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Managing Electricity Costs In An Extreme Power Market

WRITTEN BY CATHERINE LUTHIN

In today's turbulent economy, the financial health of a laundry can secure its future or cause its demise. The importance of managing expenses and overhead cannot be understated. Laundries use tremendous amounts of electricity in their daily activities. However, there are ways to curb and even decrease the amount of money spent on electricity costs. Catherine Luthin of Luthin Associates begins to explain how to curb electric costs in the following article which will be continued next month.

Commercial laundries in the Northeast, Illinois and Texas, have had the opportunity to purchase electricity from energy suppliers other than their utility for several years. Retail Access, the term used to describe the opening of competition in electric supply, provides institutions with flexibility in determining where and how they can purchase electricity. This flexibility is especially attractive in times where energy prices are so extreme. Prices for electricity in New York City (these trends reflect the national experience as well) reached a market high of almost \$0.18 per kilowatt hour (KWh) in July. The price of electricity fell to \$0.105 by October (42%) and was followed by an additional decrease to about \$0.08 in January. Natural gas prices which trend in a manner similar to electricity, declined as well. The Energy Information Agency, the Federal agency that monitors energy usage and future trends, is calling for natural gas and oil prices to remain constant in 2009 with small increases in 2010. While low prices are great news and it appears prices will remain steady in the near term, we all know that international events can always change how the commodity markets perform.

It is important for facility managers and energy managers to take a look at how they are purchasing electricity and decide upon a plan of action to enable them to benefit or at least manage their energy costs. An initial step in the process is to assess the goals of your organization and develop a risk profile. What is most important? Price certainty can be had for a slight cost premium. This cost premium is similar to an insurance policy. By locking in a price for a period of time in the future, all of the risk that the price may change is absorbed by the supplier. In return for taking that risk, the supplier increases your electric price. This insurance policy will protect you when the market goes higher but it prevents you from taking advantage of a downward trend. Your organization can take a different approach and decide to absorb some risk with a chance of catching that downward movement in the market never turns down, you risk higher prices. This strategy can be pursued at various levels of the risk reward matrix. Once you understand the level of risks you are willing to accept and have set reasonable goals for your electricity budgets, a plan of action can be developed.

In this article we will discuss the various electric purchasing options that are available in the marketplace. Similar products and strategies exist in the natural gas and fuel oil markets and we hope to address them in the future. The products that are available to commercial laundries and institutions and those that our clients are using to manage risk and maximize savings in electricity procurement, fall into three pricing structures, the Fixed Price, Indexed Price and the Hybrid Product.

Part 2 of this story is [located here](#).

Catherine Luthin has over 25 years of financial and energy management experience within the corporate, non-profit and regulatory environments. She is the President of Luthin Associates, an energy management consulting firm that proactively identifies and resolves energy cost issues by delivering cost savings based upon innovative thinking and process improvements for the educational, health care and real estate industries.

She chairs and manages Consumer Power Advocates (CPA), an association of large, non-profit institutions whose primary goal is to decrease the cost of energy by focusing on regulatory decisions and programs which impact energy consumers in New York City. Catherine is a member of Mayor Bloomberg's New York City Energy Policy Task Force and presently co-chairs the NYC Steam Business Development Task Force that is presently implementing a Steam Business Development Plan for the Consolidated Edison System.

In 2002 she was named "Energy Service Professional of the Year" for the State of New York and in 2004 she was named National "Energy Service Professional of the Year" by the Association of Energy Engineers. Catherine has also been a guest lecturer at Columbia University's Environmental and Energy Policy Department. She is a results-focused and effectual leader with proven ability to develop and

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