



Wednesday Section 6: 8:30 – 10:00 a.m.
Power Purchasing Techniques

A Contracting Officer's Guide to Competitive Energy Acquisition in Newly Restructured Markets (A.K.A. – Making Sausage)

Presented by:
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An Energy-Efficiency Workshop and Exposition
Orlando, Florida

Please be courteous to Jake

- Turn off all:
- cell phones
 - laptops
 - PDAs
 - electronic games
 - MP3 players (and similar devices)
 - anything you can not use during commercial aircraft take offs or landings
 - set pagers to vibrate

It's a joke !!

Additionally, let's leave Tijuana out of this AND that bad fat joke you just remembered can most definitely wait until lunch!

I SAY, EITHER AGREE WITH ME OR TAKE A HIKE! I'M RIGHT, PERIOD! END OF DISCUSSION!



Outline

- Commodity Programs Overview
 - Coal
 - Natural Gas
 - Electricity
- So you say you want to buy competitive electricity
 - The "Basics"
 - To boldly go . . .
- Now your ready to engage that emerging market – NOT
 - 400 pound gorilla or 80 pound weakling?
 - Ain't aggregation grand?
 - But I'm the GOVERNMENT!
 - Paradigm shift or pratfall
 - Pick yer poison
- Unintended consequences
- Lessons Learned



Coal

- Consolidated DoD program established in 1963
- Currently includes 13 DoD and 1 Fed Civ facility
- FY 2002
 - Total Award Value: \$39,437
 - Total Awarded Quantity: 714,770 tons
 - 100% Small Business Awards
- Program Highlights of 2002:
 - Awarded 5-year contract for 3 Alaskan installations with a firm-fixed delivered cost and established a price reduction schedule for the waiver of minor deviations from specification
 - Awarded first utility grade coal purchase for Indian Head, Maryland for test burn in anticipation of converting from the current grade to the less costly and more readily available utility grade.



Natural Gas

- Program established in 1990
- Total Cost Avoidance 1990-2002: \$264.6M
- FY 2002 Awards
 - Total Award Value: \$344.3M
 - Total Awarded Quantity: 122M dths
 - Cost Avoidance: \$38.7 M
- FY 2003 Awards to date
 - Total Award Value: \$83.9M
 - Total Awarded Quantity: 31.7 dths
 - Cost Avoidance: n/a or TBD
- Program Highlights of 2002
 - Significantly increased contractor base as a result of a focused marketing/outreach effort with potential suppliers.
 - In response to customer concerns about price volatility risk, mitigated said risks using price conversions and/or fuel switching



Electricity

- Program established in 1996
- Total Cost Avoidance To Date: \$36 Million
- FY 2002
 - Total Award Value: \$177 Million
 - Total Awarded Quantity: 1,756,660,754 kWh
 - Total Cost Avoidance: \$27 Million
- Program Highlights of FY2003 to date:
 - Contracting support for Dyess AFB's 100% renewable purchase
 - TX procurement w/ DOD & Federal Civilian Agency partners :
 - 1,366,854,540 kWh to BP Energy (5% - 10% renewable)
 - 32,544,640 kWh to Reliant Energy
 - 84,203,714 kWh to Utility Choice LLC (SB)



Electricity (continued)

- **More Program Highlights of FY2003 to date**
 - First New York awards (4th try, utility previously best value)
 - New New Jersey awards (utility = best value for last two years)
 - Two NJ contracts awarded using Locational Marginal Pricing
 - Executed several PJM Curtailment Service Provider agreements
 - 1st small businesses awards (Small Disadvantaged Businesses)*
 - Utility Choice Electric - \$3.5 M over two years (TX)
 - Liberty Power - \$400K over three years (NY)



So you say you want to buy competitive electricity

The Basics (101)

- CICA
- What is being purchased?
 - Supply or Service (Utility Services/FAR 41 = subset)
 - Refrain: Why does it matter? Can't "good minds" differ?
- What FAR Part (12, 15, 41, other) is applicable? (Refrain)
- FAR 19
 - What NAICS code should be used? (Refrain)
 - What Size Standard applies? (What?? + Refrain)
 - Manufactured or Not?
 - But the NAICS . . .
 - Application of Set-asides and Preferences (Refrain)



So you say you want to buy competitive electricity (continued)

To boldly go . . .

