

Navigate The Winter Energy Market

How To Protect Your Business From
Steep Natural Gas Rates



South Jersey Energy

Seasonal outlooks may offer some clues about the severity of a winter ahead, but you can't trust these reports to always be accurate. The truth is, no one knows for sure whether an upcoming winter will be mild or frigid.

Uncertainty makes it especially difficult to predict your winter energy costs. Many business owners remember the polar vortex of 2014. If you weren't prepared with a natural gas plan that mitigated sky-high costs, the cold weather also hit your energy budget hard.

Fortunately, you can educate yourself on how to avoid repeating the same mistakes.



Learn more about what causes natural gas rates to rise so high in the winter, price structuring strategies and what your supplier should do to help you protect your budget this winter.

What Causes Natural Gas Rates To Rise During Winter?

In the past, the fuel of choice for large electric generators was coal. However, in recent years, because of environmental concerns and competitive natural gas prices, the fuel of choice is now natural gas.

The Marcellus Shale has an abundant supply of natural gas – a century's worth, in fact. Spanning across Pennsylvania, West Virginia, southeast Ohio and upstate New York, the shale is the largest natural gas resource in the United States.

Extracting natural gas from the earth has become less expensive. Efficient extraction along with natural gas abundance in the United States contributes to drastically lower natural gas prices.

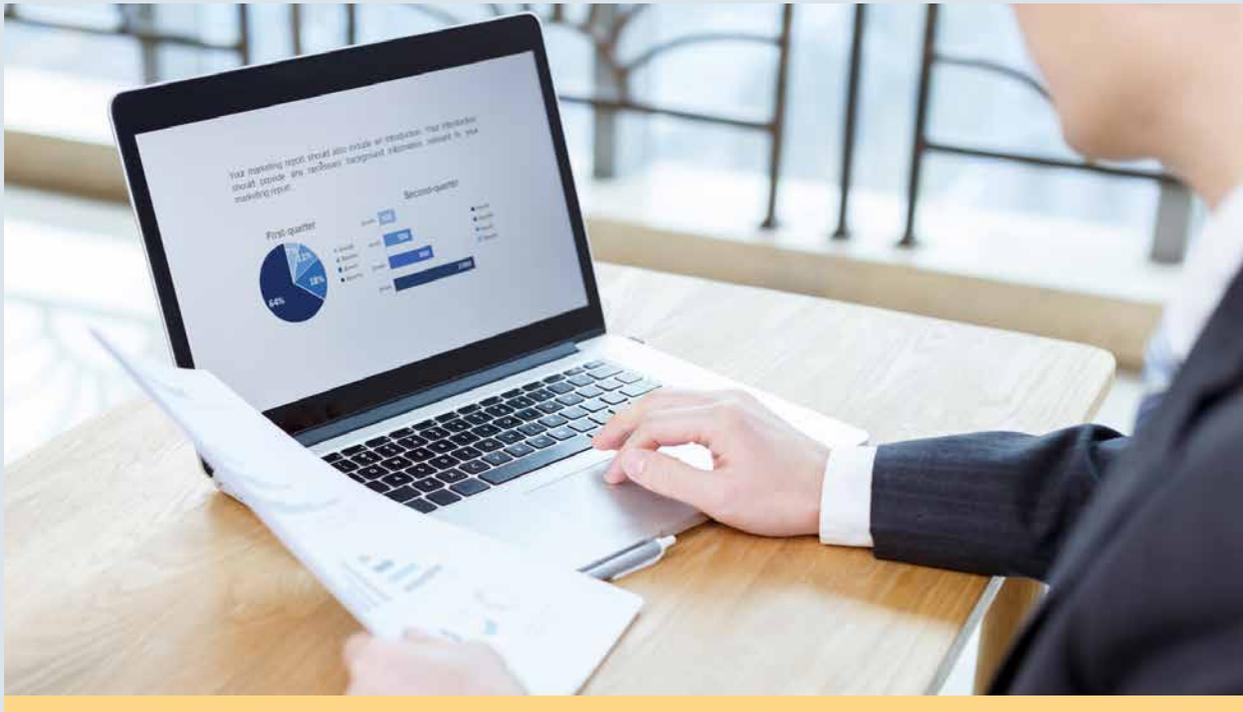
A strong economy and periods of economic growth have also generated an increase in natural gas demand. Today, more industrial



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and commercial businesses are using natural gas not only to heat facilities, but also to generate electricity and fuel operations.

Unfortunately, natural gas pipeline infrastructure has not yet caught up with increased demand. During mild spring, summer and autumn months, the infrastructure supports normal levels of demand. But cold winter weather, in addition to prolonged hot summers, creates much higher levels of demand.

According to the U.S. Energy Information Administration, U.S. natural gas consumption is expected to increase from 70.94 billion cubic feet per day in July 2016 to 101.48 billion cubic feet per day in January 2017.

