

Procurement of Electricity and Natural Gas Through Aggregators

In the City of Albany; Town of Amherst;
Counties of Broome, Cortland and
Oneida; and the School Districts of
North Syracuse and West Seneca

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Report Highlights

In the City of Albany; Town of Amherst; Counties of Broome, Cortland and Oneida; and the School Districts of North Syracuse and West Seneca

Audit Objective

Assess whether local governments and school districts that utilize aggregators for energy purchases are ensuring they are procuring electricity and natural gas at the lowest prices.

Key Findings

- Five of seven units reviewed (City of Albany; Counties of Broome, Cortland and Oneida; and North Syracuse Central School District) did not adequately evaluate procurement options or make benchmark comparisons to ensure they received the lowest prices for electricity and natural gas.
- Five units (City of Albany; Counties of Broome, Cortland and Oneida; and North Syracuse Central School District) spent approximately \$2.4 million (67 percent) more for electricity than a potential benchmark we identified for comparison.
- Three units (Broome County, Cortland County and North Syracuse Central School District) spent approximately \$391,000 (51 percent) more for natural gas than a potential benchmark we identified.

Key Recommendation

- Evaluate procurement options and compare to potential benchmark rates to help ensure the lowest possible prices are procured for electricity and natural gas.

Background

We audited the procurement practices for electricity and natural gas through aggregators in the following seven units: City of Albany; Town of Amherst; Counties of Broome, Cortland and Oneida; and the School Districts of North Syracuse and West Seneca. Each unit's officials have a responsibility to ensure electricity and natural gas are obtained at the lowest possible prices. This global report summarizes the significant issues at all of the units audited.

Quick Facts

Municipality	Electricity and Natural Gas Costs
City of Albany	\$1.7 million ^a
Town of Amherst	\$1.7 million
Broome County	\$2.2 million
Cortland County	\$360,000
Oneida County	\$2.4 million
North Syracuse Central School District	\$1.3 million
West Seneca Central School District	\$370,000 ^b

^a Estimated electric and natural gas costs. See Appendix C for methodology.

^b West Seneca Central School District did not procure natural gas from an aggregator.

Audit Period

January 1, 2016 – May 31, 2017. For certain municipalities, we extended our scope back to July 1998 to review Board resolutions, April 2013 to review contract terms, May 2015 to evaluate cost comparison reports, and September 2015 to review contract correspondences.

Procurement of Electricity and Natural Gas

In the 1990's, electric and natural gas industries in New York State (NYS) were opened to competition. An Energy Service Company (ESCO) is an entity eligible to sell electricity and/or natural gas using the transmission or distribution system of a local utility company (LUC). The LUC may also continue to provide electricity and natural gas. LUC utility rates are regulated by the NYS Public Service Commission and are generally based on service classifications, such as high usage and whether the customer is commercial or industrial.

An aggregator may be described as an organization or individual that brings customers together as a group with the objective of obtaining better prices, services or other benefits, such as energy or related services.

How Should Officials Evaluate Aggregated Electricity and Natural Gas Rates?

Local government and school district officials have a responsibility to ensure that they use taxpayers' resources as prudently as possible. Officials should fulfill this responsibility, in part, by fully evaluating procurement options and comparing to benchmark rates before committing resources. The more significant the resources that are to be expended, the more effort officials should put into the decision making process to help ensure funds are used efficiently. For example, officials could conduct analyses of various vendors and rates to assess potential cost savings. If a vendor provides a cost savings analysis, officials should ensure it contains sufficient information to evaluate whether the analysis is accurate, relevant or reasonable.

NYS Office of General Services (OGS) and local government contracts, along with LUC rates, can provide benchmarks to assist in assessing the reasonableness of the contract rates and terms being considered. However, while purchasing through extended OGS and local government contracts have the potential to produce cost savings, municipalities are not required to use these contracts, and doing so does not guarantee a lower price.

