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SUSTAINABILITY CASE STUDY SERIES

Managing Power Market Risk

LINK

The Link Logistics Sustainability Case Study Series explores how the firm is driving both decarbonization and value for its customers. Previous installments focused on the firm's Energy Solutions product and utility operations and energy management functions. This third case study examines the firm's power hedging program, which creates energy rate stability and insulates customers from increasingly unpredictable electricity markets.

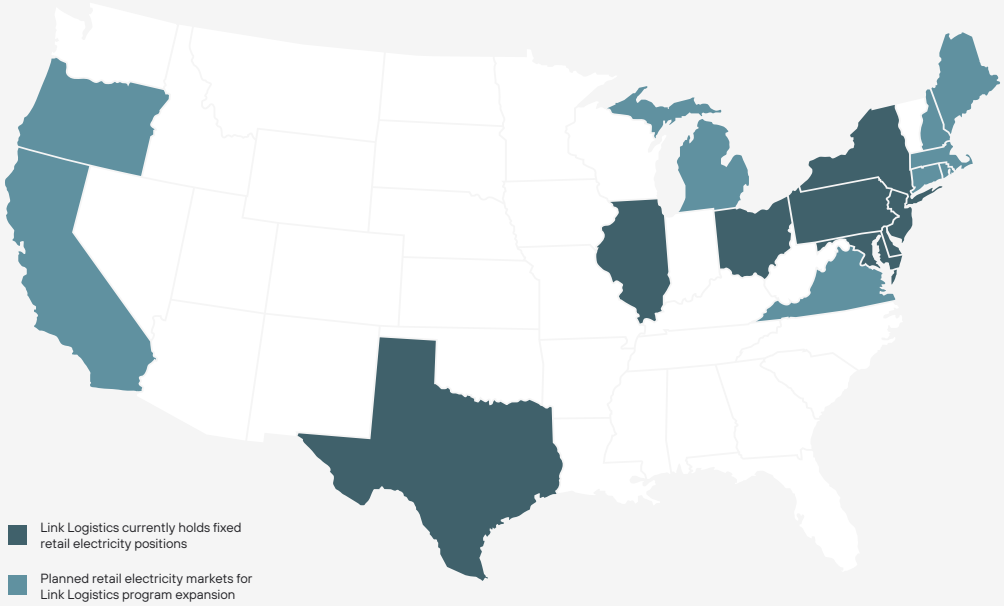
Link Logistics has created a power hedging program that seeks to fix exposure to increasingly volatile retail energy markets through strategic consolidation of utility account management and purchasing. This can help create power rate stability and, ultimately, lower operating expenses.

Business Thesis

Hedging exposure to power rate volatility is an operational best practice typically suited for organizations that manage sites with large power supply requirements, like data centers and office buildings. However, firms such as Link Logistics that manage portfolios of low-energy-density assets typically do not have the ability to leverage scale in power purchasing. This is because contracting in forward power markets is executed at the building level with little ability to aggregate power demand across a portfolio of assets. Under this traditional operating model, a portfolio of Link Logistics' scale would require more than 3,000 separate contracts.

Link Logistics, however, has structured a new transaction model to benefit its customers. The firm's unique approach solves for the aforementioned gap in power markets by consolidating the retail energy contracting structure into one master services agreement (MSA). By hedging power exposure at the portfolio level rather than the asset level, Link Logistics leverages its differentiated scale across deregulated energy markets to provide customers with budget stability and gain access to lower power rates. Our ability to aggregate power demand at the portfolio level can also serve as a mechanism to integrate low-cost, utility-scale renewable energy products.

