



HARNESSING THE POWER OF ENERGY CO-OPS



Help your small businesses cope with rising energy costs—and create more member value in the process.

By Cathy Lada

Rising energy prices are squeezing not only our own pocketbooks as consumers, but also the balance sheets of the business community. Businesses in some states are being hit with electricity and natural gas bills that are double—or even higher—than what they used to be, due in part to energy deregulation, lingering effects from Hurricane Katrina, and the instability in oil-producing regions abroad.

The impact on the business community has spurred some chambers to get into the energy arena and provide cooperative buying consortiums or discount programs for members. “Energy savings and sustainability programs are just so relevant to what’s going on in the world today,” says **Nancy Pokorny, vice president of member products at the Greater Cleveland (OH) Partnership’s Council of Small Enterprises (COSE).**

THE PRICE TO KEEP THE LIGHTS ON

In the summer of 2006, the caps that had artificially kept electricity rates low for five years for the businesses in Delaware were to expire. Businesses across the state faced drastic electricity rate increases—60 to 120 percent—caused by the deregulation of the electricity industry. And, in towns with tourism-driven economies, like the beach communities, rate increases were expected to be especially high because of an additional “demand” rate.

This situation led the **Bethany-Fenwick (DE) Area Chamber of Commerce** to investigate energy co-ops, says **Karen McGrath, executive director** of the Chamber. “We were looking for ways to help our members manage this increase,” she says. “We knew that many of our small businesses faced potentially catastrophic rate increases, and had to take strong steps to help them stay afloat.”

In addition to providing seminars on saving energy and strategies to secure state funds to purchase more energy-efficient equipment, McGrath began to investigate energy purchasing cooperatives for her 825-member chamber.

Because they’d never had to think about buying—let alone shopping for—electricity, members were overwhelmed by both the concept and the many phone calls they started to receive from electricity providers and resellers, says McGrath. “They were getting different offers, and rates, and didn’t know how to make a wise choice. That’s where we stepped in.”

After evaluating a number of electricity providers and energy purchasing companies, McGrath selected CQI Associates in Maryland to provide a solution. Energy deregulation in the state of Maryland had occurred about 18 months prior to Delaware, says McGrath, and CQI had helped businesses there achieve significant savings on electricity.

Over a two-month period, the Chamber’s staff held a couple of information meetings and worked one-on-one with member businesses to complete their contracts and other paperwork, in some cases helping members scour their bills to locate account numbers. It all paid off. Seventy-six businesses in the first electricity co-op were able to save money on their monthly bills—including the Chamber, which also joined the co-op. “In the first month alone, members saved 20–36 percent. This savings not only covered the \$250 co-op application fee, it covered their annual dues commitment to the Chamber,” says McGrath. “Talk about a retention tool!”

A year later, a group of 54 member businesses created a second co-op through the Chamber. McGrath expects to add one new co-op per year and gain renewals when the three-year contracts expire. “This

is truly what chambers are all about—helping businesses achieve something together that they literally couldn't do on their own," concludes McGrath.

Roberta Parks, senior vice president and chief operating officer of the Peoria (IL) Area Chamber of Commerce, a subsidiary of **The Heartland Partnership**, also hired CQI Associates, which works with 23 chambers in Maryland, Illinois and Delaware, to be the partner for an electricity co-op program. "**Randy Prince, president of the Greater Decatur (IL) Chamber of Commerce**, was the one who found CQI Associates," relates Parks. "He was instrumental in creating a partnership between our Chamber, his, and the Champaign County Chamber, so that we could collectively negotiate for the best electricity rates."

The 140 businesses in the Peoria Chamber's first electricity cooperative group saved an average of 7.6 percent in the first

Chamber in terms of member retention and the Chamber's image. "We talked very candidly with businesses about the potential risk to them," says Parks. "The contract they signed with the energy provider on Bid Day could lock them in at a higher rate should the legislature take action to lower or freeze [electricity] rates."

Another area the Chamber monitors closely is the customer service provided by its selected energy supplier. The energy provider's switch, billing issues, and handling of complaints and service outages are areas that, if not handled well by the energy provider, could reflect poorly on the Chamber.

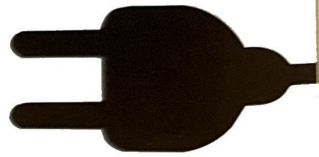
AN AFFINITY FOR ELECTRICITY

About ten years ago, the state of New York passed legislation prohibiting energy producers and distributors from selling energy, but consumers—particularly business consumers—were slow to



In the first month alone, some of our members' savings covered the co-op application fee and their annual dues commitment to the Chamber.

