

Managing energy risk with the Energy Buying Consortium

Employing sound strategies to minimize our members' exposure to volatile energy markets while maximizing their opportunity to save.



The Council of Industry's electricity buying consortium marks its 10th anniversary in 2014. That decade has seen plenty of growth and savings but, above all, there has been a great deal of learning. We have learned about energy markets and their deregulation as well as the industry's terminology and jargon. Most importantly, we have learned about risk management and procurement strategies. Now, 10 years on, our consortium participants are educated and informed consumers of electricity, employing sound strategies that minimize their exposure to the volatile energy markets while maximizing their opportunity to save.

Origins

New York was a regulated electricity market until 2000, when the New York Public Service Commission began separating the charges for electricity and its delivery in the state. In separating electricity and its transmission, New York gave consumers the power to choose. Thus, customers were able to select an energy supply company

(ESCO), and have the possibility of reducing their electric bills while retaining the same poles and wires. Early on, however, only the state's largest firms were taking advantage of this option while many smaller firms were content to remain with their utilities. This was especially true in our region, where Central Hudson had long managed to keep its rates comparatively low. By 2002 this environment was changing as additional rules were put in place to encourage more firms to explore the marketplace.

It was at about this time that I was introduced to Kelly Douvlis, a business development manager with the ESCO Tractabel Energy Services. Kelly was (and remains) a seasoned professional in the energy business. With Masters degrees in electrical engineering and business administration, as well as experience working for a utility and in wholesale level markets, Kelly was looking for new ways to reach firms in the



Kelly Douvlis, Business Development Manager at Direct Energy (left) and Harold King, CEO of Council of Industry.

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The consortium provides all its participants the same level of expertise and resources that large companies enjoy. This includes access to market data and information, favorable contract terms and flexible purchase options.

Mid-Hudson region to help them capitalize on the deregulated markets.

Kelly wanted to meet to discuss electricity deregulation and the resulting opportunities it presented to our members. What little experience I had with the deregulated electricity markets made me skeptical that there actually were any opportunities for our members, but I invited Kelly to meet with me at the Council's Desmond Campus office.

At that meeting, on the porch of the Desmond on a beautiful summer day, Kelly explained the changing electricity market and how there would be opportunities for smaller firms to proactively manage their energy prices and protect themselves from the volatility of the open market. "Through an aggregation," she said, "we can give your small and mid-sized manufacturers the same resources and opportunities big companies have."

That phrase turned on the proverbial light bulb over my head. This was the phrase I came to use over and over as CEO of the Council of Industry. Whether referencing training or advocacy, regulatory compliance or insurance, the Council, I would point out, leverages many smaller firms to maximize their voices, their resources and their buying power.

The First Class

In the summer and fall of 2004, as we held seminars and information sessions to explain deregulation and the opportunities it presented to our members, Central Hudson proved to be a big help. A member of the Council of Industry since the 1910's, Central Hudson was, and continues to be, a big supporter of manufacturing and its manufacturing customers and has earned the respect of those customers by providing excellent service through the years. It was significant, therefore, that Central Hudson participated in the information sessions, explaining deregulation and encouraging Council members to seek other sources to purchase their electricity. "It was and is important that our region's businesses are able to make informed decisions regarding their energy supply," says John Masergian, Media Relations Director at Central Hudson Gas & Electric. "Working with a trusted association like the Council of Industry proved to be successful in providing the resources businesses need."

By the end of 2004 a core group of companies – 14 in all – formed the first class of the Council of Industry buying consortium. Ten years later, all but two of those 14 remain part of the group. "We have been in since the beginning," says Eastern Alloys VP of Operations John Malmgreen. "At first we relied completely on Kelly Douvlis' advice about when to buy and which product to choose. Now, while we still listen carefully to her and others, we are so much more informed that we are comfortable making the decisions ourselves and, I think, quite successfully too."

The Consortium in 2014

Over the years the group has grown to nearly 40 participating companies. Some things have changed since that first year. For example, we now partner with Direct Energy Business. Direct, which recently bought Hess Energy Marketing (HEM) is one of the nation's leading energy service companies. Al Lussier, Director of North and West Sales for Direct, is appreciative of the Council consortium. "Direct Energy

A long term goal of the consortium is to become a true aggregation treating the purchase of the electric load of the entire group as if it were a single entity or even doing a “power pool,” purchasing a hedge from the wholesale market.

Business greatly values what the Council of Industry does throughout this region,” he says. “Our long term partnership and the solutions we offer were built by listening to the Council of Industry and its members. The partnership allows us to review and sign new contracts with Council members on an ongoing basis and that ensures the best energy management approach for each member’s business.” With Direct’s acquisition of HEM we are now able to offer natural gas as well as a variety of electricity product options.

Some important things have not changed over the course of the decade. “Managing energy risk is not a practice of predicting energy markets, but of having a proactive procurement strategy and being disciplined in executing decisions,” says Duvlis. “This was and remains the fundamental guiding principle that has brought members of the consortium energy savings and budget certainty for over 10 years now.” Second, true to Duvlis’ original concept, the consortium provides the expertise and resources once enjoyed only by large companies to all of its participants, including access to market data and information, transparent contractual terms and flexible purchase options.

One more thing that has not changed is the focus on working with a single energy service company as our provider. While it is tempting to procure energy by way of the lowest bidder, to pit companies against each other the way you might for office supplies, the Council Electricity Consortium remains committed to the concept of a long-term, mutually beneficial strategic relationship with one supplier. On the part of Direct Energy, “The partnership with the Council exemplifies our commitment to providing a suite of total energy management solutions to businesses to better manage their bottom line,” says John Schultz, Business Vice President of East Sales.

We believe that there are more and lasting savings to be had by working with our single supplier to understand the markets and regulatory climate, to keep fees to a minimum, to monitor prices and buying opportunities year round and to leveraging our collective consumption for the best price over time. Council members get calls from electricity brokers almost weekly, but these brokers generally offer only quick fixes. They don’t help the companies understand what they are buying and, for the most part, charge way too much for their “service.” Our model has proven successful and we will stay with it for the foreseeable future.

What’s Next?

Even if nothing changes, the consortium will be successful so long as we continue to help the participants make informed procurement decisions. Some possible changes might include additional and more efficient use of technology to keep our members informed about market trends and buying strategies. A long-term goal of the consortium is to become a true aggregation, treating the purchase of the electric load of the entire group as if it were by a single entity or even doing a “power pool,” purchasing a hedge from the wholesale market. Such a purchase would certainly offer more opportunities to manage risk and produce savings. “The opportunities are great,” Duvlis says, “that’s why we continue to work to increase participation and grow the consortium.”

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