Link Logistics Power Market Opportunity Zones



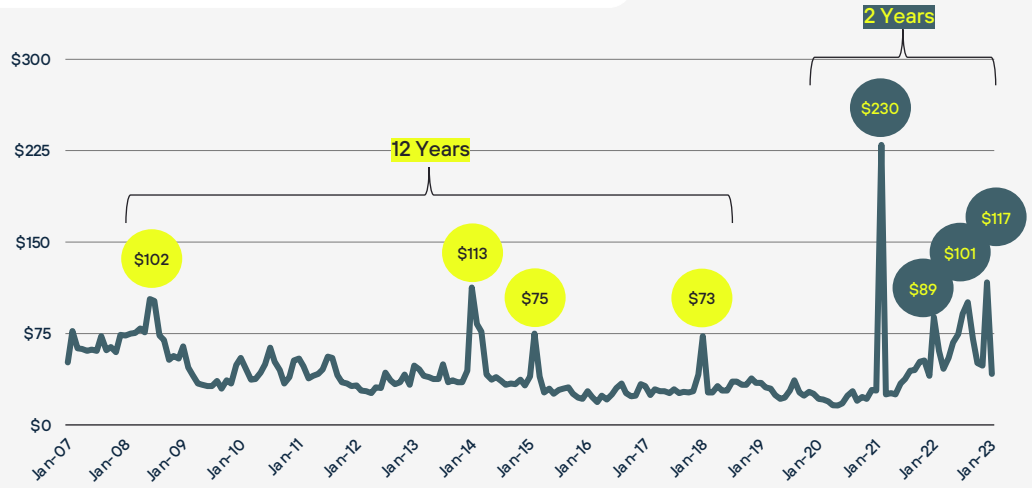
Some 66% of Link Logistics customers are in deregulated energy markets (highlighted in this map). Link Logistics currently holds positions in eight states where customers are poised to benefit from lower operating expenses and budget stability. The firm plans to expand to all deregulated power markets in 2025 and 2026.

The Opportunity

Link Logistics delivers power market risk management through Energy Solutions, the firm's proprietary energy and utility management amenity, to benefit single-market and small businesses. Link Logistics has the scale, established partnerships and dedicated team of experts to advocate on behalf of small- to mid-size customers, bringing them solutions that would otherwise not be available.

Power market pricing mechanisms are complex. Pricing depends on the location where load is being served and which load-serving entities combine as a generating mix. After a period of low-cost energy from 2010 to 2020, real-time pricing settlements saw significant movement between 2020 and 2023. Now, more than ever, it is important for commercial-scale energy consumers to have a strategic and defensive position on retail energy supply through forward purchasing.

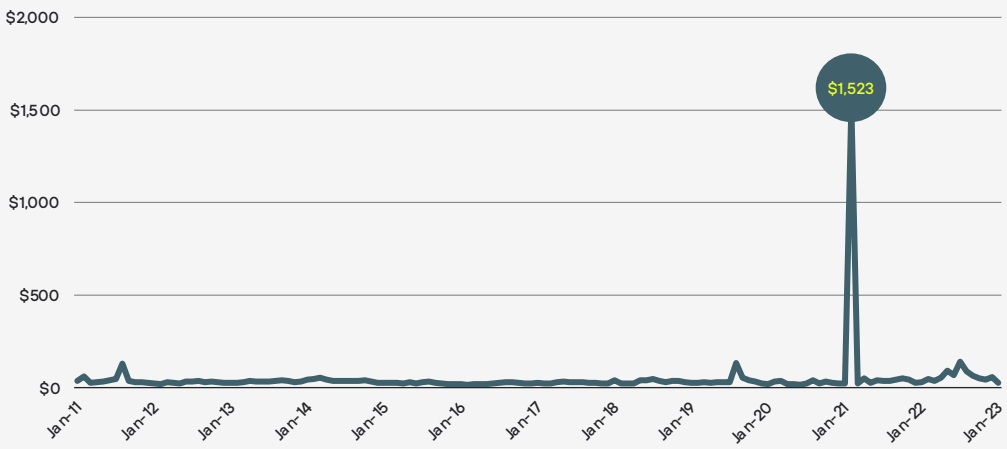
ISO[1] Real-Time LMP[2] — Monthly Average ($/MWh)



Between January 2009 and December 2020, average wholesale power market settlements across all deregulated U.S. load zones trended down, with just four "black swan[3]" market events during the entire 12-year period. From January 2021 through January 2023, however, power market settlements rose to record highs and four black swan events occurred in just two years, with a 700% increase in extreme price-settlement.

