

EXPERTS' FORUM

LEGAL

BANK/FINANCIAL

ACCOUNTING

HUMAN RESOURCES

TECHNOLOGY

OPEN FORUM

VIEW ALL

Open Forum | ARTICLE DETAIL

(09/06/09)

[link](#)
[email](#)
[print](#)

“How Municipalities Can Reduce Energy Price Volatility”

Similar to businesses, cities also can feel the pressure from volatility in the energy markets. Some cities in Greater Minnesota have met this challenge by owning their own gas utility, operating as a municipality and taking control of the purchasing decisions for the entire city's natural gas needs – both residential and commercial. While this can reduce energy costs by cutting out the utility middleman, controlling the natural gas distribution for an entire city can be a complicated endeavor. Unlike a business purchasing energy from a utility, if a city municipality misjudges the amount of energy it needs to operate, residents and business owners are responsible for the cost fluctuations at the end of the month.

As an example, Two Harbors is a city located north of Duluth along the shores of Lake Superior. The city has successfully run its municipality for many years and is one of more than 30 municipalities in the state. Recently, the city was exposed to the complexities of owning its own energy supply when one of its largest industrial companies decided to significantly reduce production – eliminating sizable demand for the city's natural gas. Unfortunately, Two Harbors had already forward purchased a set amount of natural gas for the city, relying on the usual demand from this industrial business. As a result, the city had remaining fixed priced gas, which would be paid for by everyone in the city.

Fortunately, Two Harbors was able to sell the excess capacity and natural gas with the help of its energy manager, but the situation can be all too familiar for many municipalities. Below are strategies municipalities should consider when making energy purchasing decisions.

Buy from the open market

The City should take advantage of owning contracts with several natural gas suppliers. The city's energy buyer might want to consider as many price quotes as possible to build competition between suppliers for the sale of natural gas. Granted, natural gas is a commodity and the price will fluctuate with the national supply and demand, but the premiums that suppliers add on to the wholesale price are frequently negotiable.

Choose reliability over price

Although the price of natural gas is important to any budget-driven buyer, the reliability of natural gas should not be comprised when purchasing for an entire city. Unlike an industrial business that might have a backup system to keep a plant running if there is a disruption, most residential owners do not have a back up plan for heating their homes.

Build or maintain storage

As a municipality, a city should build or maintain underground storage to complement their supply of natural gas. The benefits of underground storage will allow a city to buy and store an additional energy supply while prices are at seasonal lows and use that supply when prices are at their most volatile.

Employ a price risk strategy

One of the most important strategies to successfully running a city municipality is to properly assess the city's risk profile – how the city wants to purchase natural gas and the amount of price volatility it can afford. The best action is to sit down with an energy management professional to create a price risk strategy that will best meet the needs of the community. No two cities are alike and city officials should ensure that a pricing portfolio is unique to their municipality's needs and circumstances.

While not every city is able to create its own municipality, smaller rural towns that have the municipal option can mitigate the challenges of managing its own natural gas supply



SANDY ZOULEK
Account Executive
U.S. Energy Services
szoulek@usenergyservices.com
www.usenergyservices.com

RECENT ENTRIES

Secrets of a Ve
KIRK HOAGLUND
Principal Consultant
Clientek 09/11/09

Business Surviv
Comes to the Ada
LAMAR HAMILTON
President, CEO
Core Vision, Inc. 09

Power of 2: Sor
Person for the Jol
RODD WAGNER
Principal
Gallup, Inc., 09/10/09

Minnesota Sale:
JEFF BROWN
CPA and Senior Tax
Eide Bailly LLP 09/0