Officials Did Not Evaluate Electricity and Natural Gas Contracts

Local governments and school districts did not always evaluate procurement options or make comparisons to potential benchmark rates to ensure they received the lowest prices for electricity and natural gas. We found Broome, Cortland and Oneida Counties did not receive cost savings reports and instead relied on their aggregator to obtain the lowest prices for electricity and natural gas. North Syracuse Central School District and the City of Albany received cost savings reports that were not reasonable or could not be evaluated (Figure 1). For example, North Syracuse Central School District received a cost comparison report between contract costs and LUC costs but did not assess it to ensure it was reasonable. As a result, officials were not aware the electricity's comparison report overstated the LUC's costs by \$244,415, or 82 percent, because the LUC

costs reported were not based on the District’s LUC rates. For example, the electricity cost comparison report showed the District paid \$579,036 and showed LUC costs of \$543,972 instead of actual LUC costs of \$299,557.

Although the City of Albany received cost comparison reports from the ESCOs, the ESCOs’ savings analysis did not provide sufficient information to assess whether the potential savings were accurate or reasonable. For example, the ESCO’s electricity analysis indicated comparison pricings between the ESCO and LUC for 24 months. However, it did not indicate how the ESCO determined the LUC pricing, since the rates differ significantly between service classifications, or which 24 months were used. The ESCO’s natural gas analysis also did not indicate how the LUC rate was calculated, since the rates vary significantly among the service classifications, or how the service classification rates were applied. Therefore, officials could not use the cost savings reports to evaluate the City’s utility procurement options and did not provide evidence to support they used other methods to evaluate the City’s utility procurements.

Without adequately evaluating procurement options or comparing benchmark rates, officials have little assurance that they are expending significant resources prudently and in the best interests of taxpayers.

Figure 1: Evaluation of Cost Savings Reports

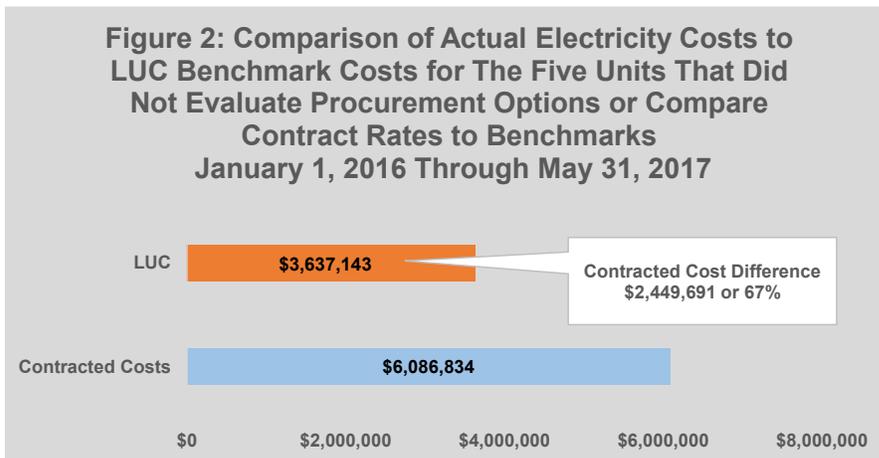
Unit	Electricity and Natural Gas Costs	Cost Savings Reports Obtained	Cost Savings Reports Prepared By:	OSC Determined the Reports Were:
City of Albany	\$1,670,457	Yes	Awarded ESCOs	Insufficient
Town of Amherst	\$1,746,517	Yes	Cooperative Consultant	Reasonable
Broome County	\$2,206,409	No	Not Applicable	Not Applicable
Cortland County	\$360,321	No	Not Applicable	Not Applicable
Oneida County	\$2,431,577	No	Not Applicable	Not Applicable
North Syracuse Central School District	\$1,263,114	Yes	Cooperative’s Administrative Participant	Inaccurate
West Seneca Central School District	\$372,591 ^a	Yes	Cooperative Consultant	Reasonable
Total	\$10,050,986			
^a Electricity costs only.				

Conversely, the Town of Amherst and West Seneca Central School District are provided energy price forecasts and monthly comparisons of their invoiced costs

to LUC benchmark costs. Their on-going evaluation processes have helped ensure that they are spending resources prudently.

The seven units spent \$10,050,986 for electricity and natural gas during our audit period. We reviewed electricity and natural gas purchases and made comparisons to potential benchmark costs we identified. Overall, we found that the units who did not evaluate procurement options or make contract rate comparisons to potential benchmark rates generally did not enter into favorable contracts.

