

ENERGY PURCHASING PLAYBOOK

Make more confident decisions, and get more value from your energy spend.

UNDERSTANDING ENERGY PRICING

Energy pricing isn't always straightforward. Rate structures, pricing components, and terminology can vary from one supplier to the next — which makes comparing offers harder than it should be.

This guide breaks down the language and pricing components you'll see in electricity and natural gas offers.

Whether you're evaluating suppliers for the first time or revisiting your approach, the goal is the same: **clarity that helps you make more confident decisions about where your energy dollars go.**

It's also worth zooming out beyond the price itself. When prices are trending upward, the lowest rate on the page isn't always the smartest move. A procurement strategy that accounts for market volatility, cost control, and operational resilience can do more for your bottom line over time than any single rate on a proposal.



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The first step in taking charge of your energy spend is understanding the elements of your energy supply price and the factors to consider when choosing your supplier.

WHAT MOVES THE MARKET?

Discover what impacts energy supply and demand

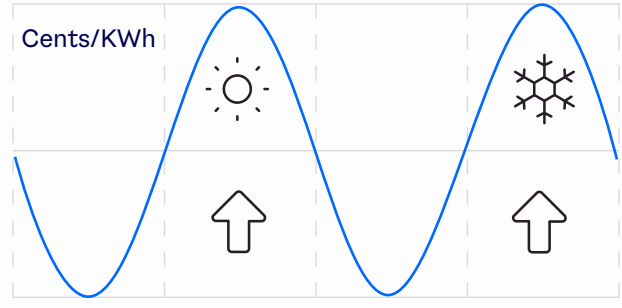
The factors that affect supply are complex, and even small shifts in these dynamics could lead to price fluctuations that affect your business's energy budget. Understanding the fundamentals of supply and demand can help you make more informed buying decisions and better prepare for market changes.

For seasonal market insights, watch our market update videos at nrg.com/insights.

Electricity market cycles

- **Seasonal cycle:** Typically, demand for electricity rises during winter (peak heating season) and summer (peak cooling season) and drops during spring and fall.
- **Energy market cycle:** Electricity prices tend to rise and fall over four- to eight-year cycles, with periods of low and stable prices, rising prices, high and stable prices, and falling prices.

ELECTRICITY SEASONAL DEMAND CYCLE

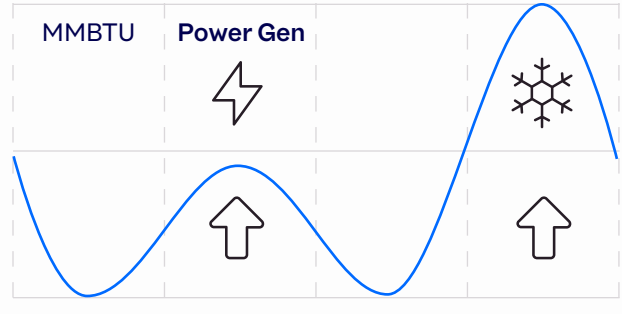


SPRING	SUMMER	FALL	WINTER
Mar-May	June-Aug	Sept-Nov	Dec-Feb

Natural gas market cycles

- **Seasonal cycle:** Homes and businesses rely on natural gas for heating during the colder months, which typically drives up demand and prices during the winter.
- **Natural gas market cycles:** Demand for natural gas also spikes during warmer months when more volume is needed for electricity generation. Demand is generally lower in spring and fall.

