

Partnering with an Energy Agent

A Gameplan for Energy Savings



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Purchasing professionals face many of the same issues, whether they are buying paper, beef or industrial exhaust systems. Everyone wants the lowest possible cost. Everyone wants no surprises in the contract. And everyone knows that more bidders typically bring more competitive pricing. The goals of energy procurement are no different. However, the path to success explores much different territory.

According to Purchasing Magazine, "Buying energy is like buying any other commodity—except it's different." Finding an integrated energy management solution that maximizes savings while improving efficiency is easier said than done. Transforming static utility bills and meter data into actionable insight and intelligence are crucial to keeping costs under control in the long run.

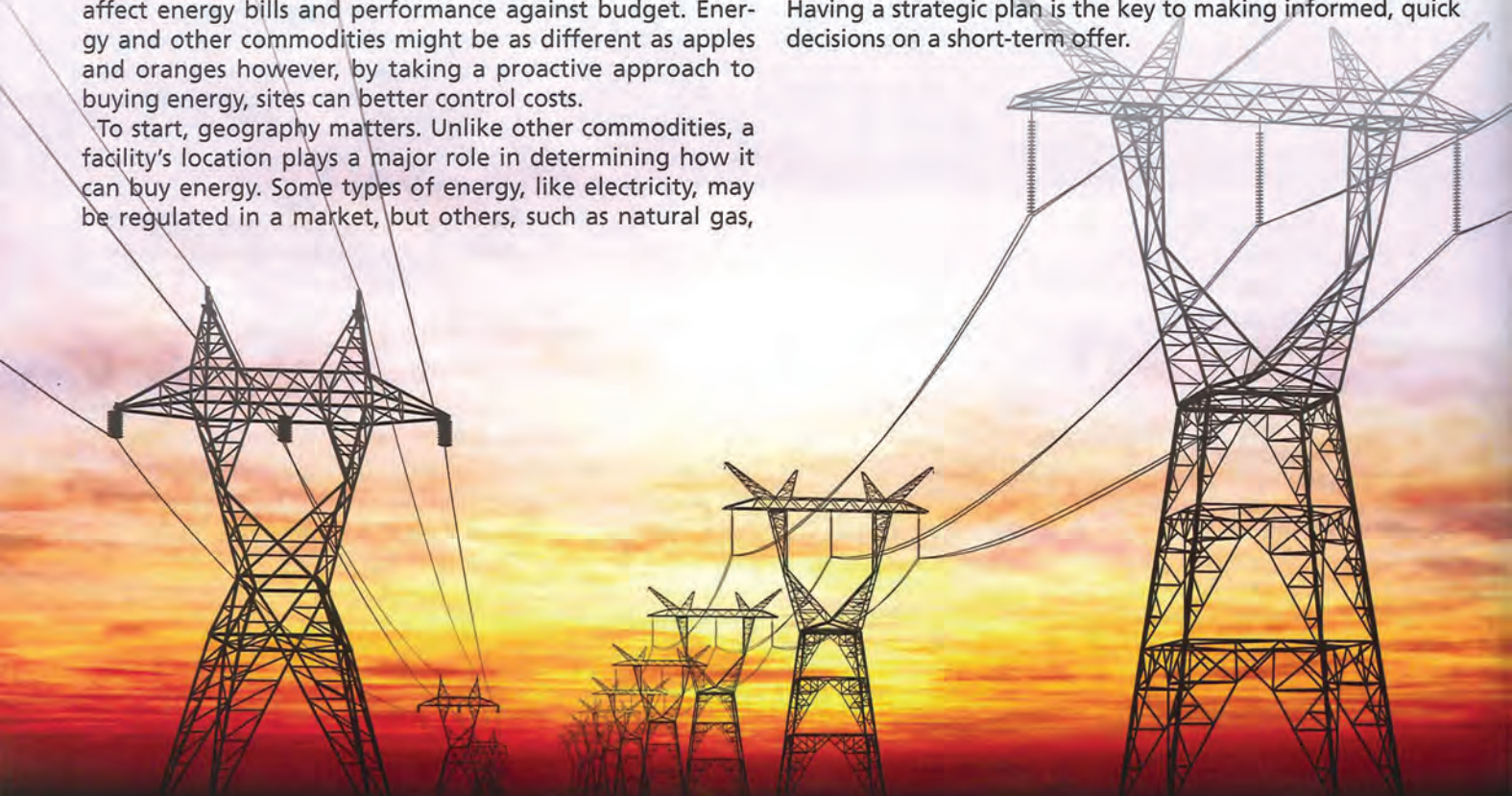
Poor energy procurement decisions can be expensive. Energy prices fluctuate constantly, which can significantly affect energy bills and performance against budget. Energy and other commodities might be as different as apples and oranges however, by taking a proactive approach to buying energy, sites can better control costs.

