



Employers' Energy Alliance of Pennsylvania, Inc.

As you know, EEA-PA purchases the majority of its energy directly from the PJM electric grid primarily utilizing the day-ahead market (DAM). This pricing is not fixed, but variable, changing hourly as the commodity market moves up or down. While this marketplace is statistically the least expensive way to purchase energy, some express concern that the market is volatile and random. Your energy price is controlled by both external and account-specific factors. Let's look at each one.

What are the major external factors that affect energy costs? The major drivers are weather, world situations or unrest, and the price of other commodities such as oil, coal and natural gas. The extremes of weather, either hot or cold, have a tendency to raise energy costs. That is why energy costs typically peak in the Jan/Feb and Jul/Aug periods. Any world situation that affects the commodity market also will have an impact on energy prices. A current example would be the January 2011 Political unrest in Libya, which reduced crude oil supplies to the U.S. and, in turn, increased energy prices for several days.

You have some control over the account-specific factors that affect your company's energy costs. The major drivers are: capacity and transmission requirements, your consumption pattern (both hourly and month to month), and the relationship between your average demand and peak demand for energy. Capacity and transmission tags were discussed in the June newsletter so will not be covered here. For your convenience, past newsletters are located at www.eeapa.com. In general, your energy costs will be lowered when the monthly total kWh volume is consistent and the load factor (avg hourly demand kW/peak demand kW) is high. A load factor of 100 percent represents a perfectly flat usage pattern.

If you have any questions about your energy needs, please contact Dave Bell at 800/815-2660, 814/833-3200 or dbell@mbausa.org