

## Best Practices: Electricity Procurement



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075	654964313210303467
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In April 2013, the Energy Research Council (ERC) conducted a survey of 1,254 middle-market companies in states that have deregulated energy procurement to assess how they procure electricity supply. Today, approximately one quarter of the U.S. energy marketplace has actively deregulated electricity procurement. In deregulated states, businesses can enter into contracts with competitive retail electricity suppliers. These suppliers can

**Best Practices: Electricity costs have a major impact on middle-market operating budgets. In deregulated states, mid-market companies should compare competitive electricity supply prices to the local electric utility’s rate, and review expenditures on a frequent basis.**

sell directly to customers or market electricity through third-party sales channels like energy aggregators, brokers, and consultants.

### How difficult is it to compare competitive electricity suppliers?

Perhaps the most complex issue in selecting the right electricity supplier is comparing “apples-to-apples” regarding pricing and contract terms & conditions. While most price quotes are based on a fixed price per kilowatt hour (kWh), many variables and pass-through items in electricity supply contracts can impact the final bill.

For example, two fixed-price contracts could produce different electricity charges, based on bandwidth restrictions, capacity charges, line loss provisions, change-in-law clauses, and other contractual items that create pass-through fees. In addition, many electricity supply contracts differ in early termination penalties, auto-renewal provisions, term flexibility, and other standard contract features. Comparing prices is also

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**Best Practices: Utilities’ rates change regularly because of tariff structures and market fluctuations. Forecasts of electricity market trends, and information about proposed future rate increases or decreases, are helpful, but complex for most companies to track.**

challenging because different electricity suppliers provide indexed quotations based on different contract terms and rate components.

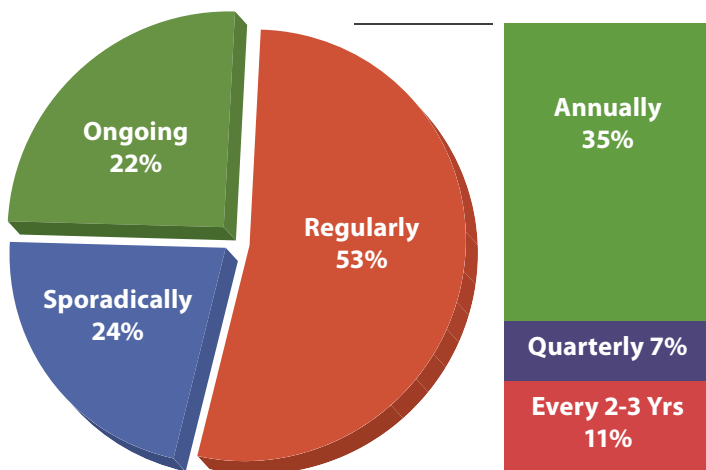
“Middle-market decision makers must clearly understand the terms and conditions in each competitive supplier’s contract,” said Michael Payne, JD, LLM, Executive Vice President & Corporate Counsel for consulting firm APPI Energy. “Before signing a contract, conduct due diligence to determine what will happen if your business uses drastically more or less energy than in the past, and what happens when the contract expires.”

Because electricity market prices change on a daily basis, most companies review multiple price quotes. ERC research shows that only 21% of middle-market companies sign an electricity supply contract based on a single price quote. Most (62%) require at least two to three price quotes before selecting a supplier.

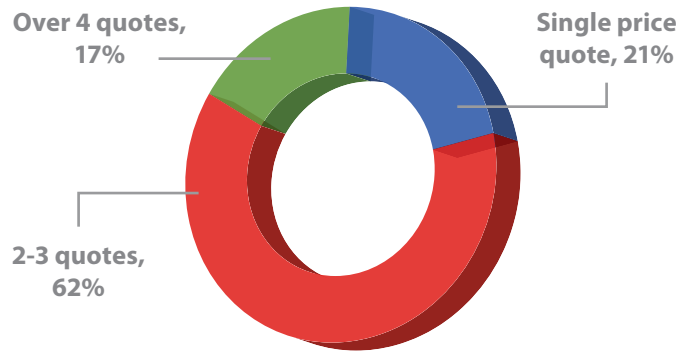
**How frequently should middle-market companies evaluate electricity prices and alternative suppliers?**

Negotiating an electricity supply contract is only one part of managing your electricity needs. ERC research shows that

**Evaluation Frequency**



**Price Quotes Evaluated**



almost one quarter (22%) of middle-market companies continually evaluate their electricity expenditures and pricing. Two-thirds report that they review their energy expenditures at least annually. Combined, that means three quarters of the middle market evaluates their energy costs on a regular and frequent basis. Only one quarter of the companies surveyed by the ERC review energy costs less than once per year, presumably based on internal needs or exposure to external opportunities.

