

Energy Procurement 101

Best Practices for
Commercial Energy Buying

Energy Procurement 101

Best Practices for Commercial Energy Buying

With the cost of utilities commonly a top-five corporate expense and the energy industry changing at a record pace, good energy management is increasingly complex in today's competitive business environment. It's very likely energy procurement is just one of your daily responsibilities making it tough to stay on top of shifting energy trends.

Transmission, distribution and capacity charges are fluctuating, and market fundamentals are changing that will have a significant impact on your organization's future energy costs. **It's more important than ever for you to have a thoughtful energy supply plan in place.**

In this white paper, we'll explore four energy procurement best practices that will help you navigate your way through this complex process. We'll also touch on the three ways your organization can buy energy supply in a deregulated market.



FOUR STEPS TO ENERGY PROCUREMENT

1. Know What Drives the Energy Market

Electricity and natural gas have robust futures markets that are difficult to predict. Market prices fluctuate daily, rising and falling in response to a host of drivers such as the economy, unexpected weather, regulatory and political events. Longer term pricing is also impacted by energy supply forecasts based on retirements and development of new power plants, natural gas production and pipeline delivery capacity.

With so many factors impacting the market, it's important to understand, or enlist in an expert to continuously monitor the market. However, ultimately, businesses must recognize such market fluctuations are beyond control. In an effort to make good buying decisions for your organization it is vital to consider the factors you can assess, influence and adjust yourself. Setting your objectives ahead of time and buying in the market when it best meets your goals is a key fundamental of energy purchasing. You may not have the ability to control pricing, however understanding your energy usage can be key to maximizing your annual energy spend.

2. Be Strategic

Monitoring and managing your consumption is another essential component to smart energy procurement. When devising an energy plan, it is important to look at the ways your organization uses energy and how they are reflected in your current procurement process.

Your approach should include the following factors:

- » Load profile (how your facilities use energy over a specific period of time)
- » Risk tolerance
- » Budget constraints
- » Expansions or reductions that may impact energy needs
- » Any organizational sustainability goals

Demand reduction efforts such as energy efficiency projects, on-site generation, demand response programs and peak load management are all initiatives that should be carefully considered when devising your energy strategy. If you are going to execute an on-demand reduction initiative, be sure that your electric supply contract terms are adjusted in a way that allows you to maximize your savings benefit. For example, if you are going to reduce your load on peak days to lower your capacity tag, make sure your supply contract is written to either pass through capacity charges or expire no later than June of the following year when your new tag will be in effect.



Be sure your electricity contract allows maximum savings from renewables and other demand reducing efforts.

FOUR STEPS TO ENERGY PROCUREMENT

3. Analyze Your Data

Energy usage data, as well as utility and supply bill data, can provide significant insights into how your facility uses energy and how your organization is being charged. These insights can help you make more informed budgeting decisions and identify areas for cost improvement. That said, data can be found in a lot of places: building management systems, utility/supply bills, metered data and via your own internal colleagues.

Joining all the data together into a usable format that can assist in decision-making is challenging, but will reap countless benefits. Implementing a reporting tool with analytic capabilities is a helpful solution that can enable you to track your budget, identify areas of inefficiency and implement targeted energy-saving initiatives.



Energy usage data, as well as utility and supply bill data, can provide significant insights into how your facility uses energy and how your organization is being charged.

FOUR STEPS TO ENERGY PROCUREMENT

4. Understand Contract Types

Before you move into the next phase, buying energy, it is important to understand the commodity purchasing options available. They can be as simple as a fixed-price energy supply, all-inclusive contract or as complex as multi-layer hedging with a variety of variables.

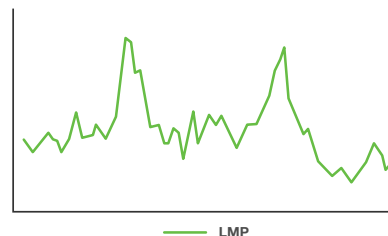
FIXED PRICE ENERGY

With a fixed-price electricity contract, you pay a fixed price for energy* for a defined period of time. Fixed-price energy contracts work best for businesses that require price certainty and budgetary control. 100% of the supply cost risk is on the seller.



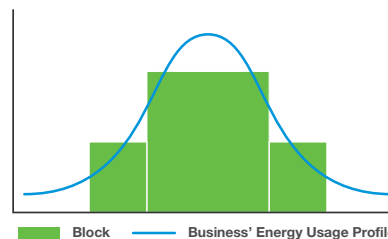
INDEX PRICE

In an Index Price contract, you pay the variable hourly price for each kilowatt-hour (kWh) of electricity consumed. Index pricing works best for businesses that can adjust their operations in response to changing hourly prices. 100% of the supply cost risk is on the purchaser.



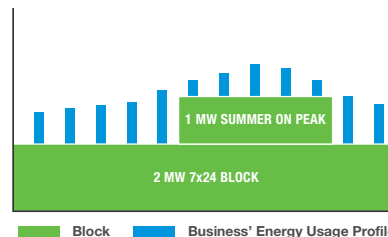
BLOCK & INDEX

This strategy strikes a balance between price certainty and price variability. A percentage of the supply is purchased on both a fixed and variable basis. It works best for large businesses that have the ability to predict and actively monitor and manage electricity usage.



