

Utility Bills: Opportunities To Pay Less And Add Monthly Revenue

by HANS HERRMANN - C2 Intl.

In a monthly basis, many associations spend a significant amount on utility bills.

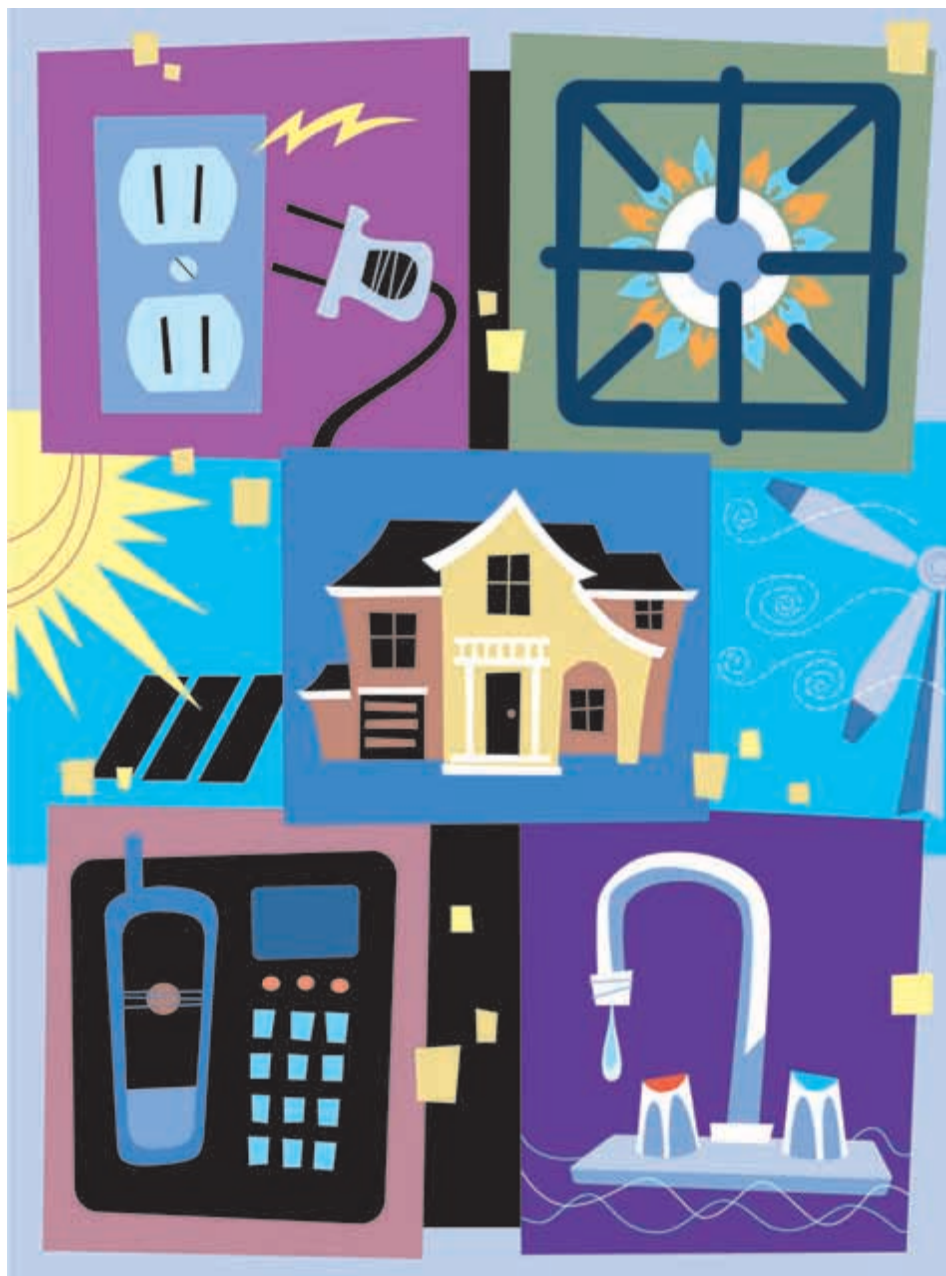
Considering the range of energy supply prices over the last four years (natural gas has ranged from \$.38 to \$1.248 per therm and electricity \$28.78 to \$103.42 per megawatt-hour as reported on the Nymex for Henry Hub gas and PJM electricity), a number of questions come to mind:

- With ComEd's price increasing 5% to 80% depending on your building's load factor - how do you contain, reduce and control your electric costs?
- With record high gas prices last winter and prices remaining high - what strategic options can help cut and control these costs?
- What indicators can you track to gain some sense of market direction?
- For what other services can you find savings?
- Is there an opportunity to generate income on your assets?

Let's look at some ways to not only lower monthly utility bills but also create ways in which associations have an opportunity to receive monthly revenue and potentially lower electric bills for individual unit residents.

What indicators can you track to gain some sense of market direction?