Electricity – Positively, the Town of Amherst and West Seneca Central School District evaluated and monitored electricity procurement options and contracted for rates that were similar to the LUC’s benchmark rate we identified for comparison.¹ However, the City of Albany²; Broome, Cortland and Oneida Counties; and North Syracuse Central School District contracted for significantly higher rates than the LUC (Appendix A – Figure 4). These units paid \$6,086,834 for electricity, which totaled \$2,449,691 (67 percent) more than potential benchmark costs. (Figure 2).



Oneida County paid \$863,390 (71 percent) more for electricity than the LUC benchmark cost.

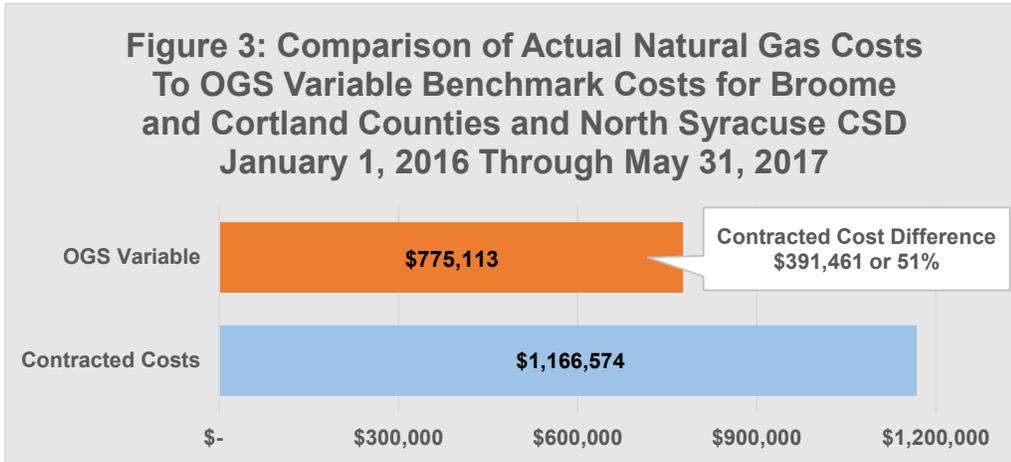
For example, Cortland County paid \$237,479 for electricity, \$108,443 (84 percent) more than the LUC benchmark cost of \$129,036. North Syracuse Central School District paid \$843,894 for electricity, \$379,828 (82 percent) more than the LUC benchmark cost of \$464,066. Oneida County paid \$2,078,365 for electricity, \$863,390 (71 percent) more than the LUC benchmark cost of \$1,214,975 (Appendix A – Figure 5).

Natural Gas –The City of Albany and Oneida County contracted for similar or lower rates than other potential benchmark rates. The Town of Amherst also evaluated and monitored its natural gas procurement and contracted for rates that were lower than potential benchmark rates. However, Broome County, Cortland County and North Syracuse Central School District contracted for significantly higher rates than other potential benchmark rates (Appendix A – Figure 6). These

¹ We included the LUC rates in the report for potential benchmark purposes only. Officials can use the LUC rates to help assess the reasonableness of the utility contract being considered.

² We reviewed \$1,345,199 of Albany’s electricity purchases.

units paid \$1,166,574 for natural gas, \$391,461 (51 percent) more than OGS variable benchmark costs (Figure 3). Because West Seneca Central School District did not use an aggregator to contract for natural gas, it was not included in this analysis.



Broome County paid \$219,109 (54 percent) more for natural gas than the OGS variable benchmark cost.

Broome County paid \$624,512 for natural gas, or \$219,109 (54 percent) more than the OGS variable benchmark cost of \$405,403. Cortland County paid \$122,842, or \$42,922 (54 percent) more than the OGS variable benchmark cost of \$79,920. North Syracuse Central School District paid \$419,220, or \$129,430 (45 percent) more than the OGS variable benchmark costs of \$289,790.

