



Price & Risk Management

for Energy Contracts in Slovenia

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Inercomp – Independent Energy Experts

Inercomp Energy Consulting - Introduction



Background

- Experience in international energy trade since 1998 (EXAA trainer, MD for trading companies in CH, D, A and “Central Europe”)



- Our staff has run balance groups in AUT, GER, F, NL, BE, therefore is well grounded in details of physical deliveries and financial hedging

What we do now

- Inercomp serves clients in AUT, GER, CZ, HU, BE, CH, UK, PL, FI, SI, USA
- Detailed knowledge of markets and contracts for power, gas, coal & emission allowances
- Through understanding of producing industries necessities
- We support the Slovenian Gaspooling members with know how to improve their competitive position

Our Role

- Inercomp supports you in
 - making better decisions when to buy (research)
 - receiving more in depth know-how about the energy market
 - reducing risk by optimizing your purchasing strategyInercomp does not sell power or gas
- Inercomp does not receive money from any supplier and therefore has an independent and uninfluenced opinion about the market and the market participants
- Is on your side

Our Goals

- Cost reduction in comparison to former procurement strategy
- Reduction of procurement risks for big consumers (Industry and Traders)

Our Success

- **5.9 TWh natural gas and 3.5 TWh power and 1.6 Mio. t CO2 per year are purchased in an optimal way by Inercomp support.**



INERCOMP

Independent Energy Experts.



What is risk?

