March 2006 – A “Rough” Experience !

(or – “How to have your cake and eat it”)

March 2006

- Background – Flexsys Rubber Chemicals Ltd
- Energy Procurement at Flexsys
- A Win-Win (or Lose-Lose) situation ?

Background

•Industrial Activity in the Ruabon area since Mid 1700's

•Chemical Site founded 1867 by Robert Gresser

•MONSANTO established its first venture outside USA in 1919, forming the Joint venture company 'Graesser-Monsanto'

•Monsanto took full ownership in 1928

Background

‘Flexsys Rubber Chemicals Ltd.’ was formed in 1995 and took over site operation from MONSANTO, who had operated it for 70 years.

Flexsys is owned by US Company ‘Solutia and Dutch company ‘Akzo Nobel.

Background

- Formation of “Ruabon Works
  - Current Flexsys Operations, plus
  - Four “Guest” operators on site
  - and a desire to entice more people onto the site

- Competitive advantage
  - Oliver Wight Class A
  - ACE Maintenance Programme
  - Competitive (budgetable) Utilities costs
    - Need for a Risk Managed Procurement Policy

Energy Procurement at Flexsys

Risk Policy

Risk Management

Its like a puzzle –
the difficult part is getting them all to fit together

- Flexsys started its current approach to buying its energy requirements in 2004
- Our aim was to:
  - reduce risk by fixing and unfixing up to our consumption requirements in the forward market up to 2 years forward
  - cap the upside potential to potential price increases
  - benefit from price falls: and
  - Utilise any optionality in our portfolio, demand side management

Demand side management

Environment & Energy Efficiency

Flexsys Ruabon site

- The site at Ruabon consumes roughly 16,500 therms per day
- The gas is mainly used for a 5MW CHP which provides power and steam for the site
- The CHP scheme has package boilers for back-up / demand fluctuations. (All of which can be switched to Kerosene).

Startling results – 2 years of record savings

- Using a Risk Managed approach Flexsys
  - have been able to manage their costs to within 10% of budget as set in 04
  - have taken up to 10 times less risk when compared to a floating price strategy
  - have reduced our potential price increases by up to 50%
  - Obtained a “win win” situation using our site’s optionality and demand side management

