



Managing your
**energy
strategy**
through uncertainty



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Over the past several years, businesses have seen an incredible amount of uncertainty. Through extreme weather, financial crises, economic downturns and even a worldwide pandemic, companies have had to shift their operations and strategic plans to survive and plan for the future.

Ultimately, uncertainty—no matter what it stems from—can have considerable, lasting effects on the energy market. For businesses, that often translates into unpredictability around budgeting and planning for the future. If you can't anticipate how the energy market and prices will change over time, it's difficult to achieve budget certainty. Too often, businesses find themselves at the mercy of the market, forced to purchase energy when prices are high and shift other business priorities to accommodate those unexpected budget items.

While no one can predict what will happen in the future, there's an important lesson you can learn from the events of the past: **It's best to expect the unexpected.**

Fortunately, there are many ways you can manage your energy strategy through uncertainty. **In this guide, learn what causes fluctuations in the energy market and the steps your business can take to achieve stability now and in the future.**

Expecting the unexpected: Understanding the causes of fluctuations in the energy market

Many factors can cause fluctuations in the energy market. From extreme weather to financial crises, events outside of your control can have a significant impact on energy supply and demand, as well as consumer purchasing behavior.

Just over the past decade, we've seen this play out through several very different historical events:

- ▶ In 2008, the **energy bubble** resulted in extremely high natural gas and power prices, followed by the financial credit crisis, which led to a number of failed businesses and industries.
- ▶ The 2014 **polar vortex**, an abnormal weather event that brought record low temperatures across the U.S., elevated demand for energy and resulted in extremely high prices.
- ▶ The 2020 **coronavirus pandemic** brought lower power demand in the commercial and industrial sector, as many companies' operations were temporarily reduced or halted. The pandemic also brought on an unprecedented drop in crude oil prices, leading to a financial impact to the oil and natural gas production industry.



Though the nature of these events varied widely—from a natural disaster to a worldwide pandemic—they caused similar effects that had an impact on the country’s economy:

► **Instability in business operations**

In each of these events, businesses were forced to close. Even if that closure was initially temporary, it contributes to overall economic instability. Temporarily or permanently shuttered businesses can lead to layoffs and furloughs, as well as reduced commercial demand for energy.

► **Changes in consumer demand**

The instability in business operations then directly impacts consumer demand for energy. The coronavirus pandemic, for example, forced a majority of employees to work from their homes, which caused an increase in residential energy demand and a decrease in commercial demand. However, that doesn’t necessarily create an equal tradeoff, considering the amount of energy used in complex and energy-reliant industries, such as manufacturing.

In times of uncertainty, businesses must deal with adapting their operations, the possibility of temporarily closing or adjusting operating hours, making decisions regarding their workforce and employment, and remaining profitable—all while efficiently managing their energy strategy in a potentially volatile economy.

What can you do to achieve stability in your energy purchasing, even when facing times of uncertainty? **Start with these five strategies.**



5 ways to achieve stability in your energy purchasing strategy

In uncertain times, you may not be able to anticipate how your business will change in regard to revenue, employment and overall operations. However, as one of the top five expenses for most businesses, energy is a critical piece of your overall business operations. By using the following strategies, you can achieve and maintain stability in your energy purchasing strategy and make a direct impact on your bottom line.

1 Stay informed on the current state of the energy market

As the economy changes and energy market fluctuates, one of the most effective ways to keep your energy purchasing stable is to stay informed. Without an understanding of what is changing and how those factors are impacting energy prices, you may be caught off guard with increased costs, which can impact your overall budget.

By staying up to date on current events and their effect on the energy market, you can make informed decisions about how to adjust your company's purchasing strategy.

Here are a few ways to stay informed:

- ▶ **News and blog posts:** Reading about current market conditions in the news can help you understand what is currently impacting energy prices. In addition, blog posts written by industry experts can help add context to that information, so you know how to take action regarding your energy strategy.

Constellation's industry and economic experts regularly publish articles on the [Constellation blog](#). We provide in-depth guidance and commentary around market trends, sustainability, and energy management and policy topics.

- ▶ **Industry and market intelligence webinars:** It can also be helpful to tune into live broadcasts that include expert commentary around the energy market. This provides a way to get insights on market changes in an easy-to-understand way, as well as the opportunity for live Q&A with those experts.

Constellation, for example, hosts monthly [Energy Market Intel webinars](#), which deliver relevant and timely energy market content. In addition, the [Fortunato & Friends webinar series](#) features Constellation Chief Economist Ed Fortunato interviewing a wide range of industry and economic experts.

2 Adjust your energy purchasing strategy for your risk tolerance

Every business has a different preference for risk tolerance. While some are willing to tolerate higher risk to take advantage of market lows and corresponding low prices, many businesses often prefer to minimize risk for more accurate budgeting and planning. This may be especially true in light of recent uncertainty and in anticipation of unforeseen future events.

However, there are ways to take advantage of market volatility while reducing risk. For example, purchasing a percentage of load at regular intervals over time (known as layering) provides budget predictability, but also allows the option to take advantage of market opportunities.

3 Consider automating your energy purchasing

In addition to aligning your energy purchasing strategy with your risk tolerance, you can further reduce guesswork by adopting an automated, algorithmic approach. By automating some or all of your energy purchasing, you can avoid worrying about

whether you're making the right purchasing decision at the right time. Instead, you can achieve a more consistent procurement process over time, regardless of economic and market fluctuations.

Constellation's Minimize Volatile Pricing program, for example, allows customers to diversify and automate their energy purchasing over time.

4 Make sure you understand your energy contract

As a result of unexpected events, such as the coronavirus pandemic and extreme weather, some businesses are choosing fixed price energy products to endure these uncertain circumstances. However, while fixed price products seem like they can offer greater budget certainty, it's important to educate yourself about all cost components that make up your total energy costs.

Some supplier offers seem to have attractive prices, but these may exclude unknown, uncertain or unrealized cost components that are required for service. Instead of including these costs in the fixed price, these unknown costs may be deferred until they are realized and reflected on the customer's invoice.

These pricing adjustments are often related to non-energy cost components, such as capacity, transmission and ancillary services. Without a proper understanding of the cost of these components and your risk tolerance, choosing a fixed price option based on price alone could prove to be detrimental to your bottom line.

Your energy contract should clearly specify which components are fixed or variable, as well as who bears the risk of usage variations and how it's accounted for in your contract. This can help you better understand how your energy usage and bills may change in response to unexpected future events.

5 Look for a stable energy supplier

Changing market and economic environments remind energy buyers of an important fact: Not all energy suppliers are the same. Choosing an energy supplier, like Constellation, that has a strong track record of weathering market anomalies can help ensure that your business is also able to withstand unexpected future events.

What should you look for in an energy supplier? In addition to a history of long-term stability, a stable supplier will have strong credit support. Of course, the supplier should also have extensive energy expertise, as well as the right tools to share that expertise with customers. With this kind of supplier serving your company, you can rest assured that your company and your energy strategy can weather any circumstance.

As you look toward the future, it's a given that you can expect more volatility. However, that doesn't have to threaten your company's budget certainty. **With the right energy management strategies, you can mitigate risk through any circumstance.**

To discuss your company's unique energy needs, both now and in the future, [sign up for an energy strategy session](#) with Constellation. An experienced representative will contact you to discuss your energy usage and current needs, as well as potential energy strategy options. You'll learn how Constellation's tools and energy professionals can provide you with up-to-date market insights and help you conveniently manage your energy strategy, even through uncertainty.

[Schedule an energy strategy session now](#) →

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