

# **Energy E-Procurement**

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## Background & motivation

- Current energy markets present new opportunities and risks
- Markets and experience are evolving
- Markets are extremely dynamic and volatile
- Energy supply is extremely complex and time consuming
- Competitive and cost challenges for business are greater than ever
- Objective and independent advice is difficult to come by
- Information is sparse and unreliable

# Scope: Energy E-Procurement

(Union; not Intersection)

**Energy  
Procurement**

**Electronic  
Procurement**

- Business to business retail
- Competitive markets
- Excluding supplier web sites

## Outline

- **Energy & business strategies**
- **Competitive markets**
- **Energy procurement**
- **E-procurement**
- **Energy E-procurement**
- **Advantages and limitations**
- **Key messages**

# Aligning energy and business strategies

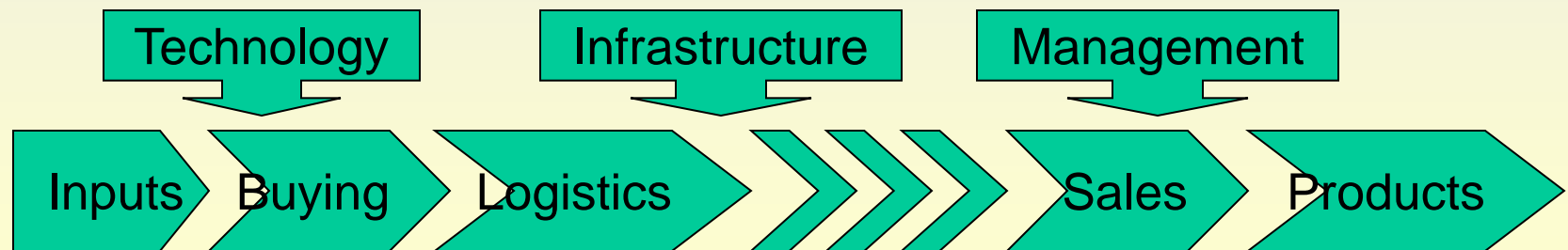
- **Consider**
  - Relevant business strategies
  - Maturity
  - Value chain
  - Risk management strategy
  - Relative importance of energy
- **Set priorities & focus**

## Relevant business strategies

- Growth versus maintenance
- Cost management
- Risk management
- Performance management
- Accountability
- Metrics

## Value chain helps determine energy importance and appropriate resource investment

- Source of margin/profit
- Source of competitive advantage
- Competence
- Relative cost
- Potential impact



## Types of Risk

- Operational
- Price volatility
- Supply Reliability
- Performance impact
- Contract timing
- Common failure

