drax

Market scenarios: the role of hedging

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Hedging your power procurement

At Drax Energy Solutions, we recognise that energy markets are complex. Power prices are volatile and often unpredictable, as they're dependent on weather patterns and international drivers. But the growing non-commodity component of energy charges also continues to evolve, adding new charges to the cost stack.

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Sales Energy Market Lead

This report provides insights into how various hedging strategies perform under different market conditions. The most effective strategy depends on the features of the market. For example, in a climbing market, longer-term hedging delivers real benefits. In a bearish market, however, purchasers are better off purchasing power for short-term consumption projections.

But markets are rarely either simply bullish or bearish, and the growing significance of intermittent generation is having a real impact on day-ahead (DA) and intraday markets.

For many organisations, it's the relevant strategic risks and opportunities – rather than energy market fundamentals – that drive energy purchasing approaches. At Drax Energy Solutions, we recognise this and acknowledge that the hedging strategies we're presenting aren't accessible to all businesses.

Regardless, this new report provides a view on the best and worst performing strategies over recent periods. If you're a Drax customer, you can see the condensed data set that underpins this report. Speak to your Drax Energy Solutions sales representative or email insights@drax.com to request access.

Energy products at Drax

We provide a consultative decarbonisation partnership to some of the largest businesses and organisations in the country – many of which are household names. Supplying over 10TWh of power annually to non-domestic customers, we service sectors including water, transport and chemicals.

We offer a range of products to our customers to meet their specific needs. These include options to fix or pass through the commodity and non-commodity elements of the bill.

Fixed products offer price certainty and budgeting simplicity, providing a low-risk solution that smaller power consumers typically adopt.

Flex products allow more control and higher potential cost savings through strategic purchasing over time, especially for larger power consumers. These contract types provide customers with the agency to procure power however they choose. We'll focus on Flex products in this short paper.

We also offer other types of arrangements alongside our commodity options. These enable, for example, sleeving in power through Corporate Power Purchase Agreements or peer-to-peer arrangements with smaller-scale renewable generators.

We've designed our Flex products to help large non-domestic customers manage their electricity procurement more strategically through a tailored hedging approach. In the first 11 months of 2025, we traded over 10TWh of volume across our Flex portfolio. We executed trades for over 800 customers, ranging in size from sub-1GWh-basket customers all the way up to those consuming almost 1.5TWh. Our trading desk provides DA market access. It also enables customers to secure portions of their demand in advance – on monthly, seasonal or multi-year bases – depending on their budget certainty requirements and risk appetite.

This means customers can benefit from market opportunities while maintaining protection against unexpected price spikes. For risk-averse organisations such as those in the water or public sectors, longer-term hedges can support stable financial planning. Private companies with greater market tolerance, however, can choose to adopt shorter-term or blended strategies to optimise value.

Put simply, our Flex products offer customers access to data-driven market insights and our expert trading capability. This gives them control, visibility and strategic choice over how and when they buy their power.

Approaches to hedging

Our close working relationship with our energy customers provides unique insights into how they procure their energy. Customers on our Flex product procure power depending on their business priorities and risk appetite.

Some customers focus their trading activities on their front six months, using a range of season-ahead, monthly and DA products. Others, willing to take on risk for the most reflective price, procure the majority - or all - of their power on a DA basis, despite potential volatility.

There are also customers that adopt a longer-term procurement strategy, purchasing energy multiple seasons in advance. They might take this approach to limit price-rise risks, to stay within set budgets, or to align with internal regulations or revenue allocation.

Comparison

Our benchmarking framework comprises:

- Market intelligence
- Real procurement data
- Historical price information from our trading desks

This combination of insights enables us to evaluate how different hedging approaches perform under real-world conditions. We assess a range of product types – including DA, month-ahead (MA) and seasonal contracts – to understand how procurement timing and structure affect customer exposure to market volatility.

Our analysis focuses on:

- Comparing the performance of different hedging options (e.g. 100% DA vs staggered, multi-tranche strategies)
- Evaluating how timing and market events influence average purchase prices and cost certainty

We've conducted all analysis in this short report with monthly granularity.

Below are the hedging strategies we've used to underpin this analysis.

Together, these strategies reflect a spectrum of procurement priorities – from highly flexible, market-driven purchasing to long-term, stability-focused approaches. By modelling each strategy through periods of normal trading and major market disruption, we can illustrate how structure, timing and hedging depth affect customer exposure to price movements.

