

Pricing wisely

How developing an energy procurement strategy can help you take advantage of long-term pricing trends

While many of the costs of doing business continue to rise, the price of wholesale electricity has dropped significantly.

And that offers businesses the opportunity to partner with an energy supplier to identify ways to reduce their electricity and fuel costs, says L. Gene Alessandrini, senior vice president of marketing at PPL EnergyPlus.

"Decreasing prices make now an ideal time to review their options and develop an energy procurement strategy with their supplier," says Alessandrini.

Smart Business spoke with Alessandrini about how to develop energy procurement strategies to take advantage of long-term pricing trends and evaluate what a competitive energy supplier can offer your company to help capture savings

Why are wholesale energy prices so low right now?

We have seen a significant drop in wholesale electricity prices since the start of the current economic recession. Prices on the market today are significantly lower than they were even six months ago.

Part of the reason for this is the reduction in electricity usage caused by the slowdown in the general economy. Another major factor is the significant decline in natural gas prices. Wholesale electricity prices have a strong correlation to the price of natural gas because of the way prices are determined in the regional power market.

With the increasing availability of shale gas in the market from the Marcellus Shale formation and other shale gas deposits, natural gas prices are dropping even lower. And as long as natural gas prices remain low, electricity prices should remain low as well.

Where do you see energy prices headed in 2012?

As more and more natural gas from the Marcellus Shale and other shale gas comes into the market, we expect natural gas prices to remain depressed, which also will keep wholesale electricity prices low.

Another factor that could affect prices in 2012 is the recent federal appeals court decision that halted implementation of the Environmental Protection Agency's



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sweeping Cross State Air Pollution Rule, which was supposed to take effect Jan. 1. The federal court decision delaying the rule also put downward pressure on electricity prices.

But smart businesses will not lose sight of the fact that prices in any market are cyclical, and wholesale electricity prices will rise at some point. Continued uncertainty regarding a wide range of environmental regulations proposed by EPA affects wholesale electricity prices, and as regulations become more stringent in the future, they could put upward pressure on power prices in the long term.

For the near term, however, lower electricity prices are a great financial benefit for businesses. The current depressed prices provide opportunities for businesses to reduce their electricity and fuel costs, which makes 2012 an ideal time to develop energy procurement strategies and evaluate what competitive energy suppliers can offer your business.

With electricity prices as low as they are currently, is it advantageous for businesses to lock in prices now or wait until they go even lower?

It's a great time for businesses that are doing their homework about electricity

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and fuel supply. With wholesale electricity prices at such low levels, businesses can take advantage of low prices by reviewing their options and developing energy procurement strategies.

PPL EnergyPlus recommends businesses re-evaluate electricity and fuel supply options with competitive suppliers no differently than how they would assess their portfolio and weigh the opportunities.

Staying ahead of inevitable pricing fluctuations and seeking out future pricing for your organization can save you in the long run. When you are informed about market trends and how relatable factors such as Marcellus Shale and other shale gases, for instance, could affect your energy prices, you can take a proactive approach to those future pricing trends.

Although we expect prices to continue to fall in the near term, the objective should not be to try to find the lowest price but to develop a strategy to take advantage of long-term pricing trends and capture savings to allow your business to succeed.

What long-term effect will Marcellus Shale natural gas supply have on prices that businesses pay for natural gas and electricity service?

As more and more shale gas comes to market, the increased availability of natural gas keeps prices low. This not only affects natural gas supply prices but also electricity prices. Natural gas is increasingly used as a fuel to generate electricity, and based on how the market determines electricity prices, there is a strong correlation between natural gas prices and wholesale electricity prices.

Right now, natural gas and wholesale electricity prices are extremely low. Because there's an abundance of natural gas in the Marcellus Shale region that could be brought to the market, it's possible that natural gas prices will remain this low for an extended period of time, which would also keep electricity prices low. Natural gas development from Marcellus Shale and other shale gas play could also have a significant impact on businesses.

The smart businesses will be looking for opportunities to actively manage their electricity costs and seizing them. <<

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