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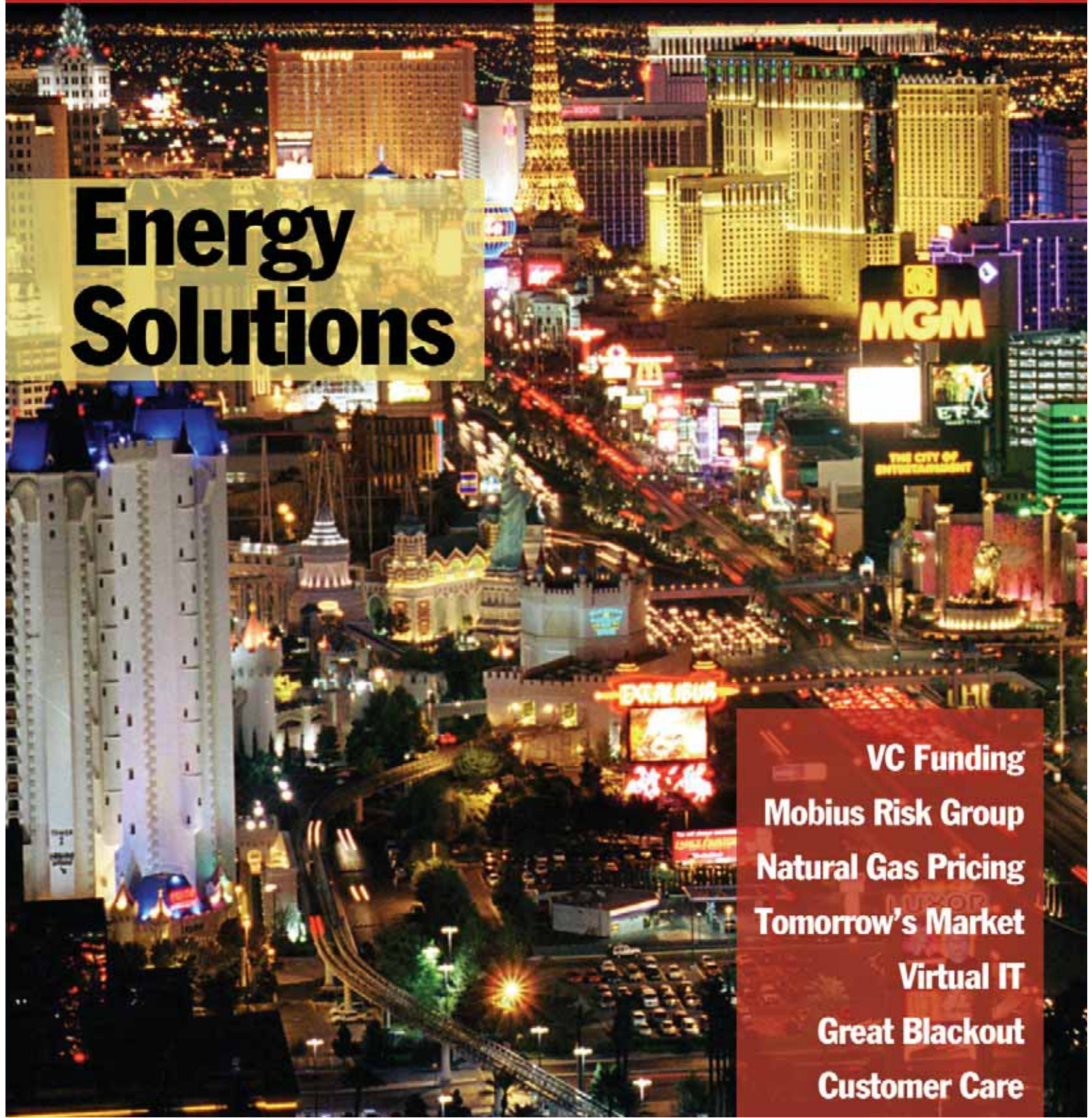
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