Energy Acquisition Strategies

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For large-scale energy users, there is both convenience and value to be enjoyed by the one-stop-shop method of dealing with the large energy services firms. These companies will handle essentially all aspects of your energy program, and keep you free to operate your core business.

The price of this, though, is to shift the majority of the benefit to the services firm or, in other words, to leave money on the table.

Unbundling is the key to maximize the value (to you) that can be enjoyed from the new era of energy deregulation. This is implicit in that what the government has been doing is unbundling, while the energy services companies have been quick to attempt to rebundle the discrete components. Unbundling though does require a level of attention and expertise not typically found among corporate energy managers, and the consequences of possibly lesser performance can be significant. Also, the strategy for every company must be different to assure the benefits are aligned with the specific company goals.

Companies often have aggressive expansion programs underway, with new properties being constructed in locations both domestic and foreign. For heavy energy consumers, these properties pose an opportunity to enjoy savings from reduced electricity costs whether through deregulation, negotiation or other means. Such discounts will make the properties operate less expensively, and help maintain them as competitive in regard to their lease status.

Electricity is typically the single largest line item of operating expense, and is also the most fragile service of a utility nature. Contracts may be had that provide for discounted and more reliable energy. The best time to negotiate these terms are when a property does not yet exist, but is in the planning stage.

Consequently the primary focus for a company should be on expansion locations. Discounts vary and have been seen from 1% to 25%

depending upon location and the usage of the property.

Clients may also have many existing sites, again both foreign and domestic. Certain of these may be in locations where discounted energy is worthy of consideration due to the high cost of local electricity. Virtually any location may be subject to discount through various approaches such as utility negotiation; however, it is prudent to create filters and prioritize which sites may return the maximum value.

Such filters include areas with higher than average electric costs (California as example), open retail access or deregulation (again California and 17 other states), and strong regional energy service providers.

Other filters and criteria may also apply. In some circumstances an aggregation of these sites, or a selection of them, may be appropriate. Presently there is an immanent sunset on discounts in three states and these states should be prioritized to avoid missing the window of opportunity. Other existing locations can follow on a less aggressive pace as prudent, following review.

Obtaining and implementing energy programs for proposed and existing properties essentially is the same scope of work in terms of goals; the work processes and effort are different for existing than for proposed sites. The deliverable in both instances is the executed contract or other document allowing for the most beneficial energy source/services program possible for each site. A degree of discussion with appropriate client personnel will be required to become acquainted with long-term strategies and goals, and so allow the pursuit of complementing energy deals.

These energy deals take many forms from simple discounted commodity, to complex full outsource operations and maintenance contracts. It is possible to shift construction cost burdens to energy service providers wherein they will provide all energy-related infrastructure in exchange for a multi-year energy contract.

It is possible to obtain guaranteed locks on either the energy budgets or the entire O&M budget. It is possible to acquire either a significant up-front cash benefit, or an on-going lesser annual cash benefit. And a wide range of other structure scenarios exist. Part of the deliverable will be the exploration, understanding, and crafting of the particular type strategy best suited for a company's strategic business plan. It must be noted that no one strategy will apply to all properties, and multiple service providers will be involved just as there are now multiple utility companies involved.

A "GLOBAL" APPROACH

An overall, or global, energy approach plan for the entire portfolio should be considered. This plan would detail by location, and by measure, the ongoing strategy of a company in its pursuit of value through energy services. Included would be commodity acquisition, infrastructure improvements, power quality, generation (on-site), financing, contract structures, outsourcing scenarios and the full range of possible deal structures.

This would take the form of a step-by-step plan easily implemented by the company, either in-house or with third-party assistance. Such a plan would become part of the strategic process when going to a new location and beginning to establish a new property. It would aid in the mechanical/electrical design, contractor selection, cost allocations, and operating expenses. This plan would also be applicable to existing sites that have not been converted to the company's energy program, and would be ongoing in nature to accommodate the eventuality of capital improvements.

A PORTFOLIO-WIDE ENERGY STRATEGY

A portfolio-wide energy program is a work-tool document with step-by-step processes and procedures applicable to every property, and addressing all of the varied elements of deregulated energy services from billing, to commodity, to infrastructure improvements. This plan will be created around the expressed goals and internal processes of the company, to best blend with its culture and business needs. While it may be the case that companies have not developed plans for construction beyond the next year or two, it is the case that energy deals will expire, infrastructure capital projects will be required, deregulation status will change, and other related components of energy services will continue to evolve. Given this dynamic it is wise to possess a comprehensive program to remain proactive and retain maximum benefits.

This comprehensive plan could be crafted in advance of any site-specific work as detailed above, and then be applied by a company template for all properties. In this case it would provide the firm with the greatest degree of autonomy in dealing with energy issues, and possibly be the only service required. However, due to client resource constraints, and the immediate need for action at many locations, it seems appropriate to pursue energy benefits in the order listed above.

In this fashion the comprehensive plan will be modeled after the successful actions and negotiations enjoyed at various locations, and will be far more directly applicable with less staff in the end.

ABOUT THE AUTHOR

Mr. Fraser 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, he has specialized in multi-site facility operations and review, with a focus on energy acquisition and energy project design.

Prior to establishing his own firm, he served PG&E Energy Services as a national director. Earlier, Mr. Fraser was 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.

In these positions he has been responsible for the immediate supervision of more than 100 stationary engineers; daily direct operation of eight million square feet of office, retail, residential, guest and R&D in the U.S.; and nine international sites. Construction/project management includes over ten million square feet of new and tenant improvement construction, with single project values exceeding $100 million. Mr. Fraser's specialty expertise is often utilized in leading high-level negotiations.

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