

# Powering Utilities Savings: Flexibility in Contracts Helps Keep Costs Down

BY DAVE SCHAFER

**Because it's funded by the 2.5 million taxpayers of Dallas County, Parkland Health & Hospital System is diligent about spending its money prudently. That includes securing the best price on utilities.**

"There's a trickle-down effect to our utilities and other entities we do business with. That cost affects our patient care by helping keep the cost down for our patients," said Michael Wood, Parkland's director of engineering.

Parkland Memorial Hospital, which has 861 adult beds and 107 neonatal beds, is Dallas County's public hospital and the primary teaching hospital for The University of Texas Southwestern Medical Center. It focuses on its patients and providing a strong foundation for a healthy Dallas.

But the hospital's expertise isn't in energy or gas, so when its contracts for electricity and gas services were nearing expiration last year, it sent out a request for qualifications for a consultant to secure the best rates for the next three years, with two additional one-year options.

Adding complexity to the process of securing new utility rates, the new Parkland, the largest hospital under construction in the nation, is scheduled to open in the summer of 2015. That makes usage projections for future budgets more difficult as construction timelines shift, the new hospital ramps up, and the current hospital decreases its utility usage.

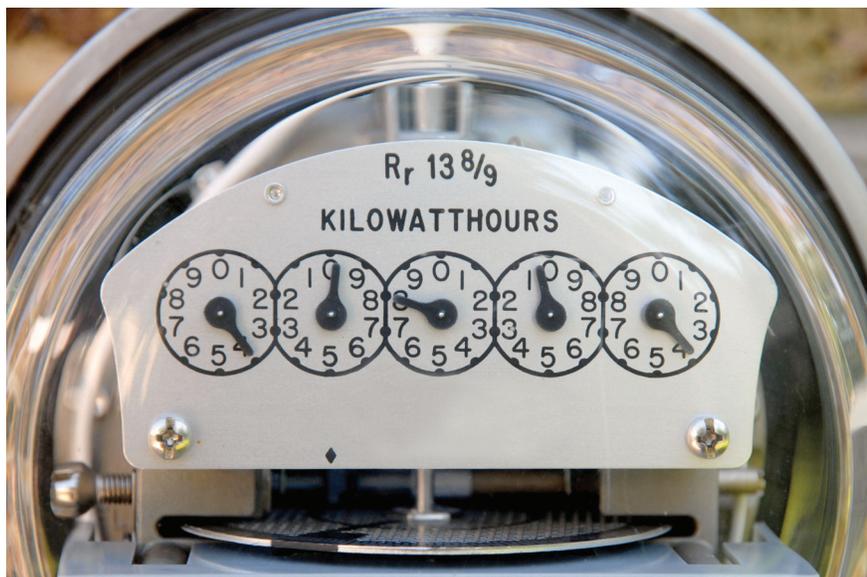
Priority Power Management, an independent energy management and consulting services firm that works with companies across a broad spectrum of industries, including universities, churches, municipalities, and oil and gas, met all the county facility's criteria and won the bid.

"Because we not only deal with energy suppliers but also with energy producers, we think that gives us a unique

perspective on the market," said Mike Brasovan, Priority Power's executive vice president.

Priority Power also has extensive experience working with health care companies.

"Certainly in Texas, there's probably nobody with more health care experience," Brasovan said.



## Taking Advantage of Price Drops

Priority Power worked with facility managers and engineers to create energy-use projections for the new contract, which covered the current hospital, the new hospital and about 20 other facilities the system leases.

The firm then put together a request for proposals, reviewed the bids and consulted for the Parkland committee

that selected TXU Energy as the new electricity provider from among 10 bidders.

Instead of locking in a fixed price that lasts the entire 36 months of the agreement, the contract locked in a formula that determines the power rate based on natural gas prices and allows Parkland to lock in the fuel portion of the "heat rate" formula bit-by-bit, locking in future months at any time during the contract. That way, Parkland can take advantage if prices drop during the contract period.

"We see locking in a fixed price over a long term based on prices on a particular day in 2014 as a big gamble," Brasovan said. "Most customers think of getting a long-term fixed price as the least risky option because they know what the price will be two, three years down the road. But we really look at that as a bigger gamble because they're betting that today's the day to lock in that price for the next three years. It's kind of putting all their eggs in one basket."

The non-fixed option manages the price risk into the future and puts the customer in the driver's seat with respect to how they purchase their power, Brasovan said.

Over the next three years, Priority Power will monitor the power prices and advise Parkland on when to lock in a rate for a block of months.

"The nice thing about having Priority Power there is that there's a lot of monitoring and checks and balances and things that have to happen since the rate isn't already locked in," Wood said. "They're watching it and giving us the best deal for that particular block of energy."

After the contract for electricity was completed, Priority Power provided the same consultation for gas services.

### **Budget Projections**

Brasovan and Jeremiah Bastian, Priority Power senior account executive, also advised Parkland on how much energy and gas the system will be using over the next three years.

"It's always a benefit to a hospital or an organization when they can take a two-, three-, four-, five-year snapshot and see what their costs are going to be. It allows them to budget accordingly," Wood said.

When Wood and Eric English, Parkland's building and grounds manager, were asked to provide utility projections, numbers and breakouts for administrative reasons, Priority Power was responsive.

"They're available, and they turn requests for information around quickly, which allows us time to go back and forth for clarification if we need to," Wood said.

### **Hundreds of Thousands in Savings**

The contract with TXU took effect April 2014. When electricity prices started climbing in the summer, Priority Power advised Parkland to lock in the next four months before they climbed higher. Then, when the price started coming down, they advised locking in through October 2015.

By doing that, Parkland is saving more than \$500,000 compared to the benchmark price it would have paid if the rate had been locked in the day the contract was signed. Bastian estimates the system will save another \$200,000 from November 2015 through August 2016, months that aren't locked in yet.

"If we save a customer two, three, five or 10 times our fee, they not only see it as a savings value but also as giving them the ability to focus on their business while somebody else who's an expert focuses on their power," Brasovan said.

"We believe we're getting the best rate available – and that directly affects the costs associated with patient care," Wood said. \*

## **Priority Power Management**

Established in 2001, Priority Power Management is an independent energy management and consulting services firm whose sole purpose is to act as an extension of its clients' staff to mitigate the risk and overcome the challenges associated with energy supply, information and demand management. It has more than 1,200 clients and about 12,000 accounts nationwide with a 97 percent client-retention rate.



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