



# **2003 Army Energy Forum**

## **Natural Gas Risk Management Program Briefing**

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# Natural Gas Risk Management Program



## Program Objectives

- **Develop risk management strategy for natural gas**
- **Remain within reasonable natural gas budget**

## Market Factors

- **Growing supply/demand imbalance**
- **100% increase in natural gas prices**
- **Declining deliverability from major supply basins**
- **Decreasing imports from Canada**

## Program Benefits

- **Mitigate Rising Natural Gas Prices & Volatility**
- **Stabilize Natural Gas Budget**
- **Minimize Impact to Other Programs**

- **Increasing exports to Mexico**



# The Program use existing contracts to execute strategy



- **Strategy is developed based on the natural gas budget & current natural gas market direction**
- **Strategy provides target prices objectives & provides a target percentage of the natural gas requirements to “lock-in” if the target price objective is met...stair-step approach**
- **Natural Gas market is monitored to determine when prices in the out-months are favorable compared to the budget**
- **If a target objective is met, the DESC contract is converted from index price to firm-fixed price for the out-months**



# Recap



**Future natural gas prices are predicted to remain above historical average levels**

- **Employing a risk management strategy establishes realistic natural gas budgets, reduces market exposure to volatile prices, protects those budgets, and protects other programs**
- **The Risk Management Strategy provides a complete process**
  - **Understand natural gas drivers to forecast market direction**
  - **Assist in budget development**
  - **Develop customized strategy**
  - **Monitor the natural gas market**
- **DESC supports and encourages developing and executing a risk management strategy**