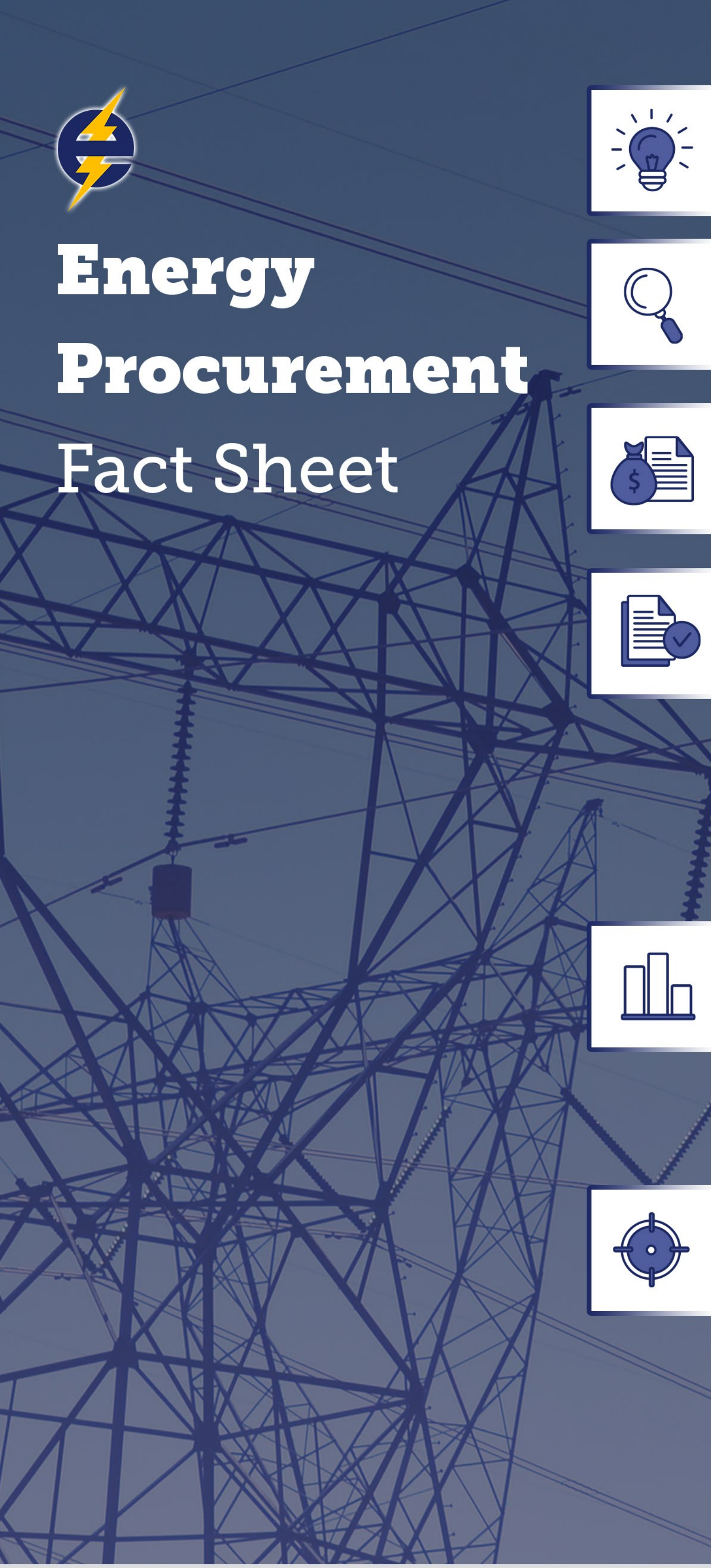

Energy Procurement Fact Sheet

Purchasing Energy

All facilities need to purchase energy (natural gas and electricity). The question is never, "Should I buy?" It is, "From **whom**, at **what** price, and **how**?"

Energy Procurement

The process of purchasing a commodity in the **futures market**, similar to purchasing soybeans, coffee, oil, etc.

Energy Prices

Prices constantly **fluctuate** in the open market based on **internal** (trading) and **external** (weather, supply/demand, etc.) factors.

Contracting

There are **two** main contracts for energy procurement:

1. **Master Agreement**: Lays out basic terms/conditions and allows the supplier and customer to do business together (enabling agreement).

It is standard that a Master Agreement be signed **before** a deal is hedged, as **the Master Agreement carries no obligation to transact any business**.

2. **Confirmation/Addendum**: Details the particulars of a deal once hedged in the market (i.e., product, term, price, volumes, etc.).

Take-or-Pay

Energy procurement confirmations or addendums are take-or-pay. This means that once a deal is locked/hedged, the supplier hedges it in the futures market.

You **cannot cancel** a deal before the term is set to expire without incurring **liquidation costs**.

Volumes

As procurement is a hedge in the futures market, it is important to **accurately** hedge the **proper volumes** per month.

An improper and substantial deviation from hedged volumes versus actual volumes can create negative economic impacts.

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