MANAGED SERVICES

This strategy allows you to buy a percentage of your energy over time. Managed service works best for organizations looking to secure budget stability over the long-run. This option also allows you to maintain buying flexibility for market dips.



Think about your risk appetite, budget constraints and sustainability objectives when considering energy purchasing options.

5

*Electricity commodity only.

KNOW YOUR OPTIONS – THREE WAYS TO BUY ENERGY

Once you know the market, understand your consumption and have analyzed your data, it's time to think about how you'll purchase energy.

Below are three ways to buy energy:

1. **Stay with your utility:** Receive the default/standard service from your local utility
2. **Use a broker:** Hire an energy broker to find electricity supply for you
3. **Team up a with supplier:** Purchase directly from an energy supplier

1. Receive the default service from your local utility

Your local utility provides general or standard service to most businesses purchasing energy in your area. The rate charged by the utility is based on the market rate of the commodity adjusted for regulatory items. The standard price offer is not customized to the individual consumer and therefore the consumer does not get the potential benefit of matching its supply with its specific energy usage patterns. In the case of larger energy users, this usually results in a higher price paid over time than what can be achieved in the competitive market. In addition, the standard service offer will fluctuate with energy market prices. Consumers who want to remove the risk of month-to-month variances in energy bills can use the competitive market to lock in prices to create energy cost predictability. However, unless you choose an alternate energy supplier, you will receive your energy supply from the local utility.

2. Hire an Energy Broker

Energy brokers can get you pricing from multiple suppliers, often through a 'request for proposal' model or reverse auction. While this method can save you time, it doesn't always save you money. Energy brokers typically embed their fees in the energy price from suppliers rather than charging you upfront, making it difficult to know exactly how much their services cost. The energy broker business is also one which requires few barriers of entry, meaning, most anyone can start a broker business. This results in energy brokers coming into and leaving the space often, with few achieving the longevity and financial security of reputable energy suppliers.



Consumers who want to remove the risk of month-to-month variances in energy bills can use the competitive market to lock in prices to create energy cost predictability.

KNOW YOUR OPTIONS — THREE WAYS TO BUY ENERGY

3. Team Up Directly with a Supplier

To help you ensure best service, pricing and terms, contracting with a supplier might be the right choice. Typically, rates provided by an energy supplier are better than the standard service rates from local utilities, and without the additional fees of an energy broker. Unlike the local utility, energy suppliers aren't "handed" customers by default. As part of a competitive energy market, extra efforts are initiated by suppliers to provide more flexibility in plans, with a variety of options, and invest heavily in customer-centric programs and services.

However, not all energy providers are created equal and not all supplier contracts are the same. Some may make modifications to their contracts periodically.

Key contract terms to review include:

- » Payment terms
- » Change in Law clauses
- » Early termination fees

By teaming up with a reputable energy supplier you'll have the additional capabilities and resources to help you develop your energy buying strategy. They can provide ongoing support on energy markets throughout your energy contract and advise you on other services that can help you better manage your energy costs, such as peak load management, energy efficiency, renewable and clean energy.

Having an energy strategy in place and an energy supplier to help you operationalize it maximizes the opportunity for best market pricing and ensures alignment with your risk tolerance and budget. An energy supplier will also monitor the market and alert you of any price fluctuations, regulatory actions or infrastructure updates — positive or negative — that could affect your energy strategy.



By teaming with a reputable energy supplier you'll have the additional capabilities and resources to help you develop your buying strategy and manage your energy costs, such as peak load management, energy efficiency and renewable energy.

BEST PRACTICES FOR COMMERCIAL ENERGY BUYING

Conclusion

Managing your organization's energy strategy can be complex. Market monitoring and strategic planning backed by data insight can help you avoid common procurement mistakes and be on a path to a proactive strategy that maximizes cost savings for your organization.

About NextEra Energy Services

NextEra Energy Services is a subsidiary of NextEra Energy, Inc., a leading clean energy company. NextEra Energy is the world's largest utility company by market capitalization (\$100B+) and employs nearly 15,000 people in the United States and Canada. A Fortune 200 company (NYSE: NEE) and included in the S&P 100 index, NextEra Energy also owns a competitive clean energy business, NextEra Energy Resources, and together with its affiliates is the world's largest generator of renewable energy from the wind and sun and a leader in battery storage.

As part of NextEra Energy's competitive clean energy business, NextEra Energy Services (est. 2005) is one of the fastest growing retail energy providers across deregulated markets and offers energy solutions across the U.S. with a focus in the Northeast. NextEra Energy Services together with its affiliates has served thousands of commercial and industrial clients, and millions of residential customers. As a premier energy supplier we help our large business customers rethink their energy strategy and achieve enterprise optimization. We do so through advanced analytics and customized products and services including:

- » Electricity Supply
- » Energy Optimization
- » Energy Efficiency
- » Renewable & Clean Energy
- » Fleet Electrification/EV
- » Battery Storage
- » Backup Generation

Ready to get started?

Contact NextEra Energy Services today to develop your own custom energy strategy: **855.639.8189**



NextEraEnergyServices.com/Large-business

Phone: 855.639.8189