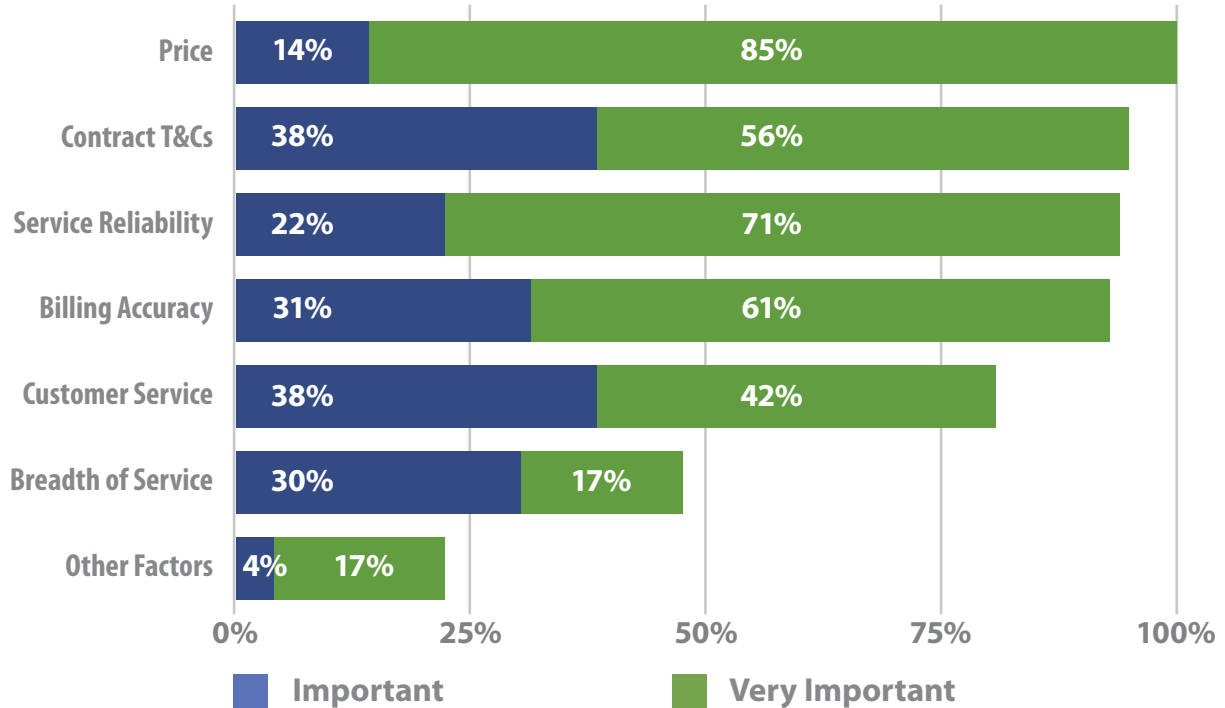
**Best Practices: Middle-market companies should continually monitor the electricity market for buying opportunities. Companies can take advantage of today’s prices in a supply agreement that begins when their current contract expires, even if the expiration date is one or more years in the future.**

Electricity prices fluctuate constantly based on a variety of market, political, economic, and environmental factors. Many companies review electricity supply pricing regularly to secure future contract prices when market rates are low. Early termination penalties prohibit simply switching suppliers, but middle-market companies can commit to a new contract for a future timeframe, based on current dips in the market. Opportunities to capture market dips come and go quickly, making it important to monitor market conditions regularly.

**What do middle-market companies look for in a competitive electricity supplier?**

Ask middle-market decision makers to name the most important factor in selecting an energy supplier and most will tell you,

## Factors impacting the selection of an electricity supplier



“price.” But price is not the only factor impacting the buying decision. Demonstrating an advantage in certain other factors, such as service reliability, billing accuracy, or contract terms & conditions, may offset pricing gaps between different competitive suppliers.

ERC research shows that most middle-market companies rate service reliability and billing accuracy as critical to selecting the right electricity supplier. These factors impact customer satisfaction and the total cost of managing a company’s electricity supply. For example, consider the internal cost of resolving billing errors. Billing problems can result in inaccurate fees and require significant time and effort to detect and resolve. Further complicating the process of correcting billing errors is the fact that electricity bills may come from a local utility, an electricity supplier, or both.

### Bottom Line

In states with deregulated energy markets, middle-market companies can reduce electricity supply costs in a contract with a competitive supplier. Decision makers must thoroughly evaluate price components and contract terms and conditions to ensure

**Best Practices: Reliable suppliers offer fully-staffed customer service teams that handle paperwork and save the customer time and effort. Getting things done quickly, and ensuring that the terms and conditions in the supply agreement are executed accurately, are critical to customer satisfaction.**

they select the most advantageous supplier. Price, billing accuracy, and service reliability drive customer selection of competitive suppliers. The majority of middle-market companies review energy expenditures on a frequent and ongoing basis.

For more information about the Energy Research Council, or to participate in future surveys, contact 410-749-5519 or visit [www.energyresearchcouncil.com](http://www.energyresearchcouncil.com).

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