

## ***Be Careful... Of Fully Bundled Energy Services***

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The message is clear: Fully bundled energy services often do not work. BUT: I do not advocate unbundling without a thorough understanding of all implications and ramifications.

To explain the concept, bundling combines the provision of electric commodity with other energy-related provisions that would normally have an out-of-pocket cost associated with them. As an example, a replacement chiller may be provided without initial capital outlay by virtue of its acquisition cost being recovered through savings partially attributable to a discount in the cost of the electric commodity.

So, perhaps you acquire a commodity discount of 5%, but you will not actually see this discount on your monthly bill because this discount is being collected to pay, in part, for the new chiller. A key element is that the contract for commodity must last at least as long as the debt recovery for the capital project. Some utility companies want this to extend even to providing all central plant services such as stationary engineering, and beyond this, to the janitorial services, etc.

**During the infancy of deregulation, several hundred companies were created to exploit this brave new world, which has been touted to be a \$432,000,000,000 industry.**

Yes, you read that right. These companies break down into two categories. (All right, three, energy consultants like myself being the third.) These are ESCOs and ESPs: Energy Service Companies and Electricity Supply Providers. The distinction is that the ESP company provides only a discount on commodity without associated 'value-added services.'

Essentially all of the major existing utility companies created ESCOs to serve as their retail marketing entities, in order to give the impression that the ESCOs were distinct from the utilities themselves.

These utilities had, as their core concept, bundled energy services.

They did not want to provide commodity deals without the associated value-added services. Many of them felt that true profit comes only from the mark-up of these value-added services. But this is a flawed concept.

**What these companies did was to try to answer a question that was not asked.**

There is no need for this form of performance contracting, and no need for the forty-plus percent mark-up on the package deal. Most energy users are mature, in the hands of well-seasoned career professionals who have been contracting for mechanical/electrical/plumbing work for decades.

You professionals know how to engage a firm to install a new chiller, and you know what it costs and what the contractor's profits should be. You know how to present it to the owners, how to recover it through lease language provisions, and you want control of the project.

You also know better than to entangle pure energy discounts with the convoluted provisions associated with shifting the savings to debt recovery. In short, the concept of the bundled offer has flaws.

Several leading electric utilities have backed away from this market after failing to achieve true profits. Most of them had invested heavily in terms of funding and structure.

The message here is for you, the energy professional, to be cautious of the bundled offer. It is still out there and is still being aggressively marketed. You will read of new deals, where it appears such deals are valid, but that is why there are energy consultants to advise on the realities.

**DO NOT avoid taking advantage of energy savings offers! The advice is simply to be cautious of the fully-bundled offer.**

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#### ABOUT THE AUTHOR

**Kevin D. Fraser** is president and CEO of Fraser Limited. He has 20 years of real estate experience in facilities management, construction, design (mechanical/electrical/plumbing) and Consulting. A recognized expert in building systems and energy management, Mr. Fraser has specialized in multi-site facility operations and review, with a focus on energy acquisition and energy project design.

Prior to joining PG&E Energy Services as a national director Mr. Fraser served as an international corporate real estate consultant for Ernst & Young Kenneth Leventhal. He has held facilities and adminis-

tration management responsibilities for David Rockefeller, Prudential Insurance, John Portman & Associates, Pacific Park Plaza and Wind River Systems.

Mr. Fraser is credited with writing and releasing the nation's first true open market RFP for deregulated electricity. He has led or participated in energy commodity and related services totaling billions of dollars, including the largest single energy services agreement in history. His experience includes representing the end user, intermediary, independent third party and supplier.

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