

## **GROUP PROCUREMENT OF ELECTRICITY**

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## Abstract

The Retail Electric Choice Program in the State of Ohio entered a new phase in its development with the introduction of Sub. Senate Bill 221 (SB221) in May of 2008. This law reinforced Sub. Senate Bill 3, effective January 1, 2001, which gave Ohioans, including Cuyahoga Community College (Tri-C<sup>®</sup>) and other large institutions in the State of Ohio, the right to choose the company that generates (and therefore receives the payment for) their electricity. Tri-C realized that this deregulation of electrical rates was an opportunity for the College to achieve electrical pricing discounts below the market rate. College leadership recognized that procuring electricity jointly through a group was perhaps the most effective way to establish leverage with suppliers to drive down pricing and extract other concessions. This approach would lead to significant cost savings as well as other group benefits.

In order to leverage its buying power and strategically position itself effectively within the marketplace, Tri-C partnered with Sourcing Office ([www.sourcingoffice.org](http://www.sourcingoffice.org)) to develop a program for the acquisition of electricity. Sourcing Office specializes in designing, procuring, and managing group purchasing programs for various types of public sector entities, including municipalities, colleges and universities, counties, school districts, and special districts. The two organizations worked together to establish optimum program characteristics, recruit other participating organizations, and select the best supplier for the consortium. The objectives of the Sourcing Office electricity program were:

- Ease – Sourcing Office managed the day-to-day work required to procure an electricity solution and ensured that it was easy for interested organizations to participate
- Value – the pooled purchasing power of several institutions or groups often results in significant savings that can be passed on to members. Additionally, the work performed by Sourcing Office freed up Tri-C staff resources to focus on other efforts
- Compliance – groups such as Sourcing Office ensure compliance with applicable procurement guidelines

For the development of the electricity program, Tri-C and Sourcing Office worked with subject matter experts, the supplier, and the participants to document the value achieved by the participants. An Electricity Steering Committee was formed with representation from each participating institution. The role of the committee was to provide input and review, ensuring the final program met the needs of all the participants.

Tri-C and Sourcing Office were able to bring together the purchasing power of many different organizations. The group consisted of 18 local governments, higher education institutions and nonprofits with over 300 million KWH. Cost savings for this initiative are expected to exceed \$800,000 for the initial 22-month period.

## Introduction of the Organization

### **Cuyahoga Community College**

Cuyahoga Community College opened in 1963 and was Ohio's first community college.

Its mission is to provide high quality, accessible and affordable educational opportunities and services – including university transfer, technical and lifelong learning programs – that promote individual development and improve the overall quality of life in a multicultural community.

The College now serves more than 55,000 credit and non-credit students each year at three traditional campuses (Eastern, Western and Metropolitan), two Corporate College® locations, the Unified Technology Center (UTC), the District Office downtown, as well as 50+ off-campus sites and through distance learning options. For over 46 years, Cuyahoga Community College has provided high quality, affordable education and programs to more than 800,000 members of our community.

Cuyahoga Community College offers a top quality education and flexible learning options at the lowest tuition in Northeast Ohio. The College also generates spending of about \$500 million annually in Northeast Ohio and sustains more than 25,000 jobs. In addition, more than 500,000 Northeast Ohio residents attend college-sponsored cultural, community and sports programs each year. The College is home to JazzFest Cleveland, the nation's premier educational jazz festival, and also hosts popular cultural arts programs at Playhouse Square and at campus theaters.

Cuyahoga Community College offers associate degrees, certificate programs and the first two years of a baccalaureate degree. Students can choose from over 1,000 credit courses in more than 140 career and technical programs and liberal arts curricula. The College offers 800 distance learning courses and upwards of 130 courses at various locations throughout the community. Additionally, more than 600 non-credit workforce and professional development

courses are offered each year. Cuyahoga Community College offers five associate degrees and more than 90 technical degree programs. Of these programs, 30 lead to an Associate of Applied Business degree and 61 lead to an Associate of Applied Science degree. Short Term Certificates and Certificates of Proficiency are offered in 11 business areas and 21 science areas that ladder into associate degree programs. Post Degree Professional Certificates are offered in 3 business areas and 7 science areas. In addition, Cuyahoga Community College offers a wide variety of non-credit courses, support services and special programs designed to meet the needs of a diverse student body and of the community at large. The College also has 55 formal articulation and transfer agreements with higher education institutions, including both public and private four-year institutions in Ohio and a number of other states. The College is fully accredited by the Higher Learning Commission, a Commission of the North Central Association of Colleges and Schools. In addition, a number of the College's career programs are accredited or approved by appropriate specialized associations or agencies.