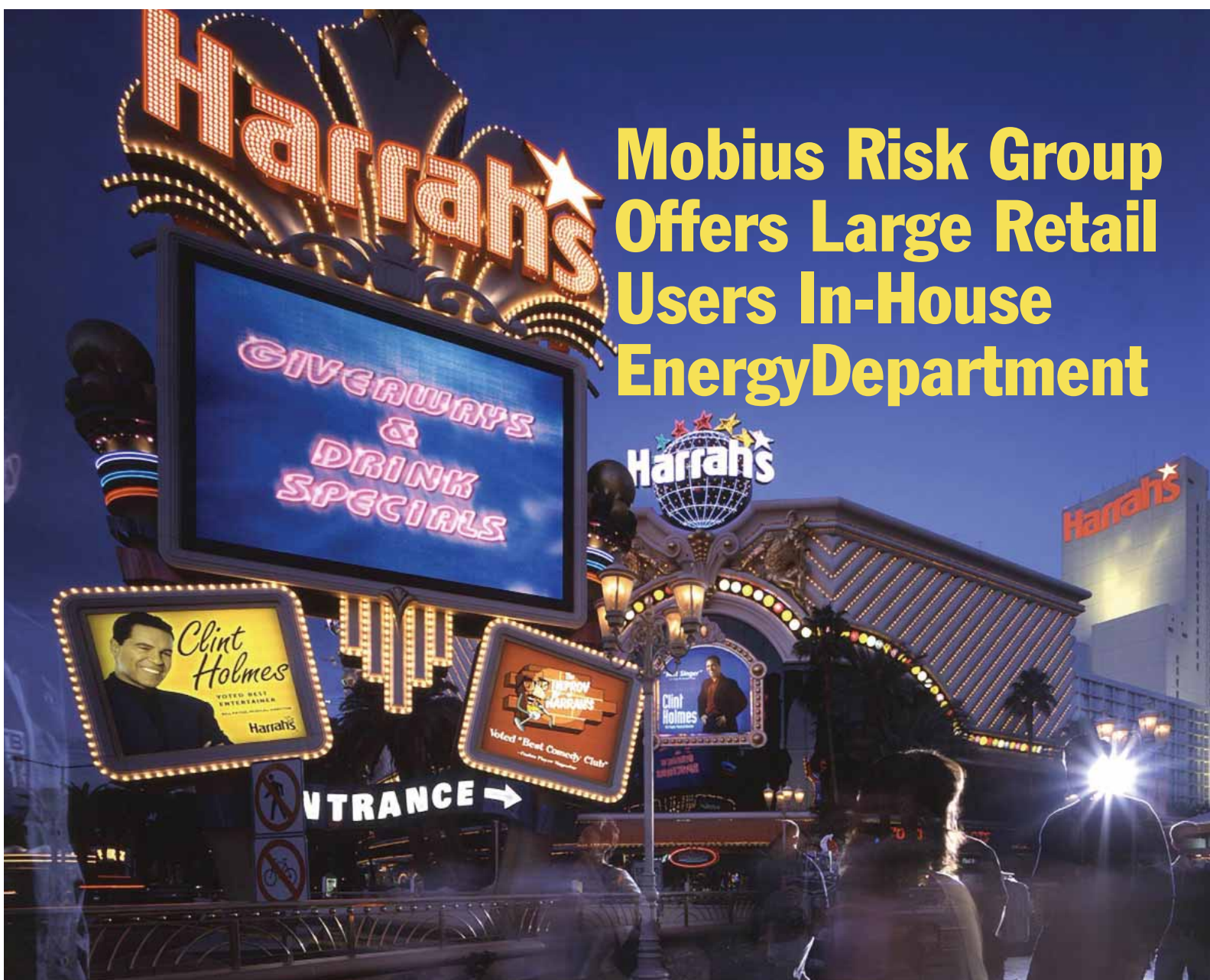
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# Mobius Risk Group Offers Large Retail Users In-House Energy Department