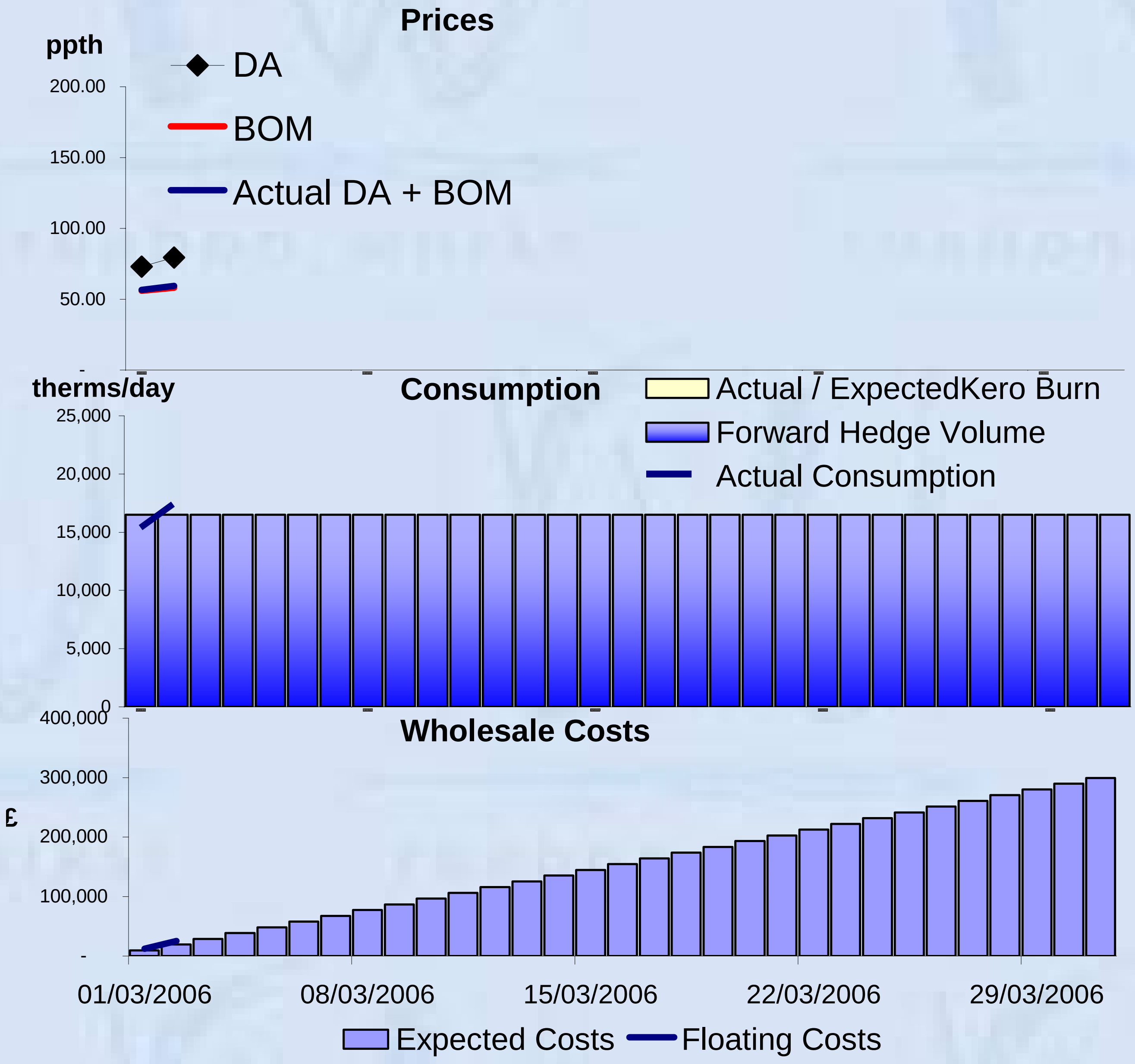
Case study of the “Win-Win”

- Background to March-06
  - Risk policy set
  - Flexible supply contract from Oct-04
  - Line of communication in place before event
    - Both commercial and operational staff needed to be “in the loop”
  - Availability to price information essential
  - Action plan to react quickly!
    - Analysis required on breakeven of site’s optionality

