



## Case Study

### Ingalls Health System purchases electric power and natural gas through SPHERE Web-based reverse auction and achieves green energy savings

While energy markets are experiencing high demand and limited supplies resulting in volatile, soaring prices, Premier alliance member **Ingalls Health System** executed an electric power purchase contract which locked in the pricing of electric power for three years, and included 5 percent "green" electricity (produced from renewable resources). The contract resulted from the web-based Reverse Auction program offered by Premier, Inc. in partnership with Practice Greenhealth/Healthcare Clean Energy Exchange (PGH/HCEE).

Serving south suburban Chicago, Ingalls Health System includes a 563-bed hospital and a network of seven comprehensive outpatient centers.

#### ***Reverse auction drives prices down***

High energy costs are squeezing operating margins and diverting money needed for critical healthcare quality and patient care. In July, 2008, *Healthcare Design* reported the results of a national survey on energy and energy efficiency which showed that healthcare executives place a higher priority on energy efficiency than executives in other industries. There are significant opportunities for cost savings not only through improved energy efficiency but also through the purchase of lower cost energy.

The Reverse Auction program offered by Premier and Practice Greenhealth was developed to help hospitals cost-effectively lock in stable pricing and increase their percentage of green/renewable energy purchases, thereby reducing greenhouse gases (GHGs) and the health impacts of burning fossil fuels.

As the roles of buyer and seller are reversed, the reverse auction establishes competition among the suppliers who bid downward as suppliers compete on pricing. The reverse auction format permits a hospital the option of submitting multiple RFPs (requests for proposals) to generate simultaneous competition among energy suppliers. The hospital is able to evaluate different pricing for various contract terms and varying percentages of renewable/green energy in the RFPs.

#### ***Reverse auction for electricity results in savings and includes "green" in purchase***

A multi-disciplinary team comprised of Ingalls' executive, financial, and facilities management – together with PGH/HCEE, reviewed Ingalls' energy needs and analyzed data that resulted in ten separate RFPs that were put up for bid. RFPs were for contract periods ranging from 12 to 60 months and included both 100 percent conventional electricity as well as 5 percent "green" renewable energy.

On the day of the reverse auction, September 10, 2008, PGH/HCEE conducted the reverse auction for electric purchasing for all eight of Ingalls' facilities.

When the reverse auction was complete, the team reviewed all of the bids and, on the same day, Ingalls executed an electric commodity purchasing contract that included the purchase of 5 percent of its electricity from renewable sources. This represents a significant step towards reducing their carbon footprint by achieving an estimated 3,433-ton reduction of carbon dioxide, a critical greenhouse gas.

By comparison, EPA estimates that an average home in the US generates 5 tons of carbon dioxide if heated with natural gas and 8 tons if heated with electricity.

The 36 month contract is for the annual purchase of 29,488,474 kWh at a total cost of \$6,689,755. It is estimated that this represents a savings of \$375,000 over the entire contract period when compared to a traditional paper-based procurement process.

### ***Ingalls electric purchase exceeds Illinois Renewable Portfolio Standard***

On August 28, 2007 Illinois Governor Blagojevich signed Senate Bill 1592 into law which includes a Renewable Portfolio Standard (RPS) that is among the most ambitious in the nation. In Illinois, the RPS requires utilities to supply, for certain eligible customers, 2 percent of their power from renewable energy sources by June 1, 2008 escalating to 25 percent by June 1, 2025.

When the RPS is added to the 5 percent green component of the Ingalls purchase, Ingalls will be one of the first healthcare facilities in Illinois to achieve an overall 7 percent green by May, 2009 and 11 percent by the third year of their electricity contract.

### ***Reverse auction delivers competitive pricing, addresses energy challenges***

Describing the reverse auction process, Ingalls' CFO Vincent Pryor commented, "In real time, we watched the continuous downward movement of pricing. The process was completely transparent, and it clearly demonstrated that suppliers were willing to strip margins to the bare minimum. At the end of the auction, we were comfortable knowing that the pricing reflected the market at the time the auction was held."

"Through the reverse auction process we were able to include electric energy produced from renewable resources in our purchase and do so at a cost competitive with conventionally-produced electricity," noted Harold Richards, Ingalls' Director of Materials Management. "This is an important objective of our overall strategy for reducing our carbon footprint and thus contributing to public health."

Tom Hooper, Ingalls' Facilities Director, added, "Hospitals face many challenges in containing and reducing energy costs. By directly reducing the cost of energy, we now have the option to apply the savings to our energy efficiency initiatives and technologies to meet our challenge in further reductions in energy use and additional savings."

