

Power Up

By Dana A. LeSage

Reprinted with permission from the May/June 2020 issue of *Common Ground™* magazine, the flagship publication of Community Associations Institute (CAI). www.caionline.org/cg

ENERGY COSTS for condominium associations can be significant, the universe of energy suppliers, brokers, and consultants is large, and the contracts are lengthy and confusing. Board members and community association managers face a daunting task negotiating electricity or natural gas contracts. Electricity, in particular, is a complicated market with multiple underlying cost components.

How can someone who is only briefly engaged in the energy markets every couple of years make a wise decision?

First, determine your options. Condominiums may have the opportunity to reduce and manage their residents' energy costs, but that depends on location. Many states have consumer choice laws where electricity and gas supply may be contracted with a third party rather than purchased from the utility company. Cost will depend on the particular utility rules as well. When in doubt, a quick visit to your local utility company's website should indicate whether you can purchase your energy from a third-party supplier.

Second, consider the metering setup. If a condominium has consumer choice for its energy supply, the association's involvement would depend on how the electricity or natural gas is metered. Sometimes each individual unit has a utility meter, so residents are directly responsible for their energy purchase and usage. However, often there is a master meter with the condominium as the customer, and the association must then allocate and recover the energy cost from residents. There also may be common areas for which costs must be allocated.

In this scenario, it makes sense for associations and owners to contract for a low and stable energy rate to benefit residents. In many areas, the utility supply cost is volatile, changing on a monthly or quarterly basis. Contracting for third-party supply can help secure a good rate for a multiple year term, leading to budget stability.

For any energy buyer who does not have extensive and ongoing experience in the markets, dealing directly with energy suppliers typically isn't wise. You need a detailed industry understanding to accurately compare multiple offers from suppliers because they are rarely on a comparable basis. You also need to understand the contract language to avoid potential surprise "pass-thru" costs and other issues during the contract term. What you don't understand can hurt you.

In addition, simply doing repeated contract renewals with a supplier without a competitive bid process is a recipe for overpaying. Suppliers periodically rotate in and out of price competitiveness; you have to be in the market regularly running a bid process to know which suppliers are currently most competitive. Also, suppliers that successfully build an ongoing relationship with a buyer are very likely jacking up their margin as they gain that relationship, leading to higher costs for you.

A good alternative to working directly with a supplier is hiring a trustworthy energy consultant or broker, who can offer condominium boards and managers the following help:

Provides a detailed contract. A qualified consultant will offer a written agreement that will specify the services to be provided and not lock up the customer beyond the term of any supplier agreement that has been brokered. The consultant should disclose their fee, which is built into the supply contract price. If you have chosen to pay them directly for their service, they should confirm in writing that there is no additional fee built into the supply price. This is important: If the consultant will not disclose their fee in writing or tries to convince you they are working for free, go elsewhere. Feel free to confirm with the supplier that the fee is what was disclosed by the consultant.

Obtains competitive bids. The ideal consultant will have established relationships with multiple high-quality suppliers to generate competition for your condominium and will screen out problematic providers. The suppliers understand that low price wins through the consultant channel.

Knows their role. Never do business with a consultant who asks you to sign an agreement giving them the ability to execute a supplier contract on your behalf. Unfortunately, there are examples of customers not being provided a copy of the supply contract for which they were legally responsible.

Understands the energy markets. An experienced consultant will have insights both as a supplier and an energy buyer and be able to clearly explain energy contracts, the differences between supplier offers, and the real-world impact to you, the end user. They will be able to explain different types of product structures and the pros and cons for your association. In addition, they will present market opportunities and explain the market position with potential upsides and downsides, without urgently pushing you to sign a contract by promoting fear that a price rise is imminent.

Is present throughout the process. Last but not least, a good consultant will work on your behalf throughout the contract terms to deal with any questions or billing issues. He or she will not disappear until the next renewal time. Having a good energy consultant should be like having a part-time energy manager without the payroll expense. If it's not, then it's time to move on.

Dana A. LeSage is a licensed professional engineer and principal of Berkshire Energy Partners, an energy consulting and brokerage firm. www.berkshireep.com

©Community Associations Institute. Further reproduction and distribution is prohibited without written consent. For reprints, go to www.caionline.org/reprints. CAI is the world's leading provider of resources and information for homeowners, volunteer board leaders, professional managers, and business professionals in community associations, condominiums, and co-ops. Visit us at www.caionline.org and follow us on Twitter and Facebook @CAISocial.