March 2006 a horrible month for most

01/03/06

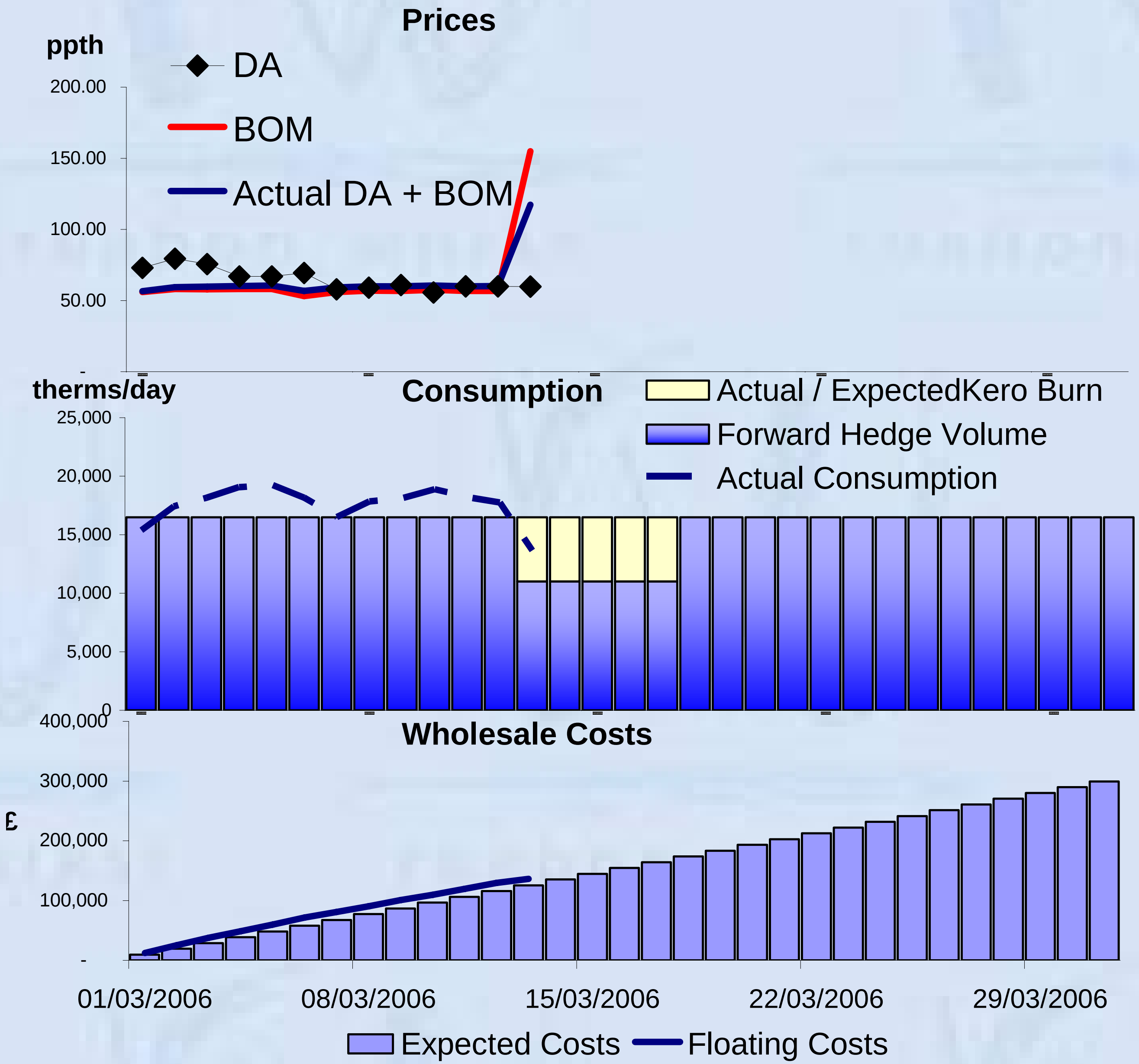
- Fundamentals, prices showing no sign of what was to come!
- Flexsys entered into March well covered – 98.5% hedged
- Costs assuming an IPE M-1 price were expected to be £300k



