

## Key Considerations in Energy Buying

2010 IGUA Seminar  
May 7, 2010

John Voss, P. Eng.  
Managing Director  
Aegent Energy Advisors Inc.

  
ENERGY ADVISORS INC.

Aegent helps  
energy-sensitive buyers to...

- reduce the cost
  - manage the risk
  - resolve the complexity
- of their gas and power procurement

# Talking points

- Energy prices are driven by a combination of:
  - Supply and demand (fundamentals)
  - Greed, fear, and speculation (emotions)
  - Complex financial market interactions
- Cannot foretell the future behaviour of energy prices, except that:
  - They will be volatile
  - They tend to be cyclical (mean reverting)

## “Expert opinion” (a story told by Tim Simard)

- Enterprising young entrepreneur wants to earn big fees as a commodity advisor to 10 high paying clients
  - Sends newsletters to 640 potential clients, explaining to 320 why gas will go up, and 320 why gas will go down - gas goes up
  - Sends another newsletter to the 320 remaining prospects, telling 160 that crude will go up and the other 160 that crude will go down - crude goes up
  - After 4 more sets of newsletters, he has developed his list of 10 clients, all of whom view him as a genius

## Talking points

- Put your faith in a reliable process, not in your timing or your luck
  - Concentrate on HOW you buy, not on your market view
- 5 best practices for energy procurement

