



guide to **electricity purchasing strategies**



Constellation®

Empowering Businesses with Smart Energy Choices

In today's competitive energy market, businesses can benefit from the ability to select a power supplier and make informed decisions about purchasing electricity. By understanding the various options available – like month-to-month or multi-year agreements – and the factors that influence energy costs, businesses can optimize their energy purchasing strategies to achieve significant savings and sustainability goals.

Benefits of an Electricity Purchasing Strategy

Implementing a strategic approach to electricity purchasing offers several advantages for businesses.

By carefully planning and executing a purchasing strategy, companies can benefit through :

Cost management: Following market trends and price fluctuations, businesses may secure lower rates and achieve cost savings over time.

Risk management: Protection from fluctuating energy prices and ensuring more predictable energy costs by locking in rates or diversifying purchases, businesses can effectively manage risk.

Sustainability goals: Incorporating emission-free supply, renewable energy certificates (RECs) or purchasing from new-build renewable energy sources can help businesses reduce their carbon footprint.

By making informed purchasing decisions, businesses may achieve significant savings and advance their sustainability goals. To accomplish this, businesses should ask themselves several important questions, including:

- When is the best time to purchase?
- How will the power markets impact our budget?
- What is the best way to lower our costs and mitigate risks?
- How does our unique load shape or time horizon factor into the purchase?

Product Optimization 		Timing Optimization 	Execution of Purchases 
Product/Solution Type (4)	Percentage Fixed (3)	Timing of Purchases (2)	Execution of Purchases (3)
<ul style="list-style-type: none">• All-months fixed• On-peak periods fixed• Summer months fixed (JUN-AUG)• Winter months fixed (JAN-FEB)	<ul style="list-style-type: none">• 100%• 50%• 25%	<ul style="list-style-type: none">• LAST purchase occurring 6 months prior to flow date• FIRST purchase occurring 13 months prior to flow date	<ul style="list-style-type: none">• All at once• In 3 equal 1/3 increments• In 12 equal 1/12 increments

The options for purchasing power in the forward markets are extensive. Some examples for businesses to consider include:

- All months fixed, all-at-once.
- All-at-once, during the Winter or Summer months only.
- A proportionate blend of fixed purchases and index, with fixed purchases potentially layered-in over a period of time.

With this flexibility, businesses need to determine which power purchasing strategy is right for them. However, with the seemingly endless options available in competitive markets, arriving at an optimal power purchasing strategy can seem complex. Working with the right energy provider, like Constellation, can simplify the process of developing customized solutions that can help reduce energy costs and identify opportunities for efficiency improvements.

Choosing the Right Strategy

To navigate this complexity, businesses can tailor their energy plans to meet their specific needs instead of taking a one-size-fits-all approach. When considering budget, they should make sure to compare all costs, not just per kilowatt (kWh) or megawatt (MWh) hour rates. Additionally, businesses should evaluate how different electricity purchasing strategies would impact their operations, comparing contract terms, renewal options and the potential for incorporating renewable energy sources into their plans.

Comparing Electricity Purchasing Strategies

Businesses have several strategies to choose from, each with its own set of advantages and disadvantages. The three main types of electricity purchasing strategies include **fixed, index and managed solutions**.

Fixed Price Solutions

A fixed price solution offers the stability and simplicity of a consistent energy rate. By making a single upfront purchase decision for a set contract term, such as 12- or 24-months, businesses can lock in a fixed price per kWh that remains the same throughout the contract term. This approach provides maximum budget certainty, allowing businesses to plan their energy expenses without considering market fluctuations.

Benefits of fixed price solutions:

- **Cost predictability:** Ensures consistent energy costs with locked-in rates.
- **Risk mitigation:** Avoids the volatility of fluctuating market prices.
- **Budgeting simplicity:** Makes budget planning easier by eliminating unexpected rate spikes.
- **Price stability:** Maintains the fixed rate even when market prices increase.

Index Price Solutions

An index price solution offers a dynamic approach to energy purchasing, where rates fluctuate based on real-time wholesale market prices. This means that costs can vary daily, influenced by factors like electricity demand, fuel costs and weather conditions. While index rates can provide opportunities for savings when market prices drop, they also expose businesses to higher costs during peak demand times or extreme conditions when prices surge.

Benefits of index price solutions:

- **Potential savings:** Captures lower prices when market rates decrease.
- **Automatic price adjustments:** Changes rates in response to market conditions, offering flexibility.

