National Customer Code
Energy Brokers, Consultants & Retailers
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Opportunities and risks with spot market exposure

Basics of spot market exposure

The **spot market** is where **electricity is traded for immediate delivery**, with prices fluctuating in real-time based on supply and demand conditions. Unlike fixed-rate contracts, spot market prices can change dramatically, even minute by minute. This volatility is influenced by factors such as weather, grid demand, supply disruptions, and geopolitical events.

While less well known, wholesale gas can also be purchased on the spot market.

Opportunities

1. **Cost savings:** You can benefit from lower wholesale energy prices during periods of low demand.
2. **Flexibility:** Spot market exposure allows you to adjust your energy purchasing strategies in real-time, responding to favourable market conditions.
3. **Access to market trends**: You can make informed decisions based on current price fluctuations and market dynamics.

Risks

1. **Price volatility:** Sudden price spikes can lead to unexpected and significant energy costs, potentially impacting your bottom line.
2. **Budget uncertainty:** The unpredictability of spot market prices makes it challenging for you to forecast expenses.
3. **Reliability concerns:** Unforeseen events, such as natural disasters or supply disruptions, can exacerbate price fluctuations and affect energy availability.

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Who is the spot market suited to?

Spot market pricing is best suited for sophisticated customers because it requires a deep understanding of market dynamics, including fluctuations in supply and demand, price volatility, and timing. These customers are typically equipped to analyse and respond to real-time pricing changes, making informed decisions that optimise their costs and energy usage.

For less experienced customers, spot market pricing can be risky, as they might struggle to predict or adapt to sudden price spikes, potentially leading to higher costs or inefficient energy consumption. By promoting spot market pricing for sophisticated customers, businesses can ensure that the pricing model aligns with the customer's ability to manage and benefit from it effectively.

A broker, consultant or your energy retailer can help you navigate the complexities of spot market exposure. They can provide:

- **Risk management strategies:** Helping you hedge against price volatility through techniques like block purchasing or financial hedging.
- **Market insights**: Monitoring trends and forecasts to guide purchasing decisions and avoid high-cost periods.
- **Tailored solutions:** Designing procurement strategies that align with your specific needs and risk tolerance.

As with any financial decision, it is important to do your due diligence about the product, whether it is suitable for you and if the broker, consultant or retailer are knowledgeable and acting in your best interests.

Questions to ask your broker, consultant or retailer if you're considering spot market exposure

- Am I receiving all the necessary disclosures about the risks or just being sold on opportunities?
- Do I understand what this opportunity would mean for my business, does it suit my load profile?
- Do I need any insurance product to support my business to help mitigate risks?
- If previous spot prices are being shown as indicative amounts are assumptions disclosed such as what is being measured and over what time period?