



# Take Charge of Energy Spending

HOW ENERGY PROCUREMENT SERVICES CAN HELP YOUR COMPANY GET THE BEST VALUE IN ENERGY SERVICES CONTRACTS



“ Negotiate more favorable energy contracts, understand the complexities of the energy market, and make better, more informed energy-buying decisions.”



When it comes to buying electricity, many companies with large power consumption needs are “price takers.” They don’t have the market experience or the time necessary to understand the ins and outs of energy procurement, or the terms of their power contract, or how energy market trends affect the prices they pay. So, they often take whatever deal an electrical retailer offers them, without questioning if the pricing, terms, and timing are right for their business and its goals.

Companies often have a “fix it and forget it” mindset for buying electrical power. It’s something they handle once a year, or every few years, when they receive a 90-day contract renewal notice from their electrical provider. Often, the company procurement team handles buying electricity, and lumps it in with other property management services, such as water and sewer, janitorial, and landscaping.

If your company has a large energy use and budget, an energy procurement specialist can help you to take a more proactive and strategic approach to buying energy. They can help you to negotiate more favorable energy contracts, understand the complexities of the energy market, and make better, more informed energy buying decisions.

## DO YOU NEED ENERGY PROCUREMENT SERVICES?

Many types of companies can benefit from energy procurement services. These include:

- Fortune 1000 companies with multiple business locations
- Office realtors with multiple office buildings or office parks
- Multi-site retail establishments and restaurant franchises
- Hospitality companies (i.e. hotel and motel chains)
- Companies that are moving large-scale operations into new geographic areas  
*(i.e. opening an out-of-state office campus, or moving a manufacturing facility from California to Texas)*

Also, data centers have high power usage, which is often their largest operational expense. In terms of procurement, data centers have their own unique needs and complex usage requirements that make the energy buying process different from other companies. You can benefit from an energy procurement service if you are:

- A retail or wholesale colocation provider
- A company with one or more privately-owned data centers.

*(Note: If you're a large colocation customer, your energy rates by default are determined by your colocation provider, since they are the ones buying power for you. However, you can still benefit from an energy procurement service, which will provide leverage in negotiating favorable power terms, if not power rates, with your data center provider.)*



## THE PERILS OF ENERGY PROCUREMENT

An energy procurement service can help you navigate the complex process of energy buying. If you try to handle your own energy procurement, you can run into certain pitfalls that lead you to poor buying decisions, which can be expensive mistakes for your company. The factors you need to be aware of in energy procurement include:

### A VOLATILE MARKET

Energy prices change on a daily basis, with larger trends developing over months or years. Unless you understand and consistently monitor the ongoing changes in the industry markets, it's very hard to know what type of energy to buy, when to buy, and what to pay.

Some conditions that influence energy prices include:

- **Supply and Demand** – The power demands and sources of power produced in a certain area (i.e. natural gas vs. solar power) will affect the rates you pay.
- **New Technologies** – In the past decade, fracking has made it easier to extract natural gas from the land, leading to record-low prices for natural gas-based electricity.
- **Industry Trends** – While coal is still used as a major fuel source, the coal industry has declined in the past five years, due to an abundance of cheap natural gas, regulatory influence, and a sudden drop in coal demand from China. Also, the focus on climate change has led more companies to abandon coal-based energy and adopt renewable energy sources.
- **Weather** – A sudden weather event like a Gulf Coast hurricane or a “polar vortex,” or just an unusually hot summer or cold winter, can cause a spike in energy prices.
- **Energy Regulation** – The regulatory environment varies from state to state. Even in deregulated states, rates can be influenced by rule or law changes.

## BUYING THE WRONG ENERGY PRODUCTS

Many companies think energy products are “one-size-fits-all,” and competing prices are the only difference between energy providers. As a result, companies sometimes end up buying energy products that don’t fit their business needs or goals. For example, if you’re a data center owner, a retail energy supplier may offer you a “fixed-rate full requirements” package, which means you pay a fixed rate for power as you use it (i.e. \$X per kilowatt hour or megawatt hour). But in many cases, for large-scale power users, a block purchase of power is more cost effective (i.e. if you have a 10 MW data center, you might buy 9 MW of power. You can “scale up” later if you use it all.)

