

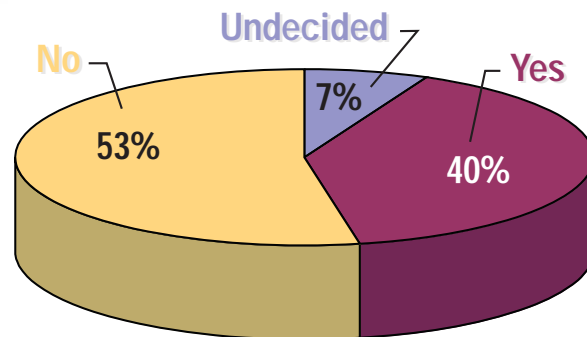
ENERGY & POWER

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What You Want

Energy and Power Management survey shows relationships, supplier reputation top reasons for switching to new electricity supplier

BY KEVIN HESLIN

Energy managers who reported switching to a new supplier.

Price is important but relationships with electricity suppliers and the suppliers' reputations were the primary reasons influencing companies to switch electricity suppliers after their markets became deregulated, according to a recent survey of Energy and Power Management subscribers.

In the survey, 87% of respondents also ranked financial stability and superior customer service as the most important attributes in selecting an energy supplier. Least important among the attributes surveyed was for the supplier to have a strong local presence, but it's still a factor.

"People understand that energy has become a global business, with supply and demand and various geopolitical and climatological events causing increased volatility," said J.D. Burrows, vice president of marketing, SUEZ Energy Resources NA, the U.S. retail energy business unit of SUEZ Energy, one of the world's largest energy companies with annual revenues exceeding \$24 billion.

The survey showed that deregulation was causing an expected churn in the marketplace, with 40% of respondents saying their companies switched to a new electricity supplier after

their markets became deregulated. However, very few respondents indicated they had specialized knowledge to make energy decisions, since nearly 80% of the respondents spend less

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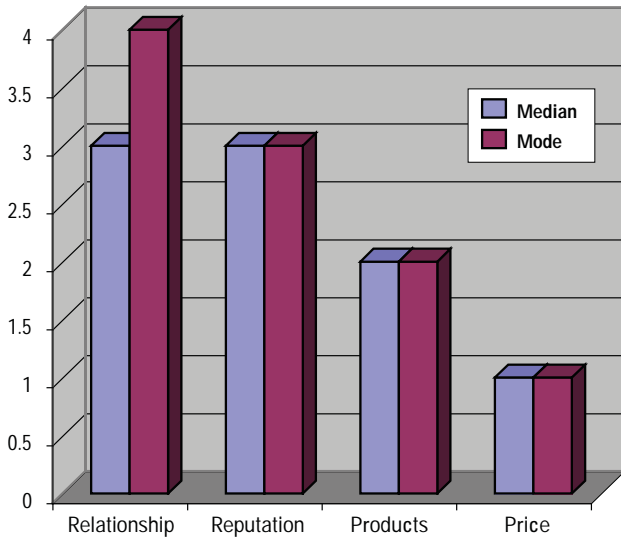
than 20% of their time on electricity procurement and management.

So it should come as no surprise that respondents substantiated the need for energy consultants, either from aggregators, brokers, or consultants (ABCs), or from energy suppliers that offer consulting services. Nearly 80% of respondents value working with ABCs to help them with energy purchase decisions, because these individuals possess additional knowledge and skills.

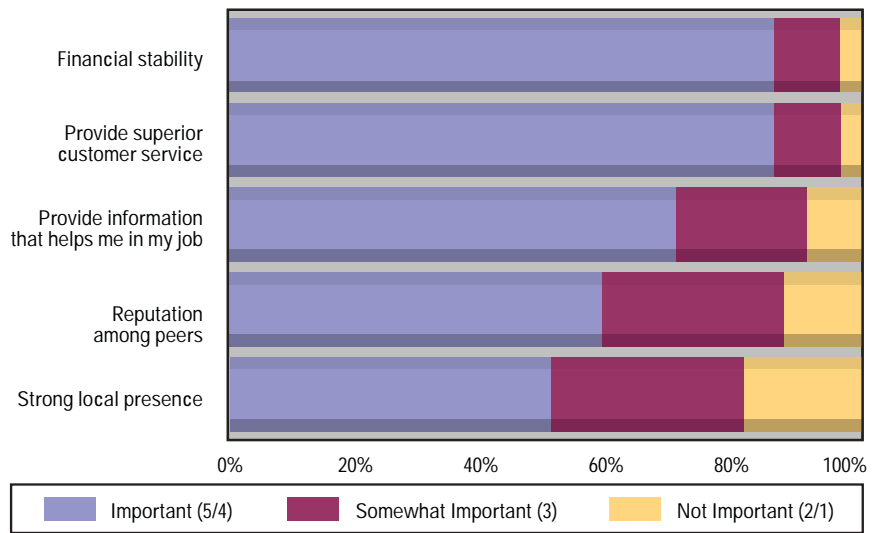
"We're learning more about the real reasons companies become motivated to switch electricity suppliers," said Burrows, noting that several national energy suppliers like SUEZ Energy offer expertise and insight in addition to energy supply. "While lower pricing is important, it confirms that personal relationships and a supplier's financial stability go farther in influencing a decision to switch. It is surprising, however, that these respondents spend a relatively small amount of time on electricity procurement and management—especially when considering the percentage of companies that actually switched suppliers."

