Shedding light on the new energy environment

Magazine

Area Development Site and Facility Planning
February 1, 1999 | Bastian, Lisa A

The direction of deregulation is hard to divine, but many utilities are heading toward offering more and varied services - including some nonenergy ones.

IN THESE DAWNING days of deregulation, many energy providers are pushing the envelope on what new services they can offer customers - now and in the future.

While some have tentatively dipped their big toes into the new competitive market, others are diving right in, yelling as they plunge intd the uncharted waters: "We are not your father's energy firm!"

Relocating or expanding companies obviously need to stay abreast of these changes and understand how they will affect site selection. What follows is a brief overview of a few of the more interesting developments on the horizon for businesses as well as residential consumers.

Deregulation: Equal Savings for Everyone?

A new site selection partner - the independent energy consultant - has recently emerged to help companies enjoy the benefits derived from electricity deregulation.

"Typically firms such as ours perform a multitude of functions," says energy consultant Chuck Fricke of Energy & Management Services in Traverse City, Mich. "They range from the traditional power-quality analysis and conservation programs to energy acquisition in the deregulated market."

According to Fricke, there is a great deal of discussion about whether or not deregulation of the electric industry will be good for customers.

"To date, the reviews are mixed," he asserts. For example, last year California effectively deregulated on April 1. However, many businesses are disillusioned by the process because they haven't seen the savings they expected.

"While customers received a 10 percent reduction in their bills, a surcharge of roughly 10 percent ate up those savings," Fricke points out. "Only seven months later in November, Proposition 9 was introduced to amend deregulation. It would have mandated 20 percent savings and limited stranded costs." The ballot issue failed, he muses, "basically because there was a lot of utility money opposing it."

The term stranded costs as it relates to utility profits is a hot topic in deregulation circles. Specifically, it refers to "obligation-to-serve" situations where in the past, monopolistic utilities were forced by state commissions to project future load growth, then build generators to meet that anticipated growth and stave off blackouts/brownouts.

However, according to Fricke, some of those power plants are highcost producers and uneconomical in a competitive environment. "Owners of those plants now want to get paid for their forced investments. To that end, many utilities are tacking a surcharge on to customer bills to pay for these stranded costs. So, in the short-term, there won't be a great deal of savings until those costs are paid off. But in the long-term there are some significant savings out there."

Fricke cautions that relocating and expanding companies need to be aware that the level and duration of stranded costs vary from state to state, and add that information to the site selection decision mix. "The key is to look not at the rates now, but at the political aspect. If your company wasn't in that state when the generator plant was built, you may question why you should pay for it. Everything is negotiable. You could write a clause in your contract saying stranded costs won't apply to you, and see if the utility accepts it."

More importantly, however, is the basic question of how and when a state will deregulate. "Each state is doing this at different levels with different sets of rules," Fricke points out. "Right now we're getting a patchwork quilt of energy deregulation." While energy consultants are aware of what's happening in each state, Fricke admits that if he could predict exactly how deregulation will play out in a particular state, "I'd be picking lottery numbers. It's a very big dollar issue for utilities, customers, and politicians - and they make strange bedfellows."

In this increasingly competitive market, he advises companies to devise plans on how they will make deregulation work for them. At the very least, "choose a state in which you can buy your energy from the same provider, whether you have plants in the same or in different states," Fricke suggests. "That's the real power of deregulation. By getting one power bill for all your plants, you'll be able to negotiate better terms."

Fricke predicts that someday soon the power industry will be capable of offering Internet access, cable TV, electricity, and natural gas services -- all on one bill - to businesses and consumers.

The Infant Cries of Future Bundled Services

Consultant Fricke's prediction may not be too far off the mark.

Take, for example, Williams, a $13.3 billion, 90-year-old firm based in Tulsa that offers natural gas, energy services, and communications. "Whether it's bits, bytes, barrels, or BTUs, we deliver that every day - and lots of it," says Jim Trebeck, vice president of Williams Customer Resources Group.

