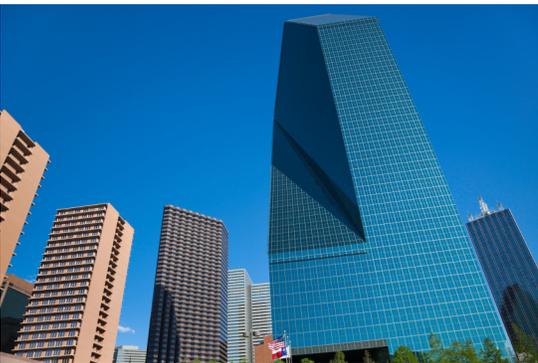


Case Study: Market Intelligence and Opinion

Office Property Opts in on Unique Schneider Electric Contract Recommendation, Saves \$230,000

When energy prices fluctuate unpredictably, companies seeking to mitigate price volatility may elect to lock their contracts – even at elevated rates – to avoid the potential of prices surging even higher. Unlike many energy consultants, Schneider Electric delivers value in these scenarios by recommending innovative contract structures that limits price risk without sacrificing the flexibility necessary to take advantage of market opportunities.



Schneider Electric uses innovative contracts and reliable market intelligence to better inform clients on when and what to lock and when to settle.

Situation

Prior to becoming a Schneider Electric client, a large trophy property located in Texas had historically fixed and unfixed its rate periodically. For several successive years, the client would often fix its contract for a two- or three-month window in late summer. The decision to fix the rate was frequently preceded by an increase in the price of NYMEX natural gas, which is the primary driver of electricity rates in this market.

Leadership

Schneider Electric recommended the client exercise the flexibility in its electric power contract with a structure built on the conversion ratio of natural gas used to create electricity, commonly referred to as the heat rate. Schneider Electric recommended a “long” (fixed) position on the heat rate component and a “short” (open) position on the NYMEX natural gas component of their contract, also referred to as “taking settlement”. This approach would yield significant savings if the price of natural gas – the predominant fuel used to produce electricity in Texas – decreased while protecting against volatility or increases in the electricity market.

Though Schneider Electric’s Risk Management department predicted a NYMEX settlement below existing market prices, a contract of this type sometimes requires a wait-and-see approach, which can be justified with reliable market intelligence and the right guidance.

Results

After three years of ineffective short-term rate fixes, the client accepted Schneider Electric’s recommendation. By floating the market instead of fixing short-term, the client experienced a 20% decrease in year-over-year electricity cost when the natural gas index declined even as occupancy rates and overall consumption remained flat. In total, the client saved nearly \$230,000 in one year as a result of this new contract structure.