



# What Energy Suppliers and Brokers do not want you to know (Electric)

## Part 2

# About Us

- E-Quantum Consulting Founded in 2011
- Provide the Energy Buyer Information
- **Independent** Consultants
- Higher Education Partners



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# Summary of Part 1

- Different energy purchasing channels and Brokers conflict of interest
- How to ID a Broker
- Brokers and Retail Suppliers behind the scenes relationships
- Avoid Brokers
  - No Competition
  - No Transparency
  - Higher Cost
  - Unknowingly participating in a Monopoly



Do you understand your  
energy supplier's contract  
structure?

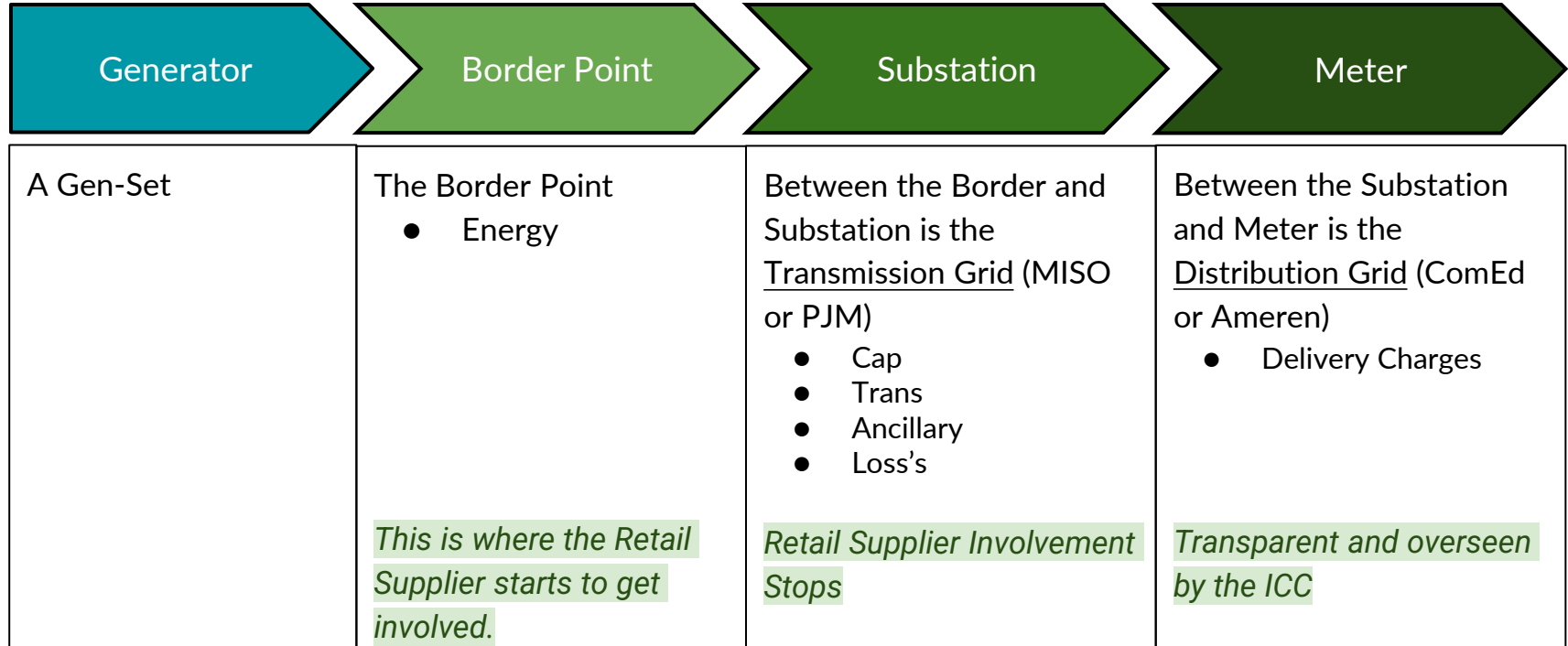
# Things to Consider

- Retail Energy Suppliers are not Utility Companies
- Energy is the 3rd Largest expense in running an organization
- When you purchase yours, does it feel like the deck is stacked against you?

