

# Why choose Energy Procurement?

## Debunking the myths about auctions for energy procurement.

Many clients come to us with questions about the auction process and whether it is the best option for energy procurement compared to tenders. Here we debunk some of the myths about online reverse auctions:

**MYTH** Auctions are difficult for energy retailers to participate in.

Online reverse auctions are very simple. Energy retailers simply place the energy rates which they are willing to submit into the auction platform and click submit. It's so simple that energy retailer's build bids (energy offers) within minutes during an online reverse auction. They are also provided the convenience of building bids in advance of an auction occurring to minimise any inconveniences and allow them to manage their time.

**MYTH** Energy retailers are forced to submit bids at a predetermined time.

Client specifications are released to energy retailers at least a week in advance of each auction to provide the time to prepare their offers. Specifying an auction time also gives the client certainty on when results will arrive. The process of nominating a timeframe is no different to a deadline for a 'tender' or 'sealed bids' process. If an interested energy retailer indicates they are not available to participate within the time frame, these requests can be easily accommodated.

**MYTH** Energy retailers do not like to participate in auctions.

Australia's largest energy retailers participate in our online reverse auction platform, the Australian Energy Exchange. They appreciate the real-time feedback on their pricing and the opportunity for an instant right of reply to secure a contract. The auction platform is one of few procurement methods that allows them to review their pricing relative to their competitors. By participating in auctions energy retailers are made aware of the market's current pricing and a clear indication of their pricing position. This means auctions effectively 'set the price' for the closed tender market.

**MYTH** Energy retailers require trained staff to participate in an auction.

Auctions are very simple and easy to participate in. The process of building bids requires minimal time to explain and is largely self explanatory. It is a very efficient option for energy retailers to secure energy contracts, with much of the process automatically calculating and generating the completed energy offer.

**MYTH** Energy retailers don't have to be competitive to win business through auctions.

A reverse auction maximises competitive tension by providing the participating energy retailers with the price they must beat in order to win the energy contract. This differs from a tender-based method as energy retailers do not receive the instant feedback and opportunity for a 'right of reply'. Some may try their luck at presenting a high offer, but are very quickly outbid by other participating energy retailers. In the rare event that only one energy retailer participates in an auction, clients are offered the opportunity to conduct another auction at a later date, or participate in a closed tender process.

**MYTH** Energy retailers don't like auctions because they have to 'broadcast' their prices to competitors.

Auction bids from energy retailers are completely anonymous. Each energy retailer can only see the contract price they need to beat and cannot see which retailer has submitted this price, or what the specific details of each contract entails – only the total value. However, the client is able to see BOTH the contract value and the energy retailer who has submitted this offer. Individual peak, shoulder and off-peak rates are not disclosed until post-auction.

**MYTH** Tenders allow for multiple price periods, auctions do not.

Generally when an auction is built, we create numerous "auction scenarios" to cater for multiple pricing periods, or contract lengths. This is no different from the options a tender process can provide.

**MYTH** Metering fees and other charges are often hidden in auctions.

Auctions are completely transparent and contain no hidden fees. Metering charges are a pass through cost from data metering agents and not something an energy retailer can negotiate the price of within an auction. Additionally, a client's decision to take a metering contract for energy monitoring lies entirely with them and is outside the scope of the auction platform. Auctions on the Australian Energy Exchange incorporate contestable charges only: raw energy costs, environmental charges and retailer specific fees.

**MYTH** Auctions are an expensive exercise with little result.

Auctions continuously prove to be a cost-effective tool for clients wishing to utilise the service for energy procurement. The only fee a client incurs in relation to an auction is a registration fee, which covers the cost to build your customised specification. The competitive tension the auction process delivers often sees the value of this fee covered by the results it delivers. Over 90% of clients who participate in the auction select an offer provided by the energy retailer.

**MYTH** Energy retailers recommend auctions because they produce better results for them.

Energy retailers may recommend an auction because they are able to receive instant feedback on their pricing. There is no documented correlation favouring the savings achieved by clients choosing to use auctions, closed tenders, or sealed bids. We believe in many circumstances that the auction process is the most convenient option for all parties, however, we do facilitate closed tenders for clients if they prefer.

**MYTH** Auctions are more expensive because energy retailers have to factor in commissions.

All energy management companies receive a payment or commission – whether it is from the client, or the energy retailer. We receive our commission from the energy retailer as this ensures we only get paid when we deliver the service.

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Contact Energy Action for more information on Energy Procurement.

**Energy Action**

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