To start, geography matters. Unlike other commodities, a facility's location plays a major role in determining how it can buy energy. Some types of energy, like electricity, may be regulated in a market, but others, such as natural gas,

may be deregulated in the same market. These variations make a single approach to buying for multiple markets completely impractical.

IN PASSAIC COUNTY, A NEWLY FORMED COOPERATIVE TO BUY ELECTRICITY IS PROJECTED TO SAVE TAXPAYERS MORE THAN \$500,000 A YEAR.

Secondly, energy prices can resemble the stock market. This volatility makes energy buying uniquely complicated. Prices are prone to swing, and opportunities can be seized only by acting quickly to buy within a relatively short timeframe. Having a strategic plan is the key to making informed, quick decisions on a short-term offer.



Also, many factors can drive contract preference. In addition to the size of the load, the shape of the load can drastically impact pricing. The time of day when a facility requires the most energy and its pattern of use can significantly impact the site's utility rate, contract terms or price offerings. With most commodities, purchasing professionals are evaluated primarily on how well they reduce costs. But because energy costs vary for reasons far outside of anyone's control, success often comes in the form of staying ahead of the market and taking action to avoid or mitigate a cost increase.

In Passaic County, a newly formed cooperative to buy electricity is projected to save taxpayers more than \$500,000 a year. "We believe there's a big opportunity for savings in natural gas, too," freeholder Bruce James said. "The more who participate, the lower the price. It offers stability in a volatile market. It's a big deal, because all the towns are looking for ways to save."

The savings for the county government and for participating municipal governments ranges from 15 percent

to 26 percent, said officials. Participating municipalities in the bulk purchase are Hawthorne, Woodland Park, Wanaque, Ringwood, Haledon, Little Falls, Clifton and Prospect Park. They are joined by Passaic County. The venture was open to all 16 Passaic municipalities and includes the cost of electric service to municipal governments and their facilities, not whole towns.

Former city manager Al Greco said Clifton is saving \$50,000 from the consortium and is among the towns saving most from the venture. Clifton signed up with Passaic County in an effort to cut costs and it paid off. "We were able to get a good rate and save money on electric," said Greco. Before, Clifton had a variable rate for electricity on a month-to-month basis.

Hawthorne is saving even more money—close to \$90,000—out of a \$700,000 annual electric bill, said officials. Hawthorne has a water utility pump station that pumps water out of the ground, raising the electrical fees considerably, said Eric Maurer, Hawthorne's borough administrator. "This is a big help to us. We need to

define every possible savings to continue to function effectively," he said.

Maurer found out about the cooperative several months ago when he received a letter from the freeholder director asking if his local government would be interested in participating. "We were definitely interested," he said. "We knew that given how much we spend on electricity, the potential for savings was there. It was set up that if we didn't save a certain percentage, we weren't locked in. As it turned out, the savings was better than expected."

Purchasing energy in the competitive market requires expertise in energy commodities and market dynamics. Local governments should select Energy Agents who have a keen understanding of the purchase and sale of retail electricity and natural gas to end users in both regulated and deregulated markets, as well as experience in tariff design.

Energy Agents should also be well-versed in closed-bid/competitive purchase Request for Bids or state-of-the-art online reverse auctions for real time procurement. Once historical utility data has been gathered and load profiled, the benefits and considerations of each available approach can be customized to fit the end users' needs.

While intelligent energy procurement can be integral to achieving real savings for taxpayers, municipalities must also continue to implement energy-efficiency technologies and practice simple, common-sense methods to reduce consumption. But it can't be a part-time business, so partner with an experienced firm that has specialized expertise within the restructured energy marketplace.

Specifically, end users should make sure that the firm is licensed as an approved Energy Agent as well as having team members who are certified by the Association of Energy Engineers (AEE) as Certified Energy Procurement Professionals (CEP).

AEE's program is designed to award special recognition to professionals that have demonstrated a high level of knowledge, experience, competence and ethical fitness covering the full spectrum of activities related to the purchase, sale and marketing of electricity and natural gas. Failure to partner with a qualified firm can equate to missed savings and lost opportunities. ▲



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