Reducing Hospital Energy Costs Through Innovative Contracting

Hospitals possess a powerful, yet underutilized, negotiation tool to substantially reduce operating costs. The consistent and predictable energy consumption by hospitals is an asset that can be used to negotiate rate reductions with energy suppliers. These negotiations, however, require hospitals to have staffing resources with a deep knowledge of the utility industry and an understanding of the energy commodity markets. Organizations without the knowledge and resources to accomplish this in-house can turn to Health Resource Network for assistance.

The Hospital & Healthsystem Association of Pennsylvania (HAP) has teamed up with Health Resource Network (HRN) to help hospitals manage their energy costs through innovative energy procurement strategies. HRN is an independent consulting firm that aligns with hospitals, not energy suppliers, to evaluate energy consumption and negotiate reduced-rate contracts with energy suppliers. Hospitals that have utilized HRN’s Energy Assessment Management Services have decreased their energy acquisition costs by a range of 17% to 42% for natural gas, and 13% to 46% for electricity.

HRN Services for HAP Members
Through HAP, hospitals can take advantage of HRN’s services in two ways:
1. Hospitals can aggregate their energy purchases with other HAP members—essentially buying in bulk—to receive wholesale pricing by increasing their energy purchasing volume.
2. Hospitals can engage HRN individually to evaluate energy consumption needs and use that data to negotiate reduced-price contracts with energy suppliers.

HRN has been working with hospitals in Pennsylvania since 1997, when it aggregated energy purchases among 10 hospitals in a pilot program that delivered a weighted average savings of 34% below utility prices for generation. Most recently, HRN completed an aggregated electric procurement strategy for HAP members in Pennsylvania’s PPL utility territory. These HAP members are now realizing an electric utility cost savings of up to 30% as a result of the effort.

“We’ve used Health Resource Network since 1997 to negotiate all our contracts with our energy suppliers. HRN has identified and implemented true reductions in our energy expense. The ability to gain market insight and to forecast long and short expenses gives us a true competitive edge and high ROI.”

Terry Capuano
Chief Operating Officer
Lehigh Valley Health Network

“HRN’s program has been highly effective for our organization—providing much greater benefits than we could have done on our own or anticipated. Pennsylvania Hospitals today are facing very difficult financial strains. The HRN-Hospital Association of Pennsylvania Electric procurement program makes financial sense to protect against financial risk of utility price increases.”

John E. Simodejka
President and Chief Executive Officer
Schuylkill Health System
HRN works directly with hospitals to develop an Energy Master Plan that addresses energy procurement, utilization and production (including renewable resources). The Energy Master Plan is based on historical energy consumption, predicted future needs, supplier options, contracting strategies and an analysis of factors that may influence pricing changes. Components of the Energy Master Plan include:

**Historical Consumption Analysis** – HRN evaluates previous energy utilization to develop a model that can predict future needs, taking into account organizational changes, such as facility expansion and other factors.

**Market Intelligence** – HRN clients benefit from information about market conditions that impact pricing, including technologies, weather, commodity pricing, tariffs, and delivery methods. Additionally, HRN can provide its clients with best practice comparative data.

**Supplier Sourcing and Management** – HRN is supplier-neutral to focus on the best interests of its clients. Each supplier undergoes a due-diligence process that assesses the suppliers’ financial and operational stability, and evaluates the supplier’s experience and service records related to delivering energy to Pennsylvania businesses.

**Contracting Strategies** – HRN combines all components of its Energy Master Plan to develop contracting strategies with the most leverage to reduce energy prices, ensure high service levels, and create the most favorable terms and conditions on behalf of its clients.

**Concurrent Bill Review** – HRN reviews energy supplier bills on behalf of its clients to verify that rates and other factors are compliant with the terms and conditions in existing contracts.

**Engaging HRN**
For more information on how HAP members can engage with HRN, contact:

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**The HRN Advantage**
HRN has been providing energy advisory services to hospitals since 1997, resulting in a deep understanding of healthcare organizations and their purchasing practices. This enables HRN to provide its clients with the operational and technical insight to identify cost-saving opportunities that can be implemented through innovative energy procurement strategies. HRN clients benefit from:

- Reduced electricity, natural gas and heating oil pricing
- Effective contract negotiations to earn best terms and conditions
- Market knowledge and insight into energy suppliers and rate-class options
- Efficient RFI and contracting processes
- Concurrent billing review to ensure accuracy and contract compliance
- Ongoing support

HRN provides HAP members with unparalleled experience in the Pennsylvania electric market, and is licensed by the Pennsylvania Public Utilities Commission to support clients in an energy procurement advisory role.

**HRN’s Energy Master Plan**

*HRN clients’ weighted average in four Northeastern U.S. states.*