INTERNATIONAL GAS CONFERENCE
- DG GROUP -

COMPETITITVE MULTI-SITE SOURCING
OF NATURAL GAS FROM AN INDUSTRIAL PERSPECTIVE

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Brussels

OVERVIEW

- INEOS
- STATE OF PLAY – BELGIAN GAS MARKET
- TENDERING APPROACH
- RfQ FUNDAMENTALS
- LEARNINGS
- RESULTS
- CONCLUSION

INEOS

INEOS

- 2008 Sales approx €29bn
- 14,000 employees*
- 62 manufacturing sites worldwide*
- 32 million tonnes of chemicals capacity
- 20 million tonnes of refinery products (400,000 bbls/day)
- 3rd largest chemical company globally
- Headquarter: UK

* *excl. joint ventures*

INEOS

INEOS PRESENCE IN BELGIUM

Doel

Lillo

Zwijndrecht

Geel

NOH

Feluy

INEOS

STATE OF PLAY – BELGIAN MARKET

- STILL DOMINANCE OF THE TYPICAL CONTINENTAL MARKET
  - OIL INDEXED PRICE FORMULA: GAS-TO-OIL PRICE DRIVER
- END CONSUMERS CAN NOT BENEFIT FROM THE STRATEGIC LOCATION OF THE BELGIAN MARKET AS THE EUROPEAN JUNCTION:
  - SHOULD WORK IN THEORY : INTERCONNECTION WITH GAS-TO-GAS UK MARKET, LNG TERMINAL, ZEEBRUGGE HUB, ZEEPIPE TO NORTH, ACCESS TO LOW CAL, CONNECTIONS TO EAST (UPSTREAM – Russian gas),...
  - IN PRACTICE : ALL KIND OF LIMITATIONS (Physically & Commercially)
- INCREASING NUMBER OF SHIPPERS/SUPPLIERS
  - DG (ENI), ESSENT (RWE), GdF-SUEZ, WINGAS, ...