### ***Reverse auction for natural gas also delivers significant savings***

One week after the reverse auction for electricity, on September 18, PGH/HCEE conducted a reverse auction for natural gas for Ingalls. Three separate RFPs that were put up for bid. RFPs were for contract periods ranging from 5 to 29 months.

When the reverse auction was complete, Ingalls executed a purchasing contract for 17 months. This contract included a locked in "basis" price for the full 17 months and NYMEX pricing for natural gas for the winter months from November 2008 to April 2009 (see footnote for explanation of NYMEX and basis pricing). They will continue to monitor NYMEX pricing for the remaining 11 months of the contract to determine the best timing to lock-in NYMEX pricing for natural gas for next year's summer and winter months. Ingalls estimates that they saved \$465,000 over their contract period for their annual purchase of 112,431 decatherms of natural gas when compared to a traditional paper-based procurement process and their annual budget.

PGH/HCEE Director Nick DeDominicis observed that, "Because the reverse auction process outperforms traditional paper-based procurement, a reverse auction can deliver significant savings, and thus create the financial bandwidth for some percent of renewable energy procurement. That goes a long way toward achieving the goals of Premier and Practice Greenhealth, to help hospitals cost

effectively lock in stable pricing and increase their percentage of green/renewable energy purchases, thereby reducing GHGs and the health impacts of burning fossil fuels."

#### **More information:**

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- **Practice Greenhealth/Healthcare Clean Energy Exchange:** contact Nick DeDominicis, Director, Healthcare Clean Energy Exchange; 860-395-5333, (e-mail: [dedomn@practicegreenhealth.org](mailto:dedomn@practicegreenhealth.org))

#### **About Ingalls Health System**

Serving south suburban Chicago, Ingalls Health System includes a 563-bed hospital and a network of seven comprehensive outpatient centers that feature a full array of high-tech diagnostic and treatment services and the area's only Urgent Aid Centers for 24/7 access to minor emergency care. Ingalls Family Care Centers and Urgent Aids are located in Tinley Park, Flossmoor, and a currently expanding campus in Calumet City. Ingalls Health System also includes a Wellness Center in Homewood, Same Day Surgery in Tinley Park, Ingalls Center for Outpatient Rehabilitation in Calumet City and Ingalls Home Care & Hospice which provides skilled nursing, support and therapy services throughout the area. [www.ingallshealthsystem.org](http://www.ingallshealthsystem.org)

#### **About Practice Greenhealth**

Practice Greenhealth is the nation's leading membership and networking organization for institutions in the healthcare community that have made a commitment to sustainable, eco-friendly practices. Members include hospitals, healthcare systems, businesses and other stakeholders engaged in the greening of healthcare to improve the health of patients, staff and the environment. Practice Greenhealth combines and builds on three powerful initiatives to improve environmental performance in healthcare. It is the successor to Hospitals for a Healthy Environment (H2E) that has joined forces with the Green Guide for Healthcare (GGHC) and the Healthcare Clean Energy Exchange (HCEE) with the combined goal of creating programs designed to improve environmental performance in healthcare. For more information on Practice Greenhealth, visit [www.practicegreenhealth.org](http://www.practicegreenhealth.org).

#### **About Premier Inc., 2006 Malcolm Baldrige National Quality Award recipient**

Serving more than 2,000 U.S. hospitals and 50,000 other healthcare sites, the Premier healthcare alliance and its members are transforming healthcare together. Owned by not-for-profit hospitals, Premier operates one of the leading healthcare purchasing networks and the nation's most comprehensive repository of hospital clinical and financial information. A subsidiary operates one of the nation's largest policy-holder owned, hospital professional liability risk-retention groups. A world leader in helping healthcare providers deliver dramatic improvements in care, Premier is working with the United Kingdom's National Health Service North West and the Centers for Medicare & Medicaid Services to improve hospital performance. Premier's Safety Institute provides publicly available safety resources and tools to promote a safe healthcare delivery environment for patients, workers, communities and the environment. Headquartered in San Diego, Premier has offices in Charlotte, N.C., Philadelphia and Washington. For more information, visit [www.premierinc.com/sphere](http://www.premierinc.com/sphere)

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**NYMEX and Basis price for natural gas:** The price to purchase natural gas includes two components, the NYMEX price and the “basis.” The NYMEX is the current price of the commodity of natural gas traded on the New York Mercantile Exchange (NYMEX). The “basis” is the price between the NYMEX pricing point and cost of transportation of the natural gas from the Henry Hub in Louisiana to what is known as the “city gate” where the gas is delivered to the local utility company to distribute to the customer.