

# *Gas Procurement from a Trader's Perspective*

## **Buying Natural Gas in a Volatile Environment**

**Tom Jania**

**Manager, Energy Supply & Trading**

**EnergyUSA-TPC**

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Today's dialogue will include:

- **Current fundamental market conditions, an environment of unease, concern and volatility**
- **Buying when it makes \$en\$e**
- **Establishing a program of identifiable, yet flexible targets**
- **How to maneuver through the energy battlefield and survive**

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**A Big ol' Mountain, the Matterhorn**



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**NYMEX Natural Gas Futures Prompt Month Contract July, 2005 to  
Present**



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## **Brief Explanation of the Mountain**

- **Above normal summer**
- **Fear**
- **Hurricane impact on production**
- **More fear**
- **Cold December/conservative storage withdrawals**
- **Even more fear**
- **Warm January/ storage balance begins to build through February, 2006**
- **March 2006 natural gas contract falls over \$8.00 in ten weeks**

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- **The cumulative production impact on natural gas from Hurricanes Rita and Katrina from 8-26-05 to 2-22-06 amounts to 652 BCF. This is equivalent to 17.88% of the yearly production of gas in the Gulf of Mexico (3.65 TCF)**
- **To put this into perspective, this amounts to 6.7% of C&I demand for the year.**
- **Currently, there is approximately 1.504 BCF/d still shut-in (current daily production about 10 BCF/d)**

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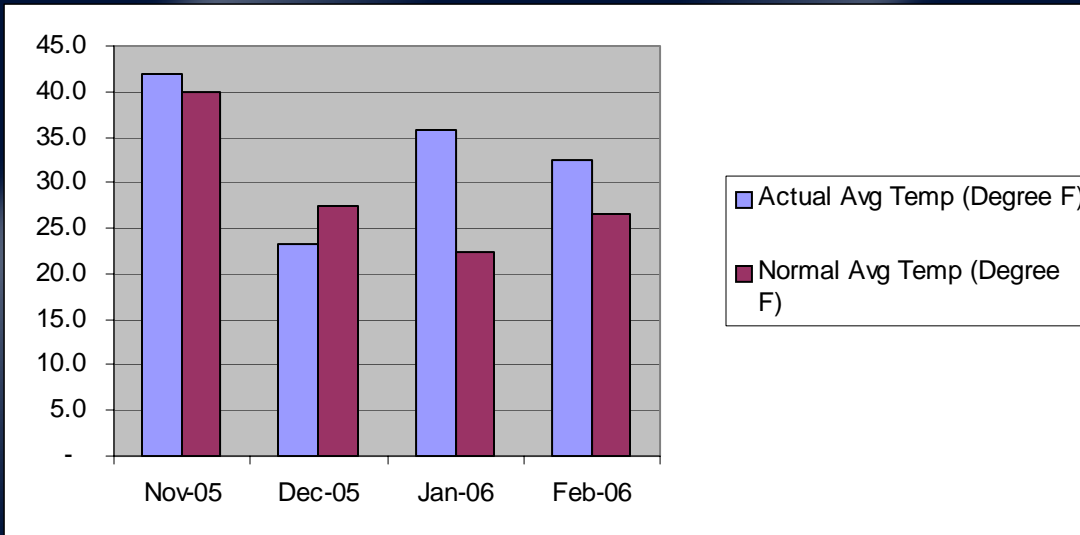
## **Weather Recap**

### **Winter 205-2006 Summary/Chicago O'Hare**

**December 2005 was 15% colder than normal**

**January 2006 was 60% warmer than normal**

**February 2006 was 21.6% warmer than normal**



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## **EIA STORAGE INVENTORY**

- **Went into the winter with 3.35 Tcf in the ground. This was 134 Bcf above five year average and 23 Bcf versus year before.**
- **Storage inventory is currently at 1.972 Tcf, this is 344 Bcf higher versus last year and 608 Bcf higher versus the five year average.**
- **Bottom line, historically speaking, very healthy storage inventory balance going into the summer of 2006.**

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## **BUYING WHEN IT MAKES SENSE**

- **Buy low**
- **Fundamentally bearish conditions**
- **Before bullish conditions kick in:**
  - 1. Summer heat**
  - 2. Storage refill season (already happening where possible)**
  - 3. Increased demand from the C&I sector**
  - 4. Hurricane season**

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**Establishing a procurement program that suits  
your needs**

- **Conservative/aggressive buyer mentality**
- **Percentage based program for your gas supply  
needs**
- **Establish targets, stick to your guns**
- **You have a plan in place, if the market is near  
your order, remain calm and consistent**

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## **Conservative Customers**

- 1. If market is below your budget, buy it**
- 2. Stagger your purchases in percentage lots over a period of time leading up to delivery**
- 3. Do not wait for the market to come to you, go to the market**

## **Aggressive Customers**

- 1. Develop your market bias**
- 2. Depending on bias, either hedge a large portion of your needs or wait for the market to come your way**
- 3. Must have large appetite for risk**
- 4. Potentially dangerous game to play, but reward could pay dividends**

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**How can EnergyUSA-TPC help you? The tools in our belt are as follows:**

- **Basis, in some cases as volatile as the NYMEX**
- **NYMEX Fixed Price**
- **Daily priced gas-unmanageable and unquantifiable**
- **Stop, limit and market orders**
- **Establishing price levels and targets**
- **Provide support and resistance levels on the NYMEX**
- **Provide information on forward locational basis impacts due to fundamental market conditions**
- **Options**

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**Volatility will continue, the best insulation is either options or fixing your price.**

- 1. Buy the NYMEX and fix your price at market.**
- 2. Costless collars: Buy a CALL, sell a PUT**
- 3. BUY CALLS, pay a premium for upside protection**
- 4. Sell PUTS, collect the premium and place a floor on your purchase price**

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## **The battlefield**

- **We're here. How do we make it through this go forward?**
- **Market will go up and down, volatility will continue**
- **Be cognizant of your budgets**
- **You may not buy the lows, but you sure don't want to buy the highs. Remember that mountain. Desperation leads to poor decision making**
- **Proactively manage your exposure, DO NOT BE REACTIVE**

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**What do you do now?**

- **Have a biased opinion based market information**
- **Look at your load profile**
- **Weigh your hedged vs. unhedged gas**
- **Review budgets**
- **Be aware of historical pricing, but remember we are operating in a very different energy environment than the past**
- **Be informed via your EUSA-TPC Territory Managers and make INTELLIGENT decisions**