



# IGNITION

**Newsletter**

**EDITION 2 - AUTUMN 2008**

www.gazpromretail.co.uk

## Welcome From Jon Feingold, MD

Time has gone quickly since our last edition of Ignition. Gazprom Marketing & Trading Retail has changed tremendously. We believe that we now offer our clients the most diverse product range for gas. This has allowed us to surpass our target position for 2008 of 1.5 BCM.

We have spent the time growing but have not faltered in our commitment to maintain the best service. As we have grown, we have developed our new product range in AMR, Carbon, Energy Management and Site Services. These additional product lines mean that we are now offering all of our customers the most sophisticated and complete energy solution. This is of course all done at the most competitive price possible. As we enter the new gas year we look forward to continuing our growth and working with existing and new customers to help them meet their energy issues.



## Gazprom Enters Irish Retail Market

Until recently our activities were focused on supplying gas and providing energy services and products to UK customers. However, we have now decided to use our considerable expertise and experience in a new market. We are pleased to announce our entry into Ireland marketing gas and carbon products to industrial and commercial users.

Many of our existing customers have a global geographical presence with sites in the UK and Ireland so we are responding to their needs. With products being identical in both countries, it's an obvious step for us to grow our business and expand the Gazprom brand.



Our team has lots of experience working within the Irish gas sector and we think it's a great place to do business. In fact our commitment to Ireland has been there for the last 2 years with our wholesale activity supplying around 20% of the country's gas.

We entered the market on the 1st October 2008. We are supplying daily metered customers with our full range of fixed and flexible gas contracts together with our carbon products featured within this edition. We will move into the non daily metered sector in 2009.

## The Developing Carbon Market

Climate change is a growing concern which has now been recognised by governments around the world. Actions that can be taken to reduce carbon emissions include reduction, expanding forests, and changing our lifestyles. Governments are tackling this through policy and regulation which will have a significant affect on business.

The industrialised nations are the source of past and current greenhouse gas emissions; therefore the UN has placed the burden for fighting climate change on them to cut emissions and provide the finance for efforts elsewhere.

Voluntary commitment was not enough and therefore a number of nations approved the Kyoto Protocol which came into force on the 16th February 2005.

The Kyoto protocol developed three market based mechanisms to allow parties to earn and trade emissions credits through projects implemented in other developed countries or in developing countries. These credits can be used to meet their commitments (International Emissions Trading or IET) and allows trade between industrialised countries and those in transition.

The Clean Development Mechanism (CDM) is the principal mechanism under Kyoto whereby developed countries can co-operate with developing countries. The project sponsor acquires Certified Emission Reductions (CER) which can be applied to meet emissions targets.

Joint Implementation (JI) is a flexible mechanism that allows investment in industrialised countries and generates Emission Reduction Units (ERU's). Generally ERU's will be located in countries of Eastern Europe known as 'economies in transition'.

The EU Emissions Trading Scheme is the largest multi-country greenhouse gas trading scheme in the world and is based upon a 'cap-and-trade' system. The countries are committed to reduce green house gases from 1990 levels by the end of the Kyoto Protocol's first commitment period (2008-12). Member states drew up a national allocation plan (NAP) in which each installation in the scheme was granted a specific number of allowances. European Union Allowances (EUAs) Phase II from 2008 to 2012 has seen a reduction on these allowances by 10%. This limit on allowances creates the scarcity needed for a trading market to emerge.



## The Opportunities

The carbon market has created a number of opportunities for customers; those who can keep emissions below the level of their allowances, or are able to sell excess allowances at a price determined by the market. Those unable to remain within their emissions have a choice between taking measures to reduce emissions, buying extra allowances, or a combination of the two.

Industrial sites in the UK can balance the allocation with CER allowances and also have an opportunity to swap up to 8% of the EUA allowances for 8% CER allowances. At the time of going to press the CER allowance was trading at a discount of around €4 per ton to the EUA allowance, creating an instant financial benefit from the trade. EU countries have different swap values.

For example a site with an allocation of 50,000 Tonnes of EUA allowances per year, which is balanced or long can capitalise on these credits by swapping 8% (4,000 per year) of the EUAs for CER's. Based upon the current market price the customer could expect a payment of €80,000 in December 2008.



Image courtesy of Drax

## Carbon Offsetting

All customers are investigating their carbon footprint size to see how this can be reduced, to meet corporate and social responsibility, and to green their image. The supply chain is beginning to apply pressure on industry to be greener if they wish to continue to supply goods to particular sectors. Gazprom Marketing & Trading can become the customers partner by providing guaranteed carbon off-set products. We are currently investing in projects to reduce carbon emissions around the world. These projects produce carbon credits which our customers can use to off-set their own emissions. Currently all our gas quotes come with an off-set price, giving the customer an option to green their image with green gas.

## Gazprom Flexible Products

With the ever increasing cost of gas, consultants and customers are looking for different procurement options. Our structured products team have developed a number flexible products designed to help meet your procurement and risk strategy.

We have a range of structures; from our zero balancing risk product which can provide budget security, through to a full balancing risk product for customers who can actively manage their demand. All our products allow a variety of purchasing options including sell back with the minimum transaction volume being one of the lowest in the Industry.

