

# Energy: A New Ballgame

Deregulation and price fluctuation make managing energy costs a challenge

By Marianne Wilson

**P**rice volatility and emerging energy and deregulation issues have combined to create a complex market, one in which energy-price behavior often runs counter to historical trends.

"Today's energy buyers are operating in a whole new environment," said Jack Mason, president and co-founder, EnergyWindow, Boulder, Colo., which provides energy-consulting services and information-technology-based tools to help businesses manage their energy supply.

Mason said that important indicators illustrate that the historical and conventionally accepted inverse relationship between natural gas in storage and gas prices—gas prices go down if storage levels are high—no longer holds true.

Similarly, studies show historical seasonal-price behavior—gas prices lower in the spring, electricity prices lower in the fall in most markets—did not hold true in 2003 or 2004 and does not appear likely to hold true in 2005.

A new white paper by EnergyWindow (available at [www.energywindow.com](http://www.energywindow.com)) highlights these and other shifts in energy-price behavior as well as current pricing trends. It contains the curves for the daily averages of the 12-month forward strip for Henry Hub natural-gas prices and PJM electricity prices.

"The curves, which cover two years, clearly show an upward trend in prices," Mason said.

The EnergyWindow white paper made these additional observations:

- Electricity prices in most markets are strongly correlated to natural-gas prices.

- No significant dip in gas prices in the spring has materialized in the last two years and may not in the future. In fact, just the opposite has occurred, Prices have steadily increased during the spring in the last two years and exhibited significant volatility during the period. Given this shift, buyers may want to spread (diversify) the start and expiration dates for energy-supply contracts throughout the year with less regard for historic seasonal-price behavior.

- Longer-term fixed contracts provide budget certainty and reduce procure-

ment effort and cost.

What can retailers and other end-users do to help control the rising costs of electricity and natural gas and deal with market volatility? According to Mason, the best strategy to control prices is to consider longer-term (three years or more) fixed-price contracts.

"A lot of retailers are doing short-term or index deals, but that's a bad strategy," he said. "If you take a long-term deal now, you won't save a lot immediately, but you will over the long term."

In addition, Mason recommended that retailers and other end-users act sooner rather than later to solicit bids and execute contracts for their facilities in competitive retail markets. It may not be necessary or advantageous to wait until a few months before current contracts expire or for historically more favorable seasons to buy.

"You have to be ready to strike and move quickly," Mason said.

But that is easier said than done without the proper expertise and resources. Energy procurement is complex, as well as labor- and time-intensive, Mason said. To move quickly and act on opportunities as they arise, a retailer must have a thorough understanding of its portfolio of stores and be knowledgeable as to contract expiration dates, what markets are competitive for electricity and gas, and a host of other issues. Consumption data must be fresh.

"Have a map of where your stores are with regard to competitive markets and have a system set up, such as an e-procurement tool, that will allow you to strike and move quickly should an opportunity arise, such as a dip in the market," Mason advised. ■

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## Shop for Energy in Texas

**S**hop around. That's what one industry expert advises retailers with stores in Texas, which has been deregulated since January 2002.

"Pursue competitive energy bids and sign a contract if the competitive supplier can offer pricing lower than the price to beat, which is almost always the case in Texas," said Jack Mason, president and co-founder, EnergyWindow, Boulder, Colo.

EnergyWindow recently completed a market analysis of select utility territories in Texas. It indicated that electricity and natural-gas prices are continuously rising, irrespective of seasonal changes. Consequently, taking short-term contracts or variable-price contracts is not the way to go, according to EnergyWindow.

"Between rising energy prices and market volatility, the best chance to control energy costs for the long term is a long-term, fixed-price contract," Mason said. "Such contracts also provide the additional advantage of budget certainty and less administrative effort associated with procurement."

Companies that do nothing by staying with the price-to-beat generation service provider and companies that enter into short-term, variable-price energy contracts for electricity are likely to be hit the hardest as prices continue to escalate, Mason said.