NATURAL GAS SEASONAL DEMAND CYCLE



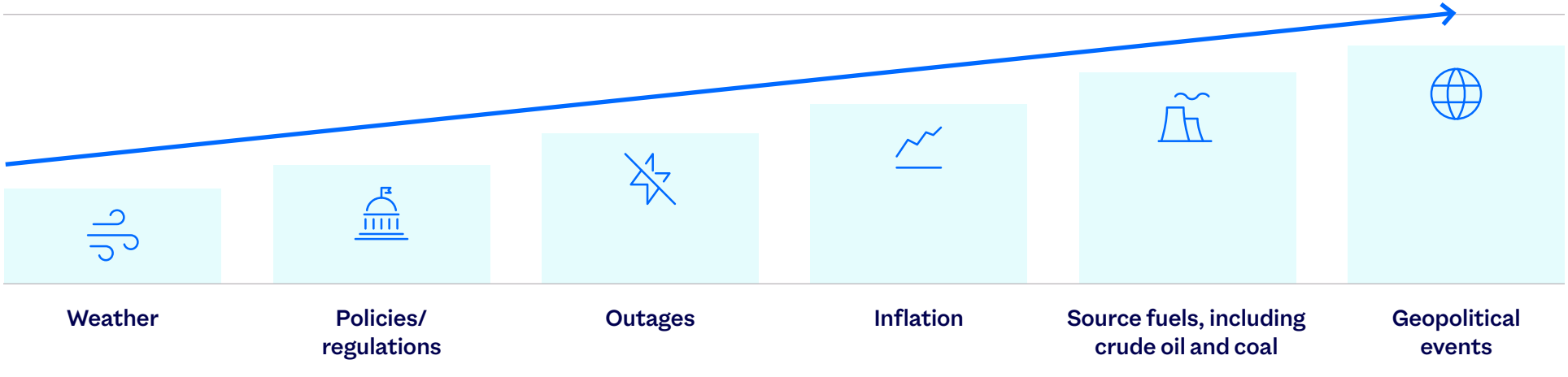
SPRING	SUMMER	FALL	WINTER
Apr-May	June-Aug	Sept-Oct	Nov-Mar

While understanding seasonal and long-term market cycles is still important, today's energy market is also being shaped by unusually high demand growth and other emerging pressures that can make pricing behavior less predictable than in the past.



Factors that drive energy prices

During normal market conditions, market cycle transitions are usually gradual. But sudden, unexpected changes in one or more of the following factors can intensify volatility and drive sharp price changes over a short period of time. Like other commodity markets, energy markets do not respond well to surprises.





Additional factors that drive energy prices

The factors below can also have downstream effects on supply, demand, and pricing.

- **Imports:** Imports can influence regional pricing, especially in areas where domestic supply is not sufficient to meet demand, such as in New England during the winter months.
- **Exports and liquefied natural gas (LNG):** When overseas prices make U.S. LNG exports more attractive, producers may sell more supply globally. That can tighten domestic supply and put upward pressure on prices. As overseas demand continues to grow, North American prices may become more closely tied to global markets.
- **Infrastructure constraints:** Limited existing infrastructure for delivering natural gas or power supply, along with challenges in approving or building new infrastructure, can lead to supply shortfalls during periods of peak demand and create significant regional price differences.
- **Technical trading:** When traders anticipate price volatility based on market signals and patterns, they may act quickly to buy or sell. Large-scale trading activity can move market prices upward very quickly.

The web of factors affecting energy prices is complex, but changing market conditions can also create opportunities. Building a successful energy strategy starts with understanding your options and choosing a trusted supplier that can provide reliable service and informed guidance.

THE ANATOMY OF A PRICING OFFER

Three key inputs behind your quote

Your electricity or natural gas quote from a competitive energy supplier generally includes three core elements:

1. **Price of energy supply (commodity):** Driven by changing supply and demand fundamentals, typically quoted in dollars or cents per unit
2. **Amount to be supplied (usage/volume):** The amount of energy you're expected to use, typically based on historical consumption and projected future usage
3. **Duration of the service (term or delivery period):** The start and end dates covered by the quoted price

ENERGY PRICE CORE



Price of supply + Amount + Duration of service

While pricing offers are similar for power and gas, the two fuels are measured and priced in different units, so we will consider each commodity separately.

Energy Managers: Market Factors Checklist

The chart below highlights some of the top factors impacting energy prices. These are important to watch as you make near- and long-term energy purchasing decisions. It can also be used to help you track relevant information as you speak with suppliers or brokers and review market updates.