1 100% DA procurement

Relying entirely on the DA market offers maximum exposure to short-term market opportunities. This strategy's highly sensitive to volatility, system tightness, weather shocks and geopolitical events. Typically, customers with high risk tolerance – or the ability to pass costs through to the prices of their end products – adopt this strategy.

2 Front-month / short-term hedging (1–3 months ahead)

Under these strategies, customers secure a portion of demand using MA products. Doing so reduces their exposure to extreme short-term volatility while retaining some market responsiveness. This approach is typically popular in sectors where organisations have moderate risk appetite and limited forecasting visibility.

3 Seasonal hedging (procuring season ahead to five seasons ahead with short-term adjustments)

Seasonal approaches involve customers placing hedges using multi-season products and adding short-term products tactically to manage shape, profile and unexpected volume shifts. This strategy provides the highest degree of forward certainty and long-term cost visibility, which is appropriate for organisations with strict budget cycles or regulatory constraints.

4 Balanced multi-term hedging (daily, monthly and seasonal blend)

This strategy features a mix of DA, MA, quarter-ahead and season-ahead products to create smoothing exposure and lower timing risk. It procures a limited volume up to the limit of market liquidity on the forward curve and can deliver a stable average price under a range of scenarios.

Case studies

To determine which approach is right for your organisation, it's important to understand how these strategies perform in real-world situations.

The following case studies show how significant market events can affect hedging approaches – and look at the current market environment's hedging conditions.

Case study 1 | Bullish market spike

The price spike following Russia's invasion of Ukraine provided a clear illustration of how different hedging strategies respond to extreme market conditions. As prices rose sharply through mid-2022, the four strategies in our dataset displayed visibly distinct results.

Customers relying entirely on DA exposure saw the most pronounced volatility. Their procurement costs rose in line with the market, reflecting both the speed and scale of price shocks that uncertainty over Europe's gas supply triggered. This strategy offered the full benefit of any potential price drops. During the surge, however, it provided no protection, leading to the steep upward movement that the line shows over the summer months.

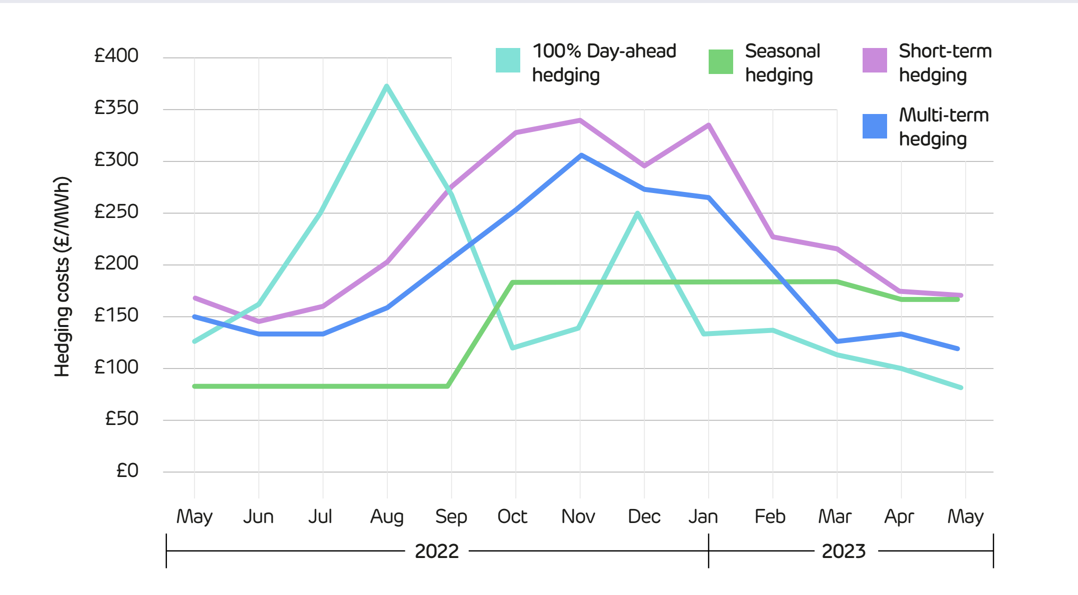
Customers following short-term hedging strategies experienced a 'cushioning' effect, as their energy prices rose less sharply. Although their costs still moved with the market, the partial forward cover they held helped reduce the impact of the most extreme monthly price movements. This placed them in a middle ground: not fully exposed like DA customers, but not as insulated as longer-term hedgers. However, their prices were elevated for a sustained period as forward markets contained risk that further supply disruptions would occur while supply and demand were tightly balanced.

