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Energy Alert

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Beware, Indexed Prices, and Russian Roulette are the same thing where electricity prices are concerned

Using an unpublished index for electricity pricing is the same as holding a gun, with a single bullet, to your head and allowing someone else to pull the trigger. It may not hurt the first time, but the process will repeat itself every month until it does.

At least one electricity supplier is deceptively marketing electricity on a floating rate under a supposed month-to-month contract with absolutely no provision to convert to a firm rate. Proposed savings are stated at 18% to 20% with some sales people claiming savings are guaranteed. Their contract also requires an automatic debit (ACH) from your checking account. Presentations are colorful, but not supportable and they specifically exclude all State taxes.

Two recent quotes from ElectricityWatch.org: 1) "On the negative side, they rarely offer fixed rate contracts or a variable product tied directly to the wholesale electricity market. Instead, they offer what they call a "(Company Name) Index" rate. The (Company) Index rate is essentially a floating rate that has no boundaries as to how high it can go"; 2) "It is very unlikely that anyone these past 16 months has saved any money in any market with (Company). They provide "historical quotes" that are simply fictitious numbers and are based on 1.5 cent adder, when in reality the adder they give you averages 4-5 cents. Most of their sales people are unaware of this fact and don't actually view the invoices.

Do not confuse floating natural gas pricing with floating electricity pricing; they are vastly different. We are currently experiencing a glut of natural gas due to a lack of industrial demand coupled with vigorous drilling activity in the Marcellus Shale Formation. These points provide supply far in excess of demand. Electricity is exactly the opposite; supply is not increasing at a rate to keep pace with demand and utility rebate programs are being offered to reduce demand.

The electricity market is extremely complex; business owners and managers do not have the time to research these things. Unfortunately, many end-users believe the "sales pitch" and sign these deceptive contracts that contain no numbers.

Reality sets in when the bill arrives, usually fifteen or twenty days after the end of the previous month. Those who review their bills discover a Pennsylvania 6.08% Gross Receipt Tax (GRT) they were not told about and considerably higher rates than they were lead to believe. We have seen examples of bills for 13¢/KWh when they were told their rate would be 6.5¢/KWh.

End-users were told they could cancel at any time. Again, reality shows its ugly head! July's bill arrives in late August and they discover cancellation mandates a sixty day notice; another two months of inflated prices. The end-user is forced to shop for a new supplier at the worst time of the year or return to the utility's high tariff. A month-to-month contract became a four month minimum.

Market based prices appear attractive when reviewing the past year's historical; however, you must consider the economy has been in extremely poor condition due to a very deep recession that became evident around September 2008, industrial demand has been very low and the summer of 2009 was one of the coldest on record. Yes, prices were low, but that is not an indication of prices for the upcoming year. A simple comparison of summer temperatures from 2010 against 2009 will indicate a dramatic increase. Additionally, legitimate variable pricing is always based on a published index, not some private unpublished company's index.

Indexed Pricing, Floating Rates, Market Based Rates and Spot Pricing; are all the same things. Different people call them by different names, but there is no difference. Pricing that fluctuates with Demand. When Demand is low, prices are low; when Demand is high, prices are high. A fundamental principal of supply and demand! Electrical Demand is highest during summer months when end-users consume the most due to air-conditioning load. Prices will also spike at other times once the economy improves and industrial Demand increases.

If you know anyone who signed one of these agreements, advise them to contact us. We will assist them in returning to a safe Firm Price and explain all available options.