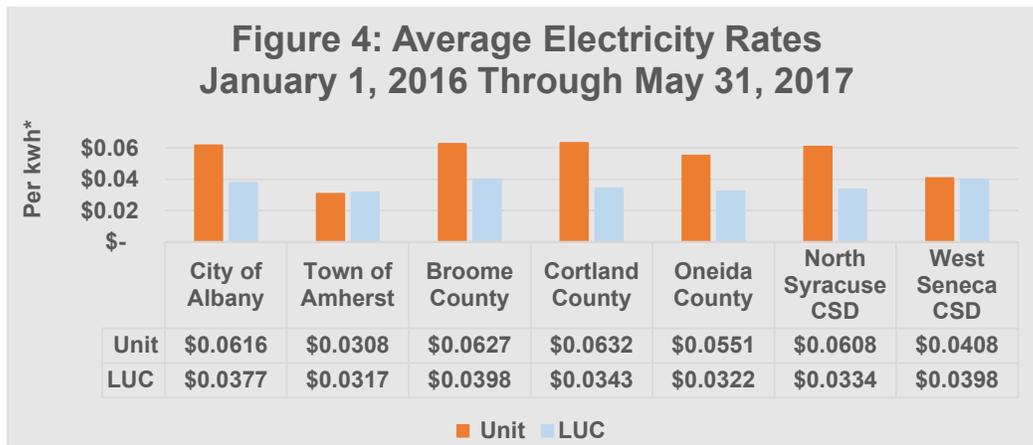
Conversely, Oneida County purchased natural gas from the OGS variable rate contracts totaling \$340,503, \$97,081 (22 percent) less than the OGS fixed rate benchmark. Of the \$340,503, only \$146,802 could be compared to LUC rates. The LUC does not offer a comparable service classification for the remaining \$193,701. Of the \$146,802, the County paid \$26,597 (15 percent) less than the LUC benchmark. The Town of Amherst purchased natural gas totaling \$295,367 from its ESCO supplier, \$76,794 (21 percent) less than the OGS fixed benchmark costs and \$11,125 (4 percent) less than the OGS indexed variable benchmark (Appendix A – Figure 7). Because Amherst officials evaluated and monitored their utility procurement options, they have an increased assurance that they are prudently spending funds for natural gas.

Without an effective evaluation process, there is an increased risk that the units may have spent significantly more for electricity and natural gas than necessary.

What Do We Recommend?

1. Officials should analyze and review other procurement options and potential benchmark rates prior to entering into contracts to ensure they obtain the lowest possible prices for electricity and natural gas.

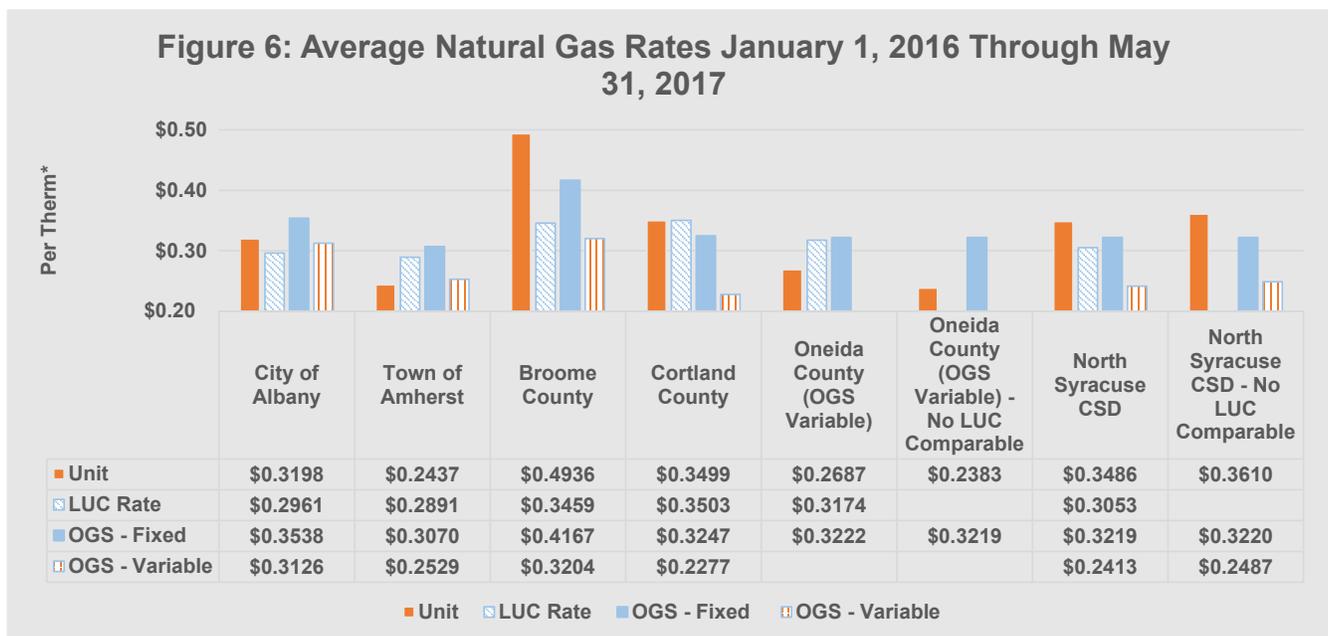
Appendix A: Commodity Average Rates and Costs



