Options for Energy Buyers

Mark Dickinson
Managing Director

reduce risk

reduce cost

optimise

Overview

- What Energy Consumers want to know about energy
- What Energy Consumers should want know about energy
- How to add value from knowledge

What consumers want to know!

What is going to happen to gas and power prices this winter?

What is going to happen to gas and power prices in 2007?

How are oil prices likely to affect the market?

What is the likely effect of storage?

What is the likely effect of the new Interconnectors on the market?

Should I fix the price of the my gas and power today?

Should I fix my Price?

Should I fix my Price?

ABSOLUTELY NO IDEA

What Customers Should Want to know!

What is my Company's objective?

What is the value of my portfolio today?

How and why is that value different to the value yesterday?

What is the Risk of my Portfolio?

What strategy Should I implement to meet my company's objective?

How should the market information be used to finesse that strategy?

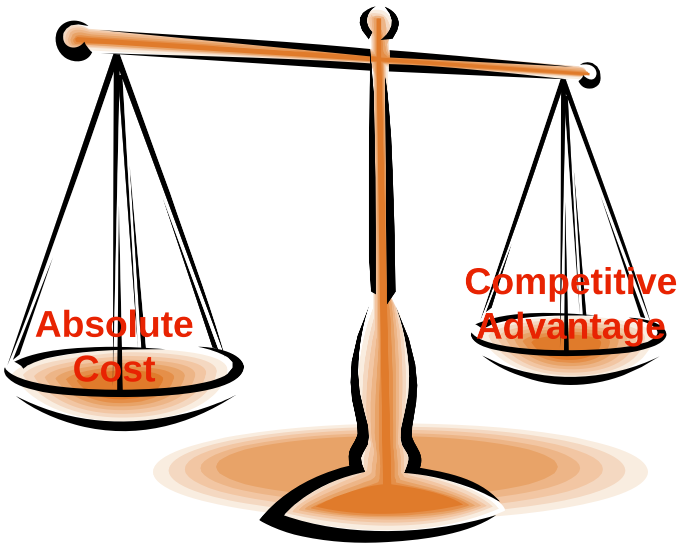
What is your company’s objective?

Senior management have conflicting business objectives

In a rising market they want to have fixed the price to protect the budget

In a falling market they want to have left the price floating on the market so that they have the lowest cost possible

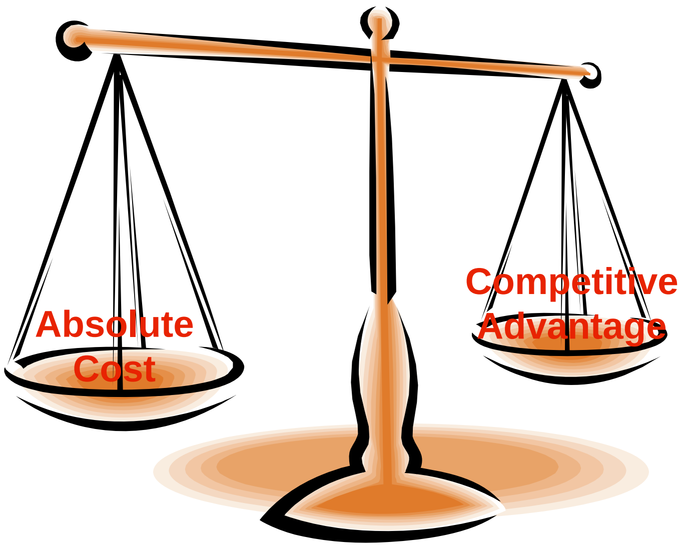
They want you to have achieved both of these with perfect hindsight



What is your company's objective?

Step 1: Senior Management determine how much they are focused on absolute cost control and how much on competitive advantage

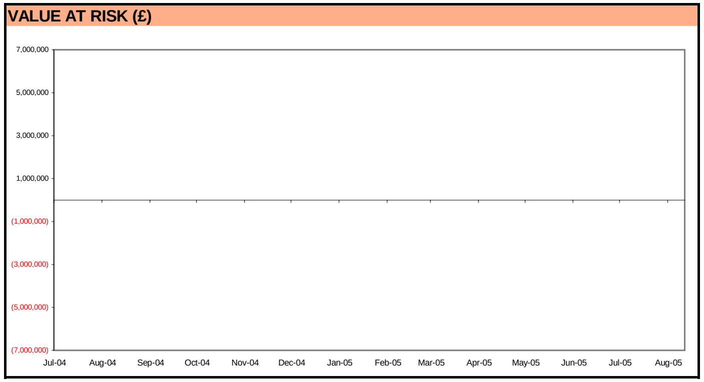
Step 2: Translate this goal into an amount of money / capital that the company is prepared to risk paying over the current market price in order to have the benefit that prices might fall further into the future



Measurement and Control

What is the value of my portfolio today?