Layered or Managed Solutions

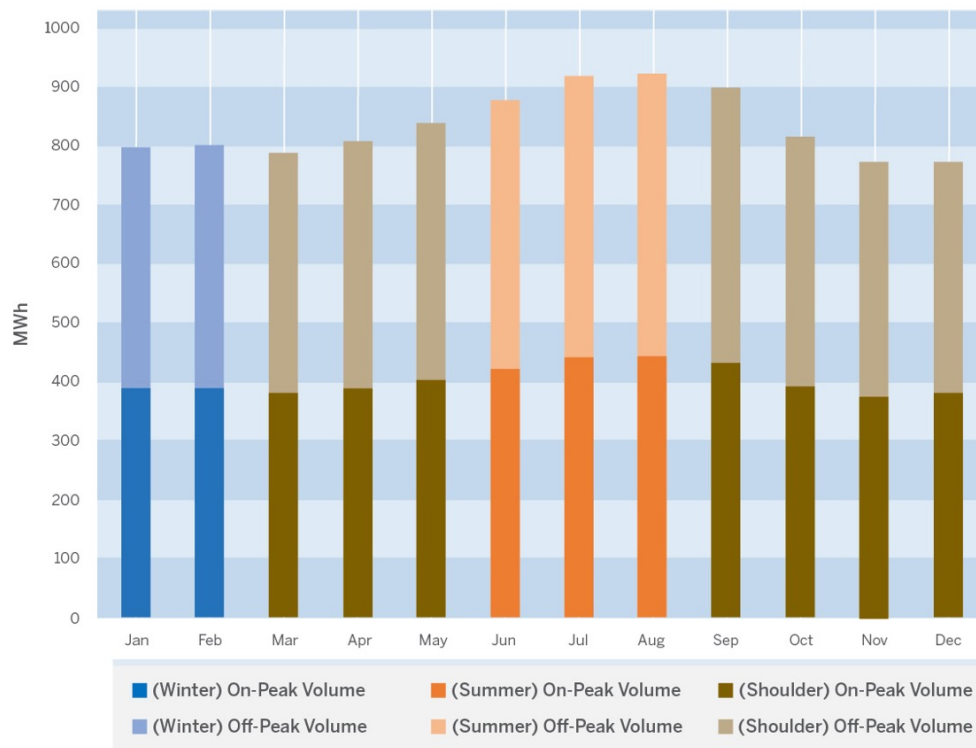
A layered or managed solution combines elements of both fixed and index strategies to optimize energy purchasing. By locking in a percentage of usage at a fixed rate and allowing the remainder to follow variable market pricing, businesses can balance cost stability with market price responsiveness to enhance savings. This approach provides budget certainty during high-cost events while still benefiting from lower market prices when they occur.

Benefits of layered or managed solutions:

- **Balanced cost and risk:** Fixes prices during peak months and indexes prices during lower cost months.
- **Customization:** Tailors plans to the business's specific needs and risk tolerance.
- **Budget stability:** Protects against price fluctuations with the fixed portion while capturing market savings with the variable portion.

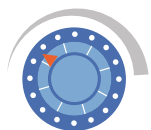
Developing a Customized Electricity Purchasing Strategy

To optimize energy purchasing, businesses should consider developing a customized electricity purchasing strategy, starting with understanding load profiles and usage patterns. The load profile represents the pattern of electricity consumption over time, indicating how and when businesses use energy. This can vary based on factors such as the time of day, day of the week and season.

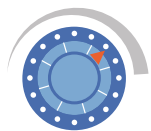


Energy usage patterns refer to the unique consumption behavior of a business over a given period, influenced by various elements, including the type of building or facility, the number of occupants, weather conditions and operational needs. For instance, a retail store may have higher energy demands during peak shopping hours compared to early mornings or late evenings, while a plastics manufacturer might experience varying usage based on different times of day and the intensity of processing activities.

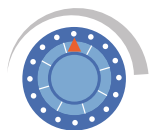
When building a customized strategy, businesses should consider three key areas:



1. Product: Choosing the right product strategy helps businesses manage costs effectively by selecting options that align with their consumption patterns and risk tolerance. Examples include all fixed, seasonal options and percent locking strategies.



2. Timing: Considering the timing of purchases allows businesses to take advantage of favorable market conditions and avoid high-cost periods. Businesses can tailor the timing to their specific needs, such as purchasing one month, six months or 12 months before their contract, or over time in small increments.



3. Execution: Implementing an execution strategy helps businesses spread risk and manage budget fluctuations by diversifying the purchase timing and quantities. After weighing risk and budget considerations, businesses can choose to buy all at once, in one-third increments or in half increments, determining what portions of usage to buy at different times.

Evaluating these patterns is crucial for understanding which purchasing strategy works best for businesses. This can be a complex process, but working with the right energy provider, like Constellation, can make it simple to develop customized solutions that can help reduce energy costs and identify opportunities for efficiency improvements.

