Coming Up:
A Radically Changed Energy Perspective for Shopping Centers

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How will shopping centers interact with their current and future utility suppliers?

Not well.

Sorry, but that is the answer, at least initially. Energy suppliers and retail stores are two very different industries, speaking different languages and rooted in diametrically opposed histories.

Retail is based on an open market competitive environment, while energy has always enjoyed a monopolistic, noncompetitive environment.

Increasingly, shopping center owners are being exposed to utility people who have foreign concepts and risk-averse attitudes. Retailers don't speak the same language. Some retailers do not trust energy people.

This must be overcome. Believe it or not, time is an issue and retailers are better off with a hasty decision now rather than a well considered decision one year from now.

The pressure does and has resulted in a somewhat strained relationship between the consumer and the provider, but it can be overcome. The first step retailers must take is to identify their energy goals.

First, know your place in the market. Assume your competitors are realizing benefits from deregulation. Are you positioned so this advantage does not threaten you? If yes, you may just consider status quo, leave things as they are and continue down the road with your existing energy provider.

But if status quo doesn't fit your market position or even your cultural disposition, you have a simple thought process, or exercise, to go through. **Question: Do you want to benefit your tenants so yours is a competitive shopping center, or do you want to directly benefit your**

bottom line? Or, to muddy things just a bit, do you want both?

Before you answer consider this: These are relatively thin, immediate cash benefits, and if you elect to share with your tenants you will dilute your own bottom-line advantage. Again this gets down to market position, and don't look for the energy providers to help you with this decision.

The most straight-forward, get-a-benefit-today approach is to pass all deregulation value to your tenants. Why? Two tangible reasons: lease language and meters.

Your boilerplate triple-net leases were written without anticipation of consumer choice for utilities. The language severely restricts your ability to benefit in this regard.

Your meters were installed with the lease language in mind—throw it all on the tenant.

So, as you have sought to put all the risk on the tenant, you have also built a model to put all benefit to the tenant.

In the simplest terms, any reduction in utility costs is enjoyed by the tenants and is only indirectly enjoyed by the owner in the form of holding a competitive property. Savings in this category are pretty much limited to single-digit numbers.

Essentially any energy service provider, except your existing one, can accommodate you with this scenario, and even there we have the possibility of negotiation. But the picture is clear: little value = little effort. For this you merely provide your meter numbers, receive proposals, and select a provider.

It's not that simple. In truth you do need some knowledge of buying energy.

Today, occupancy rates are high and the chances are that you may be less concerned with a competitive property than you are with direct line item benefit to your company. In other words, you want to enjoy what deregulation offers.

Regardless of whether you elect to pass some benefit to your tenants, you must overcome lease language and metering. Here you will encounter tremendous frustration with the energy provider pool; only one company I know of has succeeded in addressing the restrictive parameters of triple net leases and meters.

Your existing utility will tell you straight out that they cannot provide you direct benefit, and they will have no understanding of lease restrictions.

Essentially all of the energy providers will tell you the same thing, although you may invest a lot of time with them before ultimately hearing this. So be prepared to be an expert in your own industry and to think outside the box. **Put the tough questions to these providers and require them to provide legally qualified solutions—not sales talk.**

Now, while the question of who receives benefit is fundamental, it isn't the only basic issue. You will also be faced with deciding to limit your benefit to that of purely commodity based, or of bundled offers that include energy infrastructure.

Here again you will encounter communication difficulties with the providers, many concepts may be foreign to you, and honestly, to some providers as well. And you may feel somewhat upset when you learn how small the commodity-only benefit is, after having heard and read in so many articles what a windfall this will be.

The key is to identify an integrated solution that can leverage the benefit produced by commodity savings to avoid capital outlays for aging energy infrastructure.

ABOUT THE AUTHOR

Kevin 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 administration 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 totalling billions of dollars, including the largest single energy services agreement in history.

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