Trebeck's operation is charged with bringing together the service offerings of two of his company's three groups: energy services and communications. In 1985, the company turned idle pipelines into conduits for fiberoptic cable. Today that part of the business has evolved into one of the nation's largest fiberoptic networks, allowing Williams to offer such multimedia applications as video and the Internet.

Recently Williams made an investment in UtiliCom, a company located near Boston that helps utilities jump into the wired and wireless communications business utilizing their names as well as their own entrenched service and sales. Two Indiana utilities are among the first to get on board through UtiliCom; apparently more are likely to follow.

Trebeck tells a story about a Williams meeting, where representatives of more than 300 utility firms were asked if they wanted to get into another industry: communications. All hands shot up. However, only a few responded affirmatively that they had plans in place to do so. Trebeck warns businesses that in the future, "a lot of people will do reseller agreements to provide commodity. But who's going to be there if something goes wrong? The guy who sells at the lowest price or a company like Williams that can package different things together and bases its success on your company's success?" He contends that the power industry has much greater credibility than the cable TV industry, another contender in the bundled-services arena.

Pennsylvania Power & Light (PP&L) believes that one of the keys to success in a deregulated market will be its ability to offer diverse energy services for customers, especially commercial and industrial customers. The company's HVAC subsidiaries - H.T. Lyons, McClure Co. - have contributed to PP&L's ability to offer extensive services ranging from design and construction of energy systems to procurement of energy and on-site energy management. These branches, along with PP&L's natural gas and propane subsidiary, Penn Fuel Gas, position the utility to meet customer needs in a new marketplace.

PP&L has also built an energy-trading operating that is growing rapidly, trading electricity as well as natural gas and other fuels. Its energy marketing center is among the largest in the nation, doing business in 28 states and Canada. In addition, the company has global investments and commitments totaling about $2.3 billion in countries around the world, including the United Kingdom, Spain, Portugal, Chile, El Salvador, Argentina, Brazil, Peru, and Bolivia.

Money-Saving Strategies

New Energy Ventures (NEV) claims it has saved U.S. businesses millions of dollars on their' electricity bills since the advent of deregulation. This success has inspired the Los Angeles-- based firm to bill itself as "the single largest provider of inexpensive, deregulated power in America."

"We negotiate from the customer's side of the table," says Dave Potter, NEV manager of public relations. "This is done by signing a `shared savings' agreement, meaning our only fee is a percentage of the savings received from electric bills."

More and more, smaller companies are banding together to form larger buying groups in order to increase their negotiating power and obtain a lower price for electricity. "Many trade associations already do that," Potter points out. For example, the Pennsylvania Retailers Association, which represents 30,000 businesses, formed such a group with NEV. And in New York City, eight management groups representing huge blocks of property did the same thing.

Potter says many people don't realize that even in deregulated states, initially there will be a limited amount of competitive energy, and that typically it will be available on a first-come, first-- served basis. That situation will change as markets open up, he adds.

Green Power: A Growing Energy Choice

When a state deregulates, chances are that consumers will be able to sign up to buy the slightly more expensive but environmentally friendly "green power" generated by renewable sources.

In a deregulated market, Fricke says, utilities offering the green rate are tapping into an environmentally conscious market segment that is not overly price sensitive. When serving as CEO of Traverse City Light and Power in Michigan, his utility built

North America's largest wind turbine generator in 1996. To help cover costs, residential customers voluntarily paid a monthly premium of 23 percent, or an average of $7.50. Today there's a waiting list to get into the program.

Not all green power is expensive, Fricke says. In many cases, people who have chosen renewable power have less expensive bills than those buying traditional power from fossil fuels due to the availability of utility-grade, reliable wind turbines. He cautions, however, "Beware of some power marketers who say they're selling green power, but in reality are actually buying off the grid."

From a corporate standpoint, green power currently has limited applications. However, for businesses with environmentally concerned customers (i.e., manufacturers of outdoor equipment and clothing, natural food producers), it may be significant to their corporate image and therefore possibly impact profits.