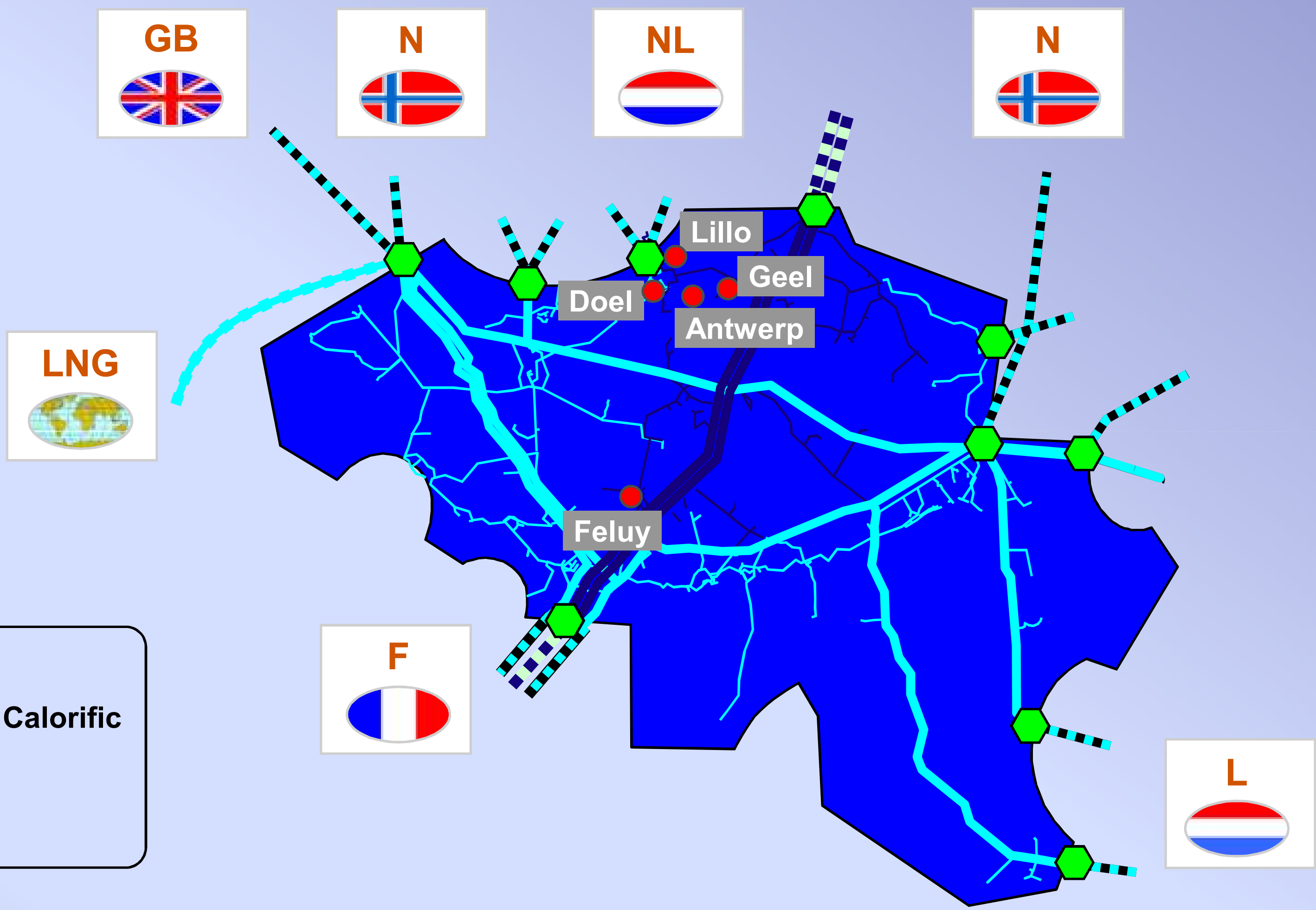
INEOS

STATE OF PLAY – BELGIAN GRID ISSUES / HURDLES

- GRID OPERATOR = FLUXYS
- REGULATED ACTIVITY
- TRANSPORT MODEL/ ENTRY EXIT
  - HIGHLY COMPLEX SYSTEM: CHP – TWO SHIPPERS
  - HOURLY BALANCING OBLIGATIONS
  - UNFAVORABLE RULES FOR NEW ENTRANTS
  - HIGH PENALTIES IN CASE EXCEEDENCE OF
    - CAPACITY
    - FLEXIBILITY
- LOW CALORIFIC ISOLATED GAS MARKET