	BULLISH	NEUTRAL	BEARISH	NOTES
Weather				
U.S. natural gas production				
Natural gas storage				
Gas imports/exports/LNG				
Gas for power generation				
Industrial demand for gas				
Region-specific factors				
Power generation mix				
Regulatory actions				
Energy policy				
Load forecasts in your region				
Generation queue activity in your region				

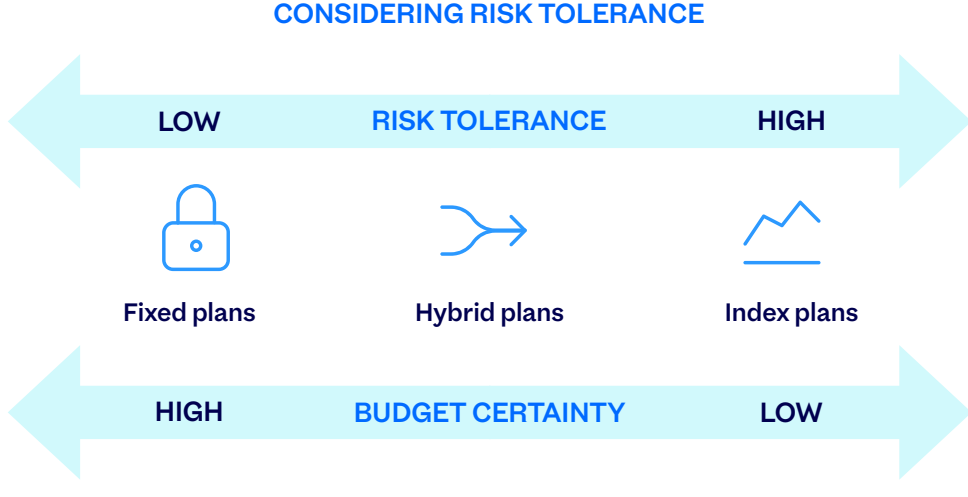
As you evaluate suppliers, ask whether they offer a no-cost consultation to review your energy usage and recommend purchasing strategies that may fit your business.



Comparing energy purchasing plans and approaches

Risk tolerance is an important consideration when choosing an energy plan. Fixed plans offer the most budget certainty and can help reduce your exposure to market risk — though they can come with higher premiums. Index plans offer more flexibility to respond to market changes and capitalize on market lows, but they also carry greater budget uncertainty. Hybrid plans, which combine a mix of fixed and index plans, fall somewhere in between.

With a basic understanding of your options and guidance from a consultant or supplier, you may be able to use shifts in the energy market to your advantage.

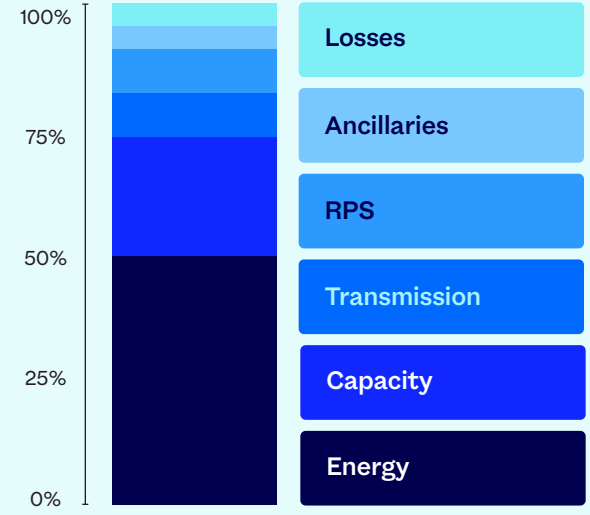


ELECTRICITY SUPPLY COST COMPONENTS

An electricity price or “offer” is quoted in cents per kilowatt-hour (kWh) or dollars per megawatt-hour (MWh). Depending on the product structure you choose, it may include the following components, either bundled together or listed separately.

