

# the energyst

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*“The consequences for those who generate their own power could be devastating Triad cuts” p16*

## Why hedge?

Transform uncertainty into opportunity.



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more information



**Kinect**  
ENERGY GROUP

One of the major threats to the growth and success of any business is the uncertain, often volatile, cost of fuel and energy. Whether it is the cost of electricity, gas, carbon, water or fuel, commodity markets are complex and unpredictable. Companies of all sizes often struggle to stabilise their operating budget and align their overall strategy with these fluctuations.

Even though energy is often a large portion of a company's operating budget, procurement departments seldom have in-house price risk management resources or expertise to manage this expense. Controlling energy costs in the midst of global volatility can be incredibly complex and time-consuming, requiring market expertise and constant diligence. It's hard to stay on top of the latest market information, price swings, geopolitical and economic impacts, and more.

With these challenges, the most diligent procurement professionals are still often hesitant to hedge energy purchases.

My organisation is incredibly vast and complex – how could I possibly put together a hedging strategy that spans our many geographies and lines of business?

What if I make the 'wrong move' with the timing or tool and lose the organisation thousands?

Last time I hedged my purchase, I actually reduced the organisation's margins – what if that happens again?

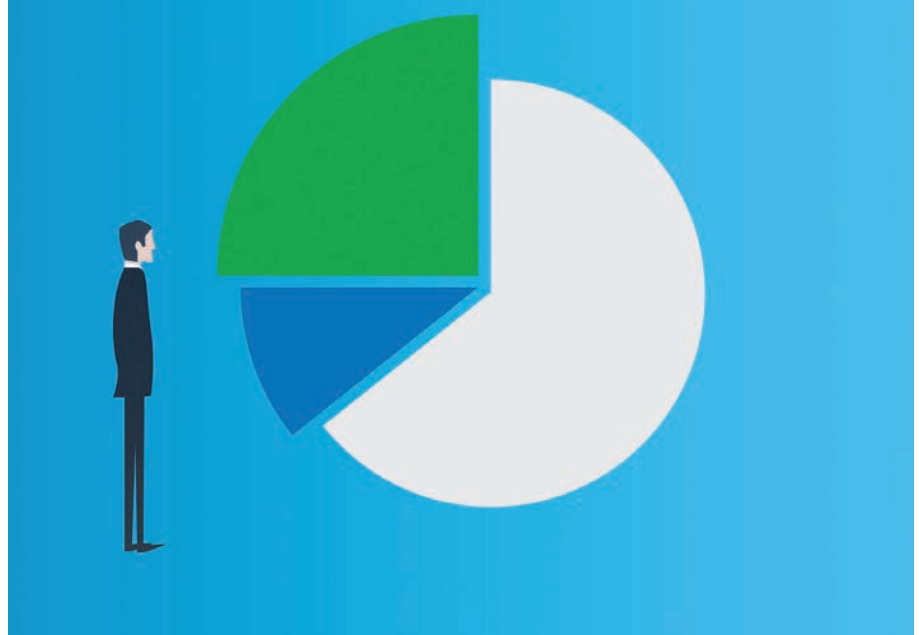
I don't see anyone else in my organisation (or in any others) hedging their energy purchases so why should I take on this added responsibility?

Organisations that have never hedged their future fuel consumption, always paying spot/index prices, often prefer to remain in this comfort zone of 'how we've always done it' to avoid any potential misalignments or loss. Furthermore, procurement departments are not always closely aligned with company profits so it's easier to simply fly under the radar and purchase fuel at current market prices.

Even those organisations that attempt to manage costs by hedging their energy purchases often make common mistakes. They may not fully understand the intricacies of hedging and instead, attempt to 'call' the market. This 'guessing' approach tends to encourage an overly-optimistic (or pessimistic) view, leading to risky speculation. Furthermore, the limited resources available for market analysis result in insufficient data and therefore poor decision-making.

Often in these cases of poor hedging results, senior management questions why last year's hedge was too large or too small (in

A lack of analytical diligence applied to energy and commodity spend – and fuel, in particular – is truly a lost opportunity.



## Transform uncertainty into opportunity

*Kinect Energy Group can help businesses to stay in control of their energy decisions, writes sales director James Williams*

volume) or why the team didn't do a better job predicting market trends. Procurement is challenged on the timing of the hedge and tasked with identifying the 'just right' moment for their next hedge/budget cycle period.

It is highly likely that your organisation invests significant sums of money and time analysing data on sales figures, rationalising product lines, optimising inventories and improving production efficiency for relatively small commercial gains. The lack of this same analytical diligence applied to energy and commodity spend (in particular fuel) is truly a lost opportunity, especially considering that this cost has fluctuated between \$150 per barrel (bbl) and \$30 bbl over a relatively short period of time.

As management guru Peter Drucker once stated: "You can't manage what you can't measure." In the case of fuel prices,

they can be measured and managed. The extreme fluctuations in the oil markets did not happen overnight; rather they took more than 180 days to reach their extremes. These 180 days represent 180 opportunities for your organisation to have taken action and managed the situation.