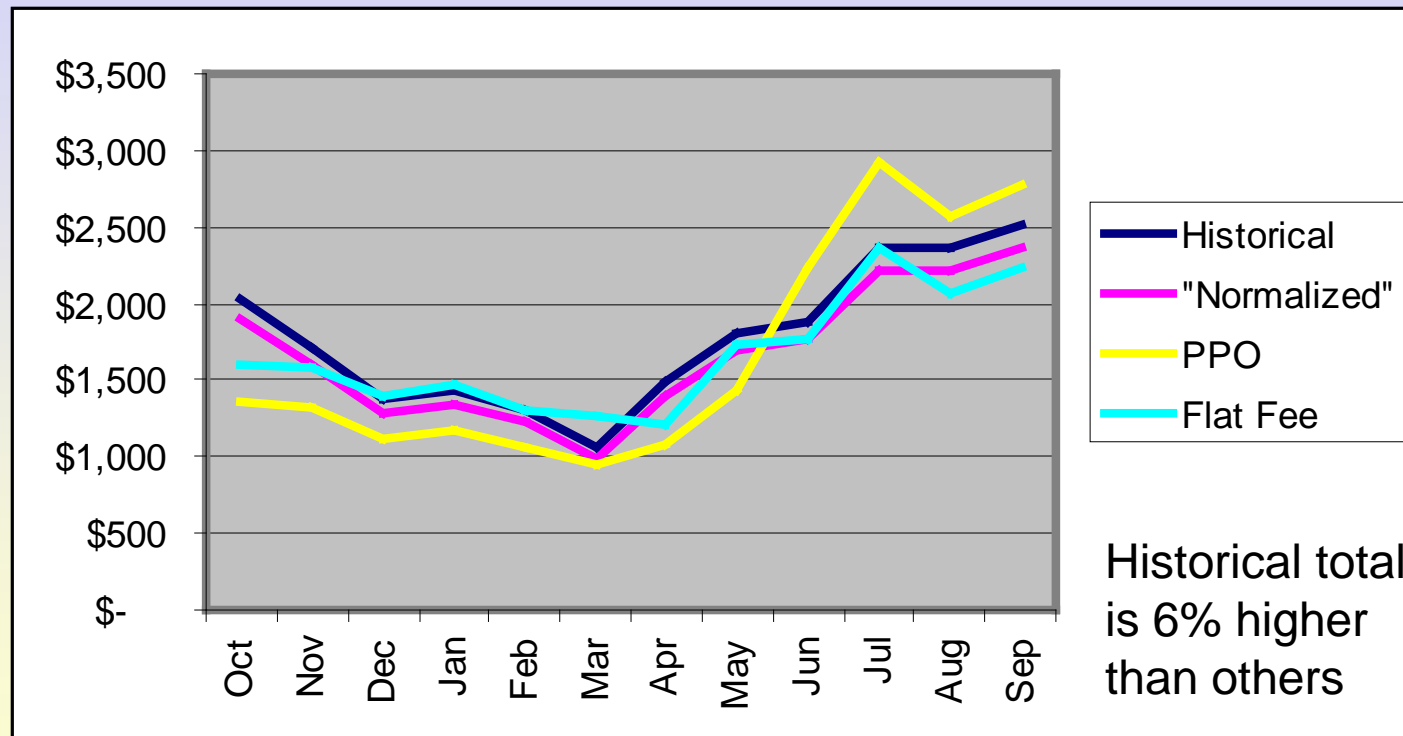


## Strategies to manage risk

- **Accept**
- **Use to competitive advantage**
- **Diversify (portfolio)**
  - Sources
  - Suppliers
  - Timing
  - Geography
  - Markets
- **Spread**
- **Share**
- **Price average**
- **Hedge**
  - financial instruments
  - fixed rates
- **Influence public policy**

## Value of fixed rates

- Risk management
- Budget predictability
- Cash flow management
- Administrative ease



...but there is a cost.

## Consistency with supply approach

- **Strategies**
- **People**
- **Processes**
- **Policies**
- **Technology**
- **Contract terms**

## **Strategy is largely focus (“Pick you battles”)**

- **Apply time, resources, attention where impact is larger**
- **Prioritize market opportunities by convolving business strategy and situation with energy environment**
  - Gas/electric
  - States/Distribution territories
  - Facilities/Energy Costs
  - Suppliers

# Example priority setting

(from client with 700 facilities in 28 states)