Natural gas pipelines already run close to full capacity during a normal winter. Frigid temperatures put extra pressure on the pipelines, **thus prices rise to meet this peak demand to manage capacity-constrained market areas.**

Natural Gas Price Structuring Protects Your Budget

If natural gas rates are higher during the colder months, what can you do to protect your business?

The first step you should take is to choose a pricing structure that suits your budgetary needs. Three options are available: fixed pricing, variable pricing, and block and index pricing.



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FIXED PRICING

Business owners and operations managers often want fixed pricing because it's a form of price protection. You take on less risk with fixed pricing because your price remains the same throughout the year, even during extremely cold winter months.

No more getting blindsided by high rates – you know exactly what to expect.

Fixed pricing is a great strategy if you want stability, but you may leave money on the table if the market goes down and natural gas rates drop.

This is a bigger problem for industrial customers, which use much more natural gas than small businesses. Small business owners are often happy when they meet their budget goals, which is easily achievable through fixed energy rates.

Your energy provider should ask you upfront whether you have an energy budget. Many small businesses don't have one. Consider setting a budget or establishing a buying strategy before you choose an energy plan.

You should also have a good idea of what your risk tolerance is before choosing a plan. When you know how well your cash flow can tolerate high natural gas rates, you'll have a better idea of whether fixed pricing is necessary.

While you can lock in a fixed rate plan at any point during the year, you should do so while prices are low. Typically, you wouldn't want to sign up for a plan during cold winter months.



VARIABLE PRICING

Variable pricing allows you to achieve the market price of natural gas. Many times, this is the least expensive natural gas available. If you're prepared to pay more in winter months, you get the low variable rate for the rest of the year.

However, you take a risk during winter months. Will you have enough cash flow in the event of a polar vortex? You may save more money over the course of the year, but you must ensure your budget is strong enough during the winter to handle high natural gas prices.

BLOCK AND INDEX PRICING

If you'd like to take advantage of both fixed pricing and variable pricing, here is your solution. Block and index pricing allows you to fix a portion of your energy needs and maintain variable pricing for the remaining portion.

Many large industrial companies prefer block and index pricing because they want some insurance against high winter natural gas prices, but their



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load is large enough that they need access to less expensive variable pricing when the market goes down.

Typically, these companies lock in 80% of their winter load and 30% of their summer load with fixed pricing. When you choose block and index pricing, you're protected from soaring winter natural gas rates but can still take advantage of low market prices during other seasons.

Block and index pricing is designed for businesses with larger energy loads. Structuring the "blocks," or fixed portions of a load, is a complicated process with limited benefits for companies with smaller loads. So, smaller businesses often choose between fixed and variable pricing.

Your Natural Gas Provider Is An Essential Resource

The right natural gas provider will not only help you choose an energy plan, but also help you beat the utility rate in your area. For smaller customers, that could mean a rate that's 24% lower.

Your provider will help you understand your territory and the utility company's rates historically. Then, your provider should show you its average rates. Presented with both options, along with your provider's fixed rate offer, you can make an informed decision about your energy plan.

Some smaller customers prefer the variable rate because they recognize that an event like a polar vortex is an anomaly – it may be a smart move to take the risk and save more on energy costs throughout the rest of the year.

However, larger businesses should be more hesitant to take that sort of risk. With much larger loads, the potential costs are more significant.

Price structuring isn't everything. Your natural gas supplier should advise you to implement other cost savings strategies. For example, HVAC maintenance, lighting upgrades and thermostat control are vital to reducing energy costs.

Your natural gas supplier should also help you **[take advantage of statewide commercial and industrial energy programs](#)**. For example,

financial incentives are available in New Jersey for businesses that upgrade their heating and cooling, lighting and controls, and other energy systems through the NJ SmartStart Buildings program.

Small and medium-sized businesses also benefit from the Direct Install program, which pays up to 70% of the retrofit costs for replacing lighting, HVAC and other equipment to improve energy efficiency. Look for an energy provider that **works as a participating contractor for Direct Install**.

Through programs such as these, you can reduce your energy load, save on natural gas costs and receive funding for a more energy efficient future.

When Is The Best Time To Choose A Natural Gas Plan?

While there's no guaranteed best time of year to lock up a natural gas plan, you should avoid the *worst* times, such as immediately after a harsh winter or large storm. In other words, don't wait for the weather to drive up prices. You should act while prices are low.

Other market conditions may have an impact on your gas pricing as well. You must understand the options available to you today. To choose a plan at the opportune time, you need an Energy Advisor on your side. A trusted Energy Advisor will help you navigate the market and find solutions that not only meet your budget, but also control energy costs for the long term.



Ready to choose an energy plan that protects your budget every winter and year round? Get expert advice by clicking here to contact South Jersey Energy or calling us at 1-888-724-5394.

ABOUT SOUTH JERSEY ENERGY

South Jersey Energy is a leading supplier of natural gas and electricity. We are focused on helping businesses lower energy costs and improve energy management. Our team of Energy Advisors is well equipped to provide you with the insights and guidance to help you choose the right energy plan for your business. For more information on South Jersey Energy, visit www.southjerseyenergy.com.



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