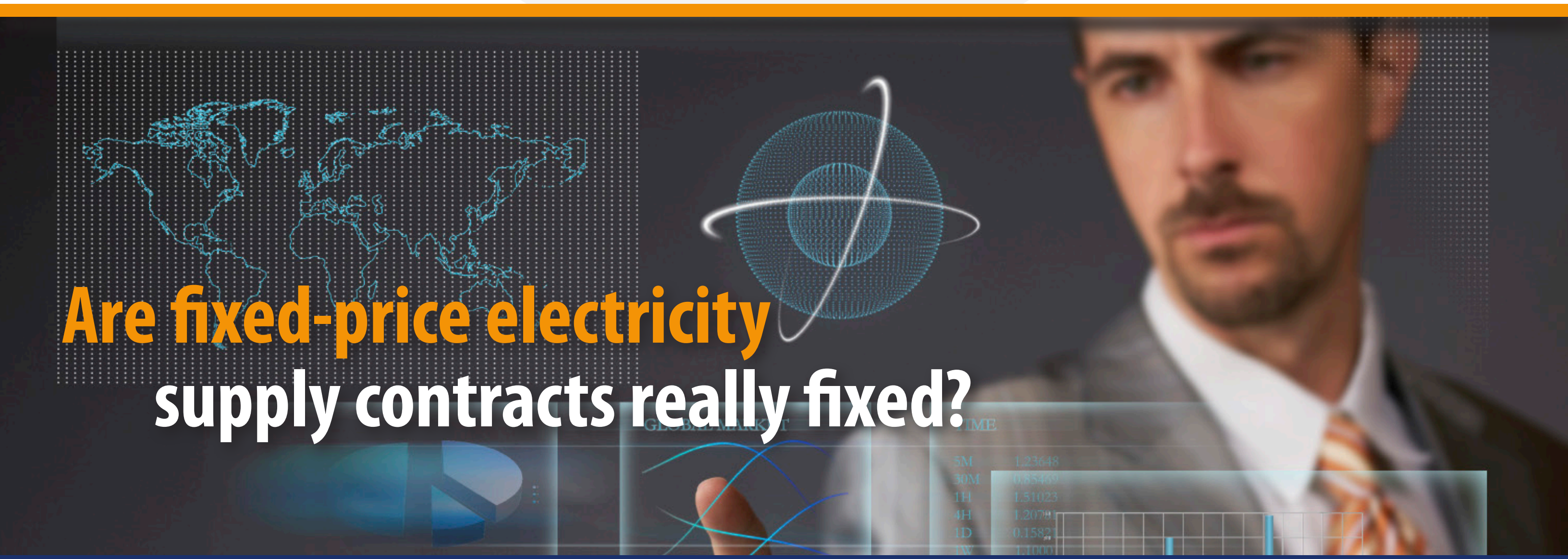

Are fixed-price electricity supply contracts really fixed?

When choosing an electricity supply contract, customers have several price options. A fixed-price supply contract stipulates that the customer pays the same price per kilowatt hour (kWh) for all electricity consumed during the contract term. Ensuring budget certainty, a fixed-price contract allows the customer to estimate its supply costs each year by multiplying projected usage by the fixed-price per kWh.

The most commonly selected type of electricity supply contract is one with a fixed price. Risk is minimal, and budget certainty is enhanced. In 2013, the Energy Research Council (ERC) surveyed approximately 1,300 executives from small-to-medium sized businesses (SMBs) with less than 250 employees and with average monthly electricity bills less than $25,000. The survey found that 73% of SMB executives are most interested in locking in a fixed-price supply contract.

