

Collecting and Analyzing Your Energy Information: Should You Outsource? Or Handle In-house?

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Deregulation of the electric utility industry is changing the way companies buy and use energy.

In yesterday's world, your costs of electricity were based on how much you used, when you used it, and what your local utility decided to charge you. Tomorrow, success will be yours if you have a system in place for tracking and managing your facilities' energy consumption to allow you to get the best deal from a competitive utility business.

What can you do now to prepare for the future? Plenty, as it turns out.

You can start today—even if deregulation has not hit your area—by researching your options and resources. Your goal is to be able to interpret and organize your energy use, so you can keep on top of billing errors, negotiate contracts that serve your company, and focus energy conservation efforts. Even before deregulation, you'll save money.

According to an article in *Supermarket News*, retailers alone are expected to save approximately \$14 million to \$20 million in operating costs in electricity deregulation if done right. Ian Taylor, energy manager for J. Sainsbury, a London-based retailer, says that gearing up for deregulation and energy utility planning should be a top priority for management.

"Companies should assemble energy management teams that maintain communications with their utility's provider or partner with a company dedicated to energy management," said Taylor.

ENERGY INFORMATION SERVICES

In an open market, knowledge is power. You won't be able to negotiate a better rate if you don't know what your facilities consume now or when your usage peaks. It is crucial to assemble and review your energy data and understand what it all means before you even think of sending out a Request for Proposal (RFP) to potential utility companies.

The first step for most facility managers is to find tools that can "x-ray" their energy usage to uncover hidden savings. These tools, known as Energy Information Services (EIS), can help you control consumption and improve operations. What's more, these services give you the means to develop a long-term energy strategy that translates into real savings.

When selecting an energy information service program, you'll need to consider the size and/or number of your facilities, your internal resources, and who will need access to cost and consumption data. If you manage large, industrial facilities or multiple commercial or industrial sites, you might want to outsource your utility management function completely. Or, if you have plenty of internal resources, using a special software program in house may be your best bet. It all depends on your operation, its specific needs, and how much control you want to maintain.

Regardless of what route you take, you'll get a better handle on your energy use in both the present and future.

OUTSOURCING ENERGY INFORMATION SERVICES

Outsourcing utility management can be both convenient and effective. While new to the United States, the "service bureau" model of energy management has a proven track record in the United Kingdom.

In the 1980s, U.K.-based EnTech, a leading energy information services provider, developed a (utility management) program called "Utility Service Bureau" that literally takes over all aspects of handling a company's energy bills, recovering savings hidden in invoice errors, tariffs, and revealing inefficient usage. In addition, the service gives managers advice on how to cut their energy costs and shows them how to make smarter purchasing decisions.

"Our business is selling. It's not buying or paying for electricity," said John Whatley, energy manager for Marks & Spencer, a U.K.-based

retail chain that has used EnTech's Utility Service Bureau for many years. "Electricity and utility bills are notoriously complicated. Before we had a system like this, stores would pay their own bills and would be signing off on bills which they didn't understand. Quite often there were errors in bills that were simply overlooked."

"We spend roughly about £30 million annually (\$45 million) in energy costs, or about 5 percent of our overall profits. Anything we can save on energy management goes straight to our bottom line," said Whatley. "Outsourcing has eliminated this problem and continually produces close to a quarter of a million dollars a year in savings for us."

Some of the key services provided by an outsourced energy information provider include:

- The management and operation of a sophisticated computer system that stores historic utility consumption and cost information and relevant facility data for each property (e.g., size of premises, type of use, operating hours, occupancy schedules and production units).
- Utility invoice checking service to ensure that all invoices are correct and, if not, to resolve errors directly with the utility.
- The detailed analysis of all utility consumption and costs in useful reports that give an overview of an end user's performance as well as highlight individual sites where consumption appears to be excessive.
- Utility rate analysis to guarantee that each utility supply is on the most appropriate tariff and help facility managers negotiate their own contract rates.
- Customer liaison toll-free phone numbers to handle questions.

In short, a total energy management service reduces administrative time, improves energy management, and cuts annual utility costs. The savings generated can range from two to five times the costs of the service itself.

HOW CAN OUTSOURCING ENERGY INFORMATION HELP YOU PREPARE FOR DEREGULATION?

Getting a handle on a company's energy information can help at any time, but the big payoff comes when you prepare for deregulation.

Deregulation in the U.K. revealed that the biggest challenge for energy managers is understanding the changes, coming up with the right strategy, and getting the correct information. The complexities of switching from a monopoly market to competition often causes culture shock for end-users and utilities.

"The biggest problem has been billing, which has been a real nightmare," said Richard Hemmings, energy manager for Safeway, one of the largest grocery chains in the UK. "The company used to have a simple metering system. There was one meter in every store and the facility managers must read the meter once a day. Now utility meters have been replaced with electronic meters, which are reviewed every half hour. This resulted in wrong rates being applied and lots of confusion."

For Safeway, outsourcing eliminated the hassles of keeping all the company's data organized and accurate. Plus, because of the constant monitoring, the correct rates are now applied.

"We've been able to recoup overages and billing errors which have added significantly to our company's bottom line," said Hemmings. "But we probably could have recouped more if our data were organized and accurate before deregulation happened."

