

Evaluating the Services of Power Marketers

*Kevin D. Fraser, Director of National Real Estate Accounts
PG&E Energy Services*

If ever the term “vaporware” were appropriate it is in the marketing and sales efforts of too many power marketers across the country. Apparently oblivious to the inevitability that these promises must turn into concrete product, sales staff and seemingly entire companies are consistently misrepresenting the services available. Obviously this is not an appropriate commentary on all power marketers; however, it does affect all of us as we find ourselves in the position of having to ‘explain away’ the smoke and mirrors presentations made by others. This article explains the claims and techniques used by these firms, and lays out some guidelines for better evaluating marketer services.

As I go from (prospective) client to client I often am not the first to visit and attempt to introduce energy services. In two separate meetings, I received comments from one client who said they were still trying to wipe the slime off their shoes from the previous visitors. The other client remarked that midway through a presentation she rose and informed the marketer that “I have already bought a used car this year,” terminated the meeting and walked out.

In both cases I am happy to say that my group was well received. However our job was all the more difficult in that we had to spend considerable time educating the client on the realities of the market.

Here is where the real problem manifests itself—in consumer confusion. The negative lashback to this misinformation typically takes two forms, both of which result in delayed consumer participation and reduced financial benefit.

First and most common is the consumer attitude of ‘wait and see’ as it regards the deregulation industry. How can they think otherwise when it appears even the people in this industry don’t know what is going on? If Company A gives a presentation and introduces a concept indicating a

25% savings on electric commodity, followed by Company B stating 5% as the maximum possible, who can blame the consumer for being confused?

Worse yet, some power marketers present conflicting information even among their own people, sometimes submitted in writing. How is the consumer to decide?

The second and possibly worse consumer reaction is one of distrust for our industry with a consequence of purposefully avoiding energy saving opportunities. Too many consumers feel this is an industry of snake-oil, and often jeeringly refer to similarities of the supposed discounts from telecommunications deregulation, with this being just another example of the consumer being misled. These consumers require substantial educating and fortunately the industry is maturing somewhat to the point that we now have decent examples of significant deals to present as substantiation.

I have collected examples of some of these confusing and misleading statements and claims. Several of these originate from clients I visit while others have been culled from my company in various offices nationwide. This is to educate on the confusing messages we are sending as an industry, not to persecute individuals or companies.

The single most well known and often discussed misleading claim involves taking a given benefit and claiming it as a new service offering. On both sides of the country, in the residential market, legislation has mandated certain discounts based against existing tariffs. Some companies having taken these discounts and marketed their power by claiming a discount equal to or slightly less than that mandated by legislation. Obviously if consumers are aware, they realize they will enjoy the discount regardless of the provider. As it happens, apparently residential consumers are aware and they have looked very unfavorably on this obviously intentional and misleading practice.

The next best known practice is a 'careful wording' in claiming the amount of discount a large commercial or industrial consumer may enjoy. Expressions of from 15 to 25 percent off the cost of energy are all too common. Only when a reputable marketer explains to the consumer that this is a reduction of cost against the commodity alone and not the overall bundled bill does the prospective client begin to understand and become deflated in their expectations. At this point they are usually so annoyed they don't want to do business with anybody.

There are several variations to this misleading practice, many in-

volving natural gas. In the case of natural gas there may be claims made of discounts in the 15-20% range, which of course is what the customer then expects to see at the bottom of their bill. In truth the discount is on commodity delivered to the City gate and the customer was not informed they would be paying new fees to the utility in the form of transportation charges. The net effect is an 8% overall discount.

Another gas example involves the marketer discussing unit measure in decatherms rather than Million Cubic Feet. The unit cost per decatherm is lower than that of Mcf, and the customer likes what they hear. The true translator comes later in the form of the bill when the client sees the actual discount is very small indeed.

Possibly the best known commercial market misleading representation relates to electricity and involves playing on the ignorance of the client as it relates to the distinction of 'Tariff' Vs 'Power Exchange'. In California a 14% PX discount is equal to roughly 3% off tariff (at a point in time). Not surprising, too many marketers present only the PX discount and do not mention the distinction to the unaware client. Even up to contract time the representation made is that of a dramatic discount to the 'energy' cost, but of course the consumer understands this to mean the overall bundled cost of energy rather than simply the commodity component.

Considering the above accounts one might believe this is purely a despicable industry indeed, which would be incorrect and an injustice. This is an industry with significant and respectable players, creative and competitive, struggling every day to devise new products and get a step ahead of the crowd. With this type of infancy, and this degree of dynamic evolution, there will be those who cross lines either intentionally or inadvertently with the consequences indicated above.

What needs to be done is to not lose sight that there are billions of dollars worth of contracts in place with consumers enjoying hundreds of millions in savings over just one year ago. Researching the services and providers is difficult, but worthwhile.

To help we have created a generic services sheet to be used as a guide and checklist in shopping providers. By no means all-inclusive, this does nonetheless demonstrate a broad range of services necessary to deliver fully bundled value to the consumer. We introduce this check list as follows:

COST-REDUCING SOLUTIONS

A complete range of cost-reducing solutions to all your energy challenges, including competitively priced electricity and natural gas, nationwide utility negotiation, strategy development for each location, billing and information management, energy efficiency improvements, power quality enhancements, financial strategies, and analyses of deregulation and rate alternatives nationwide.