Those operating balanced multi-term hedges – blending daily, monthly and seasonal purchases – experienced even greater stability. Their diversified timing meant that they only needed to buy a portion of the energy to meet their demand during the price spike. Tranches they'd secured earlier provided cost smoothing. As a result, their price-against-time line rose more moderately, offering protection without entirely sacrificing the ability to capture future price improvements.

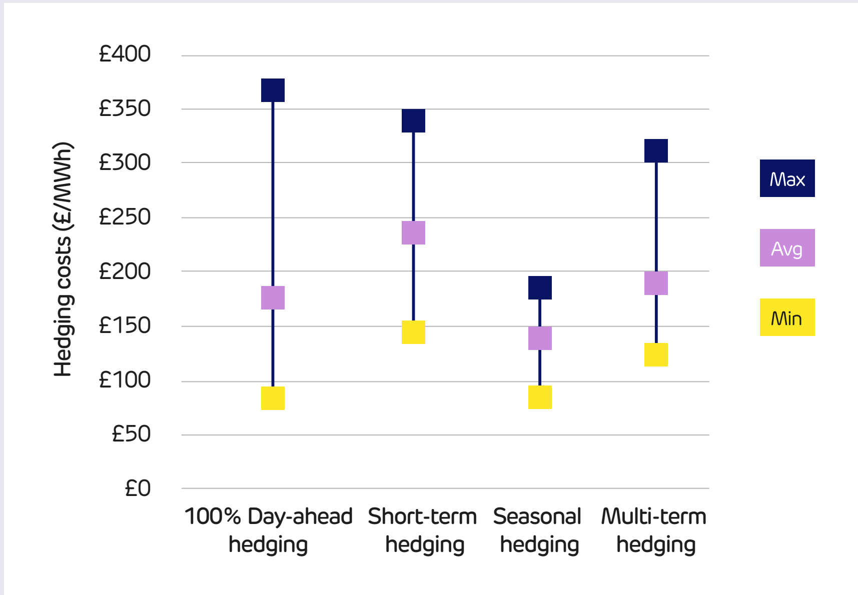
Finally, customers with predominantly seasonal hedging – where they'd locked in a large share of required volumes across multiple seasons – were least negatively affected during the spike. Their earlier positions shielded them from the dramatic uplift in the DA market, keeping their overall average prices relatively stable when wholesale prices accelerated. However, this same long-dated cover meant that when prices later fell, their portfolios recovered more slowly, as positions they'd previously secured continued to factor into the average cost.

Bullish market spike (May 2022 - May 2023)

Monthly prices by strategy



Price variation by strategy



Case study 2

Plummeting demand

The COVID-19 lockdown created an entirely different market dynamic from the Ukraine-Crisis-driven spike. Instead of upward shocks, the system experienced a sharp fall in electricity demand, which pushed wholesale prices to multi-year lows. This environment highlights how different hedging strategies behave when the market moves downwards.

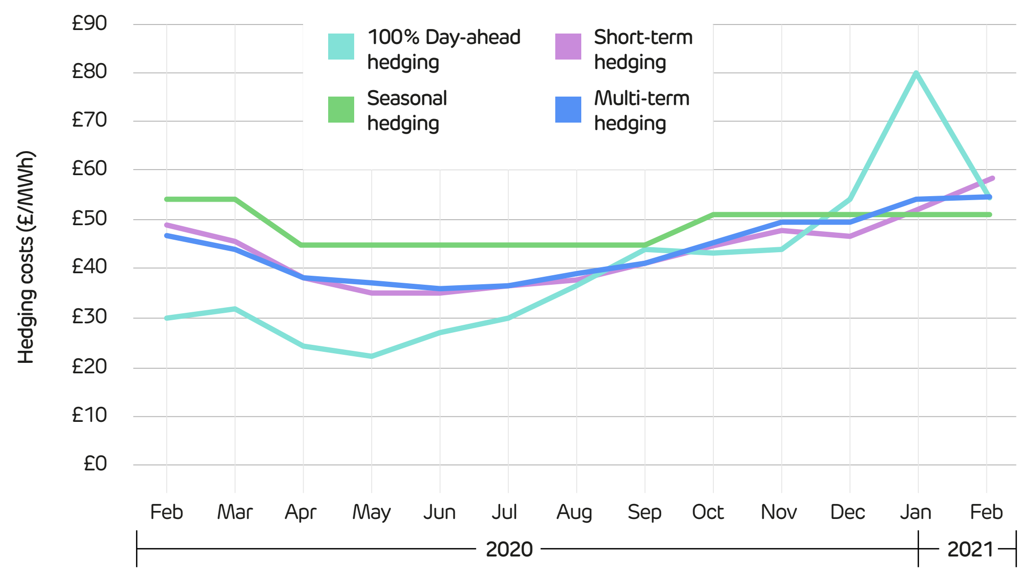
At the start of the lockdown in March–April 2020, DA procurement strategies immediately captured the drop in wholesale prices. DA customers paid significantly less in the early months of 2020 than those with a longer-term strategy, but their costs fluctuated from month to month as demand uncertainty persisted. As the market recovered later in the year, DA prices rebounded quickly – resulting in a pronounced upswing towards Q4, fully exposing DA customers to the increase in costs.

