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Tight credit leads retail energy marketers to offer shorter deals

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The global credit crisis and stiffer collateral requirements are forcing retail gas and electricity marketers to offer shorter term deals to customers, a financial consultant said Wednesday.

Marketers in states with retail competition tend to offer fixed-price, long-term deals of more than one year on a regular basis for customers that want to avoid the volatility associated with commodity prices. But "there is no question" that many firms are not offering such deals due to the tight credit situation, said Rob Potosky, executive vice president at AEG Affiliated Energy Group, an energy an financial services consulting firm headquartered in Houston.

"Some companies that used to offer four-year deals are offering a 1.5-year-deal maximum," Potosky said. Even large marketers that in the past have sold five-year contracts to customers are feeling the pinch of posting a lot of collateral to support such transactions and are scaling back their offerings, he said, without naming specific companies.

Potosky gave two reasons for the dynamic, with the first being that marketers are finding it expensive and difficult to find credit to support long-term transactions. The second is that marketers are looking at the credit of their customers a lot more closely, and may be hesitant to sign long-term deals in the current environment.

AEG works mostly with retail electricity marketers, but "we've seen the same thing on the natural gas side," Potosky said.

Individual retail marketers generally have declined to comment on how the credit crunch is affecting their business, but Potosky and others believe that merger and acquisition activity will pick up.

There are companies that in the past few months have been kept from offering long-term deals because of credit concerns, said Francis Pullaro, vice president of US regulatory affairs for US Energy Savings, a marketer with customers in Texas and New York. As others have speculated following a few marketers going out of business in Texas and financial woes hitting Reliant Energy, Pullaro suggested that some marketers on the brink of collapsing due to credit woes will sell their customer accounts to reduce credit requirements.

The comments came following the sale earlier this week of Commerce Energy's retail customer contracts in Texas to Ambit Energy for $14.8 million, which AEG managed for Commerce.

One emerging trend in the merger and acquisition field appears to be an increasing reliance on direct and indirect financing from overseas and multi-national companies, Potosky said. As AEG represents other clients in the power and natural gas sectors, "we're seeing more money coming from outside the US, particularly the UK and Northern Europe," he said.

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