

RiskSensor: Like X-Ray Vision for Gas Buyers

Historical Volatility

Determined by looking at historical prices and calculating statistics based on how those prices behaved. But the future can be different from the past, so historical volatility is not necessarily a good predictor.

Gas buyers lately have enjoyed watching spot prices and forward prices fall and the rise dramatically. “The trend is your friend”, as they say, or at least it is for now. But there are many forces at play in the market. Buyers are waiting for the price to “bottom out” and then they’ll buy. But where will the bottom be? How long will prices be there before they rise again? And how sharply will they rise when that upturn comes, as it inevitably will?

Introducing RiskSensor©

A novel technique developed by Aegent called RiskSensor© helps buyers measure risk, and assess the degree to which prices could change in the coming weeks and months. If the potential for an unfavourable change is too high for the buyer’s risk appetite, it points to the need to do some energy buying to lock in prices and reduce risk, even if the expectation is for markets to continue to fall.

With RiskSensor, buyers can assess how much the cost of the gas they need to buy could increase over the next week or month, with a given confidence level. What if you knew, based on your current portfolio, that there was a 10% chance your gas costs for next year could go up by \$500,000 while you were on vacation? Would that prompt you to do some buying before you left?

Consider the chart below. The blue line shows the trend in forward natural prices for the Winter 07-08 period at AECO. After trending between \$8 and \$9 for most of the previous year, prices started to fall sharply in June, 2007.

The red line shows the implied weekly volatility of prices for the same period. This is a measure of how much prices could change



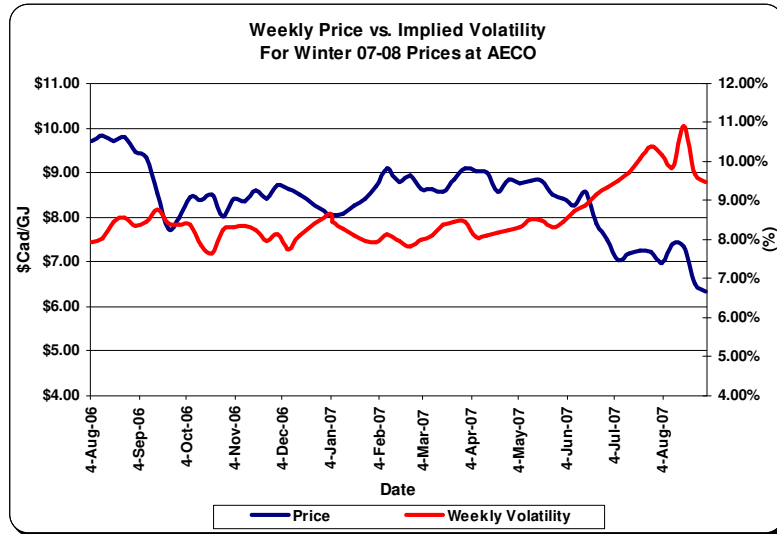
Can you see risk?

If you could see beyond the trend in prices – to see energy price risk – it could surprise you. Maybe you’d change the way you make decisions about your energy supply portfolio.

Implied Volatility

The volatility implied in the prices for options. An option is a right to buy or sell gas at a specific price, at a specific time in the future. The price of that option will be higher if market participants think that prices could change a lot between now and that future time. Deriving a value for volatility based on the prices of options captures that market view. RiskSensor's reliability has been tested with more than 3 years of market experience.

in a week. A higher percentage means greater price uncertainty, therefore greater risk. Note that while prices had been falling since June, the riskiness of prices was rising. This suggests that a reversal in prices, when it came, could be steep. So, while it was tempting to wait for prices to bottom, the potential cost of being too late to react at the bottom was growing.



Like X-Ray Vision for Gas Buyers

While everyone can chart prices, a price chart only tells you about the past. RiskSensor© can help you see the potential for price movements in the future, and alert you to take action to keep your costs within acceptable limits. RiskSensor works like X-ray vision, to enable you to see what isn't visible to the naked eye, helping you to make better decisions for reducing costs and managing risk.

For a free, no-obligation RiskSensor© assessment of your gas price risk, contact Cory Slinger at 416-622-9559 ext. 110.

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