- **Energy/commodity:** The cost of purchasing the power you need in the wholesale market for the specific period you are seeking
- **Capacity:** Charges that help ensure enough generation is available to meet the market’s maximum energy needs at all times
- **Ancillary services:** Charges for services required to support and maintain reliable operation of the electric grid
- **Losses:** Charges that cover the electricity lost between the point of generation and delivery to your business
- **Transmission:** Charges associated with moving power from the generator to your local distribution company. In some markets, including ISO-NE and Ohio, transmission charges are part of the utility’s distribution costs rather than part of a retail electricity supply offer.
- **Renewable portfolio standards (RPS):** If your state mandates participation in a renewable energy program, your supplier is required to procure a portion of your power from renewable sources.

COMMON BREAKDOWN OF ELECTRICITY PRICING COMPONENTS



Disclaimer: This is intended to illustrate the main cost components that make up your energy supply price. It does not include every individual component that may be part of your total price.

The energy commodity component usually makes up the largest share of your electricity price, often half or more. In markets with capacity charges, capacity is typically the next largest component, with transmission, ancillary services, losses, and RPS making up the remainder. Keep in mind that pricing structures can vary significantly by region and utility.

If you receive two fixed plan offers and one is priced at $0.06 per kWh while the other is $0.085 per kWh, it’s important to confirm that both offers include the same supply cost components and cover the same delivery term.



What is the relationship between cost components and the price quotes I receive?

Understanding the components that make up your electricity price can help you make a more informed decision about what you're actually being offered.

Examples of fixed pricing structures:

- A fixed all-inclusive plan should contain all of the previously listed components wrapped into one rate: your quoted price.
- A partially fixed plan with pass-through charges may bundle some cost components in the fixed rate, while others are passed through separately. Because plan structures can vary, even among fixed offers, it is important to understand which cost components are fixed in the quoted price and which ones may be passed through.

Your electricity usage

Suppliers may base their quote in part on your historical usage, using information from your local utility or a recent invoice from your current supplier.

Because usage is an estimate, you should tell your supplier about any expected changes that could noticeably increase or decrease your consumption. That may include expanding a facility, adding a new production line, shutting down for a holiday period, or scheduled maintenance during the quoted term.

Delivery period

The timeframe for which you request pricing will impact your quote.

> **For example, a 24-month contract at a rate of $0.08/kWh may ultimately offer a better value than a 12-month contract at $0.07/kWh, because the longer term may help protect you from potential rate increases in the second year.**

COMMON ELECTRICITY SUPPLY PLANS

Choose the right option for your business

Most suppliers offer the option to fix some or all of your electricity costs, or float your costs at market rates for a particular term. Some suppliers may also work with you to develop a customized pricing solution to meet your business's needs.

How electricity is measured

Electricity is measured in kilowatt-hours (kWh) or megawatt-hours (MWh).

1,000 watts x 1 hour = **1 kWh**

1,000 kWh = **1 MWh**

	FIXED PLANS	INDEX PLANS
WHAT IS IT?	Fixed plans enable you to lock in a set rate per kilowatt-hour (kWh) for your electricity supply. Your monthly bill will still vary based on your consumption and any costs that are passed through, but the rate you pay remains constant regardless of market movement.* Fixed plans are often available in terms ranging from six to 60 months.	An index plan ties your price per kilowatt-hour (kWh) to market rates, which vary based on supply and demand. As a result, your monthly costs will vary. Businesses on an index plan may have the option to convert to a fixed plan during their term.
WHAT ARE THE BENEFITS?	Fixed plans can provide budget stability and more predictable operating costs. If market prices rise, you are protected. However, if prices fall, you are locked into your fixed rate for the length of the contract and may not benefit from lower market prices.	Index plans provide more flexibility to capitalize on lower market prices until the timing and conditions are favorable for locking in a fixed rate. Businesses that select an index plan can also benefit from "time-of-use" opportunities by scheduling activity during off-peak hours when prices are lower.
WHAT SHOULD I CONSIDER?	Timing matters. Ideally, you want to lock in when rates are low and relatively stable or falling for the period you are considering. However, this may be impossible when prices are high and volatile. Trying to pick the exact bottom of the market is a risky strategy.	If budget certainty is your top priority, an index strategy may not be the best fit. Because market prices can be volatile, index plans are typically better suited for businesses that can tolerate price fluctuations in pursuit of lower overall energy costs over the life of the contract. They can also be a good option if you expect a period of low prices.

