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# Deregulation gives companies choices, plus increased control

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With energy deregulation, companies have a relatively new decision to make that impacts the bottom line of their businesses — how to choose the best energy provider.

In making that decision, it is easy to either over-simplify or over-complicate the issue.

Those who over-simplify the issue tend to look at their utility bills as a cost over which neither they, nor their competitors, have much control. Many of these businesses choose to do nothing and stay with their incumbent provider. Over the long term, however, they may end up with higher energy costs.

Other companies over-complicate matters by constantly playing the market in an attempt to secure the absolute lowest price for power, spending time on choosing a provider that might be better spent on focusing on their core competencies.

A company may beat the market and pay less than expected for power, but the chances of this happening year after year are not certain. Plus, sometimes the lowest cost means businesses get what they pay for: less customer service, less innovation and less stability.

However, companies do have choices — and that means control. Given that energy is a significant cost component for most businesses, they should approach energy management with a heightened focus in order to assure their competitiveness.

## Assessing and managing risk

To be in a position to choose the best energy provider, a company needs to quantify the current amount of risk associated with energy purchases versus acceptable tolerance.

Making decisions about buying power is not unlike making decisions about investing for retirement — it's all about determining how much risk to accept so that, at the end of the day, the company still has revenue gains.

To assess a company's ideal risk tolerance, it is necessary to understand the risks to which the company is currently exposed in connection with its energy purchases.

"Company ABC" might consume an average of "X" number of megawatt-hours in a year at a cost of $1 million. However, depending on the location of the company's facilities and certain usage factors, the actual cost incurred could vary significantly — this consumer's electricity bill could range from $800,000 to $1.25 million.

If potential variation is acceptable and fits with the company's current business plan — profits have not been impacted by sudden jumps in power costs due to additional revenue streams or other factors — then "Company ABC" may choose to stay with its current program for electricity purchases.

However, in looking at its budget history, if there is a trend of lost or decreased profits when the cost of energy increases temporarily, then the company may prefer to gain more control over its energy costs so that it doesn't impact the bottom line so drastically and unpredictably.

For example, a grocery store chain might not consume as much power as an aluminum smelting plant, but the grocery store's razor-thin operating margins mean a sharp rise in power costs could spell the difference between meeting and missing revenue targets.

## Fixed price

For companies that wish to control their electricity bills, a price can be "fixed" for a set contract term, thus ensuring budget certainty. However, since the provider is assuming cost risk (if the cost of power increases above what the customer is paying the provider) the company will pay a risk "premium" as part of the fixed price.

A good provider will ensure this option is explained in detail so the buyer knows what he is getting, which mainly is cost certainty.

## Indexed price

At the other end of the risk spectrum, some companies may wish to buy variable priced energy that tracks to a published index. This arrangement results in a market-based cost and takes advantage of market dips — and endures market hikes — in price.

Of course, there are a myriad of other possible pricing structures between the extremes of fixed and indexed. Many companies like to dampen the effects of volatility by purchasing a combination of fixed and index, not unlike the strategy employed to diversify a stock portfolio.

A quality supplier will be able to provide a variety of options that can meet the needs of a particular business.

## Taking control

Choosing the right energy product for a business can result in lower, more predictable energy bills.

With the help of a qualified and knowledgeable energy provider, any company can take control of its energy bills to reduce costs, manage a budget and meet business goals. A quality supplier will not only have a wide selection of power products to meet the specific needs of any business, but it will also be committed to working with its customers to find the right product for each of them, and to provide relevant information as the market changes.

The final part of the process is a periodic reassessment of the energy purchases being made by a company as the power market and the overall business environment change, to insure that the program is still appropriate. A good energy provider can add value by not only offering many different types of products to meet the company's strategic goals, but also by offering ongoing support to stay abreast of these changes.

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