



## Legislation Text

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File #: 22-0076, Version: 1

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Resolution Requesting the Completion of a Feasibility Study Regarding Creation of a Traditional Municipal Electric Utility and an Evaluation of Other Energy Pathways to Achieve the City's Clean Energy Goals, Along with Initiation of Next Steps to Advance a Local Municipal Sustainable Energy Utility (SEU)

On June 1, 2020, Ann Arbor City Council unanimously adopted the A<sup>2</sup>ZERO Carbon Neutrality Plan, setting the goal of achieving a just transition to community-wide carbon neutrality by the year 2030. Achieving this goal will require action across all scales and sectors of the local community, especially a just transition of our energy system from fossil fuel-based generation to 100% renewable energy-based generation. Recognizing the importance of transitioning our electric grid to renewable energy, in January of 2021, Ann Arbor City Council unanimously adopted a series of Energy Criteria and Principles that lay out the core concepts that the City is looking to maximize as it makes energy-related decisions.

Following the adoption of these Energy Criteria and Principles, the City's Energy Commission began a multi-months long energy education series to dive more deeply into different pathways that could help the City meet its clean energy goals. During this series, the idea of creating a local municipal electric utility emerged. For months the Energy Commission heard comments and presentations about the concept, along with about a dozen other concepts and pathways that could support the City's goal of powering the community with 100% renewable energy.

At their December 2021 session, the Ann Arbor Energy Commission passed a resolution encouraging City Council to simultaneously:

1. Conduct a study assessing the cost and technical feasibility of starting our own traditional municipal electric utility through a buyout process that would *replace* DTE;
2. Conduct an options analysis to assess the viability of other pathways to transitioning our electric grid to 100% renewable energy, including many of the pathways explored by the Energy Commission during 2021 (e.g., vPPA, MiGreenPower, offsets, local generation)
3. Immediately move the concept of a local Sustainable Energy Utility forward by generating a potential staffing and governance structure, registering public interest, conducting a rate analysis, starting a technical assessment into micro and nanogrids, and drafting an ordinance to formally create the sustainable energy utility to *supplement* services provided by DTE.

This resolution presents a pathway to move all three of these concepts forward so that the City can make more informed decisions about the best ways to power our electrical grid with 100% renewable energy.

**Budget/Fiscal Impact:** No funding source has been established for a feasibility study of a traditional municipal electric utility or the completion of an energy options analysis. The City will have to create an RFP and solicit bids to complete these analyses. As such, it is unclear exactly what the cost for completing this work will be until bids have been returned but it is highly likely that the winning proposal will come to City Council for consideration before these studies can move forward.

Funds have been allocated in the FY22 Office of Sustainability and Innovations budget to support efforts outlined in this resolution to advance the Municipal Sustainable Energy Utility. The winning proposal to complete the technical assessment of the micro and nanogrid, and the SEU-specific rate analysis, will likely come to City Council for consideration before they move forward.

Prepared by: Missy Stults, Sustainability and Innovations Director

Approved by: Milton Dohoney Jr., Interim City Administrator

Whereas, City Council on November 4, 2019 approved a resolution declaring a climate emergency and setting a goal of achieving a just transition to community-wide carbon neutrality by 2030 (R-19-498);

Whereas, At its June 1, 2020 meeting, City Council approved the Living A<sup>2</sup>ZERO Ann Arbor Carbon Neutrality Plan (R-20-193), incorporating the 2030 goal;

Whereas, The generation of electricity accounts for roughly 40 percent of Ann Arbor's 1.8 million metric tons of annual greenhouse gas emissions;

Whereas, The vast majority of this electricity is purchased from DTE Energy, which holds the franchise to serve Ann Arbor, and which powers its grid primarily through the burning of fossil fuels;

Whereas, To help support the transition to clean energy and evaluate energy-related options for achieving Ann Arbor's clean energy goal, the Energy and Environmental Commissions recommended, and City Council adopted, Core Criteria and Principles for Achieving Ann Arbor's Renewable Energy Goals, including: reducing greenhouse gas emissions; ensuring projects are additional; grounding actions in equity; enhancing resilience; maximizing local generation; acting fast; finding solutions that are scalable and transferable; and implementing cost effective solutions;

Whereas, Michigan law authorizes municipal electric utilities that either *replace* or *supplement* services provided by an existing franchise holder;

Whereas, The Ann Arbor City Charter, section 15.1, states that "The City shall have all the powers granted by law to acquire, construct, own, operate, improve, enlarge, extend, repair, and maintain public utilities," including electric light and power;

