

Staying On Top of School Energy Costs

SERVICE ASSOCIATE Q & A

Q. *What do school board members need to know about energy purchasing?*

A. The number one thing that school board members should know is that it is possible to save money with a properly structured gas purchasing program. The natural gas supply chain is composed of three basic layers that are easily quantifiable and verifiable. The price of natural gas is available daily through numerous news sources. The cost of long-haul gas transportation (“basis”) is available from daily industry publications. Gas distribution is regulated by the Public Service Commission and rates are available on their website or from the local gas utility. This all means that it is relatively easy for someone with access to the data to evaluate your gas purchasing program in an objective and quantifiable way.

Q. *How can schools save money when purchasing energy?*

A. Schools need to understand that it is often the long-haul transportation/ basis component of the gas supply chain that can cause gas prices to spike. Many of the gas pipelines that transport natural gas were built decades ago and the amount of gas that they can ship has not changed much. Consequently, what we saw during the 2014 Polar Vortex was not so much a price increase in the cost of gas as it was a price increase caused by people bidding up the last increment

of gas transportation capacity. Institutions need to pay greater attention to this component of the supply chain. The best way to do that in our opinion is through competition.

Q. *Why are natural gas prices so low at the moment?*

A. While gas prices are low on a historical basis, gas prices currently are up significantly. During the shale gas boom we saw a tremendous expansion of natural gas production. Pennsylvania went from producing negligible quantities of gas to 16 billion cubic feet (“BCF”) of gas per day (about 22 percent of all U.S. production). Thus, at the end of last year, we had record production heading into a warm winter. Natural gas prices fell to \$1.711/Dth for the March NYMEX contract. Since then, many producers simply stopped drilling because the price got too low to make a profit. Consequently, U.S. production of natural gas has dropped about 2 BCF per day while demand from the power generation sector has dramatically increased as coal plants are retired and replaced by natural gas units. Thus the November NYMEX contract recently closed at \$2.764/Dth and January 2017, is trading in the neighborhood of \$3.00/Dth.

Q. *Is there anything else you'd like to address?*

A. Once again it is all about the metrics. Am I saving money for my



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district? The metrics will tell you if you have a good gas purchasing program. If you have a gas purchasing program and no one can show you the savings metrics or if the program cannot be fully audited, then it may be past time to start asking questions. If you ask to see the Request for Proposals that was used to select your current gas supplier and no one can find one, then it may also be past time to start asking questions. And it is important to note that retail gas marketer contracts are generally one sided in favoring the marketer. It is critical that you involve people with experience in gas contracts in any negotiation. As with anything, keep asking questions until you find someone who can answer them. ■

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