BY CYNTHIA GREENWOOD, CONTRIBUTING EDITOR



Richard Emmons

**A**s corporate director of facilities for Harrah's Entertainment's far-flung, \$4.1 billion hotel-casino empire, Richard Emmons has a vested interest in managing his company's \$50 million yearly energy bill. But to do so effectively, he recognizes the importance of calling on experts who'll help him minimize the company's exposure to the vagaries of the energy markets. To manage the gaming company's energy risk while impacting its bottom line, Emmons could actually use his own in-house energy team.

A skilled energy department would represent Harrah's Entertainment's interests in commodity contract negotiations with suppliers. It would also lend advice on how to make the company's 26 hotel-casino properties run more efficiently.

But finding and affording such talent in the hotel-casino industry isn't easy. Risk management experts who understand commodities and the futures market tend to come from banks or brokerage houses, far from the glittering boule-

vards of Las Vegas or Atlantic City.

Emmons did the next best thing. Instead of hiring a team of energy advisers, he found an outside firm that offers the same personal service and vendor/creditor scrutiny he would find in-house. In January 2002, Harrah's Entertainment retained Mobius Risk Group to provide outsourcing and advisory services. Mobius advises and assists Emmons' staff on a host of money-saving projects from retrofitting a hotel-casino to reworking a building

automation system.

For Emmons part, Mobius and Harrah's Entertainment have been a good fit so far. "They're my whole [energy] department," Emmons said. Under a master agreement with Mobius, the resort company has embarked on \$20 million in new projects to reduce costs and improve energy efficiency. And like Las Vegas's neon-lit strips lined with hotel-casinos that never sleep, the Mobius team remains on call 24/7 for Emmons and his staff.

### Users Who Deserve More Industry Respect



Ken Rubeli



Eric Melvin

Headquartered in Houston's Post Oak/Galleria area with regional offices in Los Angeles, Boston, and Phoenix, Mobius Risk Group was formed by Eric Melvin, Ken Rubeli, and three other risk-management experts. All five did stints at Enron Energy Services. Melvin, the firm's CEO, Rubeli, its executive vice president, and 19 other employees are skilled risk managers with backgrounds in the energy, fixed income, and capital markets.

Mobius now serves 32 clients across a wide spectrum of industries. Besides advising seven large companies that comprise more than 60 percent of the U.S. gaming and hospitality industry, it provides services to Nucor Steel, Whirlpool Corporation, Omega Protein, Continental Airlines, Macerich Company, Sherwin Alumina, and Park Place Entertainment, among others. It serves industrial and commercial users as well as municipalities, co-ops, utilities and producers.

Although the five founders of Mobius are scions of Enron, the prototypical energy broker, the aims of the boutique firm couldn't be further from those of the now-bankrupt trading Goliath. With EnronOnline, Enron profited from being on both sides of an energy transaction. But that business model is antithetical to the aims of an energy service provider like Mobius. Unlike Enron and other heavyweights with now-defunct trading operations, Mobius does not act as a seller or broker for suppliers. Its employees leverage their proficiency in banking and risk management in order to provide a service.

"We add value by being truly independent," Rubeli says. "We're vendor-independent and supplier-independent." Melvin explains that Mobius clients feel comfortable because the firm has no vested interest in who they buy commodities from. "We really do view ourselves as [our clients'] employees," he adds.

For its diversified client base, Mobius

develops energy investment strategies and provides market analysis. Securing annual to multi-year agreements, the firm helps customers structure power and natural gas deals; they value energy assets clients may purchase, and advise about infrastructure necessary to sustain potential acquisitions. Mobius helps its clients oversee and streamline operations, offering help with invoice verification and reporting. Put simply, they're as good as their last project, Rubeli says.

Before Mobius begins a project for Harrah's, Emmons requests a lengthy proposal that considers the project's general feasibility, followed by a detailed analysis. During this stage, Emmons asks Mobius to calculate everything from design and construction costs to energy savings, in addition to preparing financial models for forward price curves.

"During the implementation process, we track the installation to ensure it is being performed [according] to the original design concepts, and then we perform final commissioning and project close-out, which includes very detailed measurement for performance verification," Emmons says.

Emmons recently engaged Mobius to retrofit the lighting throughout a hotel-casino in northern Nevada. To date, the retrofit has included all types of lighting fixtures, he explains. "These retrofits were performed in all areas of the facility: back-of-house, casino, guest rooms, common areas, exterior, etc." He estimates that a capital outlay of \$300,000 for the project should result in a yearly energy savings of \$150,000.

For Harrah's, Mobius also looked at the excess cost of ventilating an underground parking garage for carbon monoxide using a 240-horsepower fan programmed to run continuously, seven days a week. To save money, Mobius recommended that Emmons install sensors throughout the garage so the fans would run slowly when carbon monoxide levels were low, pick up speed when necessary, or shut off completely.

"When we build properties, we ventilate for a full load," Emmons says. Based on Mobius's advice, Emmons' staff is optimizing building controls to ventilate only as much as needed. "These projects have a good return," he adds.