INEOS

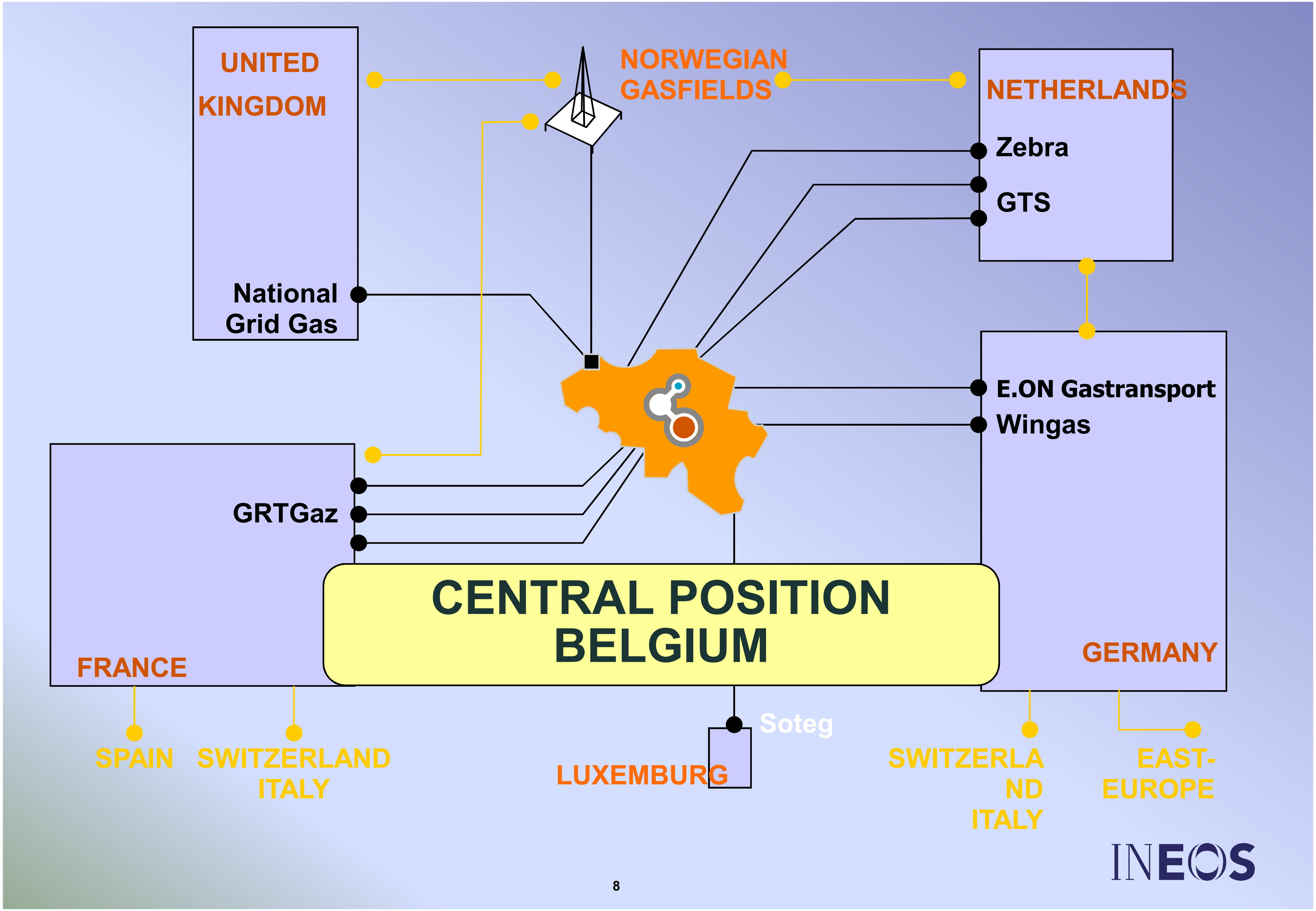
INEOS GAS NEEDS IN BELGIUM



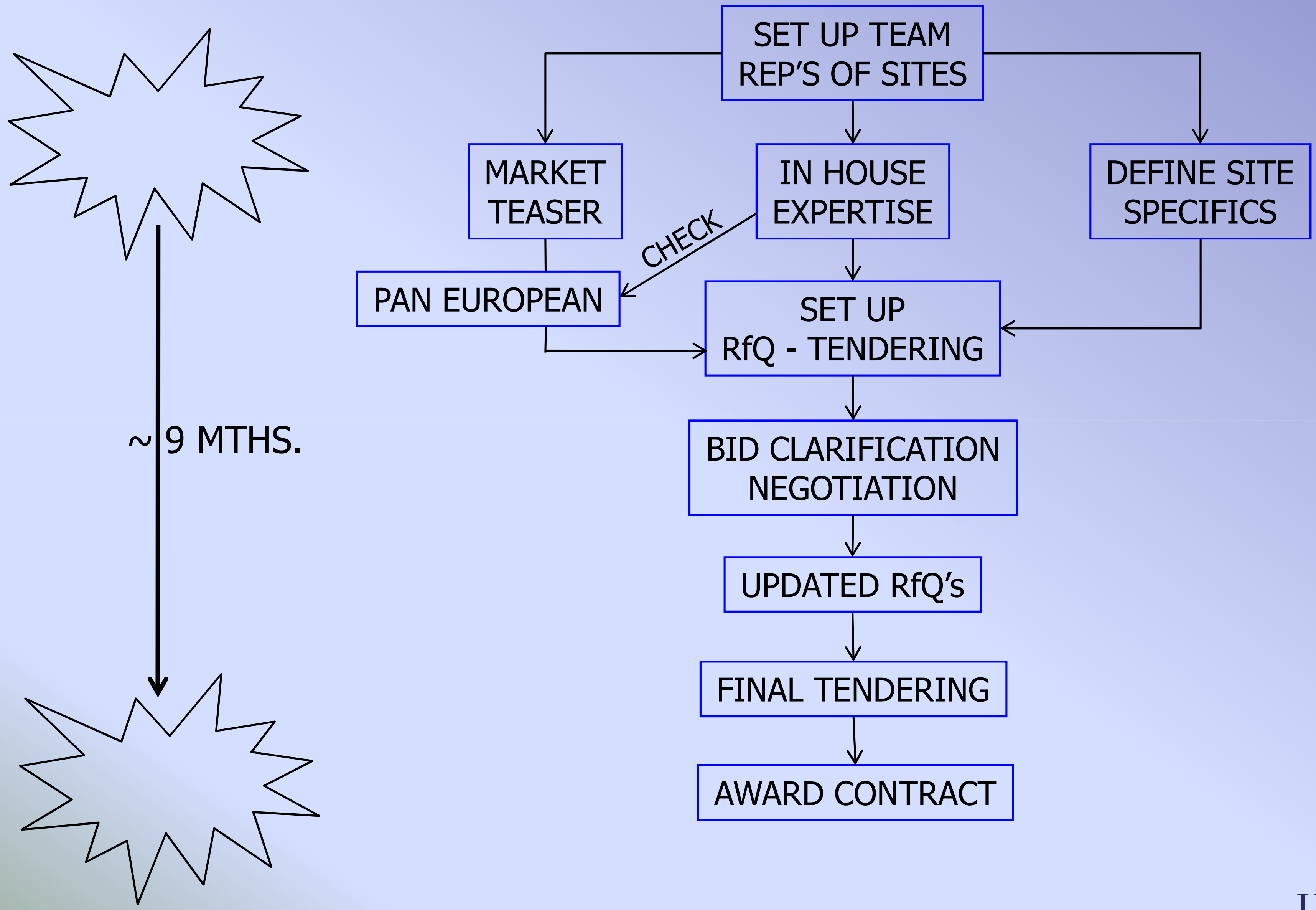
- 3 TWH/a
- High & Low Calorific
- Flat Profile