March 2006 a horrible month for most

13/03/06

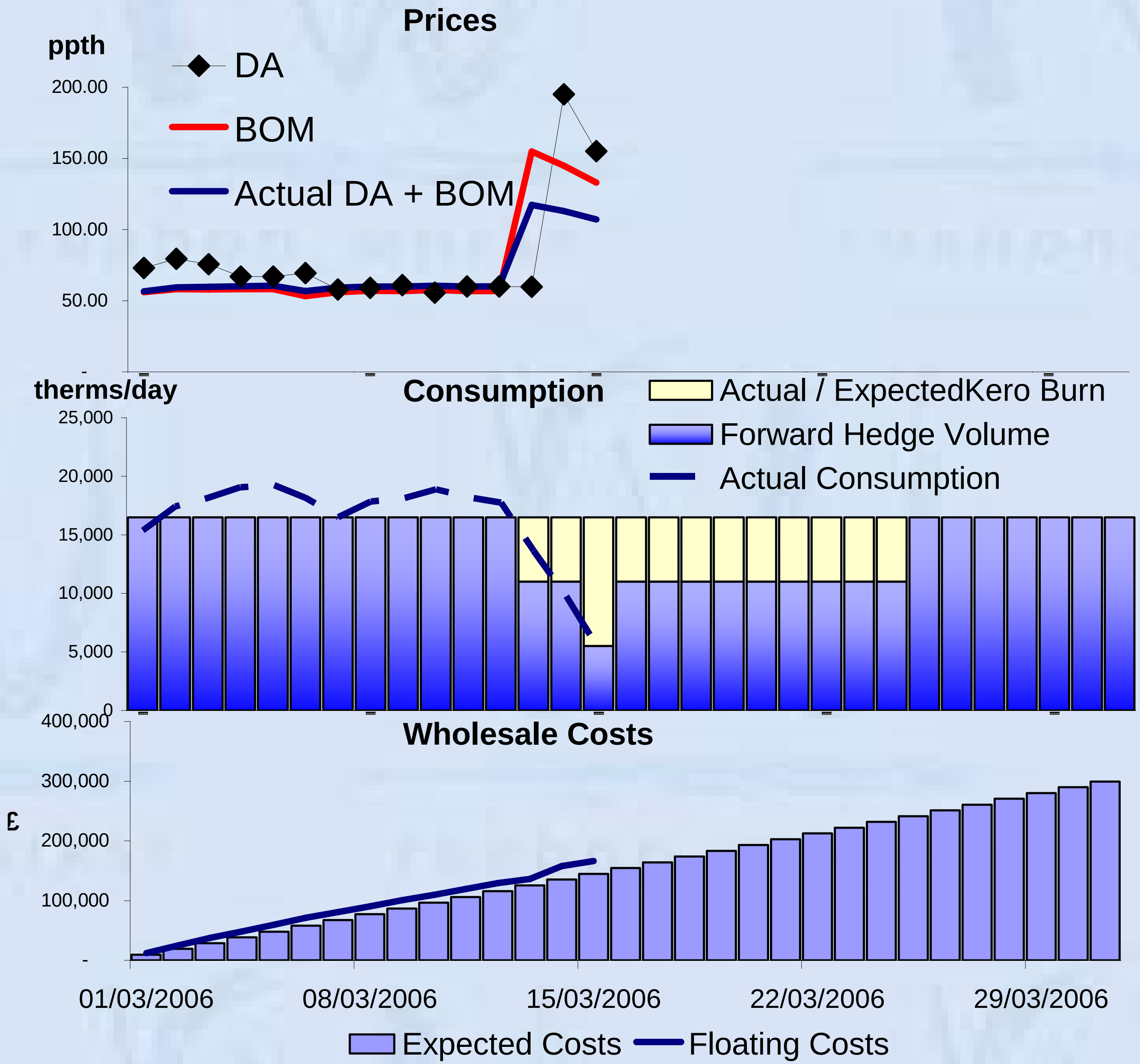
- Explosion at rough – prices go mad!
- Flexsys response is to provide additional volume into the market by selling previous hedges
- Despite relatively stable DA prices thus far the jump in day ahead & BOM means the floating price strategy is 8% higher that the IPEM-1 costs