*Kwh (Kilowatt-Hour) is a unit of measurement used to measure electricity consumption.

Figure 5: Electricity Benchmark Comparisons January 1, 2016 Through May 31, 2017

Units	ESCO Supplier (Actual Cost)	Potential Benchmark Costs Local Utility Company	Supplier Difference	Percent Difference
City of Albany	\$1,345,199	\$823,731	\$521,468	63%
Town of Amherst	\$1,451,150	\$1,496,961	(\$45,811)	(3%)
Broome County	\$1,581,897	\$1,005,335	\$576,562	57%
Cortland County	\$237,479	\$129,036	\$108,443	84%
Oneida County	\$2,078,365	\$1,214,975	\$863,390	71%
North Syracuse CSD	\$843,894	\$464,066	\$379,828	82%
West Seneca CSD	\$372,591	\$363,426	\$9,165	3%
Total	\$7,910,575	\$5,497,530	\$2,413,045	44%



*Therm (Thermal Unit) is a unit of measurement used to measure gas consumption.

Figure 7: Natural Gas Benchmark Comparisons January 1, 2016 Through May 31, 2017

Potential Benchmark Costs										
Unit	ESCO Supplier (Actual Cost)	Local Utility Company			OGS Indexed (Variable)			OGS Fixed		
		Cost	Difference	Percent Difference	Cost	Difference	Percent Difference	Cost	Difference	Percent Difference
City of Albany	\$175,246	\$162,234	\$13,012	8%	\$171,324	\$3,922	2%	\$193,850	(\$18,604)	(10%)
Town of Amherst	\$295,367	\$350,390	(\$55,023)	(16%)	\$306,492	(\$11,125)	(4%)	\$372,161	(\$76,794)	(21%)
Broome County	\$624,512	\$437,659	\$186,853	43%	\$405,403	\$219,109	54%	\$527,286	\$97,226	18%
Cortland County	\$122,842	\$122,958	(\$116)	(0.1%)	\$79,920	\$42,922	54%	\$113,968	\$8,874	8%
Oneida County (OGS Variable) - LUC comparable	\$146,802	\$173,399	(\$26,597)	(15%)	No Comparison Available			\$175,995	(\$29,193)	(17%)
Oneida County (OGS Variable) - No LUC comparable	\$193,701	No Comparison Available			No Comparison Available			\$261,589	(\$67,888)	(26%)
Oneida County (OGS Fixed)	\$12,709	\$13,784	(\$1,075)	(8%)	No Comparison Available			No Comparison Available		
North Syracuse CSD - LUC comparable	\$295,974	\$259,168	\$36,806	14%	\$204,896	\$91,078	44%	\$273,311	\$22,663	8%
North Syracuse CSD - No LUC comparable	\$123,246	No Comparison Available			\$84,894	\$38,352	45%	\$109,938	\$13,308	12%
Totals	\$1,990,399									

Appendix B: Responses From Local and School District Officials

We provided a draft copy of the global report to all five local governments and two school districts we audited and requested a response from each. We received three written responses (City of Albany, North Syracuse Central School District (CSD) and Oneida County) and three verbal responses (Town of Amherst, Broome County and West Seneca CSD). Cortland County did not respond.

City of Albany officials said, "...The City has no objections to the key recommendations offered in this global audit..."