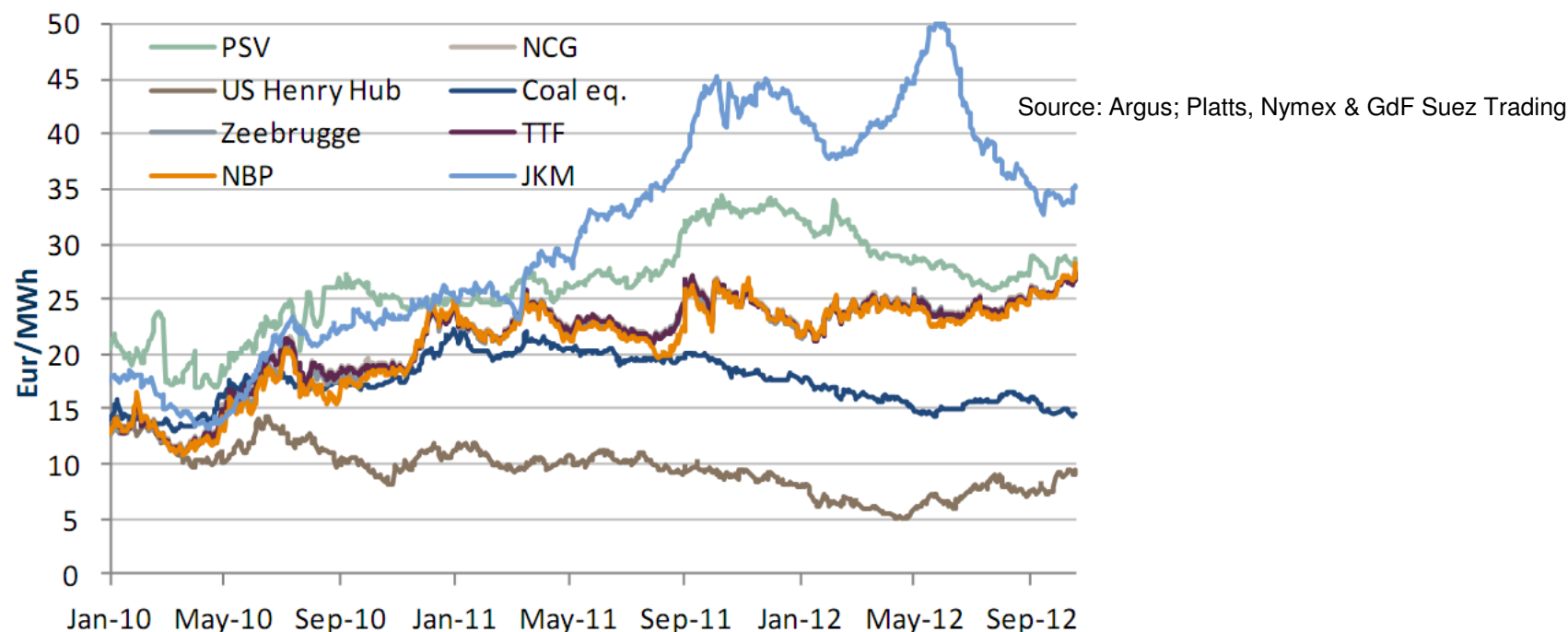


“(Exposure to) the possibility of loss, injury, or other adverse or unwelcome circumstance; a chance or situation involving such a possibility.”

Oxford English Dictionary



Prices of different Markets



- The indicated prices are prices for Baseload deliveries in EUR/MWh (to convert into Slovenian ct/Sm³ divide EUR/MWh by 95,06; e.g. US-price = 9/95,06 = 9,47 ct/Sm³) in the respective countries. In order to transform them into comparable prices for Slovenian consumers, add cost noted in slide 10.



Energy related risk

- Price risk
- Volume risk
- Counterparty risk
- Performance risk



Active portfolio management

Spread risk

Geopolitical luck (no storage)