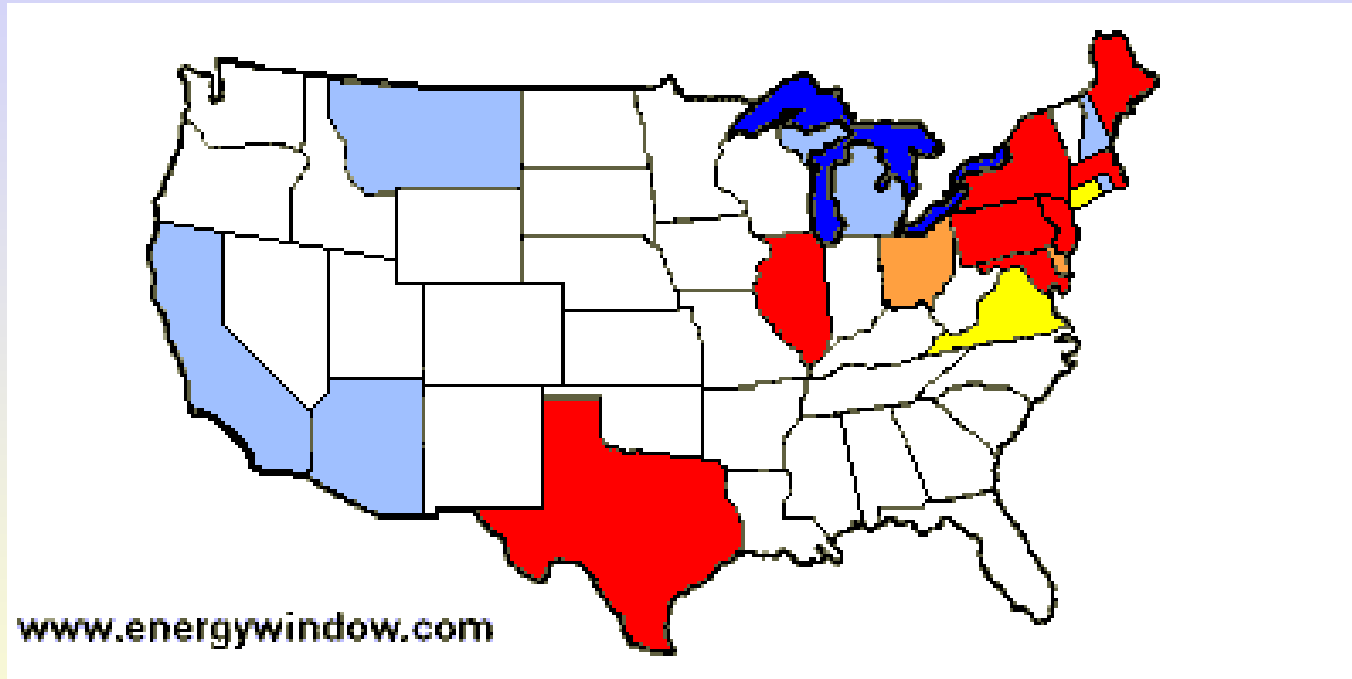
<b>Electricity</b>	
NY	Supply, Demand, & Standard upgrades
FL	Demand & Standard upgrades
CA	Demand & Standard upgrades
NJ	Supply & Standard upgrades
PA	Supply & Standard upgrades
TX	Supply & Standard upgrades
IL	Supply & Standard upgrades
OH	Supply & Standard upgrades
CT	Supply & Standard upgrades
MA	Supply & Standard upgrades
MD	Supply & Standard upgrades
VA	Supply & Standard upgrades

<b>Gas</b>	
FL	Demand & Standard upgrades
NY	Supply, Demand, & Standard upgrades
CA	Supply, Demand, & Standard upgrades
PA	Supply & Standard upgrades
OH	Supply and Standard upgrades
NJ	Supply and Standard upgrades

Facilities	\$\$\$	Priority
59%	42%	Highest
9%	18%	Medium
9%	10%	Lower
77%	70%	Total



# Competitive Electricity Market Reality



...and the situation is dynamic & different in each distribution territory

Active
Potentially Active
Potentially Active Later
Deregulated But Inactive
Regulated

## Booz-Allen & Hamilton survey: 500 C&I customers nationwide (February 2001)

- “20% of the business customers surveyed have switched providers”
- “Those that did switch were able to captured savings of 10% to 20%”
- “10% of those that switched either saved nothing or paid more for electricity”
- When companies did achieve high savings, the key factor was the use of experts...who understood the emerging energy markets”



## **Specifying key requirements and a comparison basis**

- **Contract duration**
- **Price structure**
- **Reliability requirements**
- **Agreement terms**
- **Comparison costs**

# Sample requirements specification

- [EnergyWindow RFQ Form](#)

## Comparison costs

- **Need comparison basis structure**
- **Need costs with which to compare offers**
- **Consider**
  - Historical costs
  - Regulated tariffs
  - Cost-to-compare, standard offer,...
  - Market price projections
  - Tariff projections
  - Minimum savings
  - Risk value (+/-)

# Energy supplier assessment

- **Licensing**
- **Commitment**
- **Financial viability**
- **Congruence of objectives**
- **Receptivity**
- **Flexibility**
- **Responsiveness**
- **Performance**

## Service agreements

- **Start with your terms**
- **Provide them in advance of bidding**
- **Get comments and feedback**
- **Know what matters (and doesn't)**
- **Select final bidders accordingly**
- **Negotiate final agreement with winning bidder**
  - Should then require minimum effort & time

# Service Agreements

(Can be as short as 2 pages)

- **Substantive paragraphs**
  - Price components (taxes, ancillary, etc.)
    - Best: comparable to standard offer/PTC
  - Price adjustments (fuel, etc.)
  - Price basis/index
  - Replacement costs
  - Renewal
  - Termination
  - Usage variations
  - Billing and payment
  - Contacts