"We involve the sites [throughout the projects]," Emmons says. "It's not just the fox watching the henhouse. We have our site people take a look at each proposal to

make sure the savings are there. I look at it basically as low-hanging fruit."

Emmons explains, "[Mobius] enlightens and validate ideas that we already have. What I can't be is at all 26 properties at once. A lot of these technologies are proven technologies that just haven't been tried here." Emmons is banking on the fact that Mobius will add value in myriad ways to Harrah's Entertainment's bottom line.

Two years ago, Dale Stanton, a senior analyst at Continental Airlines, was satisfied with the energy procurement assistance he received for managing costs associated with the company's hangars and buildings in Houston and Newark, NJ. Continental owns some 60 corporate sites in Houston, and owns or leases around 60 facilities in Newark.

After realizing \$2 million a year in savings using an independent consultant, Stanton decided he might save more by having a larger outside firm examine expenditures at Continental's properties. After talking with various firms and one risk-management arm of a large energy company, Stanton chose Mobius.

What Stanton found inviting was Mobius' willingness to serve as Continental's in-house energy department and offer more than a service or product. "The big companies offered a lot of bells and whistles," Stanton says. "This was a huge turn-off because of my limited education on the energy side."

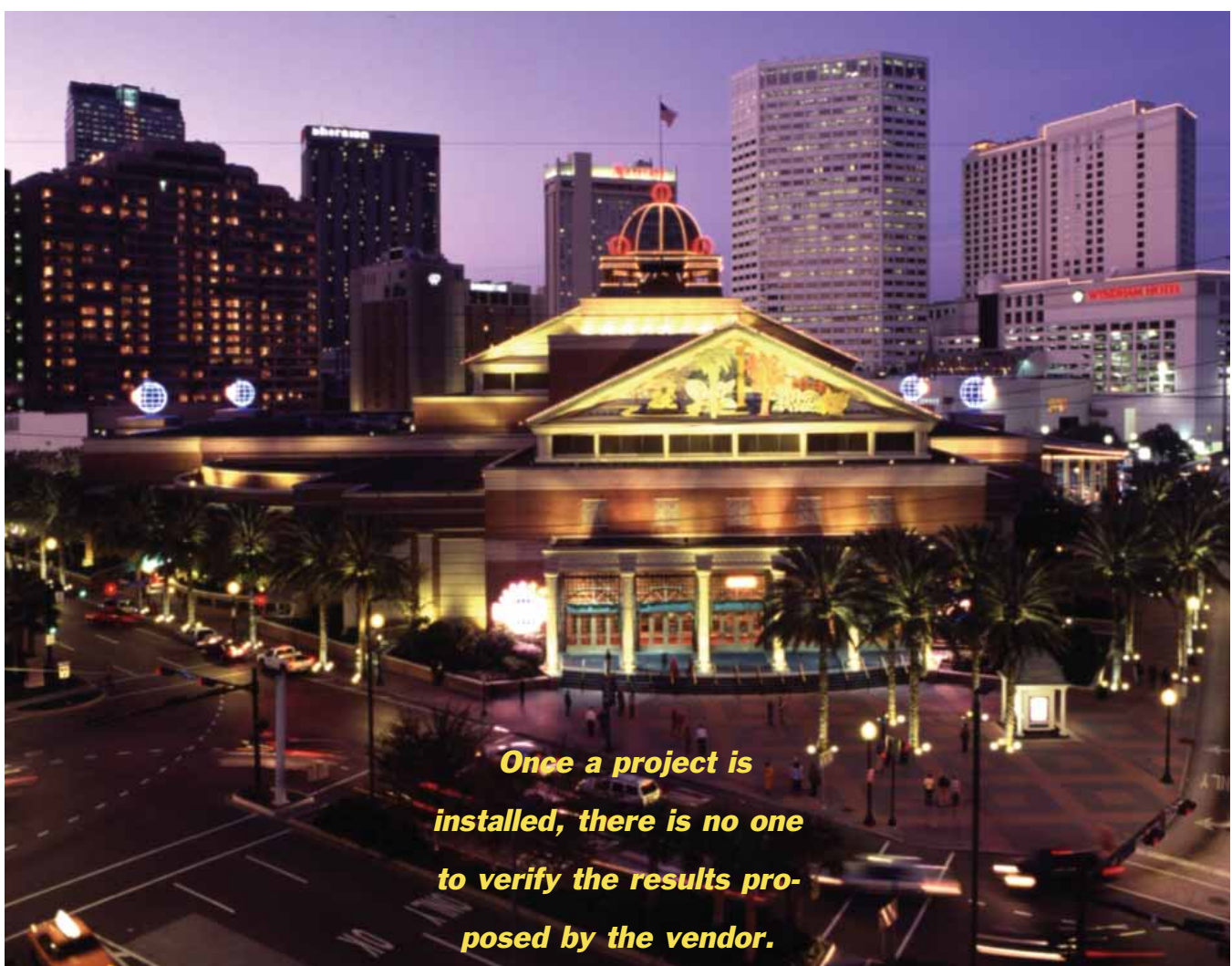
The bi-monthly energy market update Continental receives from Mobius is as valuable as a textbook or personal Wall Street Journal, Stanton says. After retaining Mobius, Continental switched its natural gas contracts from PSE&G to South Jersey Gas for the Newark-based sites. If it had not switched contracts, Stanton says, the company would have paid a lot more.