+

- Special risks and problems in Slovenia

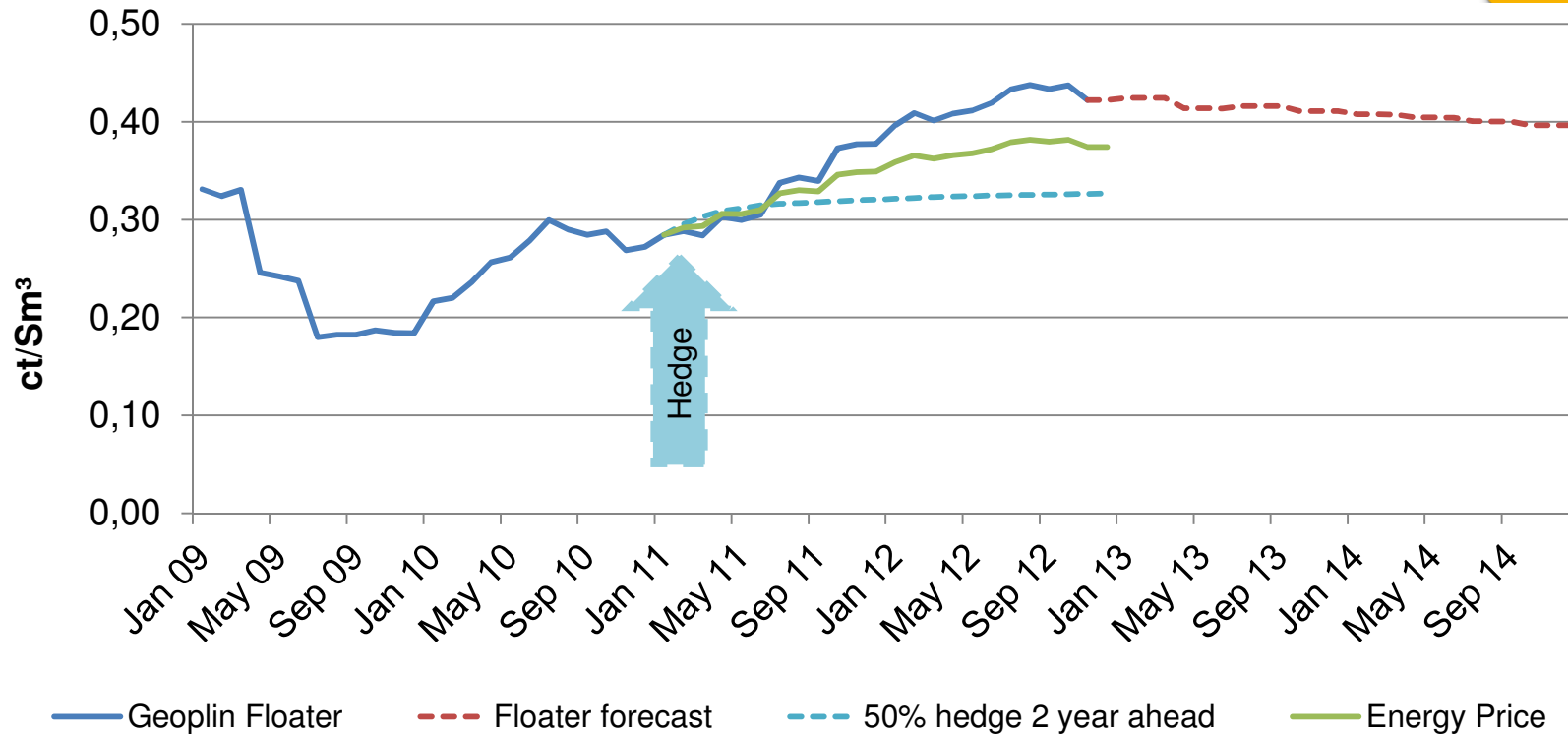


Gaspooling

Existing legal situation (one metering point = one supplier)
Coming legal situation (does not tackle old contracts)
(Natural) Monopoly (will not be broken by energy regulator)
Lack of competition between Slovenian suppliers and limited access to international suppliers
Lack of unbundling between grid operator and supplier

