



## With Energy Prices This Low, How Do I Keep from Missing the Boat?

Over the past year, the news has been full of stories about the rapidly declining prices of oil and natural gas. This trend has been a boon for consumers, who are happy to be filling gas tanks and paying utility bills without breaking their budgets.

But there's a flip side to this low price environment: Energy sector companies worry about future earnings and forced layoffs, and organizations with energy agreements have been left scratching their heads. Those who have already locked in rates for electricity and gas now worry that there is no room to take advantage of these recent dips in prices.

It is true that, by late December 2015, natural gas prices had retreated to levels not seen since the turn of the century. If you own or operate facilities in states where electricity and natural gas are deregulated, chances are good that you've done the responsible thing and secured an agreement to help protect and stabilize your budget. It's commendable if you have fixed your rate for the next few years – but you may feel like you're out of luck in taking advantage of today's low rates. However, when you take a managed approach to the procurement of energy, you will never really miss the boat.

### Selecting Which Boat to Take

Every consumer knows that energy prices are extremely low at present. But not every consumer knows what to do about those extremely low prices – or how to do it. Essentially, determining your actions comes down to your organization's priorities. Do you strive for absolute budget certainty from year to year? Or do you have the luxury of flexibility to move with the market for the best rates?

In order to take advantage of market movement, there are two key issues you need to understand when managing energy procurement. One is market timing, and the other is agreement structure. When you have the proper tools to monitor the market, you can take advantage of what the market gives you and layer in the results with previous procurement efforts. When you structure your agreement properly, you can ensure that it will align with your organization's risk management strategy, whether your goal is risk-averse fixed prices or a more nimble index-aligned approach.

### Taking Advantage of Market Timing

Securing your rates at the right time in the market is the primary factor in stabilizing your energy budget and providing savings when possible. In fact, the number one thing that determines the price you ultimately pay for your energy – either electricity or natural gas – is the price your supplier pays for the commodity in the wholesale market. Accurately gauging “the right time” requires the ability to see and understand what is happening in the wholesale energy markets, which is where prices are set. Staying up-to-date requires direct access to the wholesale energy market. You can glean wholesale price information by following secondary sources like reputable news outlets or by monitoring market indexes themselves. Alternatively, you can plug into primary sources. The best way is to work with a firm who operates directly in the wholesale market and therefore has the latest market data about who is buying in the market (and why) – this enables you to actually interact, ask important questions, and get in-depth knowledge.

Once you have an accurate picture of the market, you can establish processes that allow you to act when the time is right. This means you should review your agreement, from your rates to your supplier, and preapprove all terms so that you can move quickly to negotiate a new agreement the moment the market hits the right point. Long-term, this process never stops, as you always look to favorable windows to secure the next agreement term.

## Addressing Risk through Agreement Structure

We've all heard the expression: "Buy low and sell high."

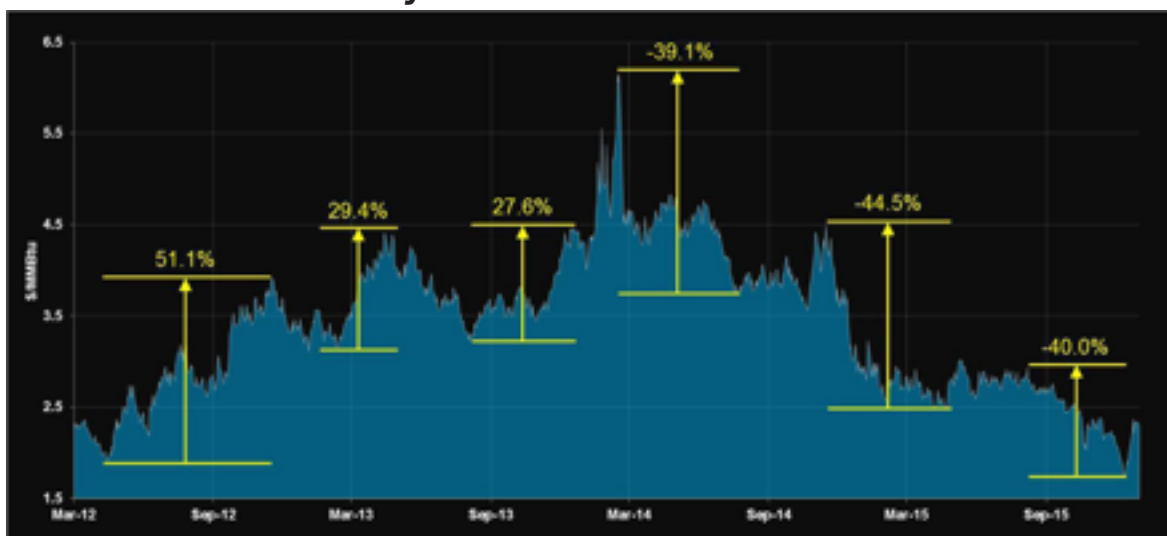
This same basic strategy applies to securing energy agreements. When looking at long-term energy procurement strategy, the way your organization's agreement is structured can help you take advantage of how the market moves. Ideally, you want to lock in your rates when the market is low – but you don't want to be stuck at fixed rates when the market is high.

In this highly fluctuating marketplace, it's easy to play Monday morning quarterback and judge energy procurement decision from a position of hindsight. But take heart: Even though the forward agreement strategy won't necessarily change your current price, it will edge your budget lower in the future. Granted, you won't be able to pay less within your terms, but you will secure lower prices for your future term. That being said, there are some strategies that can help you negotiate a lower price immediately in a fixed-price agreement by adjusting the term.

The first step is to understand what is most important to your organization – a stable, fixed price or saving money wherever possible – and determining your risk tolerance. If the ultimate goal is complete budget certainty, and knowing what your energy budget will be for years to come with no surprises, fixed-price terms are favorable.

But if you want to be able to flex with market movements, and have the opportunity to take advantage of the lowest prices available whenever they occur, a combined fixed and index approach may be your path – your price will move with the market, and you can take advantage of dips to lock in low prices. This approach enables you to be proactive to float when rates are high and lock in future terms when rates are favorable.

## NYMEX Henry Hub Historical Natural Gas Prices



*Leverage primary source wholesale intelligence to prevent missing buying opportunities during dips in the market.*

## Seizing Your Window of Opportunity

Your success in energy procurement relies somewhat on your ability to be an optimist: Too many energy professionals don't look at the opportunities that this low-rate environment presents. It's an ideal opportunity to reassess what your organization is doing on the energy supply side.

If managed properly, you'll never miss the boat when it comes to energy costs. Really, the only way to lose out is to do nothing – in fact, it's safe to assume that if you aren't doing anything, your energy ship has sailed. Even organizations with long-term established agreements can still take advantage of low markets to do effective forward planning.

So take heart when you see news stories about energy prices going down. Translate this into a strategy that enables your organization to take advantage of dramatic energy market movements. Then share the success with the entire team, so that everyone knows you are winning by locking in future rates now.

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