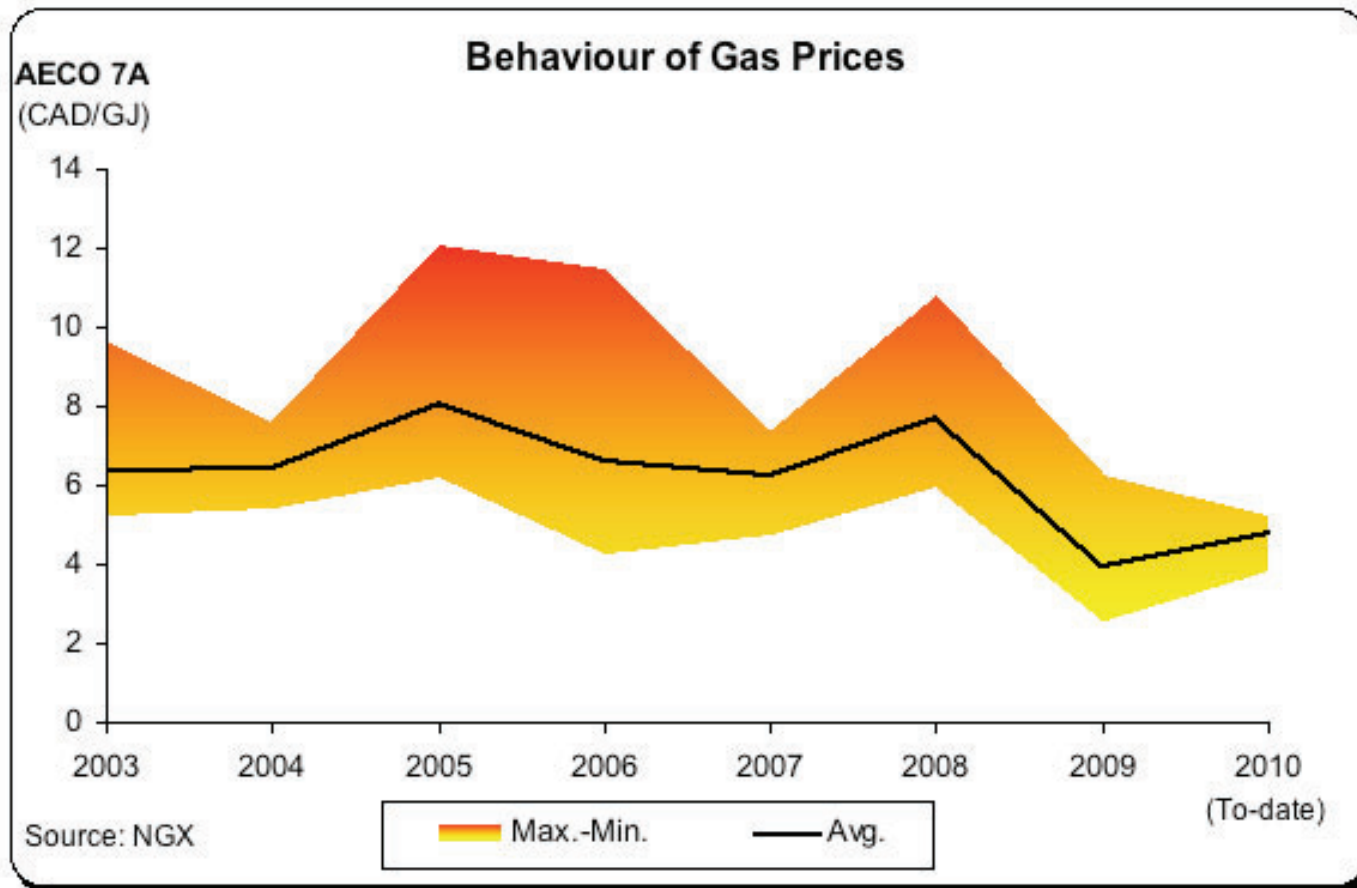
## 1. Use a buying team

- Avoid the “lone wolf” approach
  - Too narrow a focus
  - Too personal an appetite for risk
- A buying team with diverse functional representation will do a better job matching the buying strategy to corporate needs

## 2. Set clear risk management objectives

- Set explicit, quantifiable and realistic procurement objectives
- Start by determining how much pain you can absorb
- Hedge only what you need to in order to contain risk to acceptable levels

# Eliminate the blowout periods



# RiskSensor quantifies risk

## AECO Prices and Projections (CAD / GJ) as of April 30, 2010

		Current Price	90% Confidence	Δ	% Δ
<b>Near Month</b>	<b>(Jun. 2010)</b>	\$3.39	\$3.96	\$0.57	17%
<b>Summer 2010</b>	<b>(Jun. - Oct)</b>	\$3.58	\$4.18	\$0.60	17%
<b>Rest of 2010</b>	<b>(Jun. - Dec)</b>	\$3.82	\$4.41	\$0.59	15%
<b>Winter 2010-11</b>	<b>(Nov. - Mar.)</b>	\$4.56	\$5.17	\$0.61	13%

\* One month holding period

### 3. Create competitive buying processes

- If you have only 1 supplier, you are paying more than necessary
  - Seller's negotiating position
  - Bid/offer economics
- A supplier portfolio reduces risks in other ways
  - Credit risk/credit support costs
  - Defunct suppliers

## 4. Diversify your risks

- When the stakes are large, use diversification to reduce the risk of being completely wrong
  - Flipping the coin twice cuts the risk in half
- Diversify your suppliers, your transaction dates, even your transaction points

## 5. Track performance

- Use appropriate measures
- Establish your measures at the outset of your program
  - If you don't set appropriate measures in place at the outset, someone will try to establish inappropriate measures later

## Best practices

1. Use a buying team
2. Set clear risk management objectives
3. Create competitive buying processes
4. Diversify to reduce risks
5. Track performance

## We know how energy works

Aegent Energy Advisors works with energy buyers to reduce costs, manage risks, and simplify energy buying.



How can Aegent help me:

I'm looking for information about:

### Costs Can Be Managed

Energy costs have a big impact on the bottom line. But some planning and careful management can keep costs under control.

[Read More >](#)

### Risk Can Be Managed

Fluctuating energy prices can play havoc with your budget. But there are other risks that aren't so obvious. Are you managing all your risks?

[Read More >](#)

### Find Out How To Get Started

Energy buying is complex. Where do you start to manage energy buying better? [5 Steps to Better Energy Procurement >](#)

[How we work >](#)

### What's New

#### Ontario Education Collaborative Marketplace launches gas program

With expertise and support services from Aegent, the OECM Natural Gas purchasing program offers schools, universities and colleges a cost-effective way to apply best practices to their natural gas procurement.

Read more [here >](#)

#### Energy Consumer Protection Act Passes

The Ontario Legislature passed the Energy Consumer Protection Act.

[More News >](#)

### Subscribe to Aegent Energy Update

Your email:

Privacy by SafeSubscribe™  
[Sample >](#) [Privacy Policy >](#)