5 Money-Saving Ways to Manage Utility Expenses

By Mark Robbins

You've probably heard this old adage: "If you can't measure it, you can't manage it." In a highly competitive environment, it's imperative to have accurate utility expense forecasts to monitor financial performance and control costs. But, that's easier said than done. For REITs or property managers overseeing multiple buildings, measuring and managing expenses can be a challenge that's not for the faint of heart.

Hundreds (or even thousands) of sites must be monitored across multiple climates, building configurations, equipment models, vendors, and energy sources. And, this work gets added to the basics of maintaining the sites, understanding zoning categories, and ensuring that lessees pay on time.

With so many priorities, it's no wonder that accurate utility forecasting and expense management fall to the backburner. Fortunately, there are several steps you can take to get a clearer picture of total spending. With this knowledge in hand, you can also negotiate better electricity rates, trace wasteful usage, and cut energy costs.

1. Cut Electricity Costs in Vacant Units
A wave of new commercial construction that hit the market last year pushed the national vacancy rate to 12.8 percent in 2007. One major problem not normally associated with vacant properties is increased utility costs.

Keeping electricity costs as low as possible in empty units means more money in the bank, so property owners and managers should set in place a game plan with specific guidelines for getting vacant units into hibernation mode as soon as tenants vacate their space. This simply means turning off/down HVAC units and keeping the lights off in the units when no one is there. If maintenance comes in to make repairs or freshen up the space for the next tenant, be certain that a member of the management team schedules a time to check back and ensure that the lights and HVAC system are turned off. Not doing this can cost you plenty. In fact, many are unaware of what it costs to keep a space lit and comfortable, and are often surprised at how much electricity is wasted in a vacant unit. By being diligent about keeping electricity low in vacant units, you can drop this expense dramatically.

2. Stop Vacant Unit Theft
While a hibernation plan helps limit the amount of energy wasted in vacant unit utility costs moving forward, maintaining good records allows you to realize even more savings opportunities if you're in the multi-family industry.

Approximately 20 to 40 percent of new tenants don't call ahead to arrange their utilities, which is commonly referred to as "vacant unit theft." Often, weeks or months go by before multi-family tenants make the switch. Meanwhile, property management foots the bill. And, depending on the number of properties in the portfolio, this oversight can cost thousands (or millions) of dollars over time.

But, you can backtrack to collect these vacant unit cost recoveries. Collect information from all incoming utility and lease bills in one table; compare that to a spreadsheet that lists when tenants moved in and out. Having all of this information in front of you at once will allow you to bill tenants for utility expenses incurred on their behalf.

If you don't have the time (or the staff) to identify vacant unit cost recoveries, it may be wise to enlist help from a professional expense-management firm. The average recovery per invoice is $30, or around 50 cents per unit per month for a multi-family unit. When multiplied across hundreds or thousands of units, the total returns can really add up. For example, the annual vacant unit cost recovery for one multi-family property-management firm that owns 120 communities nationwide is about $6 million per year.

Another benefit to using an expense-management firm: an average savings of $8 to $12 per invoice if it pays your utility, lease, and telecomm bills. Late-fee savings alone can be as high as 1 percent of total spending.

3. Know Your Energy Market
You have options to control your utility rate, depending on your properties' locations. If they're located in a deregulated market (including Illinois, Texas, Maryland, Massachusetts, and New York), you're not tied to the state utility with the set rate. You can shop around to get a better electricity rate from a third-party supplier. Tapping the lowest third-party bidder can save you as much as 1 cent per kilowatt-hour; those pennies add up to significant savings. For example, a manager with 50 buildings that use a total of 60,000 kilowatts across the portfolio can save as much as $30,000, or 10 percent per year.

Conversely, if your sites are located in regulated markets, they're tied to the utility's rate, and you can't cut energy costs this way. Your action plan should be to audit monthly utility bills. You must zero in on the current rate to see if it suits your business profile. To illustrate, if the building includes 24-hour operations, or day and evening hours, the utility might offer hybrid peak and off-peak rates.