## Service Agreements

- **Standard (“Boilerplate”) paragraphs**
  - Liability
  - Indemnification
  - Governing law
  - Entire agreement; severability
  - Assignment
  - Force majeure
  - Default

## Electronic Procurement

- **Ariba/I2/IBM: World-Wide Retail Exchange**
- **Oracle: GlobalNetExchange**
- **SAP/CommerceOne: Global Trading Web**
- **Many others**



## Electronic Procurement Evolution

- Very early yet; and some retrenchment
- Transactions still number in the thousands
- Auctions for simple or special supplies
- 20% of purchases online by 2002  
(Jupiter Media Metrix purchasing manager survey)
- Energy much more complex; not a priority
- Many technologies and “standards”
- Yet considered the way things will go
- Some very successful early adopters
- Business looking at alternatives to in-house supply chain suites (Internet Week)

## Online Energy Procurement Services

- **Market information**
  - Pricing
  - Suppliers & products
  - Activity
  - Rules
- **Specifying requirements and price structure**
- **Setting starting bid**
- **Requesting proposals**
- **Soliciting, assessing, & qualifying bidders**
- **Conducting bidding**
- **Negotiating & closing contracts**
- **Managing services and contracts**
- **Billing**

# Online Retail Energy Procurement Competitors

- **AMDAX**
- **Echoicenet**
- **EnergyGateway**
- **EnergyWindow**
- **Enermetrix**
- **Unigridenergy**
- **WorldEnergyExchange**
- **YourEnergySource**
- **Numerous Others (past & present)**

## Online Energy Procurement Status and Results

- Small numbers (1000s) of transactions
- Predominantly gas transactions
- Electric markets haven't been that competitive
- Active Markets:  
CA, TX, IL, PA, NJ, MD, NY, MA, ME

## **Booz-Allen & Hamilton survey**

- **“Companies that relied on traditional procurement processes were much less likely to save money.”**
- **“Nearly all companies use the Internet...to gather information”**
- **“Forty percent of companies surveyed visit energy-related sites”**
- **“Only 1% of business customers used the Internet to choose an energy provider...alone”**
- **“Most customers are willing to use the Internet as an information source, but still want to speak with a sales representative in person.**

## **Attributes to Look for**

- **Independence of energy companies**
- **Buyer alignment**
- **Objectivity and fairness**
- **Integrity policies and commitment**
- **Openness**
- **Communication & relationship facilitation**
- **Simplicity and ease of use**
- **Consultants/experts (people) to help**
- **Value provided**
- **Range of information and capabilities**
- **Suppliers**
- **Supporters**

## **Advantages of energy e-procurement**

- **Ability to post RFQs and get response with**
  - short lead time
  - rapid turn-around
  - minimum effort
  - little risk
- **Additional bidders and increased likelihood of lower prices**
- **Lower prices due to iterative bidding**
- **Making suppliers response easier in order to get best response**
- **No risk approach for testing markets**

## **Advantages of energy e-procurement**

- **Time savings for market & supplier research**
- **Time savings for obtaining & formatting account data**
- **Time savings for developing quality RFQs**
- **Time savings for evaluating proposals on an "apples-to-apples" basis**
- **Better control due to features like reserve prices & online supplier feedback**
- **Time savings for reissuing RFQs**



## Limitations or challenges

- **Market immaturity**
- **Selecting a system/service from many**
- **Management unfamiliarity**
- **Price structure limitations**
- **Incompleteness of some**
  - solutions
  - information
- **Not yet fully robust**
  - Markets
  - Suppliers

## Key Messages

- **Invest time up front**
  - Setting strategy and priorities
  - Specifying needs and terms
  - Selecting qualified bidders
- **Be ready to act; have a sense of urgency; act decisively**
- **Be flexible (consistent with your energy strategy)**
- **Accept and manage appropriate risk**
- **Apply portfolio (diversification) principles**
  - Sources, Markets, Suppliers, Contract termination

## Key Messages

- **Know your alternatives**
  - Historical
  - Projected
  - Cost-to-compare
- **Don't expect to get THE best price every time**
- **Have data and RFQs ready**
- **Monitor markets periodically**
- **Experiment**
- **Support the concept and service providers**