

Nep: the art and science of purchasing coali

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National Electric Power is a multinational energy company with a variety of energy assets. NEP is headquartered in Columbus, Ohio, and has a service area of approximately 197, 500 square miles in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia. In 2001, NEP had revenues of \$61. 3 billion and carried \$47 billion in assets, making them the largest electricity generator in the United States. Deon Houston, vice president for the National Electric Power (NEP) Commodity Trading Division, was in the process of producing her annual sourcing report for the company's three-year plan. While NEP seems to have had success using the competitive bidding process, reverse auctions may be the wave of the future. Mrs. Houston was wondering if the reverse auction sourcing approach would work for purchasing the company's coal requirements.

Questions

1. As purchasing manager for NEP, what is your evaluation of the various alternatives open to Deon for the purchase of coal?
2. As the purchasing manager for NEP, what recommendations would you make to Deon regarding the purchase of coal?
3. What unique internal costs might be incurred when outsourcing? What can be done to minimize them? What should NOT be done to minimize them?
4. Comment on this quote (in detail! With examples!): the power of a supply chain member [is] the ability to control the decision variables in the supply strategy of another member in a given chain at a different

level of the supply chain. It should be different from the influenced member's original level of control over their own supply strategy.

5. Discuss the pros and cons of the major supplier evaluation processes. What would lead you to choose one of them (what situational characteristics)?