Link Logistics' ~6,300 customers in deregulated energy markets are estimated to consume more than 2.4 million MWh of power annually, with an estimated annual expense exceeding $430 million based on June 2024 national-average retail rates. Therefore, movements of 10% to 20% in power markets dramatically impact our customers' operating expenses.

ERCOT[4] Real-Time LMP — Monthly Average ($/MWh)

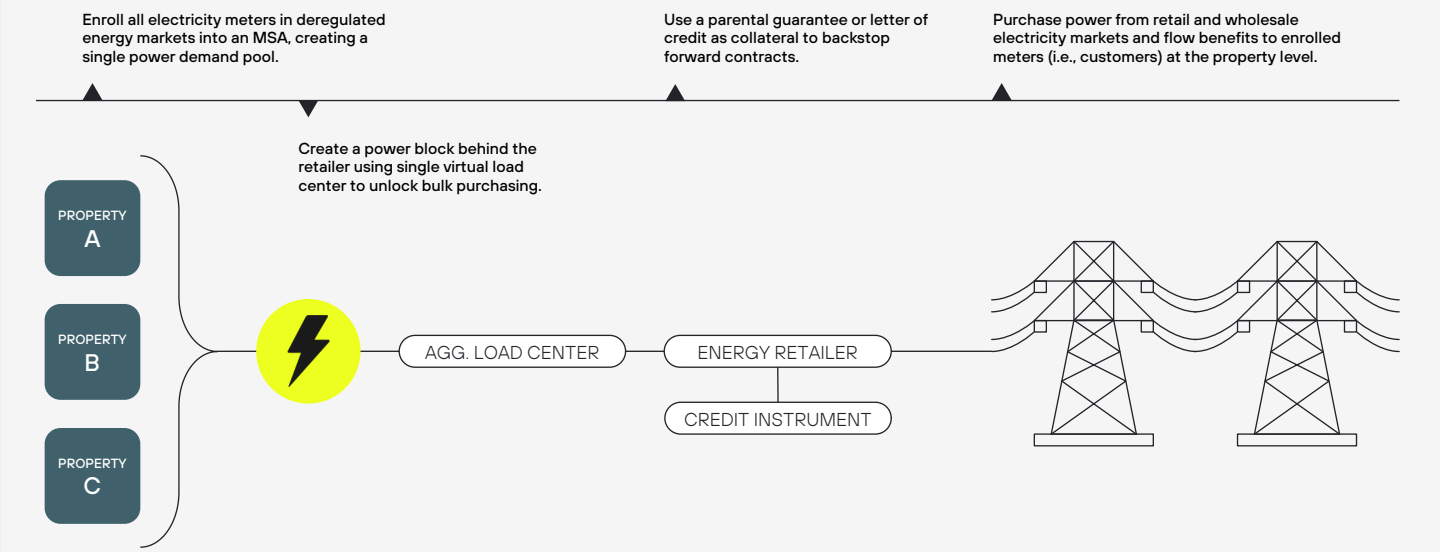


In February 2021, Texas suffered a major power crisis caused by severe winter storms. During this period, Link Logistics maintained an average fixed price of $0.12/kWh. Over the course of 10 days, Link Logistics customers avoided a 16-fold increase in market power prices and $850,000 of pricing exposure that would have impacted common area charges (CAM) from exterior lighting.

1. Independent system operators (ISOs): an ISO is an organization formed at the direction or recommendation of the Federal Energy Regulatory Commission (FERC).
2. Locational Marginal Pricing (LMP) is a market-based pricing mechanism used to determine the price of electricity at a specific location on the power grid based on the mix of generators available and physical constraints of the network.
3. Black swan events are events that are unexpected and unknowable. The term was popularized by former Wall Street trader Nassim Nicholas Taleb, who wrote about the concept in his 2001 book 'Fooled by Randomness.'
4. The Electric Reliability Council of Texas, or ERCOT, is a nonprofit organization that operates an energy-only wholesale electricity market for 90% of the state of Texas.