Contrary to popular belief that customers only seek out the lowest rates, the survey showed pricing and product choice to be among the lowest-ranking reasons for switching suppliers. On a four-point scale, price and product both attained median scores of two while reputation and relationship each rated three. While price actually ranked at the bottom of the deciding factors to make a switch to a new electrical supplier, the survey found that lower prices could entice companies to consider a switch even if they were satisfied with their current supplier. The survey found that more

What You Want



Median and mode results when energy managers discussed factors that would lead them to change energy suppliers.



Energy managers include all these factors when choosing an energy supplier.

than two-thirds of decision-makers would consider switching from a satisfactory incumbent electricity provider if they could save at least 15% on their energy costs. Thirty-five percent of those responding said they would consider switching if they could save at least 9%.

“What this survey confirms is that price savings might get companies looking for a ‘deal,’ but relationships and reputation is what makes a customer,” said Burrows. “Deregulation allows companies to compete on a level playing field, and competition means the customer has the opportunity to save money.”

Two-thirds of respondents who were asked about management involvement said their companies’ senior management views the energy procurement process about the same as other supply chains. Further, 96% of respondents said these senior managers’ roles in energy procurement decisions were expected to either grow or remain unchanged for the coming year.

“Energy is certainly becoming a growing, not diminishing, field of concern for senior management of most companies,” said Burrows. “The increased complexity of having open, deregulated markets, combined with uncertain market fundamentals, unprecedented hot weather, and global supply/demand imbalance, means that making strategic decisions about power will become much more important in the future.”

In terms of job functions, engineering and facilities titles were the most represented among the respondents, with 29 and 26% respectively identifying with these functional categories. The annual electricity spent among the respondents was a mix of small and large end users. About 30% said their organizations spend less than \$250,000 annually, while 43% said they oversee annual power contracts of

more than \$1 million.

The majority (65%) said that a formal RFP process is used to select an electricity supplier, but 49% said they didn’t personally believe this was the best approach. Nearly 80% said that there is no limit on the number of suppliers that are invited to the bid process. However, as a rule, four or five suppliers was mentioned as the

To beat the incumbent advantage, a competitive provider must be hitting on all cylinders.

ideal pool size. A strong 76% said that they don’t expect this number to change in the future.

The respondents were asked to explain why they recommend or select certain retail providers. This question attempted to map the competitive landscape and see if suppliers “own” certain attributes. Sempra Energy Solutions, ConEd Solutions, and Direct Energy shared the highest tallies for “name recognition.” TXU and Strategic Energy shared the top spot in “reputation among peers.” Tractebel Energy Services, now SUEZ Energy Resources, was at the top when it comes to “past experience.” Select Energy owned the category called “management quality.” Strategic Energy was at the top when it came to “financial performance.” And SUEZ Energy Resources was ahead of the pack in the category of “low price.”

These results show how competitive and diverse the marketplace is, said Burrows. “There is no clear leader across the board. It often depends on the unique business model and situa-

tion of the client. This is part of what makes the decision process so challenging. This survey compliments others we’ve seen where even the highest name recognition for retail electric providers other than local affiliates rarely tops 20% in a geographic market.”

More than half of the respondents feel that local community ties make it hard for their organizations to switch from a local incumbent or affiliate to a new supplier. One can’t discount the powerful advantage of being the only electric company in town for decades, not just for businesses, but for the homes of business decision makers also, adds Burrows. “In recent weeks, several geographic markets in the U.S. saw large numbers of commercial and industrial customers return to their local utilities after extreme market conditions erased the price advantage of competitive retail providers. Also, it looks like only about half of the top 10 retail providers actually increased their load during the last quarter. To beat the incumbent advantage, a competitive provider must be hitting on all cylinders.”

When it comes to other products and services that electricity decision-makers are concerned with, several answers scored 40 percent or better. These include water and waste disposal services, security, distributed generation, standby power systems, and natural gas.

The survey of 5,100 Energy and Power Management subscribers in 13 states was conducted in the spring of 2005 to better understand the opinions and preferences of industry decision-makers concerning the procurement and use of energy. States that were represented included Texas, New York, New Jersey, Illinois, Pennsylvania, Michigan, Ohio, Maine, Washington DC, Connecticut, Maryland, Massachusetts, and Virginia. [e&pm](#)