

THE ACADEMY OF ELECTRICAL CONTRACTING

**Paper Presented by
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**SUGGESTED STRATEGIES FOR WORKING WITHIN
ELECTRICAL UTILITY DEREGULATION**

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As many of us realize, the object of electrical deregulation is so the consumer will not be locked into electric utility rates due to geographical location. It is because of the national electrical transmission grid criss-crossing the U.S. that electrical deregulation is possible, since we are able to transmit electricity from one area to another via this infrastructure. Yet we should keep in mind that it has been the consumer of electricity who has paid over time for the establishment of this infrastructure, which the utility companies now own.

Deregulation of the electrical industry is going to be unique in history. Although many try to compare our future of electrical deregulation with our past of telephone deregulation, the parallels are slight. In my opinion, the only similarity will be from the customer's standpoint: competitive rates will be available for delivery of electricity as we have found to be the case with telephone rates.

But on the other side of the industry – the electrical contractor's side – the situations cannot be compared. At the time of the deregulation of the telephone industry, there were no telephone line contractors or communications companies waiting in the wings to challenge the supremacy of "Ma Bell," and enter the competitive communications industry. Of course, today there are many, many such companies. But at the time of the actual break-up of the telephone conglomerate, nothing like an independent telephone line contractor existed.

In the electrical industry, this is far from the case. And this is where I feel electrical contractors – and mechanical contractors as well, for that matter – are being blind-sided with what will amount to unfair competition from the deregulated utility companies. Because of having been a regulated industry, the electrical utilities have, until now, been able to benefit from government regulation which ensured their profit margins. Now, it seems to me, those utilities are able to use that profit margin to create subsidiary, public, or independent companies with which to enter into the competitive industry that exists beyond the transmission and generation of electricity – that same industry in which we contractors have been involved for years. With an independent Energy Services Company (ESCO) or an un-regulated Energy Services Provider (ESP), a utility obtains an inside track to upcoming jobs relating to their own provision of power.

Certainly, it is logical for a consumer of electrici-

ty to contact the most competitive power provider when it comes time to retrofit systems for higher energy efficiency. In the past, the power provider was a different entity than that which could re-engineer such existing systems; and different from that which could install systems into a new project. Not so under deregulation. Consumers will clearly take the "one-stop shopping" route when it is available for time and money savings – they can't be blamed for this approach, as it is the logical one. But unless these ESCO or ESP subsidiaries or utility company partners are required by law to offer the proposed job out to bid, the utilities will circumvent the competitive process and complete the job totally "in-house."

While this "complete package" offering might be the goal of many electrical contractors who have expanded their businesses into design-build and energy management services as a value-add for the customer, the unfair advantage for the utilities arises from the fact that they are able to function on the same level without having had to face years of concentrated competition and slim profit margins. In other words, they're using your and my taxpayer dollars to jump into the marketplace as already established, competitively functioning businesses. In my opinion, this is unfair to the contractors who have been advancing the industry for decades by the sweat of their brows. This aspect of deregulation, I feel, is ripe for legislative action and I encourage everyone in this industry to support some sort of legal guidelines governing how the utilities and their subsidiaries are allowed to obtain or announce prospective jobs.

But let's suppose that there will be no such legislation, or that such laws will take a long time to become enforceable. What does the electrical contractor do to survive this phase of deregulation which will make or break many independents?

Speaking from my experience with this vast change in the way we must do business to survive, my belief is that contractors will have to cement a more hands-on relationship with existing customers. You should know more about what your customer's day-to-day run of business is – talk to customers more frequently than simply whenever they've got a job for you to bid. This may involve introducing yourself to your customer's financial manager – one of those who is instrumental in budgeting future plans for energy services. If you can determine what they believe their energy needs will be, then you can

directly address the ways in which you can help with those plans and fit into that budget.

We contractors can compete one-on-one with anyone – that’s what we do for a living, and what we’ve done for decades in the industry. If we can find out what the intentions of these utility subsidiaries are, we can run around to get in front of them – at least among our existing customers – and beat them to the punch. But this depends on having a trusting, interested, and businesslike relationship with your customers. Ask them to tell you when they’ve been approached by an ESCO and what that company offered as a deal, and then work out ways to beat that deal. Your customer would much rather work with you – a known entity – than be forced to develop a relationship with an unknown; that is, provided the customer can afford to do so.

Next, it will be important for contractors to discover what the utility ESPs in their specific areas are doing to compete with them. One of the things that’s being done in the Dallas/Ft. Worth area where I live is infrared scanning for “hotspots” or problem areas. The utilities’ ESPs use a high-dollar instrument with a camera attachment to go into high-energy-use buildings and scan for potential problems. When they find a hotspot, they take a photograph of it, put together a package for presentation to the customer, and say, “Here’s your problem, we can fix it.”

Of course, not every contractor can afford the up-front expense of such a piece of equipment. The solely-owned infrared scanner would have to stay tremendously busy to pay for itself within a reasonable time period. On the other hand, a group of contractors who split the cost among themselves, and then collectively train someone to use the equipment could, I believe, keep it busy enough to more than pay for itself over time. Perhaps a NECA chapter or LMCC could invest in the equipment and then charge a small “rental” fee to members who want to offer a value-added service to existing customers, or who want to obtain new customers.

Such a scanner would be especially practical for contractors who have a number of manufacturing plant, hospital, or university clients. High-energy-use customers know the importance of preventive maintenance. For the contractors, preventive maintenance is a very good tool to make lots of money – this is one of my former company’s long suits. Many of my large customers would gladly have supported an annual maintenance infrared scan for hotspots.