In contrast, customers using short-term hedging and multi-term blended hedging showed much smoother cost profiles. Although these approaches didn't capture the market's lowest prices in April–May 2020, they avoided extreme volatility and provided clearer month-to-month predictability. Their prices followed the general market trend but with reduced amplitude – both falling and rising gradually in line with the hedges rolling forward.

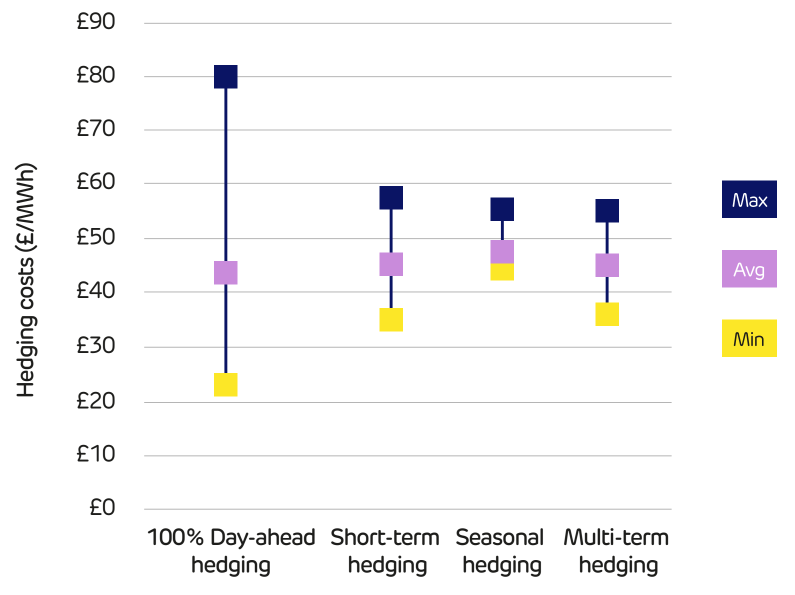
Meanwhile, a seasonal hedging strategy displayed the most stable but highest weighted average cost. Additionally, if customers procured volume ahead of time and subsequently had to reduce demand due to the pandemic, they may have had to reforecast their demand. This would mean selling power back into a cheaper market on a relatively short-term basis. So, while long-term hedging can provide stability, it can also result in inflexibility and opportunity cost. These customers were unable to take advantage of the exceptionally low wholesale prices during the lockdown and may have had to sell surplus volumes.

COVID-19 lockdown (Feb 2020 - Feb 2021)

Monthly prices by strategy



Price variation by strategy



Case study 3 | 2024 – 2025 price softening

In the 12 months to 2025, wholesale prices gradually softened from the highs of 2022–2023. Improving gas storage levels in Europe, milder winters and a more stable geopolitical backdrop drove this movement.

Against this backdrop, customers purchasing entirely on a DA basis saw their costs closely track the underlying market. This meant DA customers benefitted quickly as prices fell from winter peaks – but also experienced noticeable month-to-month fluctuations as the market responded to changing fundamentals.

