

Case Study: How The Tennessee Valley Authority Turned eProcurement Services Into A Valuable Tool for Customers

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Last month's issue of Cool Tools for Purchasing featured an article on how the unique characteristics of the U.S. electricity generation and distribution industry have made it a fertile place for the collaborative eMarketplace business model. Greg King, vice president of sales and marketing for eProcurement solutions provider Elcom, wrote us an interesting letter in response to that article. He pointed out that the two eMarketplaces we profiled, Pantellos and Enporion, primarily serve private sector utilities.

"There are more than 2000 public (government owned) utilities in the U.S today," said King in his letter. "This segment of the industry is much more financially challenged, because public utility funding comes from town and city budgets, many of which are in a state of despair as a result of the current economy."

King went on to point out that two of Elcom's customers, Tennessee Valley Authority (TVA) and Colectric Partners, are operating successful eMarketplaces in the public utility segment. I don't know about you, but I can't resist a good case study, so when King offered to put me in touch with TVA to learn more, I gladly agreed.

TVA is the largest U.S. public power provider with \$7 billion in annual revenue. The self-financed organization generates electricity from 11 fossil plants, 29 hydroelectric dams, three nuclear plants, and a pumped-storage facility. It also produces 'green' or environmentally clean power from wind turbines, methane gas, and solar-collection panels. Through 17,000 miles of transmission lines, it sends power to large industrial companies and 158 distributors, which in turn serve 8.3 million consumers across seven southeastern states.

According to Paul LaPointe, TVA's senior vice president of procurement, TVA created its online procurement marketplace, eMarketplace Connection, to leverage its buying power and to offer tools to help its customers operate more efficiently. TVA's solution suite features a hosted, multi-tenant eProcurement platform (an eProcurement system that can be partitioned to support multiple customers with varying configurations), an online marketplace catalog representing more than 30 suppliers, and access to TVA's surplus items, courtesy of Elcom technology. TVA also provides its customers with the opportunity to participate in the TVA's group contracts. Of the 158 distributors TVA serves, 110 take advantage of the offerings in some way.

Leveraging TVA's eMarketplace Connection system reduces TVA's customers need to bid out every order. "Many have to go before their local board or even their town mayor to obtain approvals for purchases. That typically entails proving that the proposed order is fairly priced by soliciting multiple bids," explained LaPointe. "If they buy instead off of one of our competed contracts, they're often excused from this lengthy process."

Participating TVA distributors save on product costs as well, receiving access to the level of pricing that only the combined buying power of the group can earn. In order to buy off the group contracts, participants are required to attend commodity team meetings, help prepare bidding specifications, and commit to the group.

TVA is very happy with its eMarketplace. The Elcom software, PECOS, works great, "because it's incredibly easy and quick to use," said LaPointe.

The rise of the eMarketplace model in the electricity generation and distribution industry is clearly changing the way the industry buys. One of those changes is standardization among commonly used products. "Before our service was available, distributors acted completely independently. Each chose its own transformers, wire, cable, and pole-line hardware. Now, 32 of our distributors are using standard transformer specifications, and as a result, all have saved a tremendous amount of money or received other value-added benefits " said LaPointe.

This trend made me wonder whether the supply base for the utility industry as a whole is shrinking, and indeed, LaPointe said that this may be the case. "I can see this procurement method potentially impacting the size of the supply base," said LaPointe.

Aside from the issues that come along with market consolidation, suppliers are recognizing benefits from eMarketplace Connection. The flip side of the reduction of the '3-bid' process for buyers is that suppliers are no longer generating hundreds of quotes every week for small orders. As a result of product standardization, suppliers are able to carry fewer line items. And last but not least, "All their orders (from our eProcurement software) look exactly alike," said LaPointe. That means significantly less confusion over what an individual customer is actually expecting to receive.

Like our earlier article showed for the private power distribution sector, collaboration in the public utility industry is expanding rapidly. Here's a case in point: Colectric Partners, a not-for-profit organization serving public utilities, is leveraging TVA's group contracts to offer discounted pricing to its members. Colectric Partners, founded by Santee Cooper, Jacksonville Electric Authority (JEA), Nebraska Public Power District (NPPD), and the Municipal Electric Authority of Georgia (MEAG) also uses Elcom to power its hosted eProcurement technology, thanks in part to former TVA employee Tim Tilley. After Tilley retired from the TVA, he joined Colectric to spearhead its supply chain initiative, bringing the lessons he learned from TVA with him.

Why have separate eMarketplaces for public utilities? LaPointe's decision process highlights the divisive issue: The TVA couldn't join Pantellos originally, although it was interested, because the equity financing Pantellos sought was not within the scope of TVA's authority. Even though it is a fully self-funded organization, the TVA is, in effect, a federal government agency. "But we are a large buyer, and since we already had a lot of leverage, we didn't mind moving forward with our own eMarketplace," said LaPointe.

I'm not sure I foresee the two market segments so cleanly divided down the road, however. Although there are some clear differences between procurement in the public sector versus procurement in the private sector, such as the 3-bid sourcing process, there are also many similarities. Whether public or private, power distributors need the same equipment to lay out and manage their transmission lines, and they both have to be set up to regularly read meters. Besides, most procurement-based consortiums, including Pantellos, no longer require an equity investment for membership.

What I do see ahead for the U.S. electricity generation and distribution industry is an increase in participation in collaborative, group-based procurement initiatives. This is one industry where working together is clearly superior to going it alone.