In order to measure the value of your portfolio you need a benchmark to measure it against



If you don't measure it, you can't manage it!

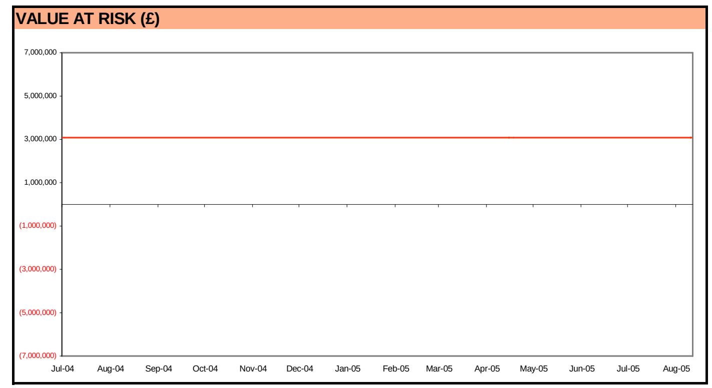
The first step is to quantify your budget

This becomes the zero line on your graph

Measurement and Control

What is the value of my portfolio today?

In order to achieve the company's chosen balance between absolute cost and competitive advantage you need to create a risk limit



When you choose a flexible contract you are implicitly accepting that:

'In order to have the opportunity to benefit from the CHANCE that market prices might fall you are willing to risk some value and accept your position might get worse'

If you are willing to take this risk you should limit that risk; the red line is your 'Capital at Risk':

Measurement and Control

How as the value of my portfolio changed since yesterday?

By measuring how the value of your portfolio is changing everyday you can assess how effectively you are meeting your company's strategic objectives

Setting a limit is only effective if you then check that you are not breaching that limit

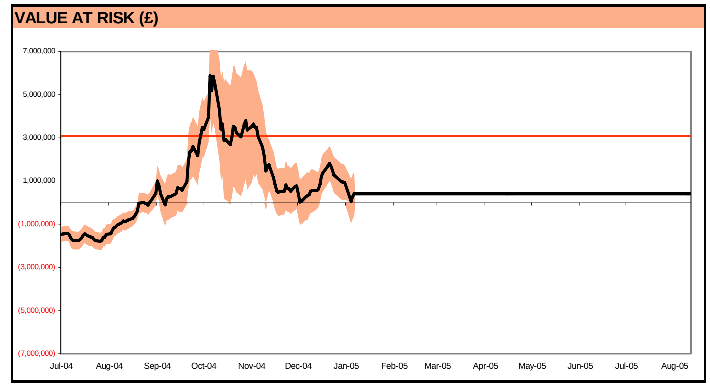
The black line shows you the 'Mark to Market' value of your position which changes everyday

Because the value of your position changes everyday you need to measure it every day; if the black line crosses the red line you have failed to manage your risk

Measurement and Control

What is the Risk of my position?

In order to ensure your procurement strategy does not breach the company’s objectives an you need to know how your strategy is affecting the risk of your portfolio



Once the value of your position (the black line) has passed the red line it is already too late!

