Definitions of Risk Tolerance Levels

Published by Energy Solutions Inc
natural gas buying advisors

When it comes to the proactive purchasing of natural gas and/or electricity for commercial and industrial consumers, there is not a one-size-fits-all plan, though there are some similar characteristics and goals among buyers who hold similar levels of risk tolerance. Below are risk tolerance definitions developed and utilized by Energy Solutions, Inc. These are simply guidelines to assist in helping commercial and industrial consumers evaluate their risk tolerance in order to better understand how to achieve their company goals and objectives when considering the proactive purchase of energy. While these are defined categories, a buyer may not neatly fit into a single category. As a result, these categories are for reference only and are simply considered a tool for better understanding the actions to be taken when considering the purchase of natural gas or electricity into the future.

Low-Risk Tolerance	**Medium-Risk Tolerance**	**High-Risk Tolerance**
Very budget conscious and requires price certainty; Prefers to avoid virtually all price volatility	Seeks price stability, but doesn't make all buying decisions based solely on budgetary requirements; Strives for a balance between the budget and lower costs in comparison to history; May also work with some internal objectives	Willing to take risks to acquire lower price levels; May not have a budget or rigidly abide by a budget; Often the decision-maker is the owner or part of upper-management
Less interested in further downside and more interested in the concept of a "bird in the hand is worth two in the bush" (i.e., it is preferable to accept a known advantage than to risk a larger loss); Less affected by price spikes because of longer-term purchasing	Willing to assume some moderate risk to achieve lower price levels, but cannot risk budget variances; Not likely to take larger risks during timeframes when increased price volatility exists; Becomes more nervous during price rallies because of budgetary requirements but also suffers from buyer's remorse because of that nervousness	Strives to enter market primarily at low-price points and willing to wait out rallies
Typically has the majority or a large percentage of natural gas and/or electricity supplies hedged 12-18 months into the future, and prefers to have some volume of natural gas and/or electricity hedged 24-36 months into the future; Willing to go even further out if it is advantageous in comparison to past prices paid	Prefers to have at least some volume of natural gas or electricity secured at least 6-18 months into the future for price stability; Often a larger percentage is secured for the nearby months with a lower percentage secured the further you go into the future	Willing to have zero or a minimal amount of natural gas and/or electricity purchased even during times of high price volatility because during those times there is an increased possibility of major price declines or major price correction