March 2006 a horrible month for most

15/03/06

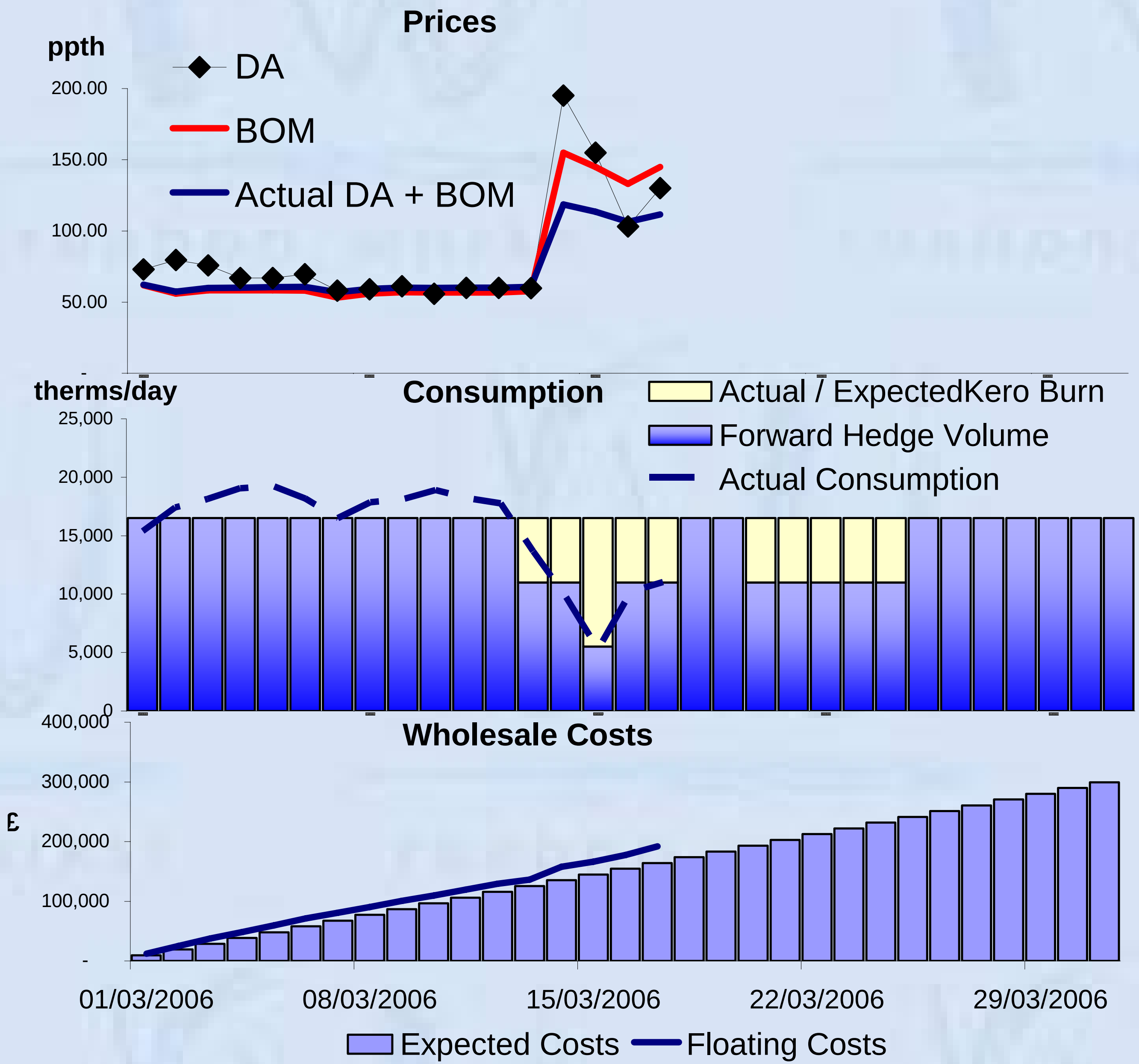
- Concerns on the weather & the length of the outage keep prices high
- Flexsys respond by providing more volume to the market for the DA & for another 7 days
- Costs using a floating price strategy are now 15% higher