Whereas, Some members of the community have expressed interest in exploring the creation of a traditional municipal utility that would *replace* all DTE services, some members have expressed interest in a municipal sustainable energy utility that would *supplement* service from DTE, and some members have expressed an interest in other pathways;

Whereas, The replacement of DTE would require a detailed feasibility study, including estimates of both the potential municipal utility's and the incumbent utility's future revenues and rates, the cost of acquiring its distribution network - including physical assets as well as any separation, reintegration, and stranded asset costs, and estimated power supply costs - and the costs to power the utility with 100% renewable energy. Such a study should also include an assessment of the quality of the incumbent utility's assets and any needed repair or replacement costs, along with the annual all-in operations and maintenance costs, financing sources for start-up costs and debt service, and a professional assessment as to the feasibility of creating a viable municipal electric utility that can provide reliable, clean (100% renewable) power at comparable rates to DTE;

Whereas, A recent report by the Office of Sustainability and Innovations and five technical advisors outlined a pathway *supplementing* DTE service through the creation of a municipal Sustainable Energy Utility (SEU), with next steps to advancing this concept including: developing a governance and staffing model, registering public interest in receiving certain service/s from an SEU, conducting a rate analysis for those services, initiating technical studies into the creation of micro and nano-grids, and drafting an ordinance to formally establish the SEU;

Whereas, These two pathways (replacement through a traditional electric utility or supplementing DTE service through the creation of a Sustainable Energy Utility) are not mutually exclusive or collectively exhaustive, but both necessitate additional investigation, are significant undertakings, and will require substantial time and additional resources to advance;

Whereas, The Energy Commission extensively studied and evaluated energy-related options for achieving Ann Arbor's clean energy goals during 2021 with public meetings on the topics of municipalization and/or SEU development at the Commission's March, October, and November meetings; and

Whereas, On December 14<sup>th</sup>, 2021 the Ann Arbor Energy Commission unanimously recommended Ann Arbor City Council authorize and fund a feasibility study to analyze and propose multiple pathways the City could take to meet its A<sup>2</sup>ZERO energy-related emissions reduction and clean energy goals, including studying the feasibility of creating a traditional municipal electric utility and an SEU.

RESOLVED, Ann Arbor City Council requests that the City Administrator create an RFP to formally study the technical, legal, and financial viability of multiple potential pathways the City could take to meet its A<sup>2</sup>ZERO energy-related emissions reduction, clean energy, and equity goals and how well each pathways aligns with Council's adopted: 1) goal of community-wide carbon neutrality by 2030; 2) A<sup>2</sup>ZERO plan and its three principles of equity, sustainability, and transformation; 3) Energy Criteria and Principles; 4) goal of achieving a just transition, where relevant, for workers in the fossil fuel industry;

RESOLVED, Ann Arbor City Council requests that the above RFP also ask for a detailed technical and financial analysis, including a rate analysis, related to the feasibility of creating a traditional municipal electric utility that replaces DTE and that such study includes elements such as: a direct engineering assessment of local DTE infrastructure; a preliminary asset valuation; an estimate of acquisition costs and related costs, as well as annual operations and maintenance expenses; total revenue estimates; identification of debt financing sources, amounts and schedules; estimates to purchase and install clean energy to power the utility with 100% renewable energy; and the modeling of future DTE rates against the potential municipal electric utility rates;

RESOLVED, Ann Arbor City Council simultaneously requests that the City Administrator further investigate the creation of a municipal sustainable energy utility by undertaking the following activities:

- Developing a proposed governance model and staffing support structure;
- Starting to register public interest in an SEU, including through wide-spread public outreach, with special emphasis to collecting the views of energy users in lower-income neighborhoods;

- Conducting a rate analysis for the first phase of the SEU;
- Initiating technical studies into the creation of micro and nano-grids within Ann Arbor; and
- Drafting an ordinance to formally create the SEU; and

RESOLVED, That in studying the options, all analyses should assume labor costs that assume similar compensation for employees of the new entity as DTE union wages or prevailing wages and benefits found in the City's applicable current union collective agreements, and application of the Best Value Purchasing Policy for all procurement.

RESOLVED, That the City Administrator be authorized to take the necessary actions to implement this resolution.

Sponsored by: Councilmembers Radina, Briggs, Eyer, Ramlawi, Nelson, Griswold, and Disch, and Mayor Taylor