

Procuring **energy commodities**

By Bob Wooten and Tina M. Borger



Procurement of energy commodities is still a new and largely undefined area for many governmental purchasing organizations. In the transition from regulated, monopolistic supply to deregulated, competitive supply, many policies and procedures have not caught up. The specific nature of energy commodities makes it difficult, or even impossible in some cases, to apply standard procurement rules. All participants in the governmental procurement marketplace can benefit from development of a common body of information and knowledge on competitively procuring energy.

In November 2010, the National Institute of Governmental Purchasing (NIGP) conducted a survey to understand how governmental entities approach the procurement of energy. The survey sought to learn more about the existing understanding of opportunities for competitive supply of energy commodities, and to gain deeper insight into existing policies, procedures and attitudes toward the procurement of electricity, natural gas and transportation fuel. Following are some key areas addressed in the survey:

Opportunities for third-party supply

Procuring competitive supply of energy is primarily dependent upon the state laws and statutes in place. To date, 18 states have officially deregulated retail electricity supply, and 44 states have deregulated retail natural gas

supply. Because of variations among states, many local governments are not aware of what opportunities exist to pursue third-party supply of electricity or natural gas, which in many cases would result in lower prices and more stable budgets.

In each commodity area, there appear to be many survey respondents who were unaware of opportunities to source third-party supply. The number is large enough to suggest a definite gap in knowledge regarding the opportunities available to local governments to competitively procure power in their areas. This knowledge gap combined with confusing state statutes has also led to a lack of uniform policies and procedures for the procurement of energy.

Market information

In a competitive, free market environment, the informed buyer always stands a better chance of securing the best price than an uninformed buyer. However, only 32 percent of respondents stated they use market information when procuring natural gas, and only 20 percent responded that they use market information for electricity procurement. Electricity has been the most recent energy commodity to be deregulated in the United States, so it is possible many purchasing departments have not become familiar with the locations and methods to access timely market information.

Another finding indicates that most procurement cycles for energy start only six months prior to contract expiration. A combination of a short procurement timeline and little market information lessens the chances of securing the best pricing for energy.

Professional consultants

A growing trend among governmental entities is the use of professional consulting firms to assist with the procurement of energy commodities, such as fuel, electricity and natural gas. Issues regarding market timing, market information and professional insight into energy commodities are all areas where a professional consulting firm can help an entity secure a more favorable contract.

As the complexity of a product/service increases, so do opportunities for working with firms solely devoted to such a market segment. As markets have deregulated, the types of contracts and products seen in electricity and natural gas have continued to become more complex. If the past is any indicator, we should see the use of consultants rise over coming years in all energy commodity areas.

Conclusion

Responses to the NIGP survey suggest the attitudes, policies and procedures in place (or not in place) are very fragmented due to a limited understanding of markets and competitive opportunities. However, energy procurement

practices will become more formalized as familiarity increases within these commodities. The use of intelligence and professional assistance will most likely continue to grow as the contracting opportunities become more complex and the number of suppliers and products and services increases.

In the end, all activities should move toward giving each individual governmental entity the very best opportunity to secure the most favorable contracts for electricity, natural gas and fuel. This will always be a balancing game between lowest price and budget certainty. It will be interesting to see in future surveys how much progress is being made.

About the authors

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