March 2006 a horrible month for most

17/03/06

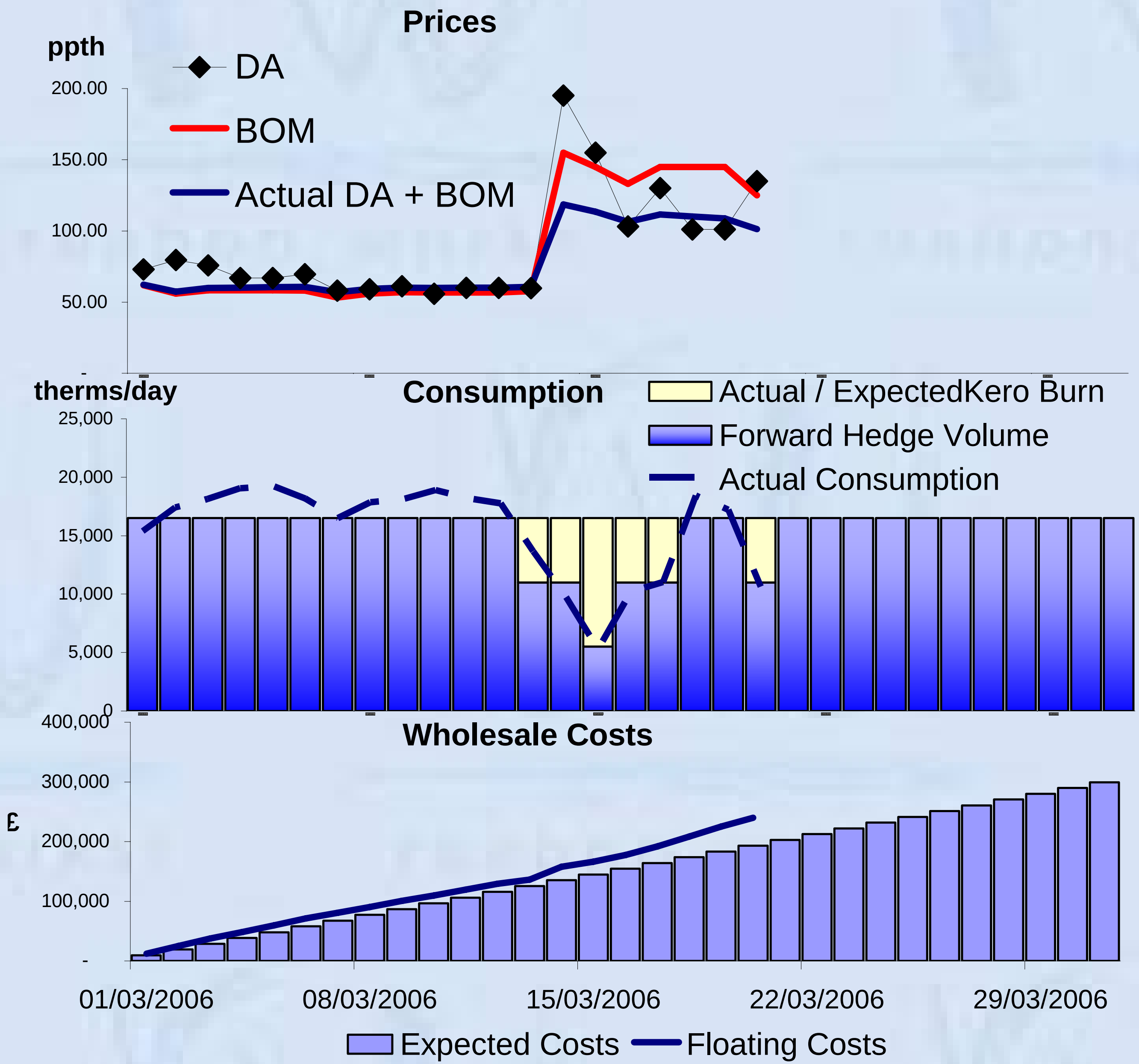
- Weather concerns for the weekend ease
- Flexsys fixes back at a price which is less that their alternative fuel to allow natural gas to be burnt once more
- Despite the fall in the weekend price costs using a floating price strategy are now 17% higher



