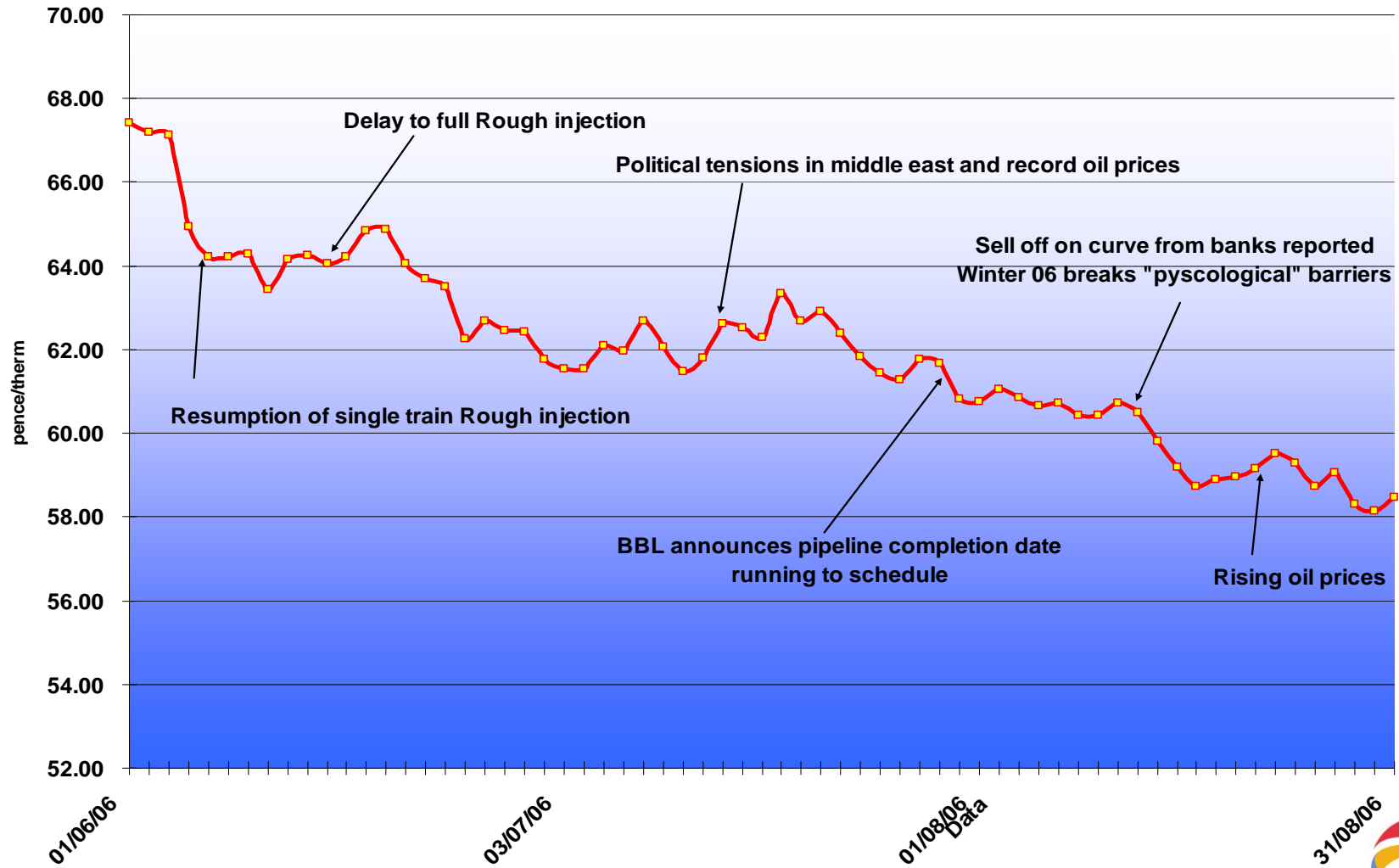
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Development of winter 06/07 prices and key events



June-August gas market behaviour



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Gas & power price relationship



Price outlook.....?

- Gas and power intrinsically linked – for power read gas.
- Oil still influencing UK gas price due to European gas price formulae. Oil still volatile.
- Medium term outlook suggests reducing gas prices as additional piped gas plus LNG projects deliver. However:
 - Shipped (LNG) and piped gas reliant upon upstream and downstream projects.
 - Shipping logistics of LNG do not lend themselves to rapid reactions to meet short term issues.
 - UK must compete with Europe, Far East and USA to attract gas. UK 'glut' may only be apparent
 - Full medium-long term price implications of decisions for nuclear unclear.
- Short term outlook.
 - Power prices should track gas.
 - Generally gas supply-demand tensions should ease as pipeline projects go live. Gas prices should soften and bring down power prices. No guarantees.....
 - Large I&C consumers expected to demand side manage (as 05/06) which dampens price.
 - However, short term prices remain very weather and infrastructure sensitive. For this read North Atlantic weather and worldwide infrastructures.
 - The potential for price spikes remains in both gas and power markets.



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Uncertain outlook – adapt buying approach

- Given ongoing price volatility the traditional approach of picking a day to set a forward fixed price remains high risk- essentially a gamble.
- Many buyers have already moved to progressive hedging, monthly purchasing and other types of arrangements.
- For convenience, most suppliers advocate a single approach per customer. This may not be the most effective route for that customer.
- Customers should seek a range of options within a single contract allowing the buyer to utilize the most appropriate approach under any particular set of circumstances arising over the course of the contract.
- How to take advantage of possibly falling market prices whilst capping risk? Have a plan – review and adapt over contract period.
- Don't forget – energy efficiency and energy price efficiency....



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Energy Buyers 'Toolbox'

- **Flexibility**

- To buy in time and volume chunks on indices of choice.
- To buy 'live' when required. Needs supplier co-operation.

- **Information**

- Market and price. Agree report content and format. Medium important. Timing crucial.
- Demand forecasting.
 - Effective understanding of the demand profile critical if costs to be managed.
 - Good data available for HH and DM sites. Poor data at NHH and NDM.
 - AMR solutions offer great opportunities to better understand smaller site demand.
 - Expect evolution of differentiated products for smaller sites in the medium term on the back of AMR. Requires changes to Transporter/Distribution charging to reflect true energy economics.
- Internal budgets, target data.

- **Tracking services – provided by supplier**

- Buying plan, targets, triggers, reviews, etc.



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Further product development

- **Market volatility protection/reward products**

- Capped prices for contract periods
- Customer and supplier share upside from falling prices.
- Supplier needs to be effective in Options Trading (and thus FSA regulated) to develop this type of proposition.
- Alternative structures available e.g. set discount to out-turn prices above agreed caps.

- **Flexible contract periods**

- Norm has traditionally been 1-2 years.
- Buyer constrained against opportunities beyond the contract window.
- Move to:
 - Rolling contracts with a defined minimum forward period over which the buyer can buy.
 - Longer contracts with break clauses at set intervals.



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Energy Buyers ticklist

Energy buying flexibility	Live buying of any month or period	
	Monthly market indices buying	
	In month buying flexibility	
	Flexible contract duration/ rolling contracts / break clauses	
Energy buying support	Access to markets through supplier	
	Periodic discussions and reviews	
	Tracking and trigger services	
	VAR reporting	
	Purchasing performance reporting.	
Customer demand management	Access to AMR services.	
	Energy usage MI	
Risk Management	Capped prices	



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Elf Business Energy – Ticking all the boxes!!

Energy buying flexibility	Live buying of any month or period	<input checked="" type="checkbox"/>
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