

Energy Costs are Rising – 3 Signs You’ll Know It’s Time For Help

“Outsourcing” as we know it today, traces its modern roots back to the global expansion of business in the 1970’s and 80’s. During this time frame, the mindset was that in order to compete, organizations must focus on their core business, and then identify other critical services that could be accomplished by contracting outside the organization. A typical “outsourcing” decision was made if the organization felt it did not have the internal competency necessary. These outsourced services were those necessary to run the organization and often highly specialized, but not related specifically to the core business.

While this movement picked up steam in the private sector, it was not long before the public sector took hold of the strategy. When it comes to procurement by federal agencies, the GSA is a perfect example. A particular federal agency will utilize its own staff and expertise to deliver the services required of the agency, while outsourcing the procurement function for various products and services to the GSA. While the concept is straight forward and time-tested, many entities have shied away from outsourcing because they felt it threatened their role, added cost and time, or in some cases their governing body just felt it should be done internally.

US Communities, the country’s leading cooperative purchasing organization, has stepped up to assist local governments that need outside help in managing and procuring energy for their facilities. In 2013, following a public RFP, US Communities rolled out a new contract for Energy Management & Procurement Services, awarded to Tradition Energy. Here we will investigate when it makes sense for an organization to outsource the management and procurement of energy for its facilities, and how to discuss the decision within the organization.

Lack of Personnel: When you don’t have the staff available to devote the necessary time, outsourcing makes sense. This is such a common theme with governmental entities, that it is almost overlooked today. In most departments, when an organization looks at the list of what needs to be done, the next thought is that several more people need to be hired. The reality though is that the funds needed to hire those people never seem to materialize. Therefore, the old mantra arises, “You must do more with less.” When it comes to managing and procuring energy, if the staff are not available to devote the time necessary, then organizations many times just stay with the local utility or rely on their current supplier to continue providing service. Any option that does not involve a full competitive procurement process ultimately leads to a less desirable price and a higher utility budget.

Lack of Resources: When the job you need to do requires a certain set of tools/resources you don’t have, outsourcing makes sense. In situations where a purchasing department has the personnel available to conduct a fully competitive procurement for energy services, the issue then becomes whether the resources are present to lead to maximum success. In terms of energy procurement, the most essential resource is daily, direct access to the wholesale energy markets. *More than any other factor*, it is the wholesale price of energy that directly affects the retail price the end user will pay. Therefore, the very best thing that an organization can do to increase the likelihood of contracting at a favorable *time*, is to actively monitor the wholesale market on an ongoing basis in order to fully understand the current market and the factors that may cause prices to rise or fall today, tomorrow, or next week. If your organization does not have this ability, outsourcing to a firm that is itself involved directly in the wholesale energy market is by far the best way to obtain this resource competency.

Lack of Expertise: When your current staff doesn’t have the experience or expertise to successfully complete the job, outsourcing makes sense. So what about the situation where an organization feels it has the staff and the resources necessary to procure energy? One must then ask if the staff actually has the expertise necessary to bring these pieces together successfully. The right tool, in the hands of someone who doesn’t know best how to use it, is many times as ineffective as using no tool at all. The best resolution always comes when the person coordinating the procurement is an expert in the field of energy, with a thorough understanding of both the wholesale and retail markets and many years of experience advising users.

The bottom line is that in order to ensure your organization procures the right price, at the right time, under the best contract terms you must make sure you have dedicated staff with a high level of expertise in the energy sector, along with the resources necessary to access, understand, and interpret movement in the wholesale market. Only if you have all of these pieces in place should you attempt to procure energy services internally. For those organizations that do not, outsourcing the management and procurement of energy not only makes sense, but it is the responsible thing to do in order to best control and manage an organization’s utility budget. It’s all about “return-on-investment” – any added cost of outsourcing is superseded by the overall lower cost of energy. When all the pieces are utilized properly, and the procurement department is able to continue to demonstrate its value by saving dollars that could be better utilized in other areas, everyone will recognize the signs that it’s time for help.



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