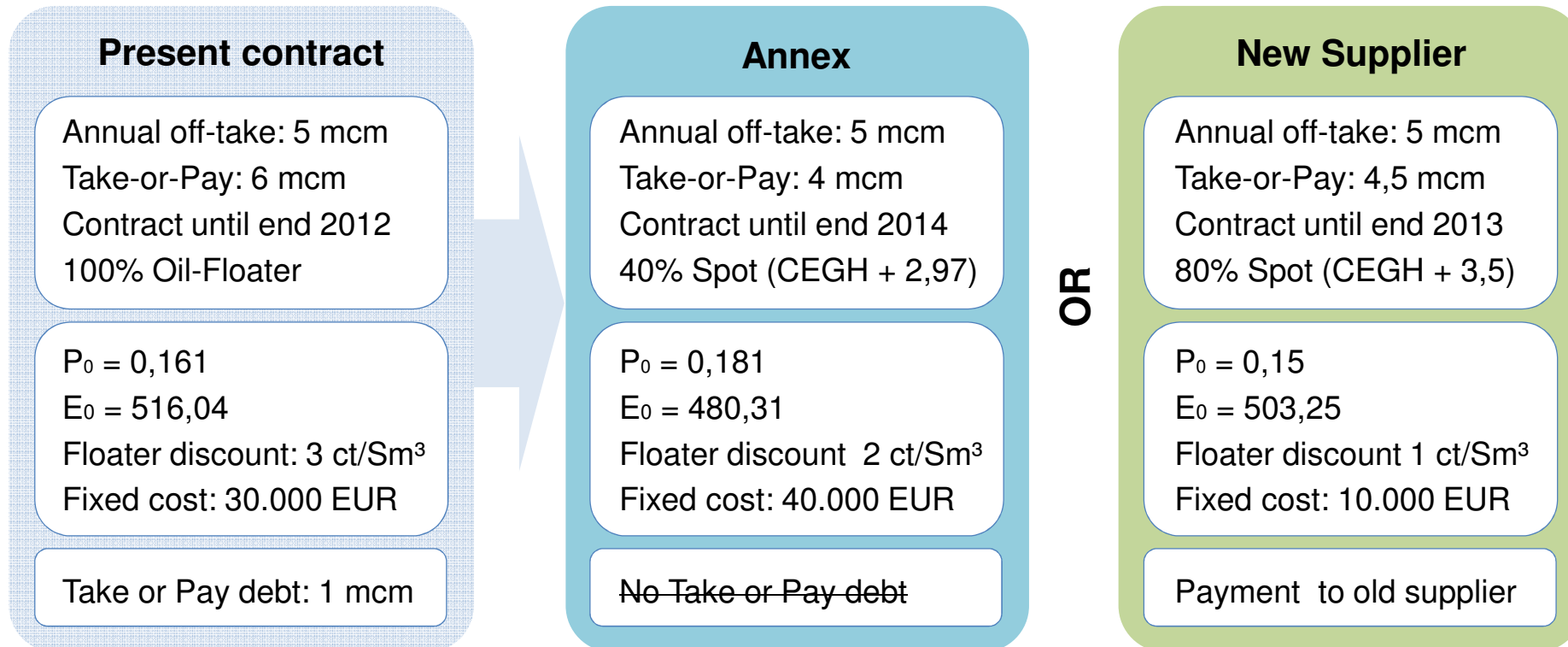


Price risk under control



- Hedging = Fix the floating components of the formula or buy gas for a fixed price
- Hedging of your oil floater with the help of banks or supplier allows you to fix prices and budget your cost. This diversifies your prices risks and reduces your speculative position.
- You are not only exposed to your supplier! Hedging is possible without a physical supply.

Evaluation of price risks and cost



- Energy contracts are complex, small details are very relevant.
- The lowest fee is not necessarily the cheapest contract for you.
- Economic consequences of annexes and contracts have to be evaluated in order to take the right decisions and also strengthen your negotiation basis.

OR

Are you able to evaluate the risk in a contract?
Second step: Manage risk

Political risk – energy price

Prices for Nov. 12 including transport to Slovenia

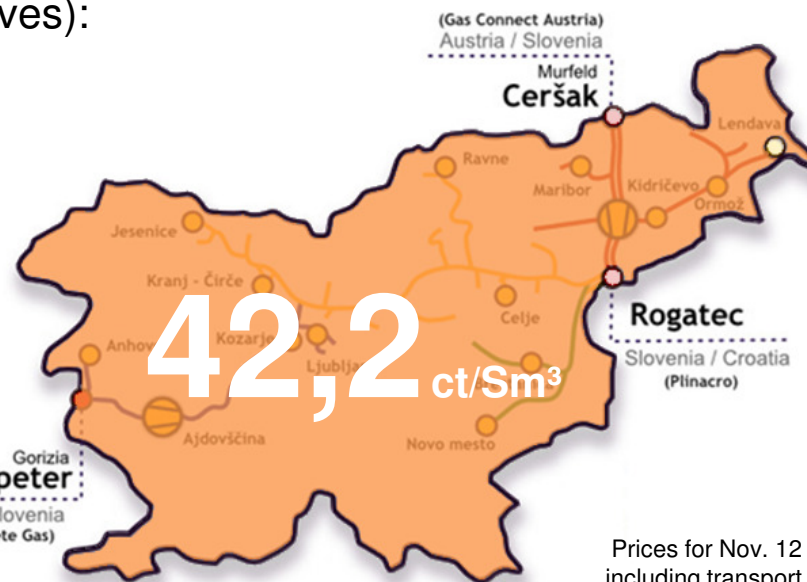


- The Slovenian pipeline network is well interconnected. Gas is available at much lower prices right at the border.
- High market concentration is the main reason for high prices.
- Reasons for market concentration
 - (1) Legal uncertainties (energy law, market rules)
 - (2) Market foreclosure (long term supply contracts)