Consider the potential benefits if your organisation applied the same level of thoughtful, informed analysis to your fuel and energy procurement programme as you do to the rest of your business. Hindsight is 20/20. Get ahead of volatility with a personalised price risk management solution that monitors, measures and evaluates market risks so you can mitigate volatility of your fuel costs and provide more budget certainty.

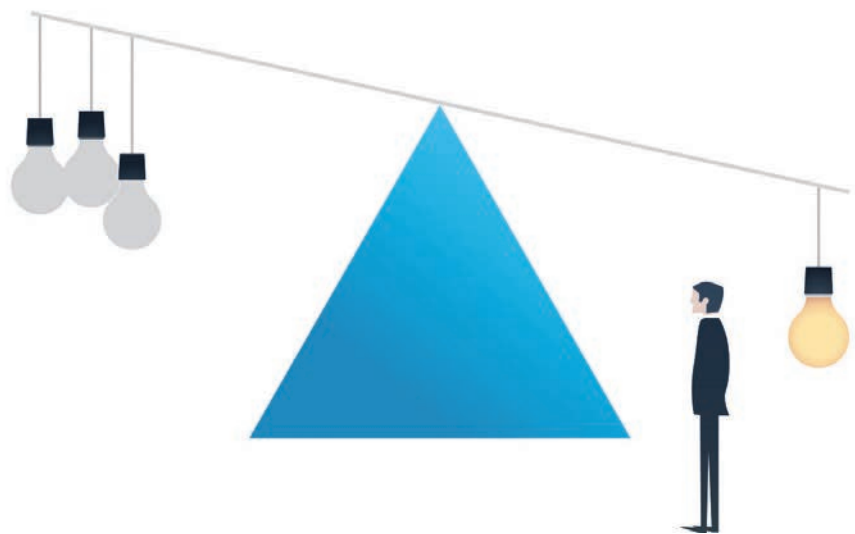
But before hedging your fuel purchases in-house, ask yourself if your team is well-equipped for the challenge:

- Do you have the in-house resources to develop an effective risk management strategy?
- Do you have access to market intelligence to inform decision-making?
- Do you understand the various financial and physical hedging options available?
- Have you constructed a strategic view of energy management as part of your overall strategic plan or governance?

If the answer is no, then you may want to consider partnering with an energy management firm. An energy management firm can give you access to market intelligence, informed analysis and a team of experts to guide every purchase decision. They can develop an end-to-end risk management strategy tailored to your company needs. And you can save valuable money, time and focus on what you do best.

Kinect Energy Group's certified consultants empower businesses and utilities to stay in control of their energy decisions. For more than two decades, they have delivered a unique combination of services and technology with their "one stop shop" approach for fuel and energy solutions.

For more information, visit [kinectenergy.com](http://kinectenergy.com)



## How to choose an energy management partner

*Not all energy management firms are created equal so choose carefully. Here are four things to consider to ensure you get the best value, a trusted ongoing partnership and effective outcomes:*

**1. Find an energy management partner who is experienced in working with the products you procure - and has the credentials to back it up.** Trusted partnership comes from experience. At Kinect Energy Group, we offer decades of expertise in procurement, consulting, and risk management from a team of advisors based in Europe and North America. We develop custom hedging programmes for electricity, natural gas, as well as traditional fuel products. In Europe, we are MiFID regulated and we operate as an accredited and audited service provider. In the US, we hold a Series 3 FTC Certification with the National Futures Association and are registered commodities trading advisors, which ensure proficiency in options, price limits, futures settlements, delivery, orders, price analysis and hedging.

**2. Ensure your risk management strategy includes regular reviews and allows you to revise based on the latest market information.** You need to be aware of the latest market news. Kinect Energy Group offers a robust market intelligence platform with daily and weekly natural gas, power and oil update reports, and expert insights on current market conditions. We start with market data and make personalised recommendations for hedging opportunities based on your risk tolerance. Our fluid, dynamic process adapts to changing market conditions and changing business requirements over time. Every strategy can be

transformed into a "management-by-exception" process to ensure that the precise amount of resources are focused on timely, critical issues, and then adjust to be lower maintenance at other times - so you can be more efficient.

**3. Quantify your business objectives into measurable goals and ensure your energy management partner provides metrics to track your success.** Make sure you know if your programme is successful - or not. Kinect Energy Group consultants offer trusted analyses of pre-determined metrics so you can make informed decisions on whether to stay the course or adapt - empowering you to control your strategy. We transform your business objectives into a quantitative parameter that translates into a metric that our risk management team can optimise against. We use a variety of metrics to guide you but we always start with the most important one: your objectives. We also factor in budget; current positions; market prices; past, present and future projections of market conditions; historical data; seasonality; risk tolerance; and technical price analysis.

**4. Customise your strategy to your business objectives and risk tolerances. There is no 'one size fits all' approach to effective price risk management.** Personalisation is the key. At Kinect Energy Group we first identify your goals and then create a strategy to meet them. Every risk plan we create is aligned to your risk tolerance and objectives. We continually measure results with daily market monitoring and allocation of hedge-cost against volumes. Risk management strategies can also be integrated with physical procurement strategies including customised credit terms.