# Agenda for Part 2

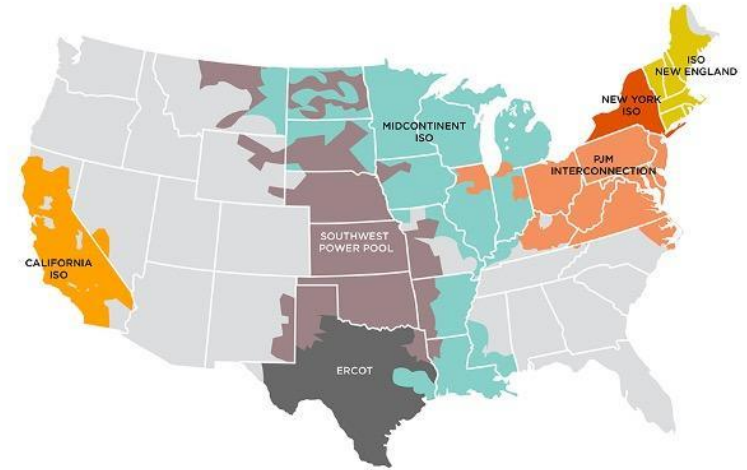
- How a properly structured Electric Contract should be set up
- How the Supplier/Broker would like to structure it to maximize their profits
- Purchasing Best Practices & Next Steps

# The Electric Grid



# The Transmission Grid

- Regional Transmission Organizations (MISO & PJM)
- Tariffs are approved by the FERC
- Tariff the says how they can charge the **Suppliers** for
  - Capacity
  - Transmission
  - Ancillary
  - Loss's





# Things to keep in mind:



## The Retail Electric Supplier:

- Is under no obligation to pass through to you, in the manner they are charged, the Transmission Components
- Has no oversight into how they structure their Retail Contract
- Their job is to maximize the margin for their stakeholders. This comes at your expense
- Is NOT a Utility Company, this is why you have a **Retail Contract**

# IMPORTANT NOTE:

- Before discussing Price, with any Retail Supplier, you must understand the contract that goes with what they are offering.
- This Contract determines how you are billed and what risks you are assuming. This is where the rubber meets the road

# How should a Retail Electric Contract be set up

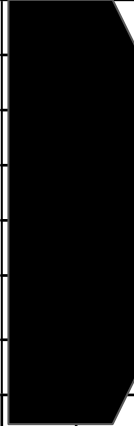


Cost Component	Unit		
Energy	kWh		<b>ENERGY</b> is the commodity traded on the open market and is the only item Suppliers should be allowed to add a competitive margin to
Capacity	kW		<b>CAP &amp; TRANS</b> need to be accurately derived from the Regional Transmission Operators Tariff Rates and PLC's and billed to you using the Tariff Formula
Transmission	kW		
Losses	kWh		<b>LOSSES</b> need to be correctly tied back to the RTO & Local Utility ratebook
Ancillary	kWh		
ARR/ML Credits	kWh		<b>ANCILLARIES and CREDITS</b> differ slightly by Supplier but needs to be examined for accuracy
RECS	kWh		
			<b>RENEWABLE ENERGY CERTIFICATES (REC's)</b> can be optionally bid and purchased through a Supplier

# Bundled Rates

*a.k.a. “all inclusive” rate*

# Bundled Rate Explained

Cost Component	Unit		
Energy	kWh		
Capacity	kW		
Transmission	kW		
Losses	kWh		
Ancillary	kWh		
ARR/ML Credits	kWh		
RECS	kWh		

Bundled All-Inclusive “Fixed” \$/kWh

# Problems with “Bundled Fixed Rate”

- Deviates from Tariff
- Unfair risk exposure
- All Cost are now unknown
- “Fixed” is a Lie

# “Fixed” is a Lie

## Example 1



RMR Costs are also included in the contract prices. Except in the case of Transmission Costs, all other costs listed above as "Fixed" may be subject to change if there is a change in law, as described in Section 5 of the General Terms and Conditions below. Notwithstanding any notation of Capacity Costs as "Fixed" or "Pass Through" herein, Capacity Performance Costs (defined below) shall be passed through to you to the extent applicable during the term of this Agreement.