—Karen McGrath



year of the three-year contract, according to Parks, for a total estimated savings of \$826,000. Only Chamber members can join the co-op, and they must pay a \$300 administration fee that is split between CQI Associates and the Chamber. The fee is charged for each business location, though the maximum fee is \$3,000 for any one business. Parks says that her Chamber netted thirty new members during the enrollment period for the first co-op. And, her co-op efforts have continued to garner favorable media coverage for the Chamber.

During any specific enrollment period, once the businesses join the co-op, CQI Associates will go out to bid for competitive electricity rates. "Bid day" is when a business in the co-op receives contracts from the supplier who provides the best price/rate and overall contract terms. If the business accepts that rate, the owner or manager must fax the signed contract that same day to lock in the price. In its first co-op, of the 148 members at the Peoria Chamber, 140 signed contracts when the electricity bids were received. "We determined that the reason eight of our co-op members didn't sign and return the contract were mostly due to reasons that had nothing to do with the price," says Parks. "Some members were not in the office on Bid Day, for example."

REWARDS... AND RISK

One area that the Chamber is monitoring closely is the Illinois General Assembly's ongoing discussions about rolling back electricity prices or even freezing them. The General Assembly passed deregulation legislation ten years ago, but froze the prices for a decade. The market prices came into effect in January of this year, causing both business and residential rate-payers to face increases of 60 percent and more. This could be a potential risk for the

shop for new providers, despite huge potential savings on electricity, recalls **Joe Dalton, CCE, president of the Saratoga County (NY) Chamber of Commerce**.

He and **Tim Hulbert**, then-president of the **Rensselaer County (NY) Regional Chamber of Commerce**, and now president of the **Charlottesville (VA) Regional Chamber of Commerce**, realized that this presented an opportunity to provide a substantial, tangible member benefit—and earn some non-dues revenue. Hulbert and Dalton hired Energy Next, a consulting firm, to negotiate with electricity suppliers to secure the best rates for their members.

Both chambers have offered this program to their members for about six years, and 12 other county chambers of commerce are also participating in the consortium. Dalton says his Chamber earns about \$15,000 per year for its sales and marketing efforts; Energy Next also receives a portion of the royalty from their energy supplier contract. Participating businesses have no new equipment or administration fees, says Dalton. Instead, businesses are charged a small royalty per kilowatt hour.

"New York law specifies that the royalty paid per kilowatt hour cannot be passed on to the customer," states Dalton. "But, the rates our businesses get by participating are the best around. Our Chamber has about 400 members in the program, who save from seven to eight percent on their electric bills." He estimates that the average hotel or bank in the program saves about \$10,000 per year, though most small businesses save an average of about \$1,000 per year—still more than triple the minimum annual membership dues of \$311.

The Chamber sells and markets the program most effectively during one-on-one meetings or phone calls rather than by using direct mail. In Saratoga, the best prospects are car dealers, dry

cleaners, hotels, restaurants and banks. "Most of these businesses are great supporters of the Chamber," states Dalton, "but now we have a way to quantify the benefit we provide to them." In fact, the City and the school district have joined the Saratoga Chamber just to participate in the energy savings program.

OUT ON YOUR OWN

The **Windsor & District (ONT) Chamber of Commerce** also offers members a block rate on electricity and gas, though the Chamber decided to forgo hiring an energy consultant and instead handled the program research, set-up, implementation and marketing on its own. "We have just finalized our contract agreement and done about a year's worth of research on the best way to deliver this program to our members," says **John W. Thrasher, CSP, director of sales** for the Chamber.

Chamber members receive a significant discount per cubic meter of energy used, and like the Saratoga Chamber, the Windsor Chamber receives a small percentage per unit as revenue. Thrasher estimates first-year net revenues of \$50,000 to \$75,000. Thrasher says his Chamber worked very closely with legal counsel from beginning to end, starting with developing a request for information from energy providers, and then moving to the request for proposal stage.

