

Ten Steps for Immediate Energy Cost Savings

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Managing a company's energy supply is a difficult and complex task in the best of times. But when energy management parameters change dramatically from week to week, facility to facility, and market to market, it can become a mind-boggling task to know where to start attacking rising energy costs and volatility.

In the past year, alone, natural gas costs have skyrocketed from \$3.50 per million cubic feet to \$8, and then back down to \$4.70. And electricity supply costs can vary from three cents per kilowatt-hour in one part of the country to more than nine cents per kilowatt-hour in another. If energy managers are not taking measures to control these cost fluctuations, and they are not taking advantage of competitive pricing in deregulated markets, they literally are burning through money that could be saved.

For businesses with multiple facilities that are running on increasingly tight margins, the ability to cut energy costs can make a huge and positive impact on a company bottom line. With this in mind, EnergyWindow's experts have prepared recommendations for a step-by-step approach that can help achieve cost savings quickly and efficiently – and quite possibly turn the company's energy management team into the heroes of the day. And because the upfront investment necessary to realize savings may involve just a few weeks of effort and because savings can begin almost immediately, the payback period can take place within several months and the return on investment can exceed 1,000 percent.

Step 1: Make a list of your facility locations and cross-reference those locations with the competitive energy markets.

You can research deregulated markets through the Energy Information Agency of the U.S. Department of Energy. (Start at http://www.eia.doe.gov/cneaf/electricity/chg_str/regmap.html and http://www.eia.doe.gov/oil_gas/natural_gas/restructure/restructure.html.) But if you want specific insight into which state markets are active at any given time, you can access the EnergyWindow Focus! database on their Web site: www.EnergyWindow.com. There are approximately 16 states in the United States where potentially active electricity markets offer competitive energy prices and many more for natural gas.

Step 2: Based on the results of Step 1, develop a priority list of the markets/facilities where you have the greatest possibility of achieving cost savings the most quickly.

If you need to justify your actions to management, do a cost analysis that shows, conservatively, how much money you might be able to save if you cut your energy costs by, say, 15% at target facilities. Once you help senior management understand the positive financial impact that could be achieved, it's

likely you'll get a "full speed ahead" directive. Keep in mind that your "upfront" investment does not require a financial commitment – just several weeks of effort to pursue your top one or two market opportunities.

Step 3: For these priority facilities that look like your best bets to save money, gather the data that will be required to pursue competitive energy bids for each facility.

To request pricing for energy service contracts, energy suppliers will require a substantial amount of data for each facility regarding past energy usage. To save time and make sure you can act quickly to achieve energy savings in time-critical bid periods, make sure this information is readily at hand. A good request-for-quote will generally require between 100-120 data elements per facility that must be gathered. Make sure the information is ready to go, and know where it is stored. Also be prepared to update the information at the time you request bids.

You should also calculate your default energy supply cost, which is the cost of supply from your local distribution company, for comparison with competitive bids. You can obtain default rate information from your local distribution company customer service representative, their web page or your state public utility commission web page.

Step 4: Define your risk tolerance before starting the energy procurement process.

Consider sources of risk and diversification in your priority markets. These include suppliers, geography, regulated vs. deregulated markets, price magnitude and volatility. Understand that your company should seek a balance between cost savings and cost predictability. For the markets that you've identified as key opportunities for cutting energy costs, you should thoroughly research the suppliers in those markets and determine which ones meet your needs for price structure, financial strength, energy source reliability, preferred contract terms and experience. If you want to save time in this step, you can consult with an energy management firm or energy consultants who will already have that information in hand, on a market-by-market basis.

Step 5: Watch "priority" markets and facilities for fast-breaking opportunities, and be prepared to move quickly to take advantage of them.

Fast-breaking opportunities can occur because of market pricing, regulatory changes, seasonal fluctuations and more. Often, opportunities for better energy prices can come and go in a matter of weeks, if not days. If you don't sign up during these windows of opportunity, you may lose them for another year. Again, having your energy information readily available, plus a clear idea of contract terms and the price structure that's best for you will allow you to act quickly to take advantage of energy cost savings opportunities.

Step 6: Don't wait until the last minute to seek out deals or negotiate contracts.

If you want to change energy suppliers, there's usually a 60- to 90-day, end-of-contract notification clause and if you provide notification, you can't change suppliers. Build a spreadsheet that outlines the various energy contracts you have in place for the facilities you have targeted as potential money savers. Research each contract to determine the cancellation notification requirements, and prepare to act at least a month in advance of those deadlines for each contract you want to switch.

Step 7: Automate your request for bid process by using an online procurement system.

One of the main reasons companies don't pursue competitive energy supply bids is because they don't have the time to deal with the paperwork and research. If you use an online request for bid system, many of the required tasks will be automated. An online system will speed your ability to get information and make informed decisions. If you use an online procurement system that specializes in energy procurement, many of the previous steps, such as data gathering, supplier research and selection will be handled for you.

Step 8: Wait until AFTER you have completed a bid process to bring in your attorneys.

Many companies try to negotiate or review agreements BEFORE requesting bids. Ultimately, this costs more in legal fees as you try to qualify more than one bidder and set terms. Typically, the better approach is to wait until after the bids have closed, select your first choice, and THEN begin negotiations.

Step 9: Implement some planning regarding the types of energy procurement contracts that work best for your company.

Many energy suppliers have their own contracts. Standardized contracts are not yet the norm, although in early 2007, the North American Energy Standards Board introduced its Base Contract for the Retail Sale and Purchase of Natural Gas or Electricity (available at http://www.naesb.org/req/req_final.asp). Utilization of the NAESB contract as the foundation of your terms is an excellent way to simplify and accelerate the contract negotiation process. Additionally, it's wise to brainstorm ideal contract terms that fit your industry and business practices and then include them into both your initial bid request and your subsequent negotiations.

Step 10: Weave energy procurement plans into your overall business and supply strategic plan.

An informal survey of large national retailers working with EnergyWindow indicates that energy costs can rank as high third to fifth highest among operating costs. Among these same national retailers, the bottom line impact of energy cost reduction can frequently equal several cents per share. With that in mind, it behooves every company with multiple facilities to make a concerted effort to build a strategic energy management plan that dovetails with the company's overall strategic plan. Savvy energy procurement strategies can result in thousands and millions of dollars of savings, which, of course, can go straight to the bottom line.

About EnergyWindow

EnergyWindow is a Boulder, Colorado-based company that offers a comprehensive suite of information technology-based tools and energy industry expertise to help businesses manage every aspect of their energy supply cycle (natural gas and electricity). EnergyWindow offers four key areas of products and services: 1) PowerQuote™ energy sourcing tool for online energy procurement; 2) PowerScape® real-time, web-based energy market knowledgebase; 3) PowerTrac® contract management tool and PowerMonitor® energy performance management information systems that track and analyze a company's energy contracts and usage; and 4) PowerStrategy® energy management planning process and consulting. The company was founded in 1999 by Dr. Jack Mason, a long-time energy industry veteran, and Dr. Mike Usrey, a veteran Internet and information technology expert. To date, the company has successfully closed approximately 9,000 transactions for energy purchases, resulting in savings of more than \$115 million on \$535 million in energy supply costs. The company can be reached at: www.energywindow.com, or (303) 444-2366.