Also, if you don’t understand the terms of your power contracts, you may end up buying unnecessary products, or paying higher rates. For example, in some markets, you will pay “capacity & transmission” rates, which cover the costs of generating large amounts of power capacity and transmitting it over long-distance wires. Energy suppliers and grid operators determine these rates annually, based on how much power your business uses on certain peak days, usually in the summer. If you use large amounts of power on those peak days, your capacity & transmission rates will be higher.

If you choose a “fixed full requirements” contract, where the rates you pay are fixed and locked in, you will pay the same high capacity & transmission rates over the full length (i.e. five years) of your contract. But most companies don’t know you can ask your energy provider for an “unlocked,” or adjustable capacity & transmission rate. If you plan to implement energy efficiency measures and peak controls to lower your overall power usage, you could conceivably see lower capacity & transmission rates when your power company adjusts that rate for you every year, based on your energy use.

## RISK FACTORS

When you buy energy products, the power company makes a risk assessment of your business, to make sure you’re a good, reliable customer who will always pay their bills. So, they look at a variety of risk factors – including your company credit rating, power use history, peak periods, and the timing of your power purchase – in assessing your power rates and contract terms.

A lot depends on your “line of sight to your load” – that is, how much power will your company use in the future and when will you need it? If you have an office park with a steady tenant base, for example, your power needs will be consistent, and the energy retailer will consider you a good risk. On the other hand, if you are a retail colocation provider with a newly-commissioned 10MW data center, it might take several years until your facility is filled to capacity, and operating at full power load. Until then, your power needs will be “lumpy,” or variable. As part of your services contract, an energy retailer may add on a risk premium markup cost for managing your fluctuating power needs.

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## “GREEN” POWER

There’s a lot of interest in “green energy” today, but many companies don’t understand the different types of renewable energy products and their unique attributes. The sources of green energy (solar, wind, small hydroelectric, and geothermal) vary from state to state in terms of availability of resources, environmental impact, and cost effectiveness. If you don’t know what the market factors are, you can purchase green energy products without understanding its potential costs.

For example, an energy provider may offer to sell you a “wind position” – that is, an obligation for your business to purchase a certain amount of wind-produced energy. You may decide to buy it, because you figure if it’s wind technology, it must be a good thing. But wind technology is very sporadic – the wind turbines only produce energy when the wind is blowing. In the summer months, when there is very little wind, the turbines are not operating, and therefore not producing energy. But summer is also a peak period for energy usage. During this time, you may need to buy power at far more expensive rates on the open energy market, to make up for the wind energy you’re not receiving. Depending on market factors, a blend of “green energy” sources, (i.e. a mix of solar and hydroelectric power) might be more cost-effective for your business, and have less of an environmental impact.

## BENEFITS OF AN ENERGY PROCUREMENT SERVICE

When you use an energy procurement service, a procurement specialist works with your company to help you understand your options, and make better, more informed buying decisions. The advantages of an energy procurement service include:

### AN OPTIMAL, LONG-TERM ENERGY PURCHASING STRATEGY

An energy procurement specialist can help you develop an optimal energy purchasing strategy, based on your company’s requirements. Using factors such as pricing, product structures, credit conditions, and contract terms, a procurement specialist can help you plan a long-term strategy that aligns your business goals with your energy use and budget over multiple years, instead of just renewing your contract once every few years.

(It should be noted here that the goal of energy procurement is not necessarily to save you money. The rates you pay may be higher or lower, depending on current energy market conditions. Instead, the goal is to help you get the best value for the money you spend on energy, and the most favorable contract terms available for your business.)

### MARKET INTELLIGENCE

An energy procurement specialist provides you with market intelligence, which can help you to take advantage of opportunities. For example, your procurement specialist may be able to identify market conditions that will make energy cheaper two years from now, and help you lock in a lower future price rate for that energy today.