- Section 8093 of Public Law 100-202
- Trade Agreements Act and NAFTA
 - DFAR 225.401 - Products subject to trade agreement acts. Foreign end products subject to the Trade Agreements Act and NAFTA are those in the following Federal **supply** groups (FSG). If a product is not in one of the listed groups, the Trade Agreements Act and NAFTA do not apply.
 - FSG list is pre-restructuring (electricity was not available as a supply)
 - NAFTA is, however, applicable
- FAR Part 5 - Publicizing Contract Actions
- Title Transfer: Delivery Point versus Service Point
- Pricing Mechanisms – what makes sense
- FAR 12 Invoice Clause (no tailoring permitted!)

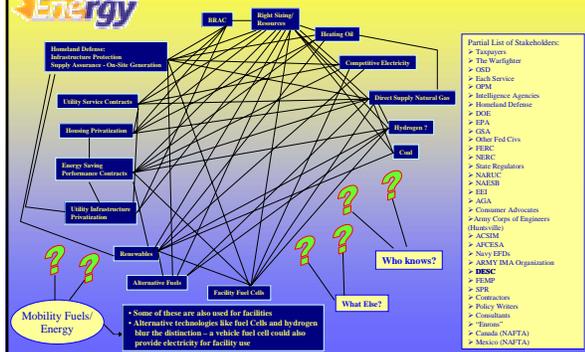


Now your ready to engage that emerging market – NOT!

- 400 pound gorilla or 80 pound weakling?
 - Ain't aggregation grand?
 - Big dogs, little dogs, and dead dogs
 - Bundling versus Aggregation versus aggregation
 - Cherry Picking?
 - But I'm the GOVERNMENT!
 - Standard Commercial Practices
 - Automated Business Processes
 - Transaction Costs (no - not CTCs)
- Paradigm shift or pratfall – your choice
 - It is a commodity not a utility service – get over it
 - It's a FAR Part 12 kind of world (when in Rome . . .)
 - Outside the box is great, but at least stay in orbit!
- Risk Management (pick your poison)



Unintended Consequences Energy Program Interactions



Lessons Learned

- FAR Part 12 is your friend - learn it, live it, love it
 - Many "constraints" are self-imposed
 - Buy what's being sold
 - Buy the way it is being bought
 - Understand how sellers sell
 - They will not change to sell the way Uncle Sam usually buys
- Know the market space even better
 - Nothing beats experience in competitive markets
 - Establish & maintain relationships
 - Potential suppliers
 - Utility Representatives
 - Regulators
 - Energy buyers
 - Other stakeholders



Lessons Learned (continued)

- Place value on being a good business partner
 - Act in good faith
 - Protect the Government’s interest but
 - Place long-term interest ahead of the short term
 - Balance actions v.s. future ability to conduct business
 - Pay your bills on time!
 - For DESC, the benefits have exceeded costs
- It ain’t easy
 - Avoidable mistakes usually more than eliminate “savings”
 - It take’s “good people”
 - Nothing works as advertised on day one of retail access
 - Restructuring rules not synchronized with RFP process
 - Each state has “unique and innovative” restructuring rules
 - DO NOT even mention billing (I guess I just did)



Lessons Learned (continued)

Centrally managed program advantages

- Government benefits:
 - Reduced costs – less duplication of effort
 - Develop and maintain team of dedicated specialists
 - Local COs can focus on core responsibilities
 - Avoid risk of long learning curve for new entrants
- Market prefers “one face”
 - Reduced transaction costs throughout contract life
 - Consistency in RFPs and post-award administration
 - Facilitates establishment of trust/long-term relationships
- Increased competition, better prices
 - Aggregated requirements large enough to generate interest
 - Suppliers accept the resultant commercial practice RFPs
- Team effort with our partners critical
 - Partners in “extended acquisition team”
 - Partners participate in entire process



Top 10 reasons to use DESC (or similar) contracting support to procure competitive electricity

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**The Number ONE reason
to use DESC (or similar)
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Up until today

you thought

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were Smurfs!



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