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Why do we Hedge?

PROS of Hedging

Fix Prices in Advance

- Mitigates risk of ballooning energy costs
- Allows for planning – stable price
- Keeps price consistent for customers
- Helps smooth out seasonal variance
- Avoids need for large “slush fund”

CONS of Hedging

- More expensive in the long run
- Energy traders profit more than utilities
- Fewer opportunities for “bargains” in spot market (real-time, day-ahead)

NOTES

Hedging is more effective when spot market prices are low.
(risk that price will increase)

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Guidance on Hedging Target % – research and interviews

Enel X article "Putting It All Together: Block and Index Pricing 2.0" (2013)

- *"For many large energy consumers, having roughly 80% of their electricity supply hedged, or fixed, about a year into the future is a smart approach."*

Energy New England - *"It's always best [cheapest] in the long run NOT to hedge." BUT….*

- Target = 75% shoulder months, 85% winter months
- LNG prices can spike in winter; LNG "global commodity" with global demand

West Boylston Municipal Light Plant

- Target = 90%

Hudson Light & Power

- Target = 70% shoulder months, 80% summer months, 90% winter months

Reading Municipal Light Department

- Target = 90% (currently 95% due to over-hedging after Ukraine war started)

Concord Municipal Light Plant

- Target = 80% non-winter months, 85% winter months

Belmont Municipal Light Department

- Target = 80%

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What if we had hedged less (or a little more) from 2016-2024?