

How to Spot Red Flags in Energy Supply Contracts

Energy supply contracts often look straightforward — until they don't. Here you will find the most common red flags Environ Energy uncovers when reviewing natural gas and electricity supply contracts.

1. Contract Timing Risks



Red Flags to Watch For

- Contract signed within ~45 days of start date
- Decisions made during market spikes with no documented strategy
- Long-term commitments (36+ months) locked during high-price environments

Why It Matters

Last-minute contracting almost always means the buyer is a price-taker, exposed to short-term market volatility.

What Good Looks Like

- Forward planning tied to market conditions
- Longer terms during low-price environments
- Shorter, flexible structures during volatile or elevated markets

2. Contract Length & Structure



Red Flags to Watch For

- Non-standard terms (e.g., 17 months, 29 months) without clear rationale
- Contracts designed to “blend” seasons to mask pricing risk
- Structures that favor suppliers over buyers

Why It Matters

While there are valid reasons for non-12-month terms (fiscal alignment, portfolio coordination), irregular structures can signal pricing gamesmanship or unnecessary risk transfer.

What Good Looks Like

- Clear justification for any non-standard term
- Alignment with fiscal years, budgeting cycles, or broader portfolio strategy



Find hidden risks and unfavorable contract terms before they cost you.

3. Supplier Selection



Red Flags to Watch For

- Small or regional suppliers with limited balance sheets
- Inconsistent or error-prone billing histories
- Pricing that looks “too good” without transparency

Why It Matters

Supplier size, credit quality, and operational maturity directly impact pricing, billing accuracy, and contract enforcement.

4. Product Design: Gas & Electricity



Red Flags to Watch For – Natural Gas

- 0% swing tolerance (exposes buyer to market risk)
- Excessive swing (e.g., 20%) with no operational need

What Good Looks Like

- ~10% swing tolerance balancing cost and flexibility



Red Flags to Watch For – Electricity

- Capacity fixed beyond known auction periods (PJM / ISO-NE)
- Bundled capacity + energy where future capacity is unknown
- Supplier capturing upside while the customer absorbs all risk

What Good Looks Like

- Capacity fixed only where auction outcomes are known
- Energy hedged independently when appropriate
- Block and index structures for large users (>10,000 MWh)

As a top partner to U.S. suppliers, Environ knows where each supplier performs best.

Follow 7 Steps to Success and Ask for a No-Cost Review of Your Energy Supply Contract at info@environenergy.com.



Timing



Structure



Suppliers



Design



Auditability



Strategy



Details

5. Auditability Is Non-Negotiable



Red Flags to Watch For

- Vague pricing language like “market rate,” “supplier’s cost”
- No defined index, delivery point, or settlement method
- Inability to independently verify charges

What Good Looks Like

- Explicit, auditable index references
- Defined delivery points (e.g., *Algonquin City Gate*, *Last-of-Month Settle*)
- Clear treatment of indexed or swing volumes

6. Strategy & Portfolio Alignment

Questions Smart Buyers Ask

- Do we understand our market exposure?
- Are hedge sizes aligned with risk tolerance?
- What data and process drive our decisions?

7. Other Contract Details Buyers Miss

- Account grouping strategy (portfolio vs. segmented)
- Payment terms (15-day vs. 30-day cash impact)
- Evergreen renewals
- Units of measure (therms vs. Dth; daily vs. monthly usage)
- Inclusion of renewable energy certificates (RECs) or other attributes



Our clients typically save 10–20%+ on energy costs—while gaining transparency, control, and confidence in their energy decisions.

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