**Depending on your contract terms, changes in the cost to serve caused by regulatory changes or other factors may either be passed through or affect your rate.*

HYBRID PLANS: A FULLY CUSTOMIZABLE APPROACH

If you're looking for a more customized energy plan with greater flexibility, a hybrid plan may be a good fit. They allow you to lock in a portion of your electricity at a fixed rate while floating the rest at market rates. Over time, you can lock in additional portions of your consumption (creating layers) for certain periods so that you have customized exposure to cost fluctuations. This approach can help your business balance risk and opportunity over time based on your energy goals and comfort with market volatility.

What are the benefits?

Hybrid plans provide significant flexibility to lock in or float as much of your electricity as you choose, based on your business's risk tolerance and objectives. Over time, a layered purchasing approach can also help build toward budget certainty in a way that supports long-term resilience, protects against price increases, and allows you to benefit when prices fall.

What should I consider?

If you're considering a hybrid plan, it helps to have a clear understanding of your:

- Business objectives
- Risk tolerance
- Supply requirements and internal bandwidth
- Ability to dedicate time to your buying strategy

Hybrid plans are typically available to large electricity consumers, including some customers with an annual consumption starting at 1,000 MWh, as well as smaller customers that participate in a pool with sufficient aggregated load.



NATURAL GAS SUPPLY COST COMPONENTS

A natural gas price or “offer” is typically quoted in dollars per dekatherm (DTh), therm (Th), gigajoule (GJ), or million British thermal units (MMBtu), and generally includes these common components:

COMMODITY COST

The cost of the natural gas you’re purchasing in the wholesale market for the specific period you are seeking. Most natural gas contracts are priced in relation to Henry Hub, a major U.S. reference point for natural gas prices located in Erath, Louisiana. Henry Hub is also the pricing point used for natural gas trading on the New York Mercantile Exchange (NYMEX), a major U.S. commodities exchange.

BASIS

Basis is the cost difference between NYMEX pricing and the physical location where gas will be delivered. Basis prices can be influenced by pipeline transportation costs, as well as factors such as regional supply and demand, weather, and a customer’s specific deal terms.

FUEL OR LOSSES

The costs of replacing gas that is lost along the pipeline between your local distribution company and your business.





What should I know about natural gas pricing components?

Understanding the components that make up your natural gas price can help you ask better questions about what is, and is not, included in a quote. That can help you make a more informed decision about which product and offer best fits your business.

Your consumption

Suppliers may base their quote on your historical consumption, because they are purchasing natural gas on your behalf to meet your predicted needs. They will typically set monthly contract quantities as part of your agreement.

Your contract quantity is the amount of gas your business is expected to use each month during the contract term. When actual usage differs significantly from those contracted amounts, suppliers may incur additional costs, and those costs may be passed on to you when applicable.

Protect yourself from consumption variations with swing

Adding swing tolerance to your natural gas plan can help protect against penalties related to changes in consumption.

Depending on the swing percentage you select, your business may be able to use more or less than the contracted amount while still being billed or credited for the used or unused volume at your contract rate. Although swing tolerance can add a premium to your overall price, it may be financially beneficial if you expect consumption to fluctuate. Some suppliers may also provide you with an analysis of your consumption to help you determine whether adding swing makes financial sense.

The timeframe for which you need gas will also affect your quote. Make sure all quotes you receive are for the same delivery period.

COMMON NATURAL GAS SUPPLY PLANS



Select options that align with your energy strategy

Most suppliers offer the option to fix some or all of your natural gas costs or float your costs at market rates for a particular term. Some may also work with you to develop a customized pricing solution to meet your business's needs.

