

Sustainability Profile:

Innovative portfolio-wide energy procurement



Procurement strategy overview:

Procurement partner: Amerex Energy Services

Number of properties included: 36

Property types: Office, multifamily, industrial, retail, and mixed-use assets

Property locations: Washington D.C. (4 properties), Illinois (12 properties), Massachusetts (4 properties), Maryland (2 properties), New Jersey (2 properties), New York (2 properties), and Texas (10 properties)

Total annual energy use: 94 million kWh



Principal Real Estate Investors, LLC (Principal) partners with Amerex Energy Services (Amerex) to continually monitor and renegotiate energy procurement contracts for real estate assets in deregulated energy markets, with the goal of securing the most advantageous energy rates and contract terms for its properties. In late 2014, Principal and Amerex implemented a portfolio-level energy procurement strategy that would allow Principal to centralize and coordinate its energy procurement strategy, leverage its size to reduce energy costs across multiple markets, and obtain more favorable terms and conditions. To identify opportunities, Amerex and Principal reviewed energy supply contracts for 36 properties, consuming more than 94 million kWh of energy located in seven different states and districts.

> Finding solutions, locally:

Deregulated energy markets each have unique rules, procedures, and local peculiarities that require navigation and analysis. Unsurprisingly, Amerex and the Principal team encountered multiple scenarios requiring local expertise and creativity during their investigation. Examples of challenges presented by select markets – and procurement solutions - include:

Texas – savings against already historic low rates: The Texas energy market in 2017 was characterized by an abundant amount of energy generation assets, the largest fleet of wind generation facilities in the country, and attractively priced fuel sources, creating an advantageous time to renew energy procurement contracts. To capitalize on this, Amerex and Principal created a strategy focused on identifying opportunities to achieve savings against already historically low energy rates. As a result, Principal renewed contracts for all but one of the assets in the Texas portfolio, regardless of the expiration date, enabling all assets to secure reduced energy rates. Leveraging its supplier relationships, Amerex was able to secure Preferred Early Termination Language on behalf of its clients, and was able to place several of the Principal assets into contracts with this preferred contract language.

Illinois – creative, customized structure and attention to detail: In 2017, Principal assets in the Illinois market faced increases in energy prices due to changes in state laws and regulations, and the influence of natural gas capacity costs on retail energy costs. Return to tariff was not a viable option, as tariff is based on real-time rates and had recently been as high as \$0.14/kWh. In response, Principal collaborated with Amerex to group the 12 Illinois assets by property type (office, industrial, and retail), hold period, and load pattern when renewing energy procurement contracts. This grouping created economies of scale and allowed for reduced price premiums and preferred early termination contract terms at several of the properties.

Massachusetts – mitigation of losses: New England markets are some of the most expensive and complicated markets in the country due to geographical and population constraints. This results in unavoidable, inflated natural gas capacity costs, and regional regulations adding surcharges that are passed through to all ratepayers. As in Illinois, tariff was not a viable option; tariff was \$0.146/kWh over a recent three-month period. To obtain the most advantageous rates for the four properties in Massachusetts, Principal and Amerex ran a formal RFP process while also obtaining Matrix Bids for multifamily properties. Matrix bids are off-the-rack daily quotes intended for small commercial mass market buyers. One major, national supplier offered a matrix rate considerably lower than other matrix and formal RFP offers – allowing Principal to secure contracts for all qualifying Massachusetts properties with the lowest energy rate provider. For two large office properties that consumed too much energy to qualify for the matrix pricing option, Principal and Amerex requested each supplier submit a component breakout of its total energy cost, allowing for objective comparison of all bids, enabling selection of the most advantageous energy rates available.

> Results:

As a result of this initiative, in 2017, Principal was able to leverage the energy procurement and local expertise of its partner Amerex to produce the following regional outcomes:

Texas procurement strategy: Achieved \$141,000 in annual energy savings against historical low rates for 9 properties.

Illinois procurement strategy: Lessened the effect of a 52% increase in capacity costs, reducing what would have been a 15% energy rate increase to just 4% increase for 12 properties.

Massachusetts procurement strategy: Similar to Illinois, lessened the effect of a \$0.022/kWh increase in capacity costs by 50% for 4 properties.

These savings demonstrate the benefits of a centralized, portfolio-wide strategy to address energy procurement, and the power of partnering with leading experts. Together, the hands-on technical team at Principal Real Estate Investors, LLC and Amerex were able to implement a strategic approach to energy procurement, and blend economies of scale with creative and localized contracting to strive to deliver enhanced value for the real estate portfolio.

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