# “Fixed” is a Lie

## Change in Law

**5. Changes in law.** We may pass through or allocate, as the case may be, to you any increase or decrease in our costs related to the electricity and related products and services sold to you that results from the implementation of new, or changes (including changes to formula rate calculations) to existing, Laws, or other requirements or changes in administration or interpretation of Laws or other requirements. “Law” means any law, rule, regulation, ordinance, statute, judicial decision, administrative order, ISO business practices or protocol, UDC or ISO tariff, rule of any commission or agency with jurisdiction in the state in which the Accounts are located. Such additional amounts will be included in subsequent invoices to you. The changes described in this Section may change any or all of the charges described in this Agreement, whether described as “fixed,” “variable,” “pass-through” or otherwise. Your first bill reflecting increased costs will include a bill insert describing the increase in costs in reasonable detail.





# “Fixed” is a Lie

## Example 2



Also, if Buyer has a change in usage of 25% or more for its Facilities, may pass through the resulting cost increases to Buyer. If elects to pass through such cost increases, will calculate the amount of such costs in a commercially reasonable manner and submit an invoice to Buyer, which invoice will be due and payable pursuant to the payment terms of this Agreement.



# “Fixed” is a Lie

## Example 3



### SECTION 5a: Variations

**5a.1 Changes in Law.** If a Change in Law occurs, Supplier may pass through any associated costs or credits to the Customer without markup.

**5a.2 Material Change.** Supplier reserves the right to pass through any additional costs incurred by Supplier as a result of Material Change to the Customer without markup.



# Risk Exposure to UPCHARGES



## Example 1

February 2, 2017 to March 2, 2017

Fixed Price - 1,392,438.4637 kWh Total @ \$0.05996/kWh

\$83,490.61

Transmission Adjustment - 1,392,438.4637 kWh Total @ \$0.002672/kWh

\$3,720.60



# Risk Exposure to UPCHARGES



## Example 2

### Payments and Adjustments

<u>NITS Adjustment Debit on 01/30/17 February 2017</u>	\$1,588.02
NITS Rate Adjustment.....	
<u>Capacity Adjustment Debit on 01/30/17 February</u>	\$3,315.88
2017 Capacity Rate Adjustment.....	
NITS Adjustment Debit on 01/30/17 January 2017	\$1,758.17
NITS Rate Adjustment.....	



# Risk Exposure to UPCHARGES



## Example 3

Fixed Price - 3,704,080.7002 kWh Total @ \$0.001604/kWh	\$5,941.35
<u>Transmission Adjustment</u> - 3,704,080.7002 kWh Total @ \$0.001604/kWh	\$5,941.35
Current Actual Charges	\$205,813.54



# Risk Exposure to UPCHARGES



Should you also see Credits?...Nope....Don't forget the word "May"

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# Bundled Rates (All-inclusive) Summary

1. Are not “Fixed”
2. Offer a higher risk to the Buyer while removing risk from the Supplier
3. Bundled Rates allow the Supplier to collect a higher Margin at your expense.

**This is how the Supplier/Broker would like to set up your contract!**

# Some of you may be asking

Why would the Broker push this kind of contract?

- Easier to build in a large fee into a bigger number
- Looks simpler, and the simpler it looks the less questions are asked
- The less questions that are asked the less the buyer knows.

Remember: the Brokers work for themselves and the Supplier, not you.



# Watch for Variations

Cost Component	Unit		
Energy	kWh		
Capacity	kWh		
Transmission	kWh		
Losses	kWh		
Ancillary	kWh		
ARR/ML Credits	kWh		
RECS	kWh		

When you start asking questions, the Supplier/Broker may present something that looks like this. Notice Cap and Trans are not kW.

# Agenda for Part 2

- How to properly structure your Electric Contract
- How Suppliers/Brokers would like to structure it to maximize their profits
- Purchasing Best Practices & Next Steps

# Best Practices

**Retail Gas and Electric  
Suppliers**



**Utility Companies**

# Best Practices

- Understand your Contract Structure
- ID Brokers
- Understand your Regional Transmission Tariff

# Next Steps

- How to properly structure Natural Gas Contract so the Supplier cannot take advantage. Again this is the single most important aspect, even before price.
- The pros and cons of the various ways to shop for a retail contract (online auction, direct request for proposal, etc).
- Electric Demand Response Programs.
- Much more...



# Questions?