



Benefits of Electric Load Aggregation

Introduction

Electric load aggregation is the process by which individual energy users' band together in an alliance to secure more competitive prices than they might otherwise receive working independently. Aggregation can be accomplished through a simple pooling arrangement or through the formation of clusters where individual contracts are negotiated between the suppliers and each member of the aggregate group. While natural gas purchasing alliances have been around for years, states have only recently begun to allow businesses to purchase electricity from third party suppliers and, just as importantly, to aggregate loads across multiple facilities.

Increased Buying Power

Big industrials with sizeable electric loads typically have greater purchasing power and more leverage in negotiations with their energy suppliers than smaller companies. It stands to reason that the more you buy of a given commodity, the more likely you are to secure a volume discount and therefore, lower per unit costs. When buying electricity from retail suppliers, bulk discounts are often contingent upon the purchaser's ability to buy efficiently traded blocks of power. Depending on the prevailing market conditions, the purchaser may need to buy a 25 to 50 megawatt block of power in order to approximate wholesale pricing. Since very few industrial facilities consume electricity in those quantities, companies have begun to aggregate the loads of several of their own plants or form purchasing alliances with other businesses to purchase the larger blocks of power. The aggregate load also tends to attract more suppliers to the market. In turn, this creates a competitive bidding and pricing situation that benefits the pool members.

Lower Transaction Costs/Scale Economies

Buying electricity on the open market has become a risky and complicated process. With dozens of power suppliers offering a confusing patchwork of contract terms, weighing the merits of competing bids can be a daunting task, especially for companies with limited experience in competitive power procurement. While most companies expect to pay less for electricity in deregulated markets, poorly negotiated contracts, defaulting suppliers, and failure to understand the "fine print" have actually resulted in higher energy costs in many cases.

Load aggregation creates economies of scale by making it possible for companies to share the cost of supplier selection and energy contract management. NJMEP has partnered with Concord Energy Services, an independent energy manager experienced in packaging load data for the market, managing the RFP process and leading the negotiations with suppliers in order for the participating members to realize additional savings. By partnering with Concord, participants will have access to a higher level of expertise in the power procurement process, and the aggregate group will typically enjoy more competitive rates and lower transaction costs than they could achieve working independently.

Conclusion

Electric load aggregation is one of the most effective means of maximizing savings and mitigating risks in today's emerging power markets. It is important to note, however, that pricing for members of an aggregate group may vary depending on individual load factors, cost of service, and supply objectives. Despite minor pricing variances, electric load aggregation represents a powerful cost-reduction tool for companies with varying load shapes and sizes.

For additional information, please visit
www.concord-engineering.com/njmep_energyalliance.html

