

Energy Procurement and Cooperative Pricing Systems

It is very clear that in the case of energy procurement, the larger the purchase, the greater the potential savings. To accomplish this, contracting units can join and participate in cooperative pricing programs overseen by the Division (N.J.A.C. 5:34-7). Some energy co-ops have been active for many years, and one school focused co-op has over 400 members.

There are three requirements for a contracting unit to join a cooperative pricing program: the cooperative must be approved by the Division for energy procurement; the governing body must pass a resolution approving membership; and the contracting unit must enter an agreement with the Lead Agency. The rules at N.J.A.C. 5:34-7 provides direction and guidance to contracting units regarding energy procurement. They were adopted at a time when the energy markets were very different and may not fully reflect the way the markets work today.

That difference requires cooperative price system lead agencies to carefully review the rules and integrate the other elements in this Notice (i.e., online bidding, energy agents and consultants) with them to provide an effective procurement process. In some cases, discretionary decisions of the lead agency can lead to either success or mediocrity in energy procurement.

Given the nature of energy procurement, bidding is usually most effective and economical when bidders are presented with certainty: where the specification calls for a specific demand for specific customers listed in an RFP. The introduction of variables such as the potential for customers to join the system after award, or members having the option not to take advantage of the contract works against the principle of certainty in bidding and can result in higher prices. When it comes to energy, contracting units that do not require their members to commit and allow them “shop” around can lead to higher pricing for other cooperative members.

Cooperative Pricing Lead Agencies must also ensure that their bid specifications are clear when it comes to the demand for energy. The specifications should make it clear if cooperative members are “firm” in their commitment to purchase off the contract once awarded and if contracting units that are not members at the time of the award can join later at the pricing that initial members receive. If new members are allowed, bidders need to know that up front so their pricing can be modified accordingly. The cooperative could also decide to do a separate bid for newcomers once the initial contract is awarded.