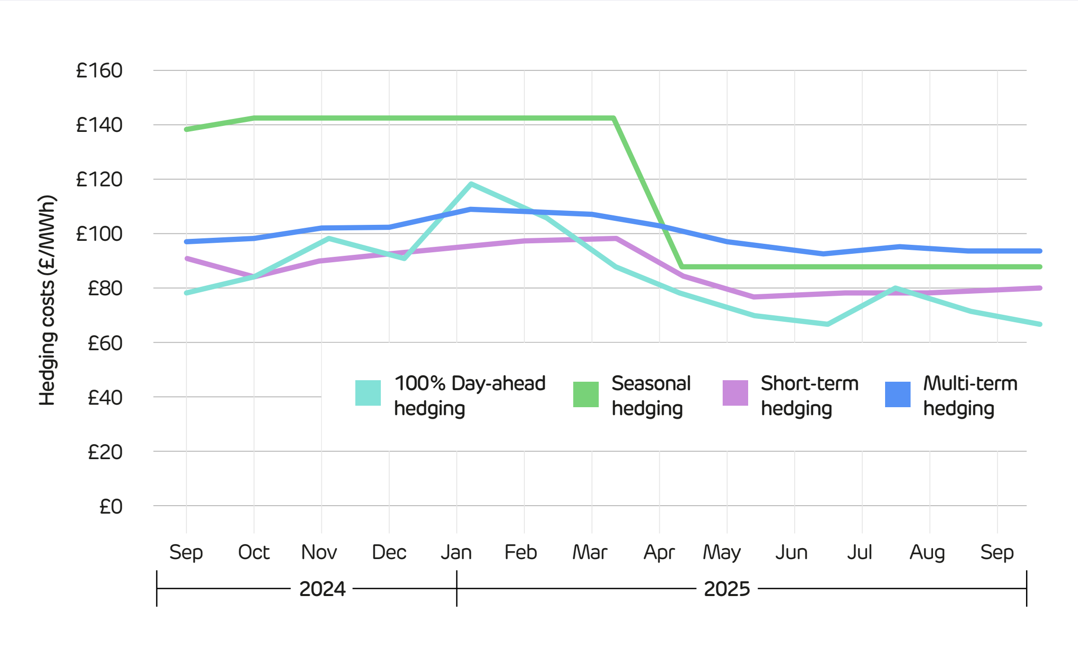
Short-term hedging strategies – such as MA or monthly products – followed a similar downward trajectory but with smoother month-to-month movements. Customers adopting these hedging strategies captured much of the benefit of falling prices while avoiding the full extent of short-term volatility that DA-profile customers saw. Multi-term hedging strategies displayed even more stability, with the hedged position adjusting more gradually and avoiding sharp swings.

By contrast, predominantly seasonal hedging strategies remained the most insulated from short-term market movements, as customers largely locked in prices before the market downturn. As a result, the seasonal cost profile was consistently higher than more market-reflective strategies throughout the period, with the exception of multi-term hedging over the summer months. While this provided budget certainty, it also meant relevant customers didn't benefit from the recent decline in wholesale prices as quickly.

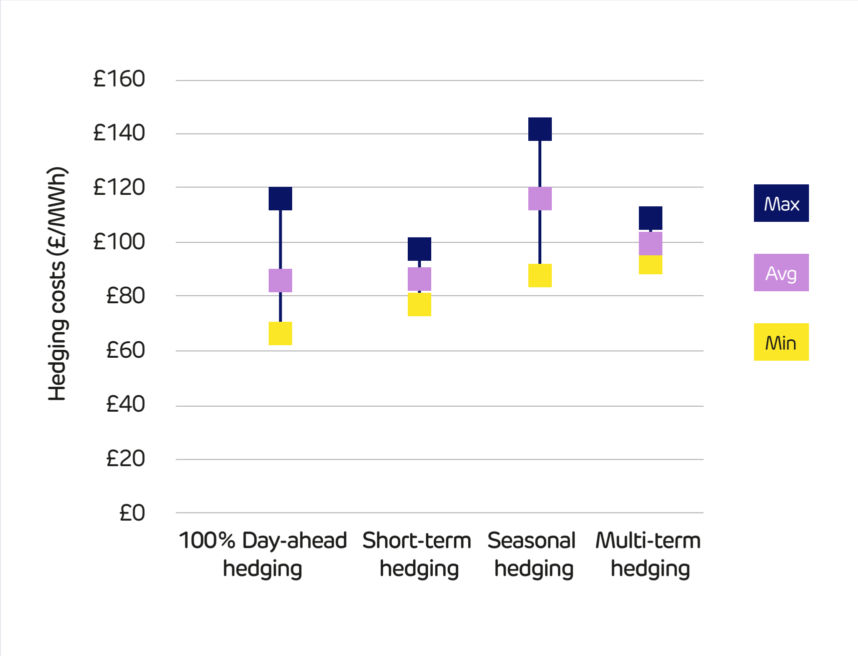
Between September and December 2025 seasonal contracts have also seen a substantial fall in price. This has led to seasonal hedging's weighted average price more closely resembling those of other strategies.

Sep 2024 - Sep 2025

Monthly prices by strategy



Price variation by strategy



If you'd like more insight into how hedging strategies affect your energy spend, speak to your Drax Energy Solutions sales representative or email insights@drax.com. We're happy to discuss terms for getting access to the full dataset and analysis sitting behind this report.

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