



Constellation®



Evaluating Your
Energy Contract for
**Smarter Purchasing
Decisions**

Knowing When to Reevaluate Your Energy Contract

As an energy buyer in a competitive retail market, you have multiple purchasing strategies to choose from. Retail supply contracts can vary in length and structure, offering different ways to manage price, risk and budget certainty.

The challenge is that an energy contract that aligned with your needs a few months or years ago may not reflect how your current business operates. Knowing that energy prices typically fluctuate over time, many businesses consider locking in a new contract when prices appear low.

With various factors influencing energy costs and contract outcomes, it's important to know how to navigate the process and determine when and how to create the most effective energy management strategy to support your business needs.



Understanding the Factors Influencing Market Pricing

Energy prices fluctuate based on a variety of factors, including weather, the economy and supply and demand. Understanding how these factors affect pricing can help explain why relying on market timing can be challenging:



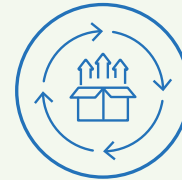
Weather:

Extreme weather, such as hurricanes, blizzards and winter storms, can significantly affect energy supply and demand and also damage energy infrastructure. When natural disasters disrupt generation or transmission, supply can be reduced and prices can increase.



Economic conditions:

Energy prices often reflect the state of the economy and can be difficult to accurately and consistently predict. Periods of growth can increase demand and prices, while economic slowdowns may reduce them.



Supply and demand:

Trends in supply and demand can cause energy prices to fluctuate. In the current economy, electricity demand is increasing significantly, driven by AI, data centers, manufacturing expansion and national security priorities.

Based on these factors, some organizations choose to monitor the market and secure a fixed-price contract when prices appear relatively low. However, market volatility makes it difficult to consistently make the right long-term purchasing decisions. For example, you can lock into a contract when prices are low, only for prices to decline further afterward. Once locked into a contract, those lower prices are no longer accessible.

While a fixed-price contract can provide short-term budget certainty, it's important to consider what happens when your contract expires. Prices may be higher when it's time to renew, which can increase long-term costs and limit flexibility over time.

As a result, you may be left with several questions, such as:



- » How can I take advantage of market opportunities while managing risk?
- » What should I consider beyond market prices when making contract decisions?
- » How do additional costs and variables impact my energy bill?
- » What factors affect contract changes outside of market timing?

After asking yourself these questions, it becomes clearer that evaluating an energy contract involves understanding how changes in risk tolerance, cost structure, operations and purchasing strategy affect whether your current strategy is still working as intended.

Considering Key Factors That Shape Energy Purchasing Decisions

An energy contract that works well today can deliver very different results as conditions change and costs shift across the term. Looking at pricing, risk and operational factors together helps determine whether your current approach still supports business goals.

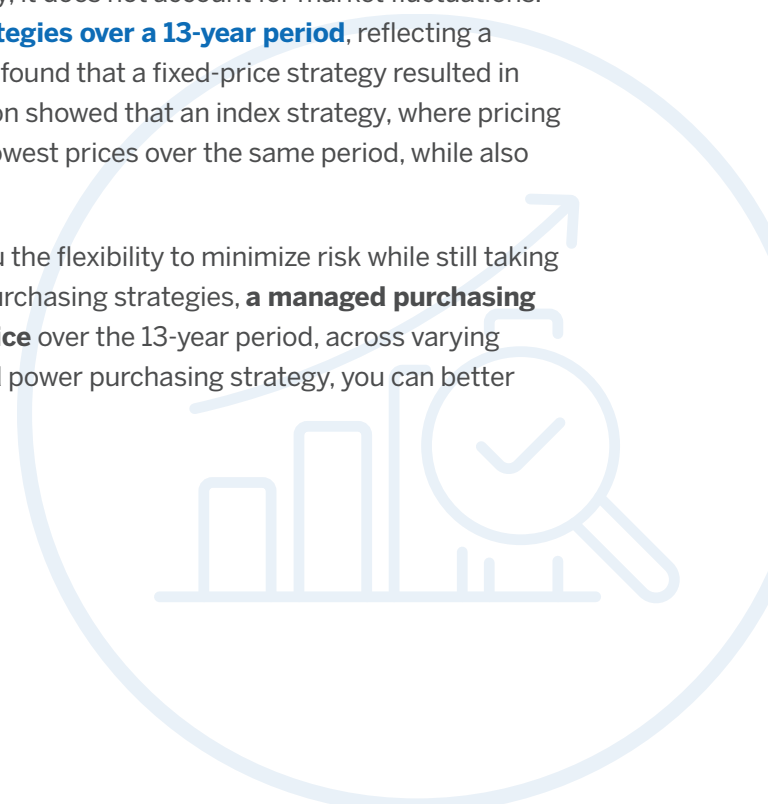
1 Balancing budget certainty and risk tolerance

Every business has a different level of risk tolerance. You may prefer to minimize risk for more accurate forecasting and budgeting, especially when having a clear picture of monthly energy costs helps avoid unexpected bills.

While a fixed-price contract can provide budget certainty, it does not account for market fluctuations.