### RISK MITIGATION

An energy procurement specialist lets you know what your energy options are, good or bad. They can keep you from making bad decisions, purchasing excess power or products that you don’t need, or purchasing contracts where rates may soar based on market trends.

### NEGOTIATING POWER

In deregulated markets, an energy procurement specialist can help you negotiate new contracts and analyze bids from competing providers to get the best energy deal for your company.

### OUTSOURCING A BURDENSOME TASK

If you try to “do it yourself,” energy procurement can be challenging. Your company must understand complex contracts and constantly monitor energy prices, market dynamics, and regulation changes. By using an energy procurement service, you “leave it to the experts,” and free yourself to concentrate on your own business.



## WHAT TO LOOK FOR IN AN ENERGY PROCUREMENT SERVICE



### INDUSTRY EXPERIENCE AND EXPERTISE

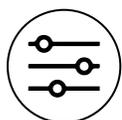
Your energy procurement service should have experienced procurement specialists who have previously worked for energy retailers and generators. These specialists should have an intricate knowledge of factors that affect the energy market, and should have experience negotiating contracts with energy retailers.

In particular, these specialists should have experience working for both regulated and deregulated energy markets, and should understand the unique rules present in each type of market. They should also understand “green” or renewable energy, and how to negotiate cost-effective contracts for it.



### INDUSTRY CONTACTS

Your energy procurement service should have a robust customer set, a list of major clients and energy providers with whom they’ve negotiated contracts. They should have good relationships with a wide range of local and national energy retailers, as well as contacts within government agencies (i.e. state public utilities commissions).



### AN UNBIASED VIEW

A procurement specialist should not just give you a sunny picture with the promise of lower prices. They should give you an unbiased view of your energy options, whether the market is going up or down, and give you recommendations for how to proceed.

Also, a procurement service should not favor one energy retailer over any others. Instead, they should present you with bids from multiple providers, and advise you on the most favorable contract terms for your company. Your procurement specialist should be willing to help you establish long-term relationships with your energy providers.



### CUSTOMER SERVICE

Interactions with your energy procurement specialist should not be limited to emails every few years to let you know when your services contract is up for renewal. Instead, they should call you regularly to discuss your upcoming power needs, and let you know about new energy opportunities and risks. If you have a contract or billing issue, you should be able to pick up the phone, call your energy procurement specialist, and have them work with your energy provider to fix the problem.

## ABOUT THE AUTHOR



**BRIAN FRAZIER**  
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Brian began working with Stream Data Centers in 2015, and leads the energy services practice, assisting clients with matters related to commodity electricity procurement, demand response and interfacing with regulated utilities.

He previously served in leadership roles with Green Mountain Energy Company, and managed green energy branding for Florida Power & Light and Portland General Electric. Prior to that, Brian was engaged in consulting on national projects supporting the U.S. Department of Energy and Environmental Protection Agency.

Brian holds an MBA from the University of Texas McCombs School of Business, and a BA from The George Washington University.

## ABOUT STREAM DATA CENTERS

As a company, Stream Data Centers is committed to improving the critical environments experience through exceptional people and service. Since 1999, Stream has been an active investor and industry leader, providing premium services, optimized value and scalable critical environments to the Fortune 500 and beyond. To date, Stream has acquired, developed and operated more than three million square feet of data center space in Texas, Minnesota, California and Colorado, representing more than 200 megawatts of power.

Stream develops and operates highly resilient, scalable and efficient data centers throughout North America, with products including fully-commissioned Hyperscale Cloud Centers, Private Data Center™ halls and suites, Retail Colocation deployments, Ready-to-Fit™ Powered Shells, or Build-to-Suit data centers – all with immediate connection to network carriers and public cloud providers.

Stream services support critical environments, leveraging the combined skill sets and resources of technical real estate professionals with fine-tuned data center and energy management expertise, to deliver an end-to-end solution for all real estate and mission-critical infrastructure needs.

Learn more at [www.streamdatacenters.com](http://www.streamdatacenters.com).



### FOR MORE INFORMATION

To learn more about energy procurement services, visit:  
[www.streamdatacenters.com/services/energy](http://www.streamdatacenters.com/services/energy)



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