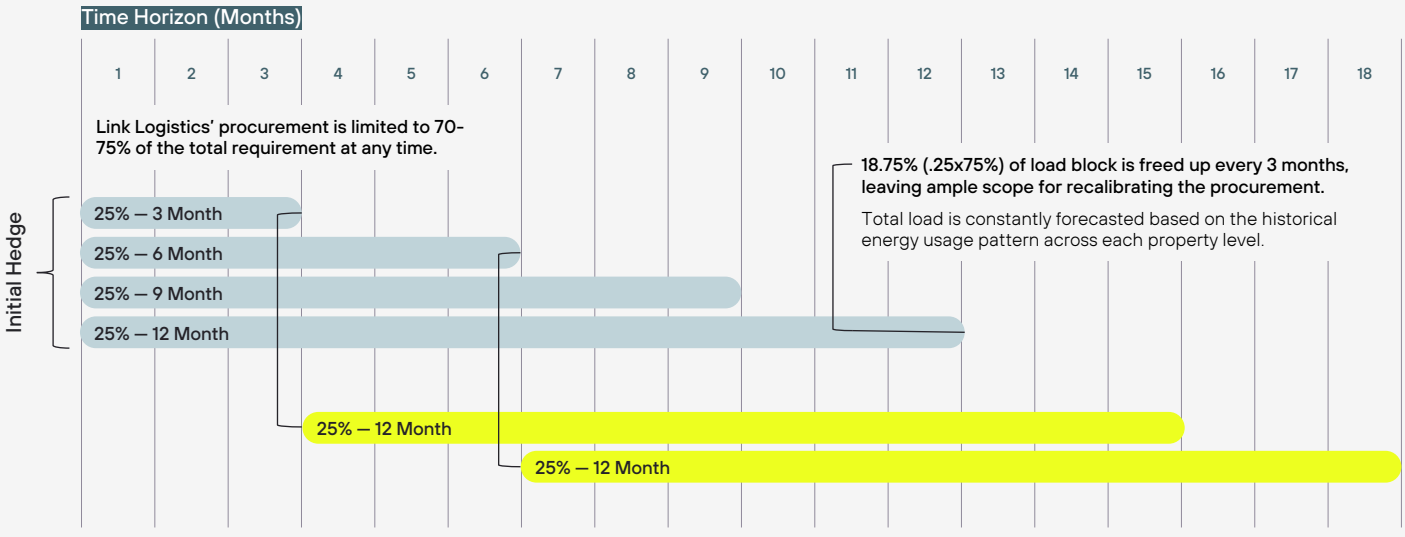
The Approach

Link Logistics partnered with Calpine Energy Solutions to provide a new-to-market hedging solution. Under this new approach, a virtual power block allows hedging at the portfolio level with a credit instrument provided as security. Aggregation of power into a single block is the transaction mechanism that allows for "sleeving[5]" offsite renewable energy and physically delivering it to Link Logistics properties, unlocking our ability to rapidly scale decarbonization.



Link Logistics established an energy governance policy that seeks to fix no more than 75% of power load under management each month. Rates are fixed quarterly, and load is forecasted monthly. This policy allows both fixed and index power positions to be reviewed and contracted on a quarterly basis, accommodating customer meter inflows and outflows. Keeping a volume of index positions on a rolling basis allows for meters to move in and out of the program without exposing the firm or its customers to market risk, as movements are absorbed by the fixed positions.

Hedging Percentages for Electricity Contracts Across the Link Logistics Portfolio

