



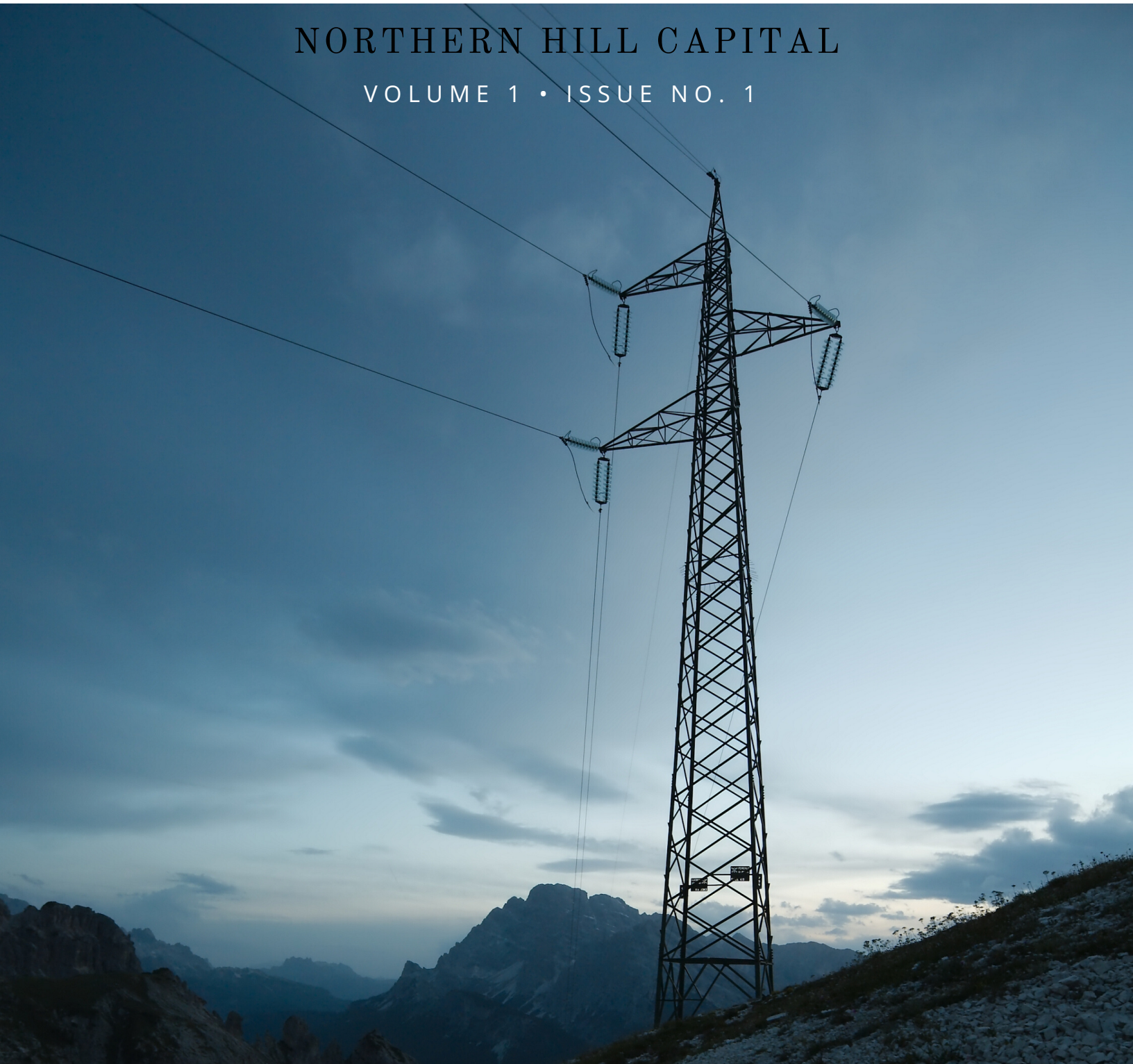
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FULL REQUIREMENTS IS A MYTH IN THE TIME OF COVID




The electricity product our commercial and industrial (C&I) clients most frequently request is the full requirements product. In normal times, it confers many benefits to C&I clients who look for budget certainty. The most important, by far, is the ability to know what their unit cost of electricity per MWh will be despite the market conditions for wholesale electricity, capacity or any other ancillary component during some future date covering the contract term. Clients locking in multi-year contracts during market lows benefit tremendously from having such prices “guaranteed” for the life of their contract.

But, how can retail suppliers guarantee these rates for multi-year terms? This is a very important question rarely asked by C&I buyers when purchasing directly from a retail supplier. Retail suppliers are able to offer long-term contracts with fixed prices either by trading around the risk of an open short position or by entering into their own long-term contracts to hedge these costs. Though they offer the rate to C&I buyers of full requirements products for every MWh consumed, retail suppliers often hedge these positions by entering into fixed quantity contracts using historical data as a proxy for future use.

In normal times, this is not something that would matter much to either party, as C&I loads are generally predictable, at least at a greater portfolio level. Therefore, no one really loses and each party walks away satisfied. In the case of a pandemic that leads to state and local governments mandating that C&I businesses shut down, however, the retail supplier is not likely to be happy.

LET'S EXPLORE WHY



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Suppose we look at an industrial business that has historically consumed 10,000MWh per month consistently for the past 3 years. This business enters into a full requirements contract for electricity from a third party supplier at a price of \$50/MWh. Because the usage has been consistent over the past three years, and the industrial business is considered to be stable, the retail supplier hedges 10,000MWh per month with its wholesale counterparty at \$48/MWh, locking in a margin of 4% to cover their cost of capital, risk exposures and cost of operations.

Now consider the pandemic we find ourselves in today, where the industrial business' county orders the facility to close down for two months and the usage drops to 100MWh per month. Further, due to the lack of demand across the region, real time electricity prices drop to \$15/MWh on average over the course of these months. The retailer who previously hedged 10,000MWh per month to serve the load is now liquidating 9,900MWh per month into a real time market offering prices of \$15/MWh. The retailer locks in a loss of \$326,700 per month over the course of the pandemic – on this one customer alone! On a portfolio 100x the size of the load of this one customer, which is typical for the business, this retail supplier would face a loss of over \$32 million per month. Even if the full requirements product structure only encompasses half of the retailer's portfolio, the monthly loss experienced would still be upwards of \$15 million per month. This, as you might imagine, is not a sustainable situation.

Depending on the contract language, and the strength of the relationship, the retail supplier may elect to pass through this loss to the C&I client. This is where having an

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entity like Northern Hill Capital to educate C&I clients on such issues before signing the contract becomes invaluable. In addition to our commitment to educating our clients to make more informed choices, we work to negotiate for beneficial contract terms and product specifications that leave them most protected in uncertain times. Through our extensive knowledge and experience, we've been able to negotiate for terms that have actually earned clients' money during usage swings. The value of a business partner like Northern Hill Capital is needed for clients in the C&I space now more than ever.

If you would like to speak to a representative of Northern Hill Capital to learn how we might help you, please visit: www.northernhillcapital.com and schedule an appointment to talk to an experienced consultant.

At Northern Hill Capital we believe our investment strategies are the core to our business model and our ability to maintain long-term, mutually beneficial relationships. We bring decades of experience, insight and innovation to a rapidly advancing market place. We provide assistance not only to the supply side of energy procurement but also to emerging technology and legislative developments – ensuring our clients always stay ahead of the market.



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