Taking a bespoke approach, Gazprom Retail has brought the flexible product to smaller customers by implementing basket products with some of the UK's top consultancy firms.

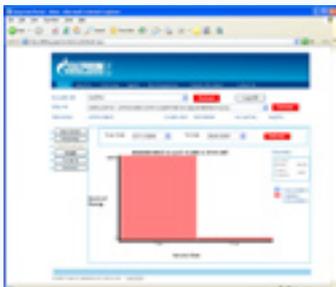
All of Gazprom Retail's flexible products include:

- AMR for all sites
- Direct access to in-house traders
- Online billing
- Carbon management options
- Free daily market report

To learn more please call our Structured Products team on 0161 838 9532.

## Online Billing

In early June Gazprom Retail launched its free online billing service. This is an industry first that allows customers and consultants online access to bills, consumption information and online read submission.



All invoiced information is provided in real time and can be viewed on a meter by meter basis. This is another part of Gazprom Retail's innovative approach to supplying the UK and Irish I&C market. It has reduced our carbon footprint by lowering the number of paper bills sent to our consultants and customers. This facility is FREE so if you would like to sign up please call us on 0845 230 0011 or email: [enquiries@gazprom-mt.com](mailto:enquiries@gazprom-mt.com).



## Meet Our Team : Simon Watson

Simon has 28 years experience in the energy business, commencing his career with British Gas as a gas engineer, planning and supervising the expansion of the gas network into rural areas. Simon moved into sales with British Gas to sell the benefits of Natural gas to domestic and commercial users. He left BG in 1990 to fulfil an ambition to travel the world overland. This took him to Japan where he taught English to staff from Toyo Gas, played football with locals in China and did some running in India.

Upon his return to the UK, Simon joined Alliance Gas (Statoil UK) as Commercial Manager becoming UK Sales Manager with responsibility for all UK and Ireland sites. Following the sale of the Statoil portfolio to Shell, Simon moved to Gaz de France as a Portfolio Strategy Manager, with responsibility for the optimisation and allocation of the gas to UK customers. Simon moved back into a front office role with EIC as an energy consultant and was responsible for the sale of risk management products to large gas and power users. Simon joined Gazprom M&T in March '08 as Carbon Negotiator bringing significant experience to an ambitious company with fantastic growth potential.

Out of work, Simon coaches an under 12 football team and tries to fit in some running. He ran the London marathon in 2hr 58 min, although this was a few years ago!



## Gazprom Site Services Team

The Gazprom Site Services team is available to assist with many types of gas works you or your customers may require. Our team can assist you with meter installations and removals, gas pipe removals, alterations and installations. We also can co-ordinate faulty meter checks, repairs, and service checks.



We organise all the co-ordination of works so you don't have to - ideal if you lack experience organising siteworks or simply don't want the hassle and would prefer one central contact who you can liaise with. The siteworks team has grown and has recently welcomed Chris Flannery & Jeanette McLaren as new members of the team.

## Market Commentary

Gas prices have experienced significant volatility over recent months with contracts setting new highs before shedding considerable value over a relatively short period of time. Many would no doubt attribute the recent price hikes to the rising cost of oil which saw crude reach a high of \$147.5/bl on 11 July 2008 for oil delivered in August 2008.

Near-dated crude oil has since retreated to around \$65-70/bl on the back of a slowing economy and turmoil in the financial markets which has brought with it a significant downturn in speculative trade.

The current crisis in the financial sector, coupled with a looming recession, has served to reduce global fuel demand, thus undermining support for soaring energy prices with energy futures crashing by as much as 30p/therm in recent weeks compared to the peak levels seen earlier in the year.

With the UK becoming increasingly dependent upon imports to meet its peak demand, it is fair to say that the market has been on tenterhooks with regard to the level of imports we could expect this winter, in particular from our Norwegian counterparts.

Flows through the Langeled pipeline have been significantly lower over the summer period, year on year. The start of the new gas year and the commencement of the winter contract brought with them a considerable upturn in imports. With storage levels at near full capacity and imports stepping higher we are as ready as we can be for the onset of winter.



## Customer Case Study

In January 2008 GM&TR signed a deal to supply natural gas and EU carbon allowances to Sheffield Forgemasters International Ltd (SFIL).

Malcolm Lee, Energy and Commercial Manager at SFIL commented : "Natural gas is a significant cost in the manufacture of heavy forgings. We chose GM&TR because of the overall package, in particular the flexible buying arrangements. These allow us to obtain price certainty up to three years forward on gas, enabling us to manage costs in a volatile and uncertain market place.

The flexibility and structure of the agreement also means we can tailor our contracts to individual customers' needs. Our customers increasingly seek price certainty in a volatile world. The contract with Gazprom allows us to offer them this certainty - at least with regard to gas.

Sheffield Forgemasters International Ltd is the world's largest independently owned forgemaster. The company is a specialist in supplying some of the world's largest steel castings and high integrity forgings to a global market and has heritage spanning 200 years. It is an acknowledged world leader in many of its products. The key markets it supplies include offshore, steel production, energy, and nuclear industries.

