

Understanding Utilities / Energy

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In tumultuous times like these, companies are seeking savings in every area possible. However, some categories like Utilities/Energy get skipped, or put on the back burner because they are too complicated, or the sourcing organization doesn't understand or have time to learn the intricacies. This post will cover a few of the basics to help sourcing professionals understand the complicated world of Utilities/Energy.

The first thing to determine is what your company considers to be Utilities/Energy spend. Depending on the size of the company and the spend, the Utilities/Energy category consists of Electricity, Natural Gas, Fuel, Water/Sewer and Waste Disposal. In the larger companies, where the spend for electricity and natural gas is huge, they are typically managed by a separate Energy group. Years ago, before IT became a significant spend for companies, Telecommunications also fell into the utilities category, but have now been transitioned to the IT group for management. So if you don't have a large IT spend you may find that your company considers Telecom to be a utility.

Once you have determined your scope, the most important thing to understand is the difference between the Regulated and Deregulated utilities. In simple terms, the Regulated utilities are those in which you have no supplier choice. In other words, your supplier (the utility) is chosen for you based on the location of your facility and where the utility is being consumed. Deregulated utilities are those where you can choose the supplier. Deregulated utilities offer multiple suppliers and pricing options. It is important to understand that the same commodity can be considered Regulated at one facility and Deregulated at another because the rules and regulations are based on where the facility is located. As a result, a good starting point is to

separate the utilities into two buckets, Regulated and Deregulated, so you can develop the appropriate strategy for each.

There are two main strategies you can employ once you understand this breakdown. For Regulated utilities there will be some analysis required, and you will want to work closely with the supplier since you don't have the threat of competition. For example, there are several rates you may qualify for, based on your usage that require you working with the utility account representative to determine which works best for your usage. For Deregulated utilities you will be able to utilize Strategic Sourcing skills and competition to choose a supplier and pricing option.

As with all cost reduction initiatives, it is very important to work closely with internal stakeholders to ensure you fully understand their requirements.

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