

Prepare for Electric Deregulation Now!

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Do you know how much money your company is spending on energy? Do you know where and when you are using energy? Do you know how much money your company has spent on energy conversion equipment (i.e., lights, air conditioners, boilers, compressors, etc.)? Do you know how much you spend to keep that equipment up and running? Does your company update your energy conversion equipment with the lowest cost and most efficient products on a regular basis? Do you keep updated on the latest in utility services and customer options?

If you answered “no” to any of these questions, you are like many businesses—unprepared to take advantage of the upcoming electric deregulation—no matter now this contentious matter may be finally worked out.

Four years ago Planning & Forecasting Consultants predicted that deregulation would reduce the overall US electric bill by 4 percent (*Business Week* June 24, 1996). While competition in the electric sector seems logical and inevitable, so far the process and results have been very erratic. Some businesses have received huge savings while others have not seen any benefits. There are many reasons for these benefit gaps. For example, California dealt with stranded cost recovery differently than Pennsylvania.

But the single biggest reason that consumers are not benefiting more is that consumers do not truly understand their energy needs and wants. As we leave the era of monopoly regulation, where you could rely on the regulators to get you a fair deal, consumers now must prepare themselves to get a good deal. Markets don't reward those who go unprepared.

ENERGY MASTER PLAN

Now is the time to start forming your *Energy Master Plan* to be prepared for your coming choices!

Why should you act now? Because marketing by big and small energy companies has already begun. If you wait until the last minute, you may make a hasty and poor decision. Worse, you could make a decision that leaves you stuck with the wrong energy solution for a very long time. Many new electricity suppliers will help you manage your energy costs beginning right now!

So what do you need to do? For your company to take full advantage of this historic change, it is critical to plan now. Basically you need to develop your company's *Energy Master Plan*. An *Energy Master Plan* is a living document that gives you the right information to choose the right energy solution for your specific needs. With deregulation, you no longer have to take a "one size fits all" product utilities have historically offered—you can pick and choose to meet your company's goals.

An *Energy Master Plan* should provide the following information:

- (1) Compile historic energy bills for all facilities for at least 12 months,
- (2) Identify your energy conversion equipment,
- (3) Compute annual energy conversion equipment operation and maintenance spending,
- (4) Assess your organization's current energy and energy conversion equipment service providers,
- (5) Develop your energy-related financial statements,
- (6) Define your overall energy needs,
- (7) Outline your overall energy wants,
- (8) Establish your "internal energy company" organization chart,
- (9) Define your assumptions on key energy industry influences, and
- (10) Generate alternative energy solution scenarios.

With the data gathered during development of your *Energy Master Plan*, you can have intelligent discussions with potential electric suppliers about how they can serve you. Your *Energy Master Plan* is more than knowing the volume and per unit cost of electricity or natural gas delivered at your business. The *Energy Master Plan* in-

cludes the cost of using the energy, the cost of owning and operating the chillers, heaters, light bulbs, turning shafts and boilers. I don't know many companies who really want electrons or Btus.

I do know a lot of companies that want hot and cold water, cooking and refrigeration, 70 degree conditioned air, adequate light, spinning motor shafts, and transportation.

What can you expect? The end result of an *Energy Master Plan* process should be to empower your organization to achieve the lowest cost, highest value energy solution. **First**, an *Energy Master Plan* clearly establishes the current state of affairs. As an example, it is amazing to us how often a company's management does not understand the chain of command in their organization related to energy purchasing and energy facility repair decisions.

Unless you create an "internal energy company" organization chart, you will never fully get your arms around the issue. In addition, we often see local facilities buying from a single vendor but not seeking volume discounts. An *Energy Master Plan* gives you the knowledge to coordinate vendor partnerships and contracts.

Second, by forcing your organization to establish its needs, wants, and future assumptions related to energy, you have defined your goals from relationships with any and all service providers. Too often companies begin to negotiate with their energy providers without considering major value levers that can be included into the negotiations. For example, are you considering a major expansion? Does your manufacturing process allow fuel switching? Are your customers demanding that you focus on a cleaner environment? Without answering these questions, you are leaving value on the table.

Third, an *Energy Master Plan* allows you to incorporate a longer-term horizon into your energy solution planning. This longer-term horizon means that you can optimize equipment replacement versus equipment repair decisions, thereby overall life-cycle costs. We have witnessed too many times when an internal financial "hurdle rate" has forced a company to continue maintaining outdated equipment instead of recognizing the overall value of replacement.

Finally, an *Energy Master Plan* gives you the opportunity to determine once and for all if you want to continue to focus internal resources on energy. There is not a single business consultant in America today that advocates that every company should try and manage every function internally.

Why try to do everything? Maybe your company would be better off by “outsourcing” energy and leaving energy management to energy experts. This allows you to focus on your core business—serving your customers to make more money. Only with all of this information can your organization achieve its lowest cost, highest value energy solution.

Will everyone share equally under electric deregulation? Of course not. Under regulation, the regulator’s mission was to treat all customers equally. Under deregulation the more knowledgeable and more prepared will clearly benefit more than the unprepared and less knowledgeable.

Electricity deregulation is an epic, once-in-a-lifetime opportunity. Electricity has been highly regulated for almost 100 years. It is a laborious process, but soon the free market will be in charge. Those who are prepared will be the winners.

More and more companies are trying to help you take care of your energy needs. The best place to start is to develop your own *Energy Master Plan*. Within 3 to 6 months you can be positioned to negotiate your supply contract successfully. You’ll be able to save your organization money and improve your products.

Don’t miss this upcoming opportunity!

ABOUT THE AUTHOR

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