Constellation evaluated 73 different purchasing strategies over a 13-year period, reflecting a range of different economic and market conditions, and found that a fixed-price strategy resulted in the highest price outcome. By comparison, the evaluation showed that an index strategy, where pricing fluctuates based on market conditions, resulted in the lowest prices over the same period, while also carrying the highest level of risk.

Choosing the right energy purchasing strategy gives you the flexibility to minimize risk while still taking advantage of market opportunity. In our evaluation of purchasing strategies, **a managed purchasing strategy effectively reduced both budget risk and price** over the 13-year period, across varying market conditions. By implementing a flexible, managed power purchasing strategy, you can better manage energy costs and risk.



2 Transmission and capacity rates

In addition to supply costs, your electricity bill can include several other components, such as transmission and capacity costs, which can have a significant impact on your total energy spend.



Transmission costs support the infrastructure needed to deliver electricity from generators to electrical substations located near demand centers. Interconnected transmission lines become power grids, and this infrastructure may be owned, operated and maintained by local utilities or independent transmission owners. These costs are set by regional transmission organizations, independent system operators or transmission owners and may be fixed or calculated using forward-looking formulas, depending on the region.

How transmission rates appear on your electricity bill can vary based on your utility, supplier and contract structure. These costs may be structured as fixed costs or “pass through” costs, depending on your budget and risk tolerance.



Capacity costs are charged to energy buyers to ensure that there is enough electricity supply available to meet peak demand and maintain grid reliability. In many markets, capacity rates are established through competitive auctions held by regional grid operators. Suppliers charge capacity costs to customers based on approved rates, which may appear as a separate line item on the bill or incorporated into other charges. The supplier then pays the Independent System Operator (ISO) or Regional Transmission Organization (RTO) for the capacity required to cover the megawatts they are contracted to serve. The ISO/RTO then pays the participating generators and demand response suppliers.

Since annual capacity and transmission rates are often based on energy use during peak hours, your business may look for opportunities to reduce its demand during those periods to help manage future costs.

When you evaluate your energy contract, it’s important to understand how capacity and transmission costs are incorporated into your contract and bill. Your supplier may also offer programs to help manage these costs. For example, Constellation’s Peak Load Management provides day-ahead and day-of notifications of potential peak-setting events, allowing you to adjust usage during those peak hours and potentially reduce capacity and transmission costs in the following year.

Implementing energy efficiency upgrades and other conservation measures can also help reduce peak load contribution and lower long-term capacity and transmission costs.

3 Usage patterns

As you consider different components of your energy strategy and contract terms, understanding how your business uses energy is essential. For example, your usage may vary by season or within specific operating hours rather than remaining consistent throughout the day.

Understanding your usage patterns and goals can help you plan your purchasing strategy by identifying ways to appropriately take on risk and plan for budget certainty. **Constellation's enhanced digital platform** can help you monitor usage and identify patterns in your energy data. With our advanced analytics tools, you can review usage trends, receive alerts for significant usage changes and gain clearer visibility into performance, so you can access, interpret and use insights based on your unique energy data.

4 Time you can allocate to the process

In addition to cost considerations and other priorities, it's important to consider how much time you want to dedicate to monitoring the market. Automating some or all of your energy purchasing can help save time and provide a more structured approach to managing budget certainty. Constellation's Minimize Volatile Pricing (MVPe) solution, for example, uses scheduled, incremental purchases at regularly scheduled intervals over a longer period of time to manage price and timing risk.

Constellation's SmartPortfolio natural gas solution offers different levels of volatility protection, allowing you to align budget certainty and risk exposure with your overall energy strategy.



Reviewing Energy Contract Decisions as Needs Evolve

There are several factors to consider when reevaluating your energy contract. Although an evaluation typically happens when changes in cost priorities, operations or purchasing approaches affect how energy is budgeted, managed or procured, the following factors can help you determine if you need to assess your current contract:

- » **Risk tolerance and budget certainty:** Identifying your tolerance for risk and how important predictability is for forecasting and budgeting can help determine whether your current contract structure still fits your planning needs.
- » **Cost components beyond supply:** Understanding how capacity and transmission costs are incorporated into your total energy bill, and how those costs are treated under your current contract, is essential to evaluating overall spend and risk exposure.
- » **Usage patterns and efficiency opportunities:** Reviewing how and when your business uses energy can affect how a contract performs and can help identify opportunities to improve efficiency or adjust purchasing strategies.
- » **Level of market involvement:** Deciding whether you want to monitor markets directly or rely on more automated strategies can influence when and how a contract should be reevaluated.
- » **Alignment with business goals:** Consistently reviewing your contract helps ensure you continue to align your energy strategy with your financial, operational and overall business goals.

Taking a More Informed Approach to Energy Contract Decisions

Reevaluating your energy contract gives you an opportunity to better understand how pricing, risk, usage patterns and purchasing strategies affect your long-term goals. Constellation supports businesses like yours with the experience, purchasing strategies and data and analytics tools you need to help you learn how to assess your current contract and make informed decisions as your priorities change.

To learn more about evaluating your current energy contract and optimizing your strategy, [contact us today](#).

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