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How to compare fixed prices

To compare fixed-price offers from many competitive electricity suppliers, the critical goal is to ensure that each fixed-price quote includes the same electricity supply components, such as adders,

Apples-to-Apples Comparison

Fixed Price	Contract Conditions
Adders	Assignability
Capacity Costs	Bandwidth Clause
Ancillary Charges	Change-in-Law Provision
Gross Receipt Tax	Early Termination Fee
Sales and Use Tax	Contract Expiration Procedure

capacity costs, ancillary charges, gross receipt tax, and sales and use tax. Also, review each supplier's contract conditions, looking for clearly defined assignability, bandwidth clauses, change-in-law provisions, early termination fees, and expiration procedures. All of these conditions can add unanticipated costs to customers' monthly bills, impacting total costs and limiting customer options.

For example, in response to record-breaking electricity demand when the polar vortex triggered extreme winter weather in January 2014, the Federal Energy Regulatory Commission (FERC) temporarily allowed PJM—a regional transmission organization that coordinates the movement of electricity in 13 states—to recover generation costs above $1,000 per megawatt hour. Some regulatory affairs experts may consider FERC's temporary lift of the PJM generation cap to be a "change in law." PJM allocated increased supply costs to all suppliers. Suppliers then had the option to either absorb these costs or implement change-in-law contract provisions that pass through increased costs to customers locked into fixed-price supply contracts. Many supplier contracts have "pass-through" or "change-in-law" provisions, which can affect a customer's electricity bill.

The ERC reports that the majority (49%) of SMB owners don't know if their current electricity supplier contract has a change-in-law provision. Of those SMBs in supply contracts that do have a change-in-law clause, 32% believe no pass-through fees are associated with it. Moreover, only 17% believe a fixed price can be affected by change in law, while 60% believe "fixed price" means no price change whatsoever, and 6% don't know the definition of fixed price.

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Price Trends

Comparing fixed prices is all about contract terms and conditions. Bandwidth clauses, change-in-law provisions, and pass-through cost specifications directly affect the total cost of a supplier contract, regardless of the fixed supply price. When locking in a fixed price, consumers should monitor the electricity market to identify an advantageous time to buy. Supplier pricing is indicative, meaning price quotes are valid for a few hours only. Electricity prices fluctuate constantly— every minute, every hour, every day. When electricity prices increase, customers in fixed-price supply contracts benefit from paying a fixed price lower than market prices. On the other hand, if electricity market prices decline, customers are obligated to pay the agreed upon fixed price. A fixed-price electricity supply contract eliminates the customer's risk exposure to electricity market volatility. It's important to analyze energy market trends and forecasts.

Resources are available by request. For more information about electricity prices or the Energy Research Council, please contact 410-749-5519 or www.energyresearchcouncil.com/contact-us.

ERC ENERGY RESEARCH COUNCIL ELECTRICITY MARKET TRENDS

Disasters

2005 = Hurricanes Rita & Katrina

2011 = Earthquake & Tsunami in Japan

- Fukushima Daiichi Nuclear Power Station meltdown
- U.S. Nuclear Regulatory Commission reviewed domestic nuclear reactors, took some offline, and abandoned some new nuclear projects.

Legislation/Regulations

Energy efficiency standards

- Utilities add line item to customer electricity bills to fund efficiency projects
- PA Act 129 and EmPOWER Maryland

Thirty states have mandates in place for wind & solar generation.

April 29, 2014 - EPA's Cross-State Air Pollution Rule upheld; expected to cost power plant companies $800 million per year, beginning in 2014.

Two dozen coal-burning generators in the U.S. scheduled for decommissioning.

Infrastructure

Utilities required to rebuild transmission systems to ensure reliability and cybersecurity.

$54.6 billion needed from 2011 to 2015 to upgrade to modernized, fully interactive Smart Grid.

Delivery tariff rates likely to increase.

U.S. Natural Gas Production

Record-breaking natural gas storage injections needed through October 2014 to replenish historically low inventory levels in time for next winter's heating demand.

Domestic production remains historically high.

Many electric power generators switching from coal burning to natural gas burning.

Weather

January 2014 = polar vortex triggered extreme winter weather.

2013-2014 winter produced most volatile daily natural gas price swings in several years.

Above-normal temperatures in summer increase electricity demand for HVAC.