Watch natural gas futures market for electricity and natural gas trends. There is a very strong correlation between the wholesale natural gas and electricity prices. Most of the



newer power plants and peaking units burn natural gas so rising natural gas prices will make electricity prices also rise. Conversely, a hot summer requiring a lot of air conditioning will increase the demand for

natural gas for power generation and impact costs of natural gas.

Gas going into storage during the summer is also a critical factor that impacts the costs of natural gas on

the futures market and electricity. Gas is injected into storage caverns around the country during April through October to help reduce any pipeline capacity issues locally during critical heating days.

You can receive a free daily Nymex settlement report and a weekly storage report and electric summary by simply contacting C2 to be put on the subscription list.

Natural Gas - There's No Typical Solution

Because of the many differences between properties, there is not a "one fits all" solution. Many variables impact the costs and the options available to an association:

- Size of the property
- Monthly and annual consumption
- Rate option based on usage

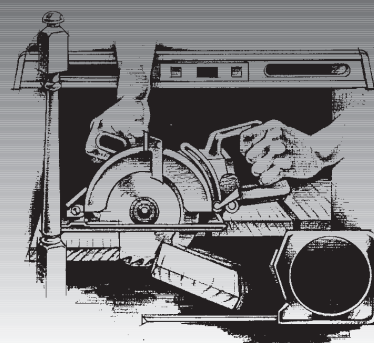
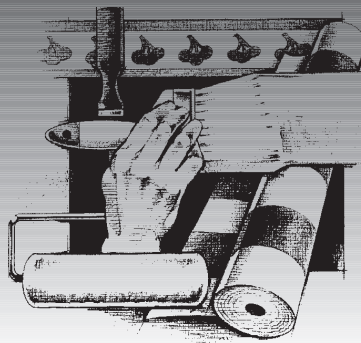
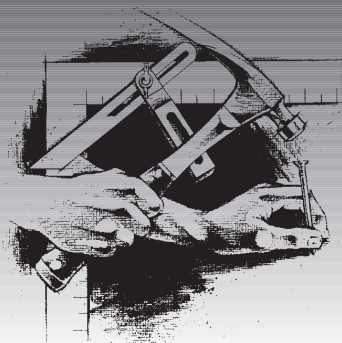
Some properties use over 1,000,000 therms a year and some properties as little as 10,000 therms a year. Associations may pay 6 cents per therm more than properties of similar size and usage. Some properties have

contracts over 5 years old that continue to automatically renew. Some associations were "locked in" for 12 months at prices that were not favorable, others float on index. Some properties take advantage of summer storage; others would save .02 a therm if they were in a storage program.

Peoples Gas will always deliver the gas in Chicago and on the North Shore. Nicor will always deliver the gas in the suburbs. They receive their compensation for delivery and reading the meter. Condominium associations should pay the least amount possible for the commodity, avoid using certain "problem" suppliers, and pursue a strategy that maximizes the benefits of their usage patterns. Several critical steps to take are:

- Review your current bill from the utility and the supplier's bill if you have chosen an alternative supplier.
- A copy of their contract is also needed.
- Get a usage history to see your consumption pattern.
- Review the applicable rates and tariffs to optimize savings.
- Develop a procurement strategy to control budgets and minimize risk volatility.

COMMERCIAL & RESIDENTIAL REMODELING IS OUR SPECIALTY



TCC

TESSLER CONSTRUCTION COMPANY, INC.

COMMERCIAL-RESIDENTIAL

EXCELLENCE IN QUALITY & SERVICE

Office: 815-356-9910 Fax: 815-356-9912 Web: www.tesslerinc.com

- Get all contracts to terminate at the end of March because this maximizes the choices in supplier options, rate changes, and is prior to the beginning of the injection season.
- Track all contracts including start dates, end dates and renewal or cancellation windows for each facility so contracts do not auto renew.
- Review your options and define your strategy - It will usually include a variable rate that reacts to weather and storage for near term months, energy insurance or hedging of part of your load to protect against a price run up, and sometimes gas storage and its potential benefits.

Electricity - Costs Are Up, Let's Minimize The Increase

Beginning in January of 2007, the energy (kWh) costs were to escalate by 20-25% for most properties but nearly 80% for some of the larger users depending on load profile. Electricity has become a commodity, very similar to the natural gas market in Illinois. ComEd now will receive its income for delivery of electricity only and will charge customers the price that it pays for the electricity for those choosing to stay with ComEd. The prices that ComEd charges for power were set during the auction in September 06.

There are numerous options for alternative suppliers and the majority of properties will be able to save money by leaving ComEd. Typical savings range from 5% to 45% depending on your customer class and load profile. Since virtually every alternative supplier will offer to provide electricity at less than the new ComEd prices, the dilemma facing boards will be comparing the price offers they receive and what do they really include! The alternative suppliers will show projected savings but many suppliers do not fix a number of components which can leave you exposed to price increase that you did not expect.