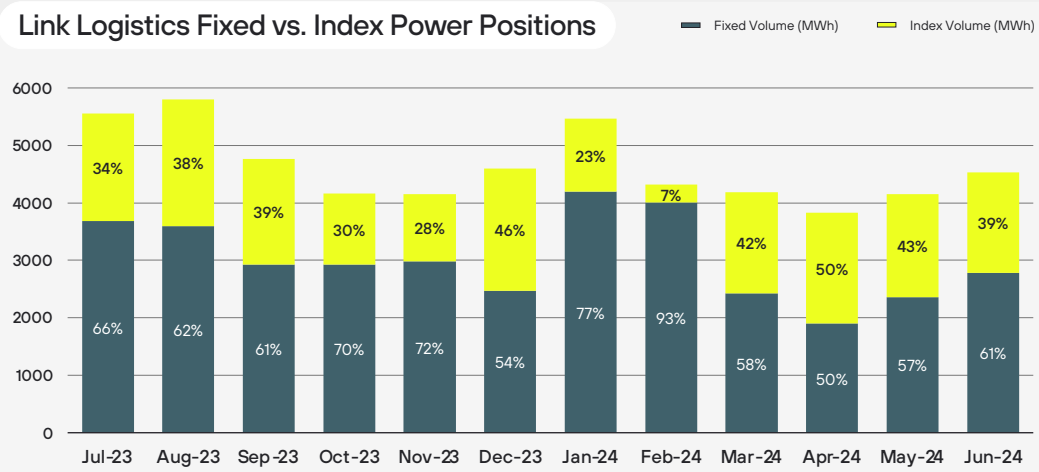


5. In power procurement, sleeving refers to a process whereby a utility supplier acts as an intermediary to transfer electricity from a renewable generator to a buyer..

While power load under management is forecasted monthly, Link Logistics' Energy Management team and Energy Governance Committee decide power purchases quarterly. This allows the firm to review forward risk, enrollment opportunities and current weighted-average cost of energy, as well as backcheck positions in current and target retail energy markets.

The Results

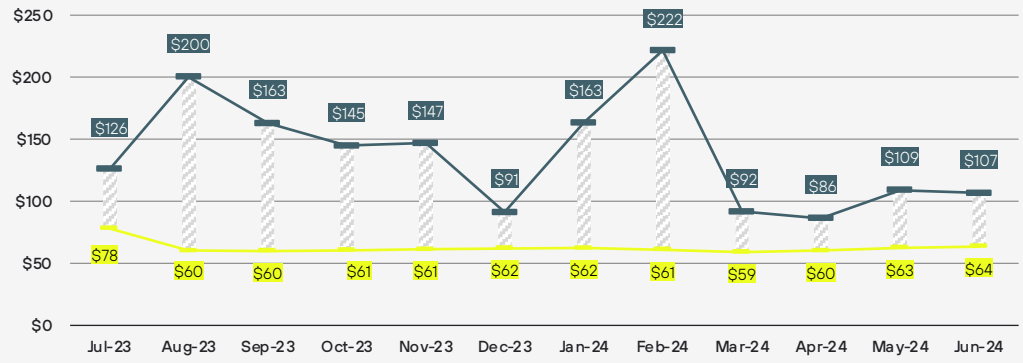
Link Logistics Fixed vs. Index Power Positions



Link Logistics' Energy Governance Policy adjusts its power positions monthly based on the number of enrolled electricity meters. This strategy combines fixed and index-based positions to accommodate changes in customer numbers while reducing market risk.

Link Logistics is now engaged in fixed positions across 26 load zones. The firm has grown power load under management through its Energy Solutions program by 250%, to 36,260 MWh over the trailing 12 months (TTM). Between June 2023 and June 2024, Link Logistics fixed electricity rates on its customers' behalf at $62.92/MWh on average compared to the $145.10/MWh TTM spot market average. This generated over $2.9 million of cost avoidance directly benefiting Link Logistics customers. The below graph shows the difference between the firm's power rates and market rates.

Market vs. Link Logistics' Fixed Power Rate



The rates at the top of the figure show actual market-settled prices, while the rates at the bottom represent the fixed rates secured by Link Logistics for customers. Over a 12-month period, the firm fixed power prices at less than half the market rate, offering customers favorable rates, budget stability and insulation from severe market fluctuations shown by the blue trend line.

What's Next?

Managing compliance risk and operating the Energy Solutions program both require clear, reliable insights into energy consumption. Link Logistics leverages ENERGY STAR® Portfolio Manager ® to manage and monitor the data that underpins much of its sustainability work. This arrangement will be examined in detail in the next installment of the Link Logistics Sustainability Case Study Series.

If you are a Link Logistics customer interested in learning more about Energy Solutions, please contact EnergySolutions@linklogistics.com.