

## **Potential Benefits of Energy Hedging**

- Gain a complete understanding and protect your energy exposure in detail.
- Cap energy price risks of your overall aggregated portfolio.
- Stabilize energy costs and control your fuel budget.
- Eliminate budget variability and help predict future energy budget costs.
- Create a competitive advantage by controlling energy costs and increasing dollar margins.
- A well structured game plan will purchase hedges on market dips in addition to protecting costs if prices rise uncontrolled.
- The hedge may save a significant amount of dollars with a well designed program.
- Appropriate financial fuel hedges will offset physical energy risks with a high degree of correlation.
- Investors view corporations as innovative when hedging fuel effectively (example: Southwest Airlines).

## Potential Downsides of Energy Hedging

- The hedge may increase your aggregated total energy costs, but this should be completely understood prior to placing a hedge.
- Some hedge indexes do not offset the physical energy risks with a high degree of correlation.
- Some hedge structures are much more risky than others in terms of potential losses.
- The hedge may lose money and this may be difficult to justify internally; consequently, the corporation may quit their program altogether.
- Corporations in general tend to hedge out of fear when prices are high, which can lead to large losses on the hedge itself if the market falls.
- Without expert advice and education, the hedge index and structure purchased may not fit internal corporate goals and objectives.
- Initial and ongoing credit margin dollar requirements with the underwriter often are not well understood and depend on the type of hedge purchased and credit established prior to placing the hedge.