Source : Fluxys

INEOS


UNITED KINGDOM
National Grid Gas
NORWEGIAN GASFIELDS
NETHERLANDS
Zebra
GTS
E.ON Gastransport
Wingas
GRTGaz
CENTRAL POSITION BELGIUM
FRANCE
GERMANY
Soteg
SPAIN
SWITZERLAND ITALY
LUXEMBURG
SWITZERLAND ITALY
EAST-EUROPE
INEOS

MULTI SITE PROCUREMENT APPROACH



INEOS

RfQ FUNDAMENTALS

- VOLUME: 3TWh / YEAR
- DURATION: 1 / 2 YEARS / LONGER
- PRICE STRUCTURE:
  - FIXED
  - OIL INDEXED
  - HUB PRICE SPOT
  - PROPOSAL OF SUPPLIER
- VOLUME COMMITMENTS (TOP – TOT)
- TRANSPORT
- NOMINATIONS
- SITE SPECIFICS
  - 2 COGENERATION SITES WITH BALANCING/ALLOCATION PROTOCOL
  - LOW / HIGH CALL

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LEARNINGS (1)

- ENTRY / EXIT TRANSPORT MODEL
  - COMPLEX SYSTEM
    eg. COGENERATION – 2 SHIPPERS
  - GENERAL : UNFAVOURABLE FOR NEW ENTRANTS
  - STRINGENT BALACING OBLIGATIONS
  - CAPACITY RESERVATION
    - UNINTENDED CONSEQUENCES ; BLOCK COMPETITION
  - UNLIMITED PENALTIES IN CASE OF EXCEEDENCE OF
    - CAPACITY LIMITS
    - FLEXIBILITY LIMITS
- HUB ACCESS
  - DIFFICULT TO ACCESS FOR AN INDIVIDUAL GAS CONSUMER

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LEARNINGS (2)

- TYPICAL CONTINENTAL MARKET
  - GAS-TO-OIL PRICE STRUCTURE
- LIMITED NUMBER OF SUPPLIERS TO LARGE SCALE CONSUMERS
- DOMINANT POSITION
- LARGE DIFFERENCES IN:
  - VOLUME COMMITMENTS (TIME FRAME – VOLUME WINDOW)
- AMPLE COMPETITION IN LOW CAL MARKET

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LEARNINGS (3) (MULTI-SITE)

- LINE-UP OF CONTRACTS ON THE INDIVIDUAL SITES
- LONG LEAD TIME (eg. INTERNAL DECISION PROCESS) START TIMELY
- TECHNICAL & COMMERCIAL RESOURCES
- LINE-UP OF INTERNAL DECISION PROCESSES
  -> FINAL AWARD IN 15 MIN.SLOT
- INTERNAL ALLOCATION MODEL
- EXPLORED TO EXTEND BELGIUM PROC.MODEL TO PAN EUROPEAN SCALE
  - NO ADDITIONAL BENEFITS
  - EXTRA EFFORTS

INEOS

RESULTS

- STRONG MARKET APETITE FOR MULTI SITE SUPPLY IN BELGIUM
- HOWEVER NO INTEREST IN PAN EUROPEAN SUPPLY
- MAXIMIZED SYNERGIES ON BELGIAN PLATFORM (4 SITES/4 BUSINESS)
- FLEXIBILITY ADVANTAGE
    - VOLUME
    - BALANCING
- VOLUME COMMITMENTS STILL ON THE HIGH SIDE
- FIRST SIGNS OF NEW MARKET MECHANISM
  GAS-TO-GAS NEXT TO OIL-TO-GAS
- CONTRACTS MANAGEMENT
    - MORE COMPLEX
    - NEEDS COORDINATION

INEOS

CONCLUSION

- FIRST SIGNS OF MARKET FUNCTIONING
  - INCREASING NUMBER OF SHIPPERS SHOW INTEREST
  - ADVANTAGE OF SCALE CAPACITY & FLEXIBILITY
  - MARKET MECHANISMS WIDEN GAS-TO-GAS NEXT TO GAS-TO-OIL
    BUT STILL A LONG WAY TO GO:
    - COMPLEX GRID RULES
    - LOW CAL ISLAND
    - HIGH VOLUME COMMITMENTS
    - CAPPED ARBITRAGE OPPORTUNITIES

- COMPLETE DESINTEREST OF SUPPLIERS TO SUPPLY ON A PAN EUROPEAN BASIS
  - NO EUROPEAN MARKET
  - MS HURDLES

WHY?

INEOS