Dr. Jan Hamrin is the executive director of the nonprofit Center for Resource Solutions (CRS) in San Francisco. "We provide [free] services of all types to companies interested in exploring cost-effective, environmentally friendly electric power," she explains. "We want all companies to think about their needs, but to `do no harm' at the minimum."

CRS has established the Green-e Renewable Electricity Program, which certifies electricity products as being environmentally friendly. According to the center, every state actively deregulating has contacted it for information and/or assistance.

"Companies are recognizing that the public cares about how they're behaving in the environmental area -- and that it's good business to be an environmentally good citizen," says Dr. Hamrin. In California, she cites Toyota and AirTouch Cellular as two companies that are buying large amounts of renewable power for their facilities.

Not only is buying green power the right thing to do, but it can be economically beneficial, too, Dr. Hamrin adds. "For instance, in deregulated markets most power comes from natural gas power generation. Power prices are low now, but if natural gas prices go up you'll see big spikes in that energy's costs. With renewable energy, capital costs are more, but most of the costs are fixed. So savings can be great when compared with concern over the long-- term variability of fluctuations in non--renewable-based power."

To obtain official Green-e certification, at least half the electricity in a provider's electric product has to be generated by solar, wind, water, biomass (i.e., landfill gas) and/or geothermal power. The remainder of the electricity has to generate lower air emissions.

California and Pennsylvania are great areas to find green power, Dr. Hamrin says, adding that by this spring the entire New England area will be another region embracing renewables.

The Impact of Deregulation on Ontario

In Ontario, Canada's most populated province, the utility industry is also experiencing restructuring resulting from deregulation, competition, and "open access" throughout various jurisdictions. Ninety-year-old Ontario Hydro is the largest utility company (in terms of capacity) in all of North America. It has served the province as an energy monopoly for generations.

All this will change in the year 2000, however, when competition is opened "on the generation side" at wholesale and consumer levels, according to Ahmed Mayeenuddin, Ontario Hydro's program manager for economic development.

Specifically, on June 9, 1998, the minister of energy, science, and technology introduced the Energy Competition Act, which when implemented will bring full competition to Ontario's electricity market. The measure reorganizes Ontario Hydro into two commercial corporations: the Ontario Electricity Generation Corporation and the Ontario Electric Services Corporation. It also sets up a new nonprofit crown corporation, the Independent Electricity Market Operator, to ensure reliable electricity supplies and fair access to this $10 billion consumer market.

Among the key goals of these new entities is the ability to "match competition, be market responsive, and be more customer focused," says Mayeenuddin. "We also want to increase our revenues and attempt to build brand equity in advance of open access.

Referring to the power of the global economy, Mayeenuddin cites technology as the major force behind these changes in his industry. "Competition will bring efficiency for the future," he maintains, "and will make Ontario competitive in future markets. Our prices are the lowest in the Great Lakes area."

NAFTA continues to influence the realignment of North American industrial facilities, according to Mayeenuddin. The treaty has deeply impacted Ontario, which he says represents 45 percent of Canada's industrial base and produces one-third of the autos in North America.

Deregulation also is helping forge more business-responsive economic development relationships in the province. For example, Ontario Hydro helped found Team

Ontario, which partners the utility company with promoters of various jurisdictions. Although "proactively marketed" economic development programs sponsored by utilities are the norm among U.S. utilities, they're a fairly new concept in Canada. Just a short four years ago Ontario Hydro became the first Canadian utility to start is own proactively marketed program, says Mayeenuddin; others have followed suit to match competition from the United States.

[Reference]

For more Information:

Energy & Management Services: 616-943-8058

[Reference]

Williams Customer Resources Group: 918-573-3774 or www.twc.com/crg

New Energy Ventures: 877-NEV-8900

Green-e Renewable Electricity: 888-63-GREEN or www.green-e.org

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Center for Energy Efficiency & Renewable Technologies: 916-442-7785

Utility Guide site: www.utilityguide.com

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