EXECUTIVE SUMMARY

Overview

The State of Ohio is pleased to submit this application for your consideration. The procurement initiative offered for your review is the Natural Gas Purchasing Program, administered by the Department of Administrative Services, General Services Division, Office of Procurement Services.

The current program, which began in July 1998, differs markedly from our original 1994 program and represents a third generation of improvements. The state has experimented with other gas procurement models such as combined supplier/administrator with guaranteed savings, administrator with fixed price, administrator with guaranteed savings, and other variations. The current program incorporates lessons learned from these models and those of other states.

Results over the past eighteen months have been impressive. The number of accounts in the program has better than quadrupled, savings have averaged **26%,** and late fees have been eliminated.

Innovation, Uniqueness and Originality of an Innovation

Most states administer natural gas programs for government agencies, so the concept itself is not unique. However, the current program has several innovative features that distinguish it from other purchasing programs of this type:

- **Private sector flexibility.** Using a third party administrator, the state can purchase gas at fixed price, variable price, or any combination thereof as the marketplace. It would not be possible to generate impressive savings without this flexibility.

- **Bill simulation and bill verification.** The state uses the gas company's meter readings and the latest Public Utilities Commission filings to simulate the bill under the correct utility rate structure. This feature allows the program to detect billing errors, check for reasonableness, and determine if a better rate is available. Few (if any) programs are self-auditing in this manner.

- **Electronic billing and customized billing.** Almost all of the state government accounts are invoiced and paid electronically, reducing administrative cost and eliminating late fees. Other non-electronic accounts can be billed in a customized fashion, aggregated to a particular cost center.

- **Cash management.** Because the suppliers may change each month, and not all suppliers are able to accept electronic fund transfers, the private administrator actually pays the supplier and local gas company, and in turn bills the state's customers on a combined electronic invoice. The cost for this cash management is built into administrator's fee per unit of gas.

- **Incentives for best price.** The administrator is compensated per unit of gas purchased, which is an incentive to expand the program. As more customers are added, greater volumes mean lower prices for everyone. This fee structure also allows customers to join with no startup fees.

Potential for Transferability

Deregulation in the industry allows all states to create a similar program. This model could be easily replicated with no budget and no initial fees for participants. States can use existing competitive selection processes to choose an administrator who will in turn select suppliers on a competitive basis. Any database, records, and reports are created using off-the-shelf software.

Service Improvement

Previously, state agencies had assumed accuracy in the utility's bill and paid a paper invoice each month. Currently, the program checks the utility's bill for proper charges and rates, invoices electronically at the new lower rate, and issues a summary report annually. The payment process has been streamlined and late fees have been reduced to zero.

Demonstrable Cost Reduction

From July 1998 to December 1999, the program has saved participating agencies $6,167,930, or 26% over the best available utility rates (see Attachment 1). Each account receives a savings report at the end of the reporting year (see Attachment 2). In addition, the program has been able to recover $127,982 in utility overcharges (see Attachment 3).

Participation of Using Agencies

Participation has increased dramatically within the eighteen-month period. From July 1998 to December 1999, the number of accounts increased 460% from 170 to 953 (see below). The amount of gas purchased increased 147%, from 1.7 billion cubic feet (bcf) to an estimated 4.2 bcf.

New customers in the eighteen-month period include 52 local governments who are participating through the state's cooperative purchasing program. The state launched an ambitious marketing campaign to recruit new participants in late 1998, using brochures (see Attachments 4 & 5) and the office's Internet home page.