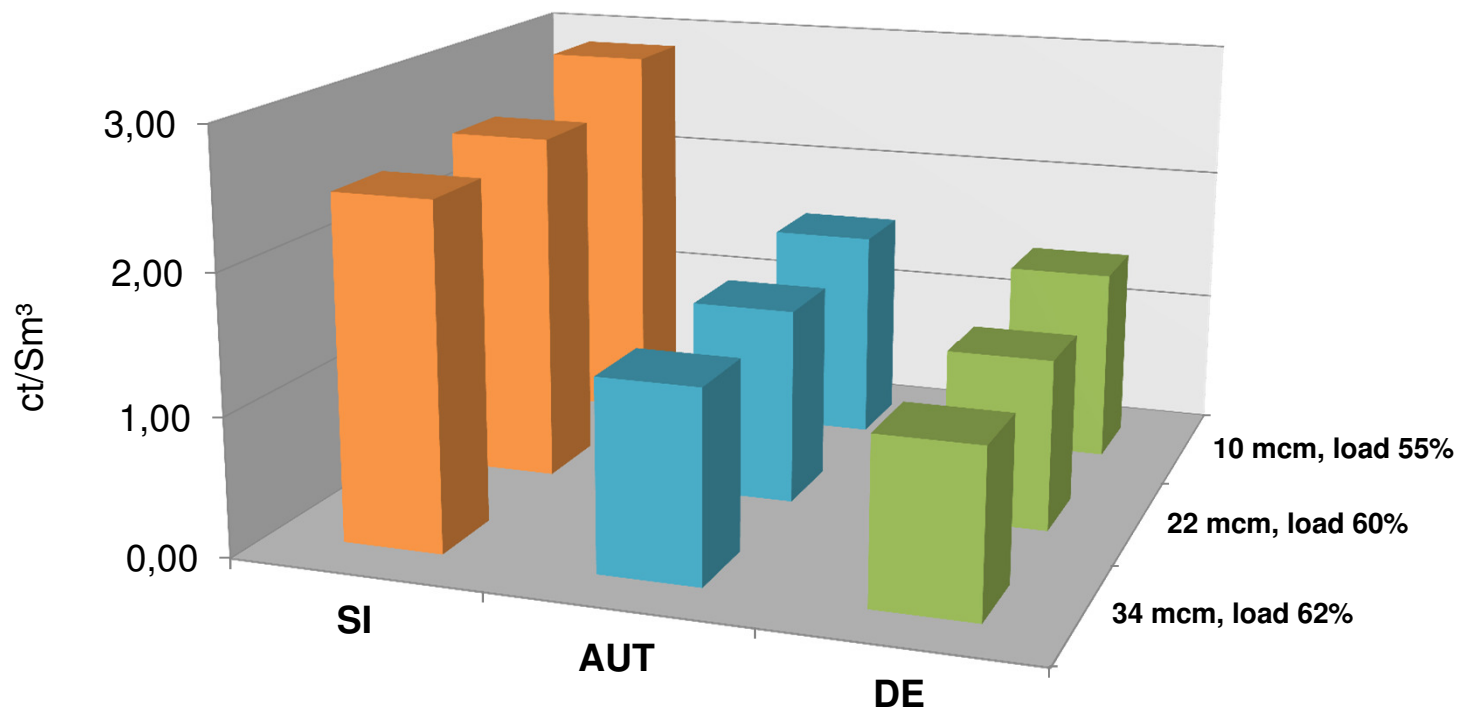
- What the market needs (= Gaspooling objectives):

- ✓ Competitive legal framework
- ✓ Measures for stipulating competition
- ✓ Third party supply
- ✓ New capacity allocation mechanism
- ✓ Liquid and transparent balancing market
- ✓ Cancellation of old long term contracts



Prices for Nov. 12 including transport

Political risk – grid cost



- The reasons for high grid charges in Slovenia are:
 - Allocation between industrial and residential consumers (political reasons)
 - Investments in transmission network (technical reasons)
- Cost are also highly dependent from the load factor of a consumer and differs from region to region in AUT/GER

Risks have to be identified and to be managed



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- Thank you for your confidence and the discussion.