Tips for Developing an Effective Energy Risk Management Strategy for Your Organization

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While electricity deregulation officially becomes a reality for only 500 of the area's largest industrial and commercial users this coming July, it will soon thereafter also be a reality for all of the area's other energy users.

This transition to an open market for purchasing electricity will be made most successfully by those who prepare, plan and become knowledgeable about the energy needs of their organization and their options for meeting them.

The following tips should be useful in helping to analyze and develop an energy strategy as a first step in preparing for deregulation:

1. **Understand Your Current Load---**Analyze the overall electricity usage of your organization, including usage variances in time of day, day of the week, weeks of the month and also seasonality differences, and understand the significance of these variances, i.e., production cycles, hours of operation, maintenance schedules.

2. **Include Future Expansion/Contraction Plans—**Is your firm planning to expand its physical plant in the near future? Or consolidating operations into one smaller section of the facility? These types of scenarios will impact future electricity loads and should be considered in developing the energy risk management strategy.

3. **Decide In-House/Outsource Responsibility---**Who in the organization is best qualified to handle the new and added responsibilities of energy procurement in a commodity market? Should it be the CFO? Operations or Manufacturing VP's? Or should it be outsourced to a specialist as organizations outsource other professional services such as legal, accounting, and employee benefits? An important benefit to outsourcing energy procurement is securing a lower usage rate as a result of being part of a larger, aggregated energy load that provides a strong position from which to bargain.

4. **Flexibility and Risk Tolerance—**These are two strong considerations in devising an investment strategy and they should also be the foundation of the development of an energy strategy. The key question to answer is how does will your organization manage energy procurement—actively or passively? The answer will be a strong determiner of the organization's energy strategy.

5. **Develop an Energy Tool Purchase Portfolio---**The advent of electricity deregulation provides an array of options and opportunities that potentially can have a far reaching and positive impact on your organization beyond the obvious cost considerations. For example, basic portfolio components to consider are: **a)** long term contracts for base load power needs; **b)** short term contracts for the intermediate portion of your particular load curve; **c)** spot market purchase for the peak loads; **d)** electricity futures; **e)** fuel contract options: **f)** installation of peak shaving and/or stand-by power generation for reliability and cost control. Through a combination of these components, an electric procurements strategy can be developed that can cap your purchase costs and provide the flexibility that your organization requires.

Paying careful attention to these five elements should help to create an energy strategy that is based on the short term and long range energy needs of the organization and that respects the management and values of the corporation while also adhering to the bottom line realities of a changing marketplace.