Mobius' historical analysis of invoices and tariffs charged to properties in Continental's three main hubs have already saved the company many thousands of dollars, Stanton says.

Thus far, Mobius has fulfilled Stanton's expectations and then some. "They're worth the fee," he says. "We pay them a flat fee per month. It's like having an extra full-time employee, but I actually have five people [going over my costs.]"

### Managing Credit Risk, Vetting Proposals, Overseeing Contracts

Using strong analytical skills and 85 years of accumulated risk-management



**Once a project is installed, there is no one to verify the results proposed by the vendor.**

**We evaluate it objectively and give an honest assessment.**

— Ken Rubeli, Mobius Risk Group

expertise in energy and finance, Mobius works to help clients meet financial and strategic goals, say Melvin and Rubeli. Moreover, they do so without serving as a fee-charging middleman. “Unlike many of the energy services companies [which provide risk-management expertise], we don’t want to gamble with the customer’s balance sheet,” says Rubeli.

According to a lengthy editorial by Rubeli released in the *Houston Business Journal* on April 14, commercial and industrial retail energy users with impeccable credit ratings are being exploited by suppliers and brokers who are slow to incorporate fair, bilateral credit terms into their standard retail contracts. Mobius is vigilant in bringing words of wisdom to customers with double-A and triple-A credit ratings. “We’re educating clients and saying, ‘don’t go with the standard one-way contract,’” Melvin says.

Four months ago Sherwin Alumina Co., an alumina producer and huge natural gas user in Corpus Christi, TX, hired Mobius to run its entire gas hedging strategy. “They’ve come up with some fairly novel approaches and have been a great help to us,” says Peter Bailey, Sherwin Alumina/CEO. “We now have financial

instruments in place for the whole of 2004 that should work well for us.”

For many of its clients, Mobius studies large-equipment proposals from vendors, for example, and opens their eyes to the kinds of performance or time guarantees they can realistically expect. “Once a project is installed, there is no one to verify the results proposed by the vendor,” said Rubeli. “Will a project perform the way the vendor says it will? We evaluate it objectively and give an honest assessment.”

When a vendor tells a client that an energy project will save them 30 percent on costs, Melvin says, they need someone to look at the forward market to validate that claim. “We step in and act truly independently and the clients feel comfortable,” he says.

Mobius’ thorough and objective analysis has impressed Carlos Castro, vice president of operational analysis at Park Place

Entertainment, another hotel-casino behemoth that owns Caesar’s, Paris, Bally’s, and other resort chains. Castro has retained Mobius on a monthly basis to provide consulting on all of the company’s commodity contracts.

He authorized Mobius to research the electricity and natural gas consumption patterns at Park Place’s 18 hotel-casino properties in the U.S. The Mobius team spent several months developing \$60 million in strategic, energy-savings projects to help Park Place Entertainment reduce electricity and natural gas usage as well as thermal load.

Some of the Park Place Entertainment locations have already begun implementing Mobius’ suggestions, but Castro is waiting to get the bulk of his funding from upper management. “[Mobius] has been a tremendous asset. We consider them part of our in-house energy group,” he says.

Stanton says he particularly likes the friendly, down-to-earth ways of the Mobius people and their willingness to go beyond the call of duty. “The main thing is the personal touch,” he says. “I really felt some of the big companies were cold. They wanted to build a nice, big pretty Web site and sell it to me.” 