

MEMORANDUM

To: Mayor and Council
From: Matt Naud, ^{WJ} Environmental Coordination Services 997-1596
Date: March 4, 2002
Subject: Authorization for the City Administrator to Purchase Electricity for City Facilities

This resolution requests that the City Administrator be given the authority to enter into contracts for the purchase and delivery of electricity for City of Ann Arbor facilities. The ability to move fast to purchase electricity is necessary to obtain the best possible prices in the newly deregulated electricity market in Michigan. The City purchases approximately \$3.1 million in metered electricity/yr, of which \$2.2 million is for Water and Wastewater Treatment Facilities. This does not include street lights which are not eligible for this program.

Granting purchase authority to the Administrator for energy supply is not unprecedented. As part of a City program for the direct purchase of natural gas, the Ann Arbor City Council passed a resolution enabling the City Administrator to sign contracts for the purchase of natural gas for our major natural gas using facilities (the Water and Wastewater Treatment Plants) in September, 1988. This program has since saved the City over \$1,000,000 dollars. The resolution recognized that to successfully operate a program for the direct purchase of natural gas, the City needed the ability to act swiftly to take advantage of attractive prices on the natural gas market. A second resolution passed on January 19, 1999 expanded the natural gas purchase powers of the Administrator to cover all City facilities in response to the deregulation of the natural gas market in Michigan.

Michigan entered full electric utility deregulation on January 1, 2002. Electricity may now be purchased as a commodity from any number of suppliers. Similar to natural gas, the prices fluctuate in a commodity market and can vary over a large range in a short period of time. The City needs to be able to react quickly to lock in a desirable price.

On November 9, 2000, Council approved a resolution for the City of Ann Arbor to join the Michigan Municipal League's "Local Energy Aggregation Program" (LEAP) for the purpose of purchasing electricity in aggregation with other Michigan municipalities. It is believed that the larger buying power can realize better market pricing. Also, the bidding, negotiation, background and credit checks, and contract document creation services are all provided through the Michigan Municipal League, saving the cost of each City hiring their own consultants or devoting significant staff time.



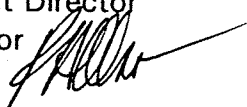
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The LEAP program has moved forward rapidly since the January 1st electric utility deregulation in Michigan and is now close to recommending an electric supplier contract. LEAP members have been asked to facilitate the rapid adoption of a contract with the selected electric supplier when the time and price is right. This includes giving authority to the City Administrator to purchase electricity. The current LEAP timeline calls for price negotiations in early-mid March with contract signing to occur as soon as possible after that. The final contract price will not be set until the contract is signed by the City and will be based on the electric market price on the day of the signing.

Market sampling by the Energy Office shows the City should save over 5% on electricity costs at City facilities. This can reduce electric costs by over \$150,000 for City facilities. This resolution seeks to give the City Administrator the authority to enter into Energy Office recommended contracts for the purchase of electricity as long as the contracted price for electricity is at least 5% below the current DTE Energy price for electricity. Without this authority, the City will have a difficult time pursuing electricity purchasing contracts as electric prices can change very quickly and suppliers are unwilling to lock in prices without a signed contract.

In July, 2001 the Michigan Legislature passed a bill stating that electric marketers are not utilities. This legislation was intended to remove the necessity of obtaining a municipal franchise to sell electricity in a Michigan community. It is felt that Ann Arbor can no longer require an electric supplier to sign a franchise. However, this does not remove the communities desire to encourage the use and development of renewable energy. In the annual City Survey 61% of the citizens polled said they would support the City of Ann Arbor if it purchased green power to use in city facilities. This resolution includes the requirement that if the electricity purchased does not have a minimum of 5% generated from green, renewable energy sources (e.g., solar, wind, hydro, or biomass energy sources), then 20% of the savings realized as compared to the cost of electricity from DTE Energy from the electric purchase contract will be set aside to be used for the purchase or development of additional renewable power for City facilities as recommended by the Energy Office. This 20% is estimated to be about \$30,000 per year.

Prepared by: David Konkle, Energy Coordinator
Reviewed by: Matt Naud, Environmental Coordinator 
Abigail Elias, City Attorney 
Susan McCormick, Utilities Department Director
Approved by: Ronald Olson, Acting City Administrator 

CA-947

R-105-3-02

**RESOLUTION TO AUTHORIZE THE CITY ADMINISTRATOR TO PURCHASE
ELECTRICITY FOR ALL CITY FACILITIES**

Whereas, the state of Michigan became fully deregulated for the purchase of electricity starting January 1, 2002;

Whereas, the purchase of electricity is a commodities market which necessitates quick action to take advantage of low prices;

Whereas, the City Council approved a resolution authorizing the City Administrator to purchase natural gas for the Water and Wastewater Treatment Plants on September 6, 1988, to facilitate the purchase of natural gas in the commodities market;

Whereas, the City Council approved a resolution expanding the authorization for the City Administrator to purchase natural gas for all City facilities on January 19, 1999 when the Michigan natural gas market became deregulated;

Whereas, the City Council approved the City of Ann Arbor joining the Michigan Municipal Leagues "Local Energy Aggregation Project" (LEAP) on November 9, 2000;

Whereas, the Municipal League is advising all LEAP members to authorize the City Administrator to purchase electricity in order to move fast to capture the best available prices; and

Whereas, the Ann Arbor Energy Policy requires the City to encourage the use of renewable energy for City operations whenever feasible;

RESOLVED, That the City Administrator be authorized to enter into contracts for the purchase of electricity for any or all City facilities as long as the price of electricity is at least 5% less than the current price available from DTE Energy and is recommended as the best available offer by the Ann Arbor Energy Office.

FURTHER RESOLVED, That if the electricity purchased does not have a minimum of 5% generated from green, renewable energy sources (e.g., solar, wind, hydro, or biomass energy sources), then 20% of the savings realized as compared to the cost of electricity from DTE Energy from the electric purchase contract be set aside to be used for the purchase or development of additional renewable power for City facilities as recommended by the Energy Office

Submitted by: Environmental Coordination Services
Date: March 4, 2002

APPROVED
BY ANN ARBOR CITY COUNCIL

MAR 4 2002

CITY CLERK
ANN ARBOR, MI

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