Insights from Constellation's Power Purchasing Strategy Study

Building and implementing an effective purchasing strategy involves thorough planning and consideration of various factors. Constellation executed a comprehensive analysis to evaluate the effectiveness of various approaches to serve as a resource businesses can use when developing their own strategies. By testing 73 different strategies across four Independent System Operators (ISOs), Constellation aimed to provide businesses with greater clarity and confidence in their energy purchasing decisions. This extensive study involved compiling and analyzing the price-performance and associated risk levels of these hypothetical strategies, which were deployed against a baseline customer load profile over an 11-year period (2011 - 2021). The findings from this research highlight the benefits of a managed purchasing strategy, offering valuable insights into how businesses can optimize their energy costs while minimizing risk.

Key findings of the study:

Fixed price solutions:

Provide maximum budget certainty but less flexibility. Businesses pay a consistent rate per kWh, avoiding market volatility but potentially missing out on lower market prices.

Index price solutions:

Offer the potential for savings when market prices drop but expose businesses to higher costs during peak demand times or extreme weather events, as rates fluctuate based on real-time market conditions.

Managed solutions:

Combine elements of both fixed and index pricing strategies, balancing cost stability with responsiveness to market opportunities. This approach provides budget certainty during high-cost events while still benefiting from lower market prices when they occur.

While businesses should choose their purchasing strategies based on their unique needs, budget goals and risk tolerance, **Constellation's study provides valuable insights into the effectiveness of managed solutions.** Implementing this type of solution can lead to significant benefits, including effective management of both risk and price. Managed strategies can range from simple and manual to complex and automated, depending on the needs of the business. The key is to adopt a managed approach when purchasing portions of future power usage.

Businesses can consider spreading risk and purchasing over time by locking in percentages of the load at different intervals, rather than making a single annual purchase. This approach provides increased control over energy price changes and spreads out overall risk in both price and timing.

Advanced Tools for Strategic Energy Management

Choosing the right solution can be a complex process. For businesses looking for additional assistance, Constellation offers a suite of solutions designed to help plan, measure and adjust their energy purchasing strategies over time. One of these solutions is MarketWatch, a free service that provides an automated email price alert. Customers can choose to receive notifications whenever the market price is near their target price, or at any other preferred pace (e.g. weekly or monthly). MarketWatch can be a valuable tool in helping customers create a risk management plan, working in conjunction with other Constellation products.

Another offering is the Information-to-implementation (i2i) service, which provides comprehensive, no-cost reporting to help businesses plan their budget and make informed purchasing decisions. The service includes comprehensive reporting and the Energy Strategy Planner, which shows usage and cost over a period of time, typically five years, allowing businesses to forecast their budget under different plans and make informed decisions.

Evaluating Retail Electricity Providers

Selecting the right provider is an important decision in the electricity purchasing process. Understanding the key factors in evaluating and selecting a provider is essential for businesses aiming to optimize their energy purchasing and develop effective purchasing strategies. By considering how each factor impacts operations, businesses can make informed decisions that align with their energy needs, financial objectives and purchasing strategy.

When selecting a provider, businesses should consider these key factors:

- **Industry reputation and experience:** Providers with a proven track record and extensive experience are crucial for ensuring reliable service and expertise.
- **Customizable plan options:** Flexible plans can be tailored to meet the specific needs of businesses, allowing for more personalized energy solutions.
- **Transparent pricing:** Straightforward, easy-to-understand pricing helps businesses avoid hidden costs.
- **Reliable customer service:** Strong customer service that is responsive and helpful ensures businesses receive support when needed.
- **Tools and resources:** Access to resources that help businesses make informed decisions and optimize their energy purchasing strategy.

As one of the nation's leading competitive energy providers, Constellation has the expertise to provide businesses with resources that help build customized power purchasing strategies that manage energy costs and reduce their carbon footprint. A well-defined strategy can help businesses better manage energy expenses and enhance their reputation as a responsible and sustainable company.

Connect with Constellation's energy experts today to create a customized energy strategy and get on the path towards a more sustainable future. Visit constellation.com/power.

End notes

¹The 14 competitive states/jurisdictions for purposes of this paper are those states (and Washington DC) that enable full retail power choice for all customers and in which the utilities, for the most part, do not own any generation assets (and in that way might be described as 'wires-only' delivery service utilities). Those 14 competitive jurisdictions are CT, DC, DE, IL, MA, MD, ME, NH, NJ, NY, OH, PA, RI, and TX. Other states that allow limited retail choice are CA, OR, WA, MT, NV, AZ, VA, and MI. These eight states are, for the most part, still vertically integrated. Customers in both groups can benefit from the concepts described in this paper, although only those limited customers enabled to choose their retail supplier can do so in the second group of states. For more information on this topic, see <https://www.resausa.org/energy-by-state/>.

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