The basic components from a supplier are: Energy supply (S), line losses (L), ancillary charges (A), capacity (C) and transmission service charge (TSC). All of these components can be fixed but many suppliers fix only part of them and say they will pass through the other charges. The acronym for these components is SLAC TSC. This can create some issues to be careful of: One supplier made a proposal that seemed lower than a competitor due to their capacity charge but when reviewed the "pass-thru" estimate was based on current costs while the other quote was fixing the cost based on the rate change at PJM (transmission grid) starting next spring. The supplier had a clause in its contract that



PROVIDING INSURANCE AND RISK MANAGEMENT PROGRAMS FOR CONDOMINIUMS AND COOPERATIVES.

We know the challenges you face in securing and maintaining a comprehensive, cost-effective insurance program. With a service team that includes specialists in program design, risk transfer and loss control, claims management and technology, we are able to customize an insurance and risk management program designed to protect your assets and attain your goals.

Our Condominium/Cooperative Risk Management Practice specializes in providing coverage for:

- Homeowner associations
- Owners
- Property managers
- Developers
- Facility managers

Visit our Web site for further information.
www.mesirowfinancial.com/condos

Member of Mesirow Financial Group, Inc.

Nancy Ayers, CPCU, CIC
 Managing Director
 312-595-8135
 nayers@mesirowfinancial.com
 321 N. Clark St., Chicago, IL 60610



PENLAND | HARTWELL

Penland & Hartwell LLC
 Attorneys at Law

Suite 1515
 One North LaSalle Street
 Chicago, IL 60602
 T. 312.578.5610
 F. 312.578.5640

Kathleen A. Penland
 kpenland@penhart.com

David C. Hartwell
 dhartwell@penhart.com

**Representing Condominium Associations,
 Homeowner Associations and Cooperatives**

The Right Insurance For Community Living



Whether your community association is single family, townhome, mid-rise or high-rise, Hollinger Services will provide an insurance plan to meet your community's needs.



Property • Casualty • Employee Benefits • Workers Compensation
220 S. Lively Blvd., Elk Grove Village, IL 60007
Ph: 847-439-4072 • 800-780-2922 • Fax: 847-437-2189
www.hollingerinsurance.com

CRITERIUM COLLINS ARCHITECTS & ENGINEERS INC.

We Specialize in Buildings —
Over 25 yr. experience in providing practical
solutions vital to property acquisition
and management

Our Services include:

- Architectural Designs
- Investigation & Condition Surveys
- Design Repair & Specifications
- Construction Administration
- Ordinance & Code Compliance Reports
- Maintenance Procedure Review
- Reserve Studies

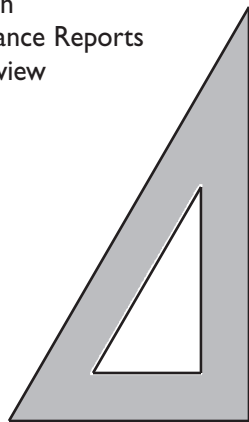
Contact us at:

708/848-0832
ccane@sbcglobal.net

or

Visit us at:

www.criteriumcollins.com



would allow it to hit you with this price increase of which they were well aware. How can you be expected to know of a change at PJM next spring and the impact it will have? Let the buyer beware. Be careful that all offers are comparable. Be sure that you understand the components of an offer and the impact that they will have. For example, an offer with zero swing or bandwidth (how much for a month - over or under your usage was compared to historical levels - this is then charged a market rate) and without fixed variables, can leave the customer exposed to costs changes that could have been controlled or mitigated. Be sure that you check the information provided and its consequences. For example, a change from space heat to general service could cause skyrocketing costs, in your case.

As a consultant, C2 reviews a 24 month history of the usage at a property, solicits bids from 6 - 8 providers, prepares a spreadsheet comparing offers and then presents the best offer to the board for their consideration including the pluses and minuses of contracts and pricing. Properties are very different in their usage of electricity and that makes for the difference in the quotes they get from alternative providers. Pricing from providers is based not only on the amount of electricity used, but by time of day, peak demand, consistency of usage and customer class, etc. Associations need to make sure how the alternative provider's quote addresses usage during the contract term if usage is less or more than its historical monthly usage.

Telephone Costs - Usually Not A Big Expense, But Why Spend More Than Necessary

Interestingly, this is one monthly bill that can be reduced with a little effort. Large associations, that have on-site management offices, can pay a significant amount for their monthly phone bills. Even smaller associations, that have no on-site office, pay for phone lines that are connected to their intercom systems. In examining phone bills, it is not uncommon to see charges from the existing phone company for local calls in excess of .05 per minute and fees over \$35.00 a month or more just for the privilege of having a long distance provider. Many associations have CRAM on their bills, which are charges for services that haven't been ordered, that don't exist and can add as little as \$4.99 per month to more than \$29 a month. After analysis of the local and long distance phone bill, some boards tweak their bill and save \$25.00 a month, others have changed their billing to reflect \$250.00 a month in savings.