A Helping Hand

When you choose an outsourced energy information service, you're betting on technology and people. A major part of the service involves data processing, using sophisticated software, with a powerful database. Yet the real key to success is the establishment of a long-term working partnership between the end user and the energy information provider. When looking for an energy information provider you'll want:

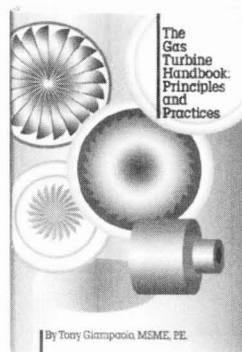
- A provider with an ongoing commitment to developing the technology to support your information needs.
- Utility data processors who have a unique understanding of utility invoices.

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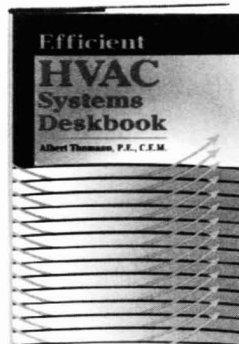
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- Utility analysts who are experienced in identifying anomalies in consumption trends.
- Customer service staff who will answer questions about reports, handle day-to-day utility questions and run additional reports at your request.
- Utility purchasing and rate analysis experts who understand utility pricing structures.

Ideally the service will be flexible enough to work within your existing management structure and provide information in a format you want so you can reduce utility consumption and costs.

Energy Billing Analysis + Consumption Reports = Savings

The number one misconception among managers is believing that the charges invoice must be accurate. Most people think that since a bill is generated by a computer it must be correct. The truth is that utility invoices are full of errors.

Automating billing analysis can allow you to audit every invoice, thereby pinpointing those easy savings as well as streamlining the process to help you avoid late payment charges.

If problems exist within your facility a monthly analysis also can point out where the trouble is and offer easy solutions. The “x-rays” help analyze and verify savings possibly by investing in new equipment operational changes and tariff charges.

Regular reports will show you how to make smarter purchases and give you the competitive edge in negotiating lower rates—buying exactly what you use and using exactly what you buy.

You probably will be approached by electricity or gas suppliers as competitive markets develop. Before partnering with any provider, you should know how all aspects of pricing and terms will affect *your* costs, given *your* service requirements.

Ian Taylor was approached by several energy providers that offered a guaranteed savings upfront. But the hook was that Sainsbury would have to split the savings with the management service.

“Some service companies were saying, ‘We’ll save you \$1 million on your energy costs,’” said Taylor. “But what they meant was, ‘We’ll save you \$1 million, but we’ll take half of that for our fees.’ To us, that

really isn't much of a deal." With EnTech's Service Bureau, Sainsbury is able to specify what type of savings it wants to see each year for the services it wants.

CONSIDER IN-HOUSE SOFTWARE PROGRAMS— ENERGY INFORMATION, PLUS

If you prefer to conduct your organization's utility management functions internally, software accounting packages can help. These programs let you track and benchmark vital resources and service—water, sewer, recycling, waste, natural gas and electricity—and uncover hidden cost-cutting opportunities.

Some programs are even powerful enough to handle multiple sites served by different utility companies and deliver information you need for budgeting, forecasting, and cost-cutting. Software accounting packages support many of the same functions as an outsourced energy management service, but all duties are handled within your organization.

In-house software is useful in identifying areas for performance improvement as well. And, the information can be a valuable tool in helping you negotiate current or future rates.

Energy management software programs allow you to:

- Capture and compare costs of electricity, natural gas, propane, oil, steam, water, sewer, garbage, and storm water.
- Track recycling of paper, glass, plastic, and metal. Audit bills to identify discrepancies and potential problem areas.
- Create forecasts, budgets, and track performance.
- Compare multiple facilities on common parameters to allow facility managers to determine costs per square foot, per employee, per "widget," or against revenues.
- Track savings created by improved practices and energy saving equipment.
- Aggregate usage across multiple sites to be ready for deregulation.

Most companies look for software programs that are easy to use (allowing data entry clerks to handle information input) and that interface with an accounts payable system to avoid multiple entry of billing information. Technical support and customer service provided by the software vender can also make or break the success of your utility management program.

This route will help you create your own “energy center” and show you the best deals when it comes time to shop around. As with outsourcing, choosing the right partner can make the difference between a durable and effective energy management program and an expensive, underutilized program.

Timing Is Everything

In the press of issues in a facility manager’s day, the need for energy information may not seem urgent, especially in the calm before the storm of deregulation. But for most managers, the climate is changing quickly. The sooner you prepare, the better off you’ll be. By doing your homework and marshaling your resources now, you’ll enjoy shelter in the storm.

ABOUT THE AUTHOR

Ms. Betsy Perkins Hill is a marketing and business development manager with Illinova Energy Partners, with multi-functional experience that has emphasized creative solutions to complex business issues in unstructured settings. As managing director, Product and Services Marketing, she manages all facets of product development and marketing for this start-up energy services company, including defining the company’s target market, product offering and commercializing energy information products for which Illinova is now considered a market leader. She manages software and project implementation staff to meet rapidly evolving market requirements.

Ms. Hill’s earlier experience includes 13 years in business development, marketing, and strategic planning with the NutraSweet Company, where she was responsible for commercialization of new products and technologies. She also has significant experience in regulatory policy development, both at NutraSweet and in Illinois state government.

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