In deregulated markets, you have your choice of two types of contracts: fixed or rate index. A fixed contract allows you to lock
into a rate long term, giving you budget certainty and protection from rate increases. If prices decrease, however, you can't take advantage of lower rates. A rate index contract is similar to an adjustable-rate mortgage and fluctuates with the market - rates rise and fall in sync with market prices. You can minimize costs in a down market; however, as utility prices rise, so do costs. Choosing between the two approaches depends on the level of risk you want to assume and the market volatility your budgets can absorb.

4. Roll Your Own Transformer
Managers rarely think about the transformers that provide energy to their buildings, which are owned and serviced by the utility. But, buying the transformer from the utility can be a source of significant energy and cost savings because utilities typically offer discounted rates when they don't own the transformer, as it technically allows them to relinquish management and maintenance duties.

The good news about owning a transformer: The maintenance required is very limited, usually involving only an annual infrared inspection by a professional high-voltage company. In the unlikely event that the transformer fails, you can call your utility company and, in most cases, it'll send a technician over to install a new one.

In some cases, the utility won't want to part with its transformer, but will agree to remove it and allow the property management firm to install its own. This can actually be a plus because it provides an opportunity to buy a more efficient device.

Transformers are inherently inefficient due to electrical distortion inside. This results in an energy loss of 61 billion kilowatt-hours annually, according to the U.S. Environmental Protection Agency (that's roughly 2 percent of electricity production in the United States).

By selecting an ENERGY STAR®-approved TP1 transformer (a single- or three-phase, low-voltage, dry-type distribution transformer that is rated by the National Electrical Manufacturers Association and features 97-percent efficiency, depending on size), you will save hundreds of thousands of dollars in operating costs over the device's typical 25- to 30-year life.

5. Pass Audits and Bills on to the Experts
If you're dealing with multi-site operations, you may feel like you have a huge task at hand if you're trying to single-handedly track energy use for each location. One way to get an accurate picture of expenses is to enlist the help of a professional energy consultant. These consultants have the tools, experience, and industry contacts to analyze electricity data, procure the best rates in deregulated markets, identify optimal utility rates in a regulated market, and ferret out other year-round savings.

Most consultants start with an energy audit. They examine a 12-month usage history, which includes analyzing historical data to see what's been spent and where you can save. This data helps you plan your next fiscal budget. An audit also lets consultants evaluate what sites in the portfolio consume more electricity. They find energy-saving opportunities by determining how usage matches hours of operation, how efficient equipment is, and how sophisticated control systems are (or aren't). They can then suggest solutions to tune and upgrade equipment to achieve minimum energy use with maximum operational efficiency. Auditing a year's worth of utility bills can also identify discrepancies in monthly invoices, such as vacant unit theft costs. Since it can be a lengthy, tedious process, consultants can save you the time and effort of compiling, processing, and comparing bills. Energy consultants also have automated and sophisticated technology to guard against human error and produce the most accurate expense assessments.

Lastly, meter-reading errors will also be uncovered. These are nearly always the utility's mistake and result in cash owed to the manager. In the end, on average, auditing can save you 0.5 to 1.5 percent of your annual energy spend. And, the consequences are dire if accurate analyses are not completed. The discrepancies can cost you significantly — in some cases, as much as $5 million.

Reviewing historical data can also determine whether the sites are on a proper rate, such as a commercial or institutional building rate, rather than 24-hour operations. Putting properties on the correct rate can save you as much as 1 percent to 2 percent per site.

Energy consultants analyze economic trends to project rate fluctuations and pinpoint market volatility. This will help you decide whether to sign fixed or rate-index contracts. Energy consultants can also bring property managers together in deregulated markets to form aggregate groups so they can benefit from the aggregation's economies of scale.

With energy costs on the rise and no end in sight, there's never been a better or more important time for overburdened commercial building owners and managers to take action. Constantly monitor expenses and utility usage to get an accurate picture of the total expenditure. Then, it will be easier to find ways to cut costs. Expense management is an ongoing process, but by staying proactive, you will be sure to add substantial green to your bottom line.

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