March 2006 a horrible month for most

20/03/06

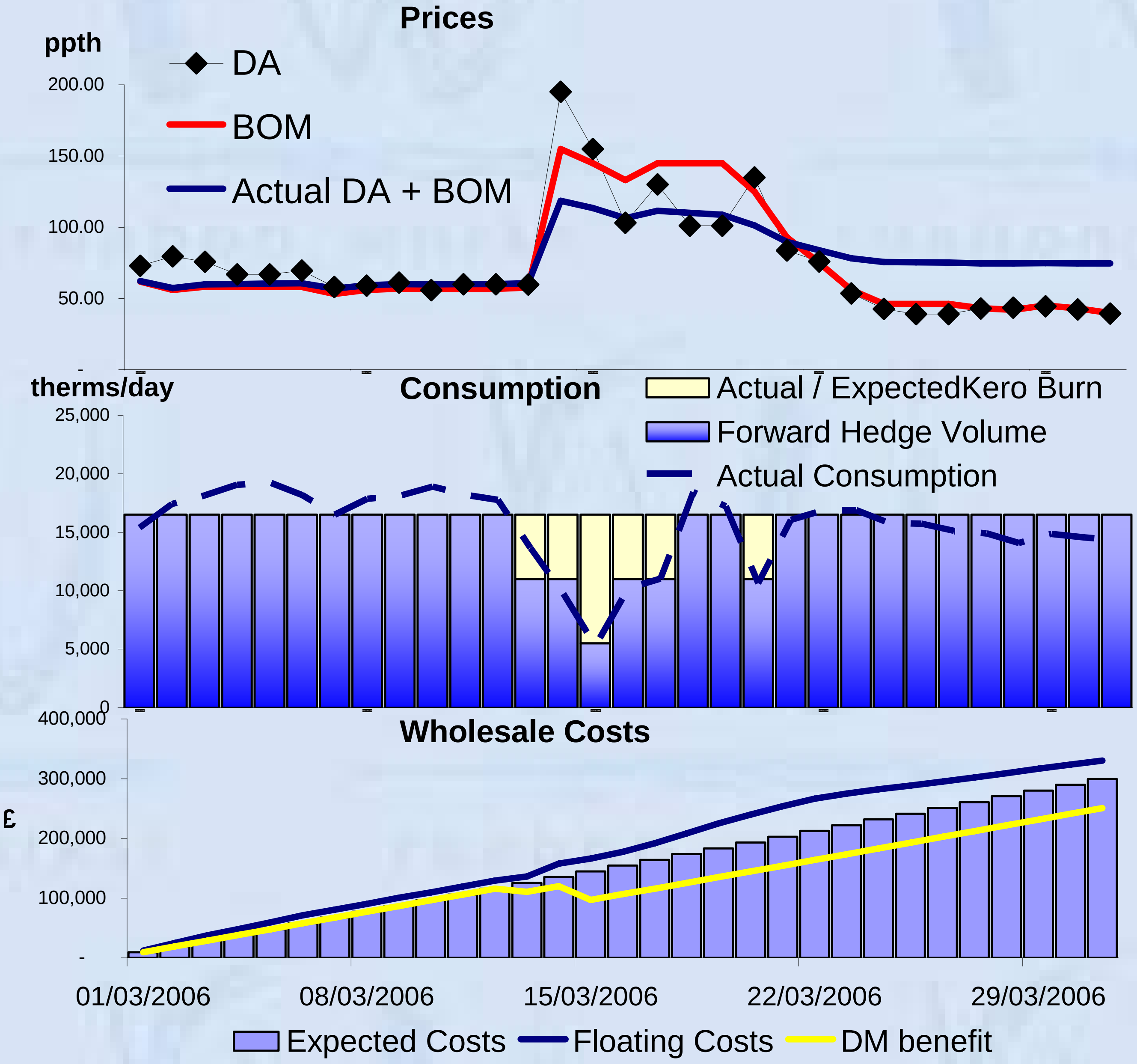
- Prices ease further but are still high
- Flexsys fixes back at a price which is less that their alternative fuel costs to allow natural gas to be burnt for the remainder of the week
- Despite the fall costs using a floating price strategy are now 24% higher



March 2006 a horrible month for most

31/03/06

- Price fall toward the end of the month with better weather but the damage was done with the average price now far higher than the IPEM-1 price
- Flexsys Burnt Kero for only 6 days despite the high DA price which was higher than the IPEM-1 for a full days
- Benefit in adopting a risk averse strategy & demand side management was **32%** better than a floating price strategy



In Summary

Risk Policy

- Risk policy created in advance for sites energy procurement worked well

Risk Management

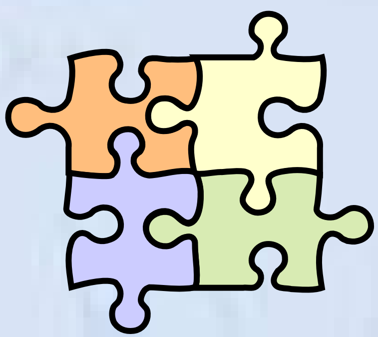
- Risk management reduced exposure by 90% and allow March-06 to be bought at significantly less than the IPEM-1 price

Demand side management

- Demand side management allowed Flexsys to crystallise optionality in portfolio & return volume to the market

Environment & Energy Efficiency

- Only a small amount of Kero was burnt



Our jigsaw came together well how about yours?