

Technology is finding a way to recharge energy and utility purchases. What can it do for you?

While energy deregulation added complexity to an already complicated industry, it also has opened up tremendous opportunities for sourcing electricity and natural gas. Companies securing competitive energy contracts can achieve significant savings that can go straight to the bottomline; conversely, given energy price trends and projections, companies that don't will face unnecessary price increases and risks.

Yet, many commercial energy users have not taken advantage of lower pricing that can be obtained in competitive energy markets. Some companies are not aware that competitive markets for electricity exist for business customers in 13 of the largest, most highly industrialized and populated states, and for natural gas in all but a few states. Other companies have shied away from this because manual energy requests for bids are complex and tedious, and don't always yield lower prices.

Buying energy is not as cut and dried as buying other commodities. Why? Many factors complicate competitive energy sourcing, including:

- Energy offerings, rules *and* suppliers differ from state to state, and from territory to territory *within* deregulated states.
- Opportunities to buy energy at competitive rates can come and go in the blink of an eye (i.e., if you wait even two weeks, you can lose the opportunity).
- Even though national companies may have energy spends in the tens or hundreds of millions of dollars, they may have facilities in many locations (some deregulated, others not), and the best deals will come from approaching these markets individually, not by pursuing a single uniform national strategy.
- To submit a request for an energy bid, each small facility must provide up to 100 pieces of information and a large facility may need to provide more than 5,000 data elements, for which the sources, format and means of acquisition will be different for each local utility.
- The cost analysis of whether a competitive bid actually will save you money compared to the default price charged by the local utility can be extremely complicated.
- The time required by even an experienced energy buyer to pursue a competitive energy bid manually is at least 120 to 180 hours — and there are no guarantees that a competitive energy contract will result in lower rates.

Technological Advances

So, it's no wonder that the application rate of strategic sourcing to energy is relatively low. However, in the past few years, a variety of technological advances have converged. These make it fast and easy to pursue competitive energy contracts and start saving money with the arrival of the next monthly bill.

For starters, things most of us take for granted these days — like the Internet and e-mail — have had a profoundly positive

effect on strategic energy sourcing. The Internet can be used as the conduit to collect the vast amounts of data needed to research markets, prepare a request for an energy bid and then conduct an automated

reverse auction to find the competitive energy contract most likely to yield meaningful savings.

Internet and e-mail, along with specialized auction tools, also greatly speed the process — which makes it easier to respond to fast-breaking energy pricing opportunities.

In addition, the ability for various systems to interface with each other, using technologies such as XML, has greatly enhanced the flexibility of energy sourcing, and particularly the ability to obtain necessary data from diverse sources and in diverse formats. These days, companies can use a specialized, third-party energy sourcing system that handles all of the special requirements, unique data and specific market information, yet conduct the actual reverse auction via their own procurement system auction engine.

Other areas where technology has made it more feasible to pursue competitive energy contracts are bandwidth and processing power. We now take for granted that we can send and receive vast quantities of data with the click of a mouse. Also, the processing requirements for an energy tariff analysis now can be done in seconds.

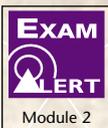
The bottomline is that a variety of technologies have made it possible for even small companies to quickly and easily pursue competitive energy bids — and do so in a couple of hours. Now, for very little investment in time or money, companies can use these technologies to pursue competitive energy bids. An analysis of a



representative range of energy electronic-procurement experiences illustrates the potential. For an average investment of \$1,500 in labor costs (approximately 10 hours) and no capital investment, the average savings was \$500,000 on energy supply costs of \$2 million — an incredible return on investment (ROI). And the payback period was as short as the next monthly billing period. More importantly, the process efficiencies from application of technology made it feasible to pursue numerous savings opportunities as small as \$11,000 on \$375,000 energy spends — with similarly incredibly high ROIs.

If no bids emerge that can beat the default price in the market, they've lost nothing. But many businesses have been able to reduce or contain energy costs sufficient to impact operating income by several cents per share. **ism**

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