The College strives for continuous improvement and innovation as evidenced by the accreditations received, advancement of programs and collaborative engagements formed throughout its history. The College culture will continue to foster employees that believe they can impact a person and the community. The County and State are enriched by receiving a broad spectrum of educated professionals, experiencing community cultural and athletic events and providing an enriched working environment.

## **Statement of Problem/Initiative**

The electricity market in the State of Ohio has undergone a major transformation. The Retail Electric Choice Program in the State of Ohio entered a new phase in its development with the introduction of Sub. Senate Bill 221 (SB221) in May of 2008. This legislation revised the state's energy policy to address electric service price regulation, established alternative energy benchmarks for electric distribution utilities and electric services companies, provided for the use of renewable energy credits, established energy efficiency standards for electric distribution utilities, required greenhouse gas emission reporting and carbon dioxide control planning for utility-owned generating facilities, authorized energy price risk management contracts, and authorized natural gas utilities revenue decoupling related to energy conservation and efficiency. This law also reinforced Sub. Senate Bill 3, effective January 1, 2001, which gave Ohioans, including Cuyahoga Community College (Tri-C<sup>®</sup>) and other large institutions in the State of Ohio, the right to choose the company that generates (and therefore receives the payment for) their electricity. On of May 13, 2009, there was an auction to set market rates for the purchase of electricity. Companies that generate electricity other than the big three Ohio-based utilities (FirstEnergy, AEP, and Duke) were able to compete for business from customers for the first time, opening up a new frontier in the marketplace. Beginning June 1, 2009, organizations such as Tri-C had the opportunity to purchase electricity through this newly defined market structure.

While the auction established market rates, Tri-C realized that the legislation provided a key opportunity for the College to achieve discounts below the market rate. Purchasing electricity jointly through a group was viewed by executive leadership as the most effective way to establish leverage with suppliers to drive down pricing and extract other concessions.

Tri-C needed to find a way to develop a group purchasing strategy for electricity. In order to proceed, the College needed to find partners from both inside and outside the higher education sector, as well as a way to represent the group that was legally and logistically feasible. The College had a very short timeline in which to accomplish this goal and needed to proceed quickly to ensure the best electrical pricing going forward.

## **Design**

The Vice President of Administration and Finance, the Executive Director for Supplier Managed Services, and the Executive Director of Plant Operations worked together to identify and evaluate possibilities to make this plan a reality. After careful analysis, it was decided that the College should partner with Sourcing Office to develop a group purchasing program for the acquisition of electricity rather than attempting to form a group and create an RFP independently. Sourcing Office specializes in designing, procuring, and managing group purchasing programs for various types of public sector entities, including municipalities, colleges & universities, counties, school districts, and special districts. Sourcing Office performs three key roles:

- Procuring all programs in accordance with applicable procurement guidelines;
- Matching the programs Sourcing Office develops to meet the needs of potential participants; and
- Managing the programs over the life of the contract to confirm that suppliers are living up to their contract terms and to ensure that participants continue to receive the financial and value-add benefits that the program initially created.

Sourcing Office is structured as a Council of Governments and, as such, is empowered to conduct public sector procurement processes on behalf of its members and affiliates to establish

contracts with winning suppliers. Sourcing Office follows the same procurement methodology as the Ohio Department of Administrative Services (the “state bid”), so that participating entities don’t have to go through the process of developing their own RFP documents, advertise those RFPs, collect and score responses, select winning suppliers, negotiate contracts, and manage those contract throughout the contract term. Tri-C already had a successful working relationship with Sourcing Office for office supply purchasing. It was therefore an obvious choice to work to expand this existing relationship to include electrical purchasing.