Town of Amherst officials verbally responded to the global report and referred us to the Town's Report S9-18-21 written response. In the Town's response, officials said, "...We were pleased to be commended for our ongoing evaluation and monitoring efforts to ensure that we procure energy services prudently and in the best interests of taxpayers...We hope this audit will result in some best practices that can be utilized by other Government entities to ensure their taxpayers are procuring electricity and gas at the lowest cost..."

Broome County officials verbally responded to the global report and referred us to the County's Report S9-18-18 written response. In the County's response, officials said, "...Fixed price from {the ESCO} through {the aggregator} cannot be accurately compared to variable pricing or to benchmarked averages over time..."

OSC Response: Benchmark averages can be used to evaluate whether the fixed price is reasonable. For example, the Town of Amherst and West Seneca CSD both evaluated their energy costs by reviewing monthly utility invoices which compared their costs to the local utility company's costs, which provided greater assurance they were expending significant resources prudently and in the best interest of taxpayers.

North Syracuse CSD officials said, "...There are significant and material differences between the supply arrangements that the Audit compares. While the {aggregator} contracts provide price and supply certainty for the full contract period, the reference Audit arrangements provide only short term pricing that varies on a daily (e.g., utility tariff service) or monthly basis.... When comparing market price options, a longer time period provides a broader and more complete review..."

OSC Response: Regardless whether cost savings or excess costs were realized, officials could not provide written documentation or verbal assertions during fieldwork to demonstrate that they entered into utility contracts without first evaluating the contracts or comparing prices to other procurement options. All contracts should be effectively analyzed and evaluated before taxpayer dollars are committed. Further, we made a comparison to the OGS natural gas contract, which also provides price and supply certainty for the full contract period.

Oneida County officials said, "... The draft report provided on November 5, 2018, propagates said inaccuracies, biased findings, and selective data analysis (County officials are referring to their individual letter report S9-18-20)...The report does not fairly represent the County's efforts to manage public funds efficiently, responsibly, and within the confines of State law..."

OSC Response: We stand by the audit results in both this global report and the County's individual letter report S9-18-20, in which we included additional notes to County officials' response to their audit. County officials indicate there are inaccuracies and biases in the global report but did not identify them. Officials also state the auditors used selective data analysis. However, auditors explained to officials that the audit scope period was set prior to the audit engagement and communicated to officials in the audit engagement letter. The audit period was consistent among all of the entities included in this audit.

Officials also conveyed they want a larger analysis period so periods of significant market fluctuations are considered. Regardless whether cost savings or excess costs are realized, the fact officials could not provide written documentation or verbal assertions during our fieldwork to demonstrate that the County entered into utility contracts without first evaluating the contracts or comparing prices to other potential procurement options remains the same. Officials did not comment on or provide additional information on what efforts they took or analysis they obtained and reviewed to ensure they procured electricity and natural gas at the lowest prices in either their response to their individual audit or their response to this global report.

West Seneca CSD officials verbally responded to the global report and referred us to the District's Report S9-18-24 written response. In the District's response, officials said, "...We are pleased that the audit showed that by regularly monitoring and comparing our electricity costs to local utility company's costs, we are ensuring that the District is procuring electricity at the lowest price..."

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We judgmentally selected seven municipalities based on units procuring energy through an aggregator(s), size of municipality for potentially higher supply purchases and geographic locations across the State.
- We interviewed officials and employees to gain an understanding of the electricity and natural gas procurement processes.
- We reviewed policies, procedures and Board minutes related to the procurement of electricity and natural gas.
- We reviewed contracts between the units and ESCOs to assess whether the units paid the contract rates, fees and surcharges.
- We analyzed cost comparison reports provided to the City of Albany, Town of Amherst, and North Syracuse and West Seneca Central School Districts to assess their reasonableness.
- We reviewed all electricity and natural gas invoices to assess total supply usage, service classifications and rates paid. However, for the City of Albany, we judgmentally selected five of the LUC's electricity master accounts, which consisted of 90 percent of supply and delivery payments to the LUC. We applied the percentage of the supply portion of the invoices to the remaining supply and delivery payments to obtain an estimated supply population total. We reviewed all supply invoices correlated to the five master electricity accounts to assess total supply usage, service classifications and rates paid.
- We obtained rates, based on service classifications, from the LUC and OGS and compared the unit's electricity and natural gas costs (usage and service classifications) to the LUC and OGS costs to assess whether there was a cost variance.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

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