Workshop Offers Advice On Lowering Electrical Costs

Historically, the cost of electricity has been among the top oil field operating expenses for many operators. Electricity, like oil and gas, is a commodity that fluctuates in price in relation to supply and demand. As activity increases in the oil field, the demand for electricity increases as well. In fact, a few years ago in some of the hottest emerging plays around the country, the cost of electricity spiked as demand increased.

In addition to demand, infrastructure—or lack thereof—especially in remote areas, also can impact the price of electricity. This has electricity providers continuing to look at rate increases. Operators and electricity providers are working together to find solutions to the rate issue, but in the meantime, folks in Wichita, Ks., and Midland, Tx., spent time to learn more about what they could do now to reduce this large expense.

Mike Paik is an expert in this area who has been helping operators reduce their electrical costs since the 1980s. Over the years, he has helped operators in Wyoming, Illinois, Michigan, Oklahoma, Texas and California.

Paik says the first step in reducing electrical costs is to have a good understanding of one’s electric bill and electric power rates. He encouraged workshop participants to get out their power bills and begin to learn more about bills and rates. If necessary, he says, have someone from the utility help explain the bill and rates.

He encourages operators to compare different bills and rates, and to ask whether they make sense. Paik asserts there are different types of rates that reflect different pricing philosophies. So it’s important to know the difference among rates and which one is being charged. Paik equates electric rates to items on a restaurant menu. You manage cost by selecting the best restaurant (picking the best rates), but you also manage cost by controlling what you order from the menu.

Paik says the second step in reducing electrical costs is to build a typical business relationship with one’s electric provider. Similar to its other costs, an entity needs to understand its electrical costs and spot the big ones. Paik says it helps to set a goal, assign a person to the task, and follow up on a regular basis. Your power provider can help you do this.

Paik encourages operators to keep asking questions, and says often times power providers are eager to help and make a great resource moving forward. He encourages operators to have their field people meet their utilities’ field people. He also says to spend some time learning whom to call for different situations, what the business challenges of the utility are, and to let them know your situation and see what you can offer each other that would be mutually beneficial. To get this done, one needs to meet regularly with utility company representatives. As the relationship moves forward, you will be able to ask about power rates in the coming years, which enables you to plan and budget accordingly.

After these two steps have been completed, Paik suggests reducing power usage in the office and in the field. For the office, he encourages setting a power-cost goal and tracking that goal in monthly reports and meetings. Again, he encourages taking the time to identify and assign a specific person to the task. Have that person hold others accountable, and track savings over time.

For the field, Paik says to have a good understanding of who is in charge of the machines that control the power, and to identify whether he has a good understanding of how much electricity costs and that you are working to reduce this cost. He encourages educating that person with accounting data, and even showing him the power bill to get him more engaged with the process. Finally, make sure the person working on equipment has a good understanding of the power rate for that equipment, and that he can adequately read the meter being used.

Finally, on the mechanical and electric side, Paik encourages operators to attempt to optimize their systems. Identify whether equipment needs repairing or replacing so as to run more efficiently. On the electric side, he encourages operators to use proper voltage settings and to identify whether the flow choke is in the correct position. Paik says to make sure you keep the system in good mechanical shape, and consider other long-term improvements over time.

Electricity remains one of the largest costs for operators. However, with some common sense, a little education, and an overall company awareness of electric use goals, it is possible to start realizing savings today.