Tri-C committed its annual energy usage of 40,000,000 KWH to the contract that would result from this process. Tri-C and Sourcing Office worked jointly to develop and optimize program characteristics, recruit other organizations to participate in the group, and select the best supplier for the participants in this program. The objectives identified by Tri-C and Sourcing Office for this program were:

- Ease – Sourcing Office managed the day-to-day work required to procure an electricity solution and ensured that it was easy for interested organizations to participate
- Value – the pooled purchasing power of several institutions or groups often results in significant savings that can be passed on to members. Additionally, the work performed by Sourcing Office freed up Tri-C staff resources to focus on other efforts
- Compliance – groups such as Sourcing Office ensure compliance with applicable procurement guidelines

This partnership with Sourcing Office allowed Tri-C to pursue group electricity purchasing without any additional outlay of personnel or budget dollars. The assigned executive leadership worked closely with the staff at Sourcing Office to develop and implement the plan. Without the

resources provided by Sourcing Office, the process would have been much lengthier, costlier, and labor intensive for Tri-C leadership.

## **Implementation**

Since the timing of the aggregate purchasing was essential to obtaining the best pricing, Tri-C and Sourcing Office had to move quickly to recruit partners for the development of the required program specifications and characteristics. After initial discussions between Tri-C and Sourcing Office, the following 10-week timeline was agreed upon:

- Weeks 1-3 (April 27, 2009 – May 15, 2009) – worked to recruit additional participants for the program
- Weeks 4-5 (May 18, 2009 – May 29, 2009) – secured usage history from current electricity suppliers for all participants
- Weeks 6 - 10 (June 1, 2009 – June 29, 2009) - finalized the program specifications and characteristics, interviewed suppliers, conducted applicable procurement processes, selected the winning supplier, negotiated and executed the contract with the winning supplier

In addition to this general timeline, a communications timeline was also developed, which included:

- April 30, 2009
  - Email announcing the electricity collaborative sent to the Sourcing Office database of approximately 3,000 executives within the public sector, not-for-profit community, and business community
  - Letter of Authorization and Sourcing Office Commitment Letter included on the [sourcingoffice.org](http://sourcingoffice.org) homepage

- Conversation with the President of the Ohio Foundation of Independent Colleges, on communicating this opportunity to the Northern Ohio Membership base of his organization
- Sourcing Office communications team contacted print and digital media organizations to share the collaborative aspect of this effort
- May 6, 2009
  - Second email sent to the Sourcing Office database to provide an update on the successes of the effort
- May 13, 2009
  - Phone call blitz to all top prospects to deliver a “time is running out” message

A tracking sheet was devised to manage contact information for potential organizations. Peer-to-peer conversations were also held between current program participants and potential participating organizations.

Tri-C and Sourcing Office realized that many organizations might be skeptical about joining a group of this type and that sensitivity was needed in the implementation of group electricity procurement. Therefore, an Electricity Steering Committee was formed with each participant in the program having representation. The role of the committee was to provide input into the program specifications and characteristics, thereby ensuring that the final program met the needs of all participants. Once Sourcing Office conducted the required procurement process, the steering committee participated in interviewing those finalists, and determining which supplier to choose to provide electricity to all the participants. The objective was to deliver a procurement process that enabled participants to weigh in and help shape the procurement

process without having to wade through the day-to-day administrative legwork associated with sourcing a contract within a complicated industry such as electricity.

While this model will not be applicable to every institution, such as facilities that have the capability of generating their own electricity, both large and small users can benefit from this type of group purchasing through reduced pricing.

### **Benefits**

By engaging in the development and implementation of the Sourcing Office electricity group purchasing program, Tri-C and other participating organizations were able to work with two subject matter experts to which they otherwise would not have had access. One expert had a deep knowledge and understanding of the electricity market, and assisted in shaping the RFP to achieve the best possible responses from suppliers in the marketplace while meeting the critical energy needs of participating entities. The second was a lawyer with expertise in purchasing and contracting for electricity and who has an in-depth knowledge of the inner-workings of Senate Bills 3 and 221.

In addition to these “soft cost” time savings of being able to avoid conducting individual procurement processes and managing the supplier on an ongoing basis, participants also saw savings in consulting, legal, and advertising fees. Sourcing Office worked to compare the price per KWH achieved by this group versus other groups in the state to determine the level of cost-savings achieved by participants, with the results shared with participating entities.

By working with Sourcing Office to aggregate 18 local governments, higher education institutions and nonprofits with over 300 million KWH, Tri-C was able to reduce its energy costs and form lasting partnerships with other institutions. For the 22-month period August 2009

through May 2011, this approach is expected to reduce Tri-C's electricity costs by over \$800,000, with future savings anticipated to be even greater.