	FIXED PLANS	INDEX PLANS
WHAT IS IT?	Fixed plans enable you to lock in a set rate per dekatherm (DTh) for your natural gas supply. Your monthly bill will still vary based on consumption and any costs you pass through, but the rate you pay remains constant regardless of market movement.* Fixed plans are often available in terms ranging from six to 60 months.	An index plan ties your price per dekatherm (DTh) to market rates, which vary based on supply and demand. Therefore, your monthly costs will vary. Businesses on an index plan may also have the option to convert to a fixed plan during their term.
WHAT ARE THE BENEFITS?	Fixed plans can provide budget stability and more predictable operating costs. If the market price of natural gas rises, you are protected. However, if prices fall, you are locked into your fixed rate for the term of your contract and may not benefit from lower market prices.	Index plans can provide the flexibility to take advantage of lower market prices and wait until the timing and conditions are favorable for locking in a longer-term fixed contract.
WHAT SHOULD I CONSIDER?	Timing matters. Ideally, you want to lock in when rates are low and relatively stable or falling for the period you are considering. However, that may not always be possible when prices are high and volatile. Trying to pick the exact bottom of the market is risky.	Index plans are generally better suited for businesses with a higher risk tolerance, or those that want to float on market rates for a period of time while assessing future conditions and opportunities

**Depending on your contract terms, changes in the cost to serve caused by regulatory changes or other factors may either be passed through or affect your rate.*



Are there alternatives to fixed and index plans?

If you're looking for a more customized energy plan with a structure that offers more flexibility, a hybrid plan may be a good fit. Hybrid plans combine fixed and index elements in a single strategy, allowing you to manage natural gas costs in different ways over time. Depending on the plan, you may be able to fix or float certain cost components, lock in future volumes, or use a mix of approaches based on your business's goals and risk tolerance.

What are the benefits?

Hybrid plans offer significant energy purchasing flexibility by allowing you to fix or float portions of your natural gas requirements based on your business's risk tolerance and objectives.

Hybrid plans can also support a layered purchasing approach, allowing you to manage different cost components separately over time and better align your purchases with market conditions.

What should I consider?

If you're considering a hybrid plan, you should have a clear sense of your:

- Business objectives
- Risk tolerance
- Supply requirements and internal bandwidth
- Ability to dedicate time to your buying strategy

Natural gas purchasing considerations

Risk tolerance is an important factor, but it is not the only one. You should also consider the level of involvement, expertise, and time you can devote to your business's energy strategy.

Larger businesses with dedicated energy managers may be well suited to more complex plans. Smaller business owners may have less time or expertise to manage energy purchasing and could benefit from a fixed plan that comes with guidance from a trusted energy supplier.

You may also want to consider a supplier that offers advisory services. Like a portfolio manager who helps monitor financial markets, energy advisors can watch the market, provide market intelligence, and help you uncover advantageous market opportunities.

CHOOSE AN EXPERIENCED ENERGY SUPPLIER

Put energy choice to work for your business

If your business operates in a competitive energy market, you may have more energy purchasing choices than you realize. Instead of staying with your local utility, you may be able to work with a retail energy supplier like NRG. We offer flexible energy strategies tailored to your business's needs to help you manage risk and take advantage of pricing opportunities.

Your checklist for energy purchasing

LEARN

- Review your market and regulatory climate.
- Explore supplier websites to understand their size, reach, performance, and financial stability.

ASK

- Does this supplier provide ongoing communication about important market conditions and regulatory policy that could affect your buying decisions?
- Does the price quote contain all energy supply components and fees, or are some charges passed through separately?

REQUEST

- Ask for a complimentary energy strategy analysis, term pricing review, and market analysis before making a decision.
- Seek information about the supplier's sustainability products and programs.
- Get information about the supplier's support tools and service team, such as an online portal, customer care, and account management.




Learn more about the NRG products and services that may be the best fit for your business at nrg.com/business.