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Brown will be able to save about \$15 million over the next five years in heating and electricity costs, thanks to a new purchasing strategy powered by online technology.

Reverse-auction utility buying saves U. cash

By: Anne Simons

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Even the cloud of economic uncertainty and hardship can have a silver lining. Brown will be able to save about \$15 million over the next five years in heating and electricity costs, thanks to a new purchasing strategy powered by online technology.

The University has recently developed a new, multi-year strategy to procure electricity and heating fuels, purchasing them years in advance using a reverse auction system and spreading out the financial risk, according to Chris Powell, director of sustainable energy and environmental initiatives. The method will allow Facilities Management to spend millions below its budget for the next five years, effectively returning \$15 million to the University, he said.

Powell described the process as a "reverse eBay." Brown negotiates the terms of contracts ahead of time with companies it expects to be top bidders. Then, an online reverse auction is set up through World Energy Solutions Inc., a company based in Worcester, Mass. A starting price is established and each company bids progressively lower to compete for the contract, Powell said, adding that the process gets exciting in the last few minutes of the auction window, just like with normal auctions.

The reverse auction - a proactive measure, given the current economy - is transparent and fair, Powell said. Many companies might otherwise assume that Brown has an "incumbent" supplier of electricity or heating fuels and stay out of the bidding process because of that, he said. Using the auction format brings more bidders to the table, which will benefit the University, he said.

"Because we work with a number of different energy suppliers, we're able to help Brown University build a marketplace by going out and getting different suppliers to and using this online auction process," a spokesman for World Energy said. "It really creates an competitive environment where suppliers bid in real time."

"It's very 2008 and 2009," he said.

The auction for the University's electricity for the next five years took place early last December, Powell said. The contract, which secured electricity for less than today's standard rate, began Jan. 1, he said.

The auction for heating fuels took place shortly after and the University locked in fuel costs lower than

the current standard for the next three years, Powell said. Brown's recent switch to natural gas instead of heavy fuel oils for heating - a move made in part to reduce the University's carbon footprint - allows for the purchase of fuels up to three years in advance, instead of just one, Powell said.

In the past, Brown purchased fuels and electricity on a year-to-year basis. Natural gas for this winter's heating were purchased in June and cover the University's energy use through May, Powell said.

Being able to secure electricity and energy pricing for several years in advance provides budget certainty in an uncertain economic climate, Powell said. Given the "gyration in energy cost," it is not only cheaper but more secure for the University to purchase fuel for several years out, he said.

"When the University is trying to cut administrative costs, that's part of the target," he said.

In general, officials lock in about 85 percent of the University's heating costs ahead of time because they "don't put all of (their) eggs in one basket," Powell said. That means that this winter the University has been able to take advantage of low prices for natural gas for 15 percent of its heating costs, which though not a lot, has been enough to help out, he said.

So far, the reverse auction process has only been used to secure fuels for the University's Central Heat Plant, which heats about two-thirds of the buildings on campus, Powell said. In the future, Brown will also use the process for individual buildings' heating because even small chunks can get better rates than the local standard rate, he said.

Also playing into the University's reduced heating costs is the work done over the summer to replace steam traps and other related equipment, he said. Even though this winter has been colder than the last, Brown has been using less energy and water, saving money and reducing the school's environmental impact - a "win-win" situation, he said.

Powell said he was asked to speak to the Association of Independent Colleges and Universities of Rhode Island, whose members are looking for ways to emulate the strategy. The Rhode Island School of Design has already shown interest in adopting such a plan, he said.

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