LINES OF BUSINESS

Access to a broad range of resources nationwide, from energy commodities and services to power generation and natural gas transmission.

- **Customer Strategies:** An experienced negotiating team to negotiate the lowest rates with utility companies on your behalf—even if the state is not deregulated. Regulatory specialists keep track of how you can take advantage of the changing regulatory situations at each location.
 - *Develop* a national electric strategy now to help you reduce current energy bills, assist in developing the best restructuring process for all of your locations, and save more after retail access opens in each area.
 - *Develop* your negotiating leverage, develop rate and energy management strategies, and implement cogeneration, bypass, and other individualized strategies.
- **Financing Solutions:** Financing options help structure efficient, cost-effective deals for new energy-related capital improvements and monetization of existing energy assets. Flexible financing structures can reduce your costs.
- **Energy Management:** Energy efficiency services save serious money. Help with simple lighting upgrades and/or complete mechanical/electrical retrofits of all your facilities. This includes design, installation, construction, and ongoing operations and management. These projects may often be engineered to be self-funding with ROIs to meet your needs.
- **Power Quality:** A power quality service may assure you continuous power without surges, sags, or voltage spikes. Assessments of your operations and 24-hour-a-day emergency response service. This power environment helps attract the right type of tenant, and reduces insurance premiums.
- **Billing Management:** Consolidate your billing and verify your energy bills from all your facilities, then identify and eliminate energy waste. Create extensive customized reports to satisfy your information needs.
- **Energy Information Services:** Benefit from detailed on-line reports available to you 24 hours a day, seven days a week. Collect billing and energy use data. Archive and clean the information using secure data storage and data screening procedures. Analyze the information, diagnose potential problems and offer innovative solutions. Provide you with immediate, on-line access to energy usage and billing information.

- **Quality Customer Care:** Account Services representatives provide you with quality service. Your individual representative should be able to actively assist you in receiving all services at all stages of the delivery process.
 - **Natural Gas:** Gas supply purchasing options allow you to buy natural gas at the most competitive prices and address your own individual operating priorities, from ensuring a secure gas supply to minimizing the risk of price volatility
 - **Electricity:** Whether you want to stabilize your rates, reduce operating costs for all your facilities nationwide, or purchase renewable electric power, have an electricity power plan tailored to your objectives.
-

These broad guidelines can be distilled into a comparison spreadsheet with specific criteria used to evaluate competitors. Your property portfolio may not require all categories and so would be obviously tailored accordingly. For example, if acquisition and management of natural gas is not required then several elements may be omitted from the selection criteria and reduce negative impact on an otherwise qualified participant.

Merely possessing these features does not exclusively qualify a provider. Past histories of actually delivering are critical for establishing a comfort level. Every shopper should check the references of established clients from each candidate firm and confirm the services do in fact exist and are being delivered just as presented to you for your application.

Then too, past and present performance alone does not absolutely qualify a provider. Another issue is to study the amount of market share for a particular offering in a particular region that is represented by this provider.

Are you looking for good mechanical contractor services for your property in South Dakota to be serviced by a firm with no contractor presence in that area? Do you expect your otherwise competent provider to roll gas in a region where you will be their only gas commodity customer?

There are many unproved rules of thumb in response to this test. Some believe your service requirements should represent no more than ten percent of the aggregate business (same type) handled by your provider in a given region. The arguments go both ways. If you are indeed a lesser customer overall will you receive the level of quality service you expect? If you are the most significant customer in a region is that a good

sign you should be doing business with the provider at all? Does the provider have a majority of its local business tied up with one client such that loss of this client will significantly effect the provider and possibly its ability to serve your properties?

There will be trade-offs to consider as well. It may be that overall a single provider can deliver the best deal, but somewhat at the cost of smaller market areas. While most will be able to provide savings of some order they may not be the greatest savings possible for that region; but to satisfy the provider's business requirements you will include these territories and in the whole enjoy a significant benefit. This is a discussion you should be prepared to have as it will turn up with national portfolios.

In conclusion we fall back to the age-old "Caveat Emptor," but this time with a sinister twist that you have little time for due diligence—there is money on the table and missed opportunities while you wait.

ABOUT THE AUTHOR

Kevin Fraser is the director of real estate sales for PG&E Energy Services*, the unregulated, national retail subsidiary of San Francisco-based PG&E Corporation. An expert in building systems and energy management, Mr. Fraser manages major real estate accounts and leads the company's comprehensive on-site reviews and energy-related evaluations at client facilities across the country.

Mr. Fraser has 20 years of experience in performance contracting and integrated services for the real estate industry. Before joining PG&E Energy Services, he worked as an international consultant for Ernst & Young Kenneth Leventhal, developing comprehensive demand-side management (DSM) programs for institutional, commercial and industrial customers worldwide. Mr. Fraser oversaw energy management for such developments as the Embarcadero Center in San Francisco and a 600-unit condominium complex in Emeryville, California.

Prior to joining Ernst & Young, Mr. Fraser led the development of a multi-building campus and world headquarters for Wind River Systems, a major high-tech company. He also has held executive-level positions managing energy for several properties of David Rockefeller and Prudential Insurance Company.

*PG&E Energy Services is not the same company as Pacific Gas and Electric Company, the utility. PG&E Energy Services is not regulated by the California Public Utilities Commission; and you do not have to buy PG&E Energy Services' products in order to continue to receive quality regulated services from Pacific Gas and Electric Company, the utility.