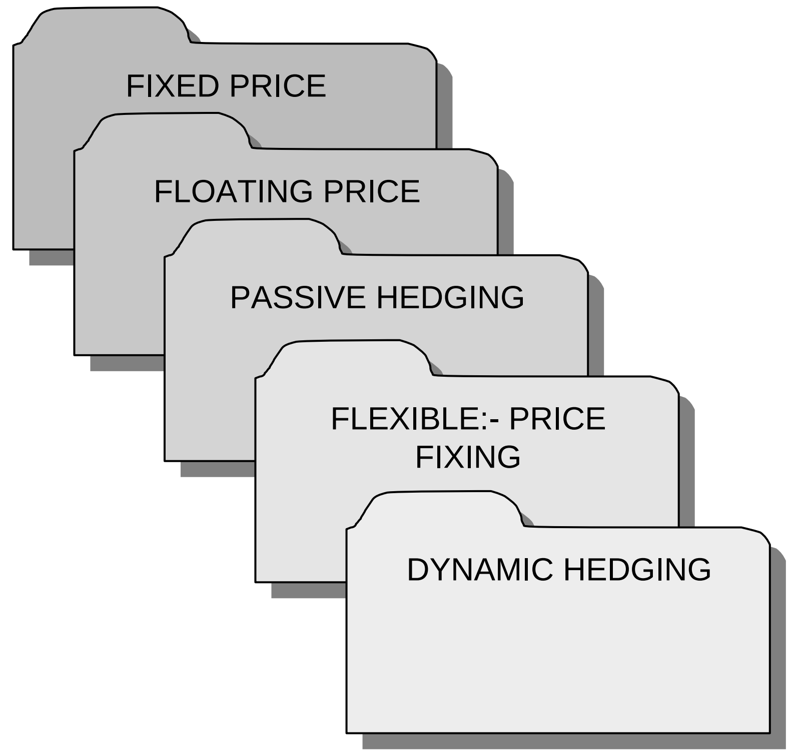
By measuring the ‘Value at Risk’ of your position (the pink area) gives you an early warning system and allows you to ensure your position does not breach your risk limit

Implementation

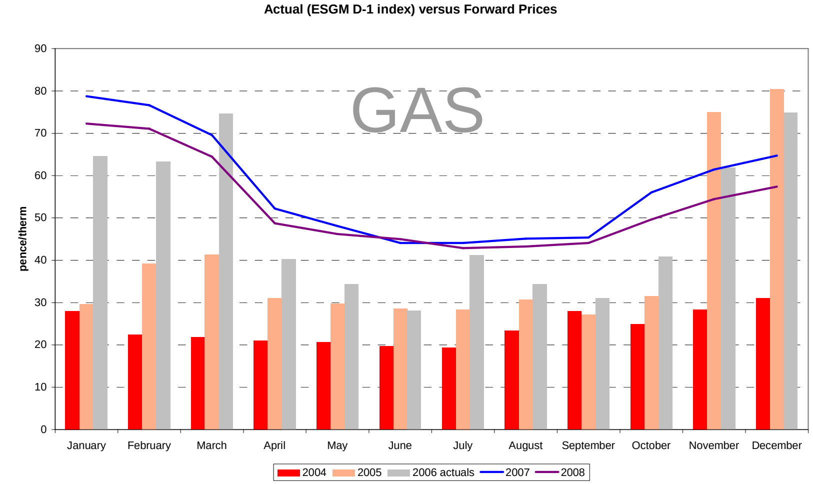
What Strategy should I implement to achieve my objective?

Determine the correct strategy to allow the company's energy procurement process to deliver the correct balance between Absolute Cost and Competitive advantage.

There are many strategies that can be used, the key thing is deciding which strategy to apply at which time



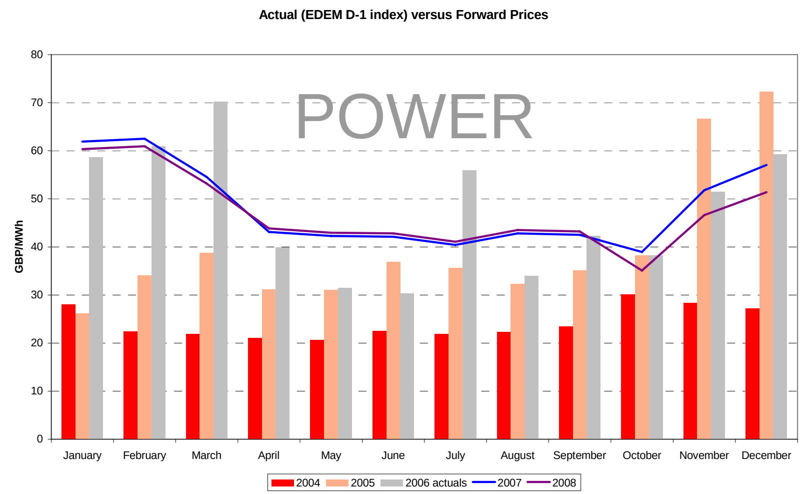
Optimisation



How can I use market information to finesse my strategy

Market information does not create a strategy

It simply refines a strategy



How can we use our knowledge?

Optimise the timing of procurement decisions in a controlled risk environment

Optimise short term load management opportunities, to switch to fuel, make to stock or suspend production

Protect the NPV of asset investments and stimulate further energy infrastructure investment

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