During the proposal stage, Thrasher recommends chambers do some digging into the past performance and reputation of the companies. "One of the places we checked was the Better Business Bureau at both federal and local levels," he says. "If the provider had numerous residential consumer complaints, that raised a red flag with us—they probably wouldn't be able to meet our commercial

IN-HOUSE EXPERTISE

Pokorny, of the Greater Cleveland Partnership's COSE, says that three of the most-cited reasons members join the organization—and the three largest sources of non-dues revenue—are health insurance, workers' compensation benefits, and the energy program. COSE provides members—and in the case of its natural gas program, members' employees—with significant discounts on electricity and natural gas. Members save, on average, between six and nine percent of their total electricity bill, says Pokorny.

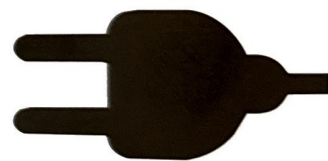
"Our health insurance, workers' comp, and energy program are what we call our 'gateway solutions'," she says. "When we ask why members join, these three products are often among the top five reasons mentioned, along with networking and other COSE-sponsored benefits, and these programs have contributed to our strong membership growth and retention rates." About 1,000 of COSE's 17,700 members participate in the Chamber's electric program, and over 4,000 participate in the natural gas program.

COSE employs a dedicated energy consultant to handle all the ins and outs of managing its energy programs. One important task is to negotiate a favorable rate for electricity from energy providers. "We sold out all our capacity in 2006, and are close to selling out again this year," says Pokorny. Though COSE secures a block of energy with a negotiated discount, the member contracts specifically with the energy provider, lessening the overall risk for the organization.

COSE's energy consultant and product director, Carol Haines, does more than just negotiate electricity discounts; she works one-on-one with member businesses to analyze their energy bills and makes specific recommendations designed to reduce energy costs.



Between our three chambers, we've saved \$2 to \$3 million for our members—just in the first year of our program.



—Roberta Parks

and industrial needs well." He also asked existing Chamber members for recommendations of energy providers they were currently using that were providing superior customer service. And, says Thrasher, chambers should also check with the applicable state or province energy regulatory body to understand specific rules and regulations related to energy sales and marketing.

Once the Chamber completed its due diligence, negotiated rates and signed contracts, it also signed a marketing contract, spelling out the obligations of the energy provider. The Chamber persuaded the provider to cover the cost of all marketing materials. In addition, Thrasher's legal counsel reviewed and modified the contract the members were to sign with the energy provider, ensuring that the Chamber wouldn't be held liable should the member not pay his bill. "You want to make sure the Chamber is the marketing arm of the three-way agreement only. The last thing a chamber needs is the gas company chasing it down for a non-payment from one of its members," he says.

Haines also helps members find the right industry expert to conduct comprehensive energy audits, which can result in increased manufacturing production output as well as energy savings. For example, it's sometimes more cost-effective to operate a third shift during off-peak hours, even with the additional personnel cost, than it is to run fully during peak hours, she says. Another example involves moving operations within a plant: "Sometimes the location of specific operations in a plant—whether they are in the central interior or located closer to an exterior wall—make a big difference in energy savings," says Pokorny.

COSE's natural gas program, which was launched in 2005, a few years after the electricity program, runs slightly differently. Rather than securing a fixed block of energy at a discounted rate, COSE members and their employees can sign up for the lowest fixed natural gas rates currently available from the selected provider. Members simply visit the energy provider's website at www.wpsenergy.com/cose, where they can compare rates and plans, and then enroll.

An added benefit of offering these programs for the organization has been the positive impact on its public image. Pokorny says, "Both of our energy programs have helped position us well to begin discussing 'green' energy and sustainability, as the

the other issues are extremely complex." John Thrasher in Windsor adds, "If you're going to go it alone, make sure your legal counsel reviews everything from your 'request for quotes' to the contracts your member signs with the energy provider."



There are three great reasons to launch an energy program for your members: increased new member sales, higher retention rates, and positioning your Chamber as a leader on energy issues.

—Nancy Pokorny

programs have garnered front-page coverage on the region's newspaper, *The Cleveland Plain Dealer*.

DOING YOUR HOMEWORK

The chamber executives involved in energy co-ops and affinity programs recommend that chamber executives interested in offering this member benefit do their homework. "Find a consultant who knows how to buy electricity," says Peoria's Parks. "The ins and outs of peak rates, credits, provider capacity, and all

Chambers can maximize the benefit to their members by working with a group of local chambers to collectively bargain for the best energy rates. And, adding an educational component to the purchasing programs can help businesses save even more on their energy bills. ☐☐

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