From the perspective of the contractor, once you find a problem area, you’re standing right there on the floor, ready to fix it. Your customer would much rather endure a planned shut-down than an emergency one, and access to an infrared scanner could be a key to making you indispensable to your customers. In addition, such access to a high-ticket piece of equipment would be a way to beat the ESCO or ESP to the punch, and to level the playing field a little.

Utility subsidiaries are doing the same thing with these energy inventories, where they go to an electrical customer and assess their areas of energy waste and conservation, then offer their ESCO as a solution to whatever problems they find. In this case they say, “We can save you money because you’ll use less electricity if you install these energy-saving devices. Here’s our company that can engineer, design, and fabricate the devices to fit your needs.”

Now, I was in the maintenance business for years and years, and had a real good relationship with my customers. But just before I sold my business, one of these utility subsidiaries ran around and got in front of me, selling efficiency retrofits to one of my customers. Luckily, the customer called me to do the actual installation. But I should have gone out there to do the assessment first. Because I didn’t, I lost the chance to engineer and fabricate the equipment the customer needed.

Sure, equipment may be only 50 percent of a job, with only 7 – 10 percent markup on it. But when you lose that aspect, you lose the easiest part of a contract. It’s in the design/fabricate element of a job where your fixed costs are, where you know what your mark-up should be. As we all know, the big intangible of electrical contracting is the labor: What kinds of problems might you run into while digging that ditch? What if your foreman gets sick?

My question in this situation is: Why should we be satisfied with just receiving the most risky third of a project simply because a utility has beaten us to the punch? And if you doubt the power and scope of the utilities’ reach, let me fill you in on some facts about the one I’m personally most familiar with.

The Dallas/Ft. Worth metroplex was served for many years by two utilities: Dallas Power & Light, and Texas Power & Light. Both companies had their own generating facilities to service their customers. When deregulation was being discussed, the two companies merged into Texas Utilities (TXU).

Shortly thereafter, TXU purchased Lone Star Gas Company, which supplied both Dallas and Ft. Worth with natural gas. With this reach and with deregulation, TXU can now package the energy used by a customer into one service provider and one utility bill.

Facts about TXU (gleaned from their own corporate website homepage):

- 1 Provides electricity and natural gas to 3.9 million residential, commercial, and industrial customers in Texas
- 2 Largest investor-owned power generator in the U.S.
- 3 Among the largest investor-owned energy service companies in the world
- 4 Multinational, with subsidiaries in the United Kingdom, Mexico, and Australia
- 5 Assets of more than \$40 billion
- 6 Ninth largest natural gas distributor in the U.S., operating two natural gas pipeline systems
- 7 Provides in-house financial, accounting, procurement, personnel and technological services to its own family of companies
- 8 Offers full telecommunication services including long distance, Internet access, paging, and web page development to southeast Texas residents and businesses
- 9 Involved with energy portfolio management, commodity procurement and retail sales in the natural gas and electricity arena, as well as energy information services, energy consumption and billing management, and other energy-related services to investors and other utilities
- 10 Is engaged in wholesale electricity and natural gas trading as well as power and gas wholesale asset management

In other words, TXU has its fingers in a lot of energy-related – and non-energy-related – pies.

I believe that to face up to and recognize the scope of this threat is vital for the survival of the non-utility-based electrical contractor. This is where a tremendous amount of re-thinking our business practices will have to come in, if contractors are going to survive utility deregulation.

My excuse back when I was actually in business was that I was too busy to do the energy assessments for my customers. In tomorrow's market, I believe contractors will have to make total energy management and assessment an integral part of their business practice to remain competitive and to maintain customers.

It may be that, in the long run, contractors will have to look toward forging new relationships – with

mechanical contractors, with architects, with financial institutions – to offer new types of packages to their customer base. If one-stop shopping is what the utilities are selling, why can't electrical contractors find new ways to offer the same – whole systems maintenance (with a mechanical contractor); start-to-finish design/build or renovation (with an architect); retrofit financing or amortization of retrofit costs (with a financial institution). Who knows? Maybe the best approach is to partner with a utility itself and become your customers' power provider as well as their power designer, installer, and maintainer.

In sum, here is my recommended strategy for surviving electric deregulation:

- 1 Push for legislation that will restrict the utilities from entering into unfair competition, at least at the outset – a graduated phase-out of such regulations, I believe, would solve the problem.
- 2 Cement a more hands-on relationship with existing customers.
- 3 Discover what your area's ESPs are doing to compete with you.
- 4 Beat them to the punch – do what they're doing, but do it first.
- 5 Think about where you might be able to save money by partnering with a group to make high-dollar purchases of shared equipment (infrared scanners; bucket trucks; high-end testers; etc.)
- 6 Where applicable, focus on preventive maintenance as a value-add for customers.
- 7 Make total energy management and assessment an integral part of your business plan.
- 8 Be creative in conceptualizing new ways of partnering for mutual survival.

Eddie Horton, Executive of Aladdin Electrical Service Company in Dallas, Texas, first became involved with NECA in 1975 with the Northeast Texas Chapter. He served as Chapter Governor from 1989 to 1999, and was instrumental in the smooth merger of the Northeast Texas and North Texas Chapters. He served as Chapter President from 1992 to 1996, and held a seat on the Board of Directors for 15 years. Additional positions he has held include Chapter Treasurer and Division Chairman.