

**APPROVAL OF AUTHORIZATION TO CONTINUE CONTRACTING
ELECTRICAL SUPPLY FROM AN ALTERNATIVE SUPPLIER**

A Recommendation

Introduction

In February 2000, the Board of Trustees approved a two-year contract for Electrical Retail Wheeling to contract for electrical supply in the Detroit Edison Electric Choice Program with the low bidder, Quest Energy of Ann Arbor, Michigan. Under that procurement process, bids were solicited and the electric "supply" component was contracted separately from Quest, and Detroit Edison merely transmitted the pre-purchased electric supply commodity to the University meter(s). Power delivery from Quest began in August 2002 and ended in July 2004. The University's contract with Quest resulted in an approximate savings of \$500,000 in FY03 and \$380,000 in FY04 as compared to the default Detroit Edison electric rate.

Due to unfavorable power market conditions and regulatory uncertainties, in August 2004, the University returned to Detroit Edison as a full service customer. The University is committed to Detroit Edison for a period of 12 months, unless a decision is made to return to the Electric Choice program that will require payment of a market-based power charge. However, there is a rate case before the Michigan Public Service Commission which may waive the market-based power charge and allow customers such as the University to return to the Electric Choice program without penalty. A final decision on that case is expected before the end of the calendar year.

To take advantage of fluctuating market conditions timely, and to provide the University with budget stability, the University wants to establish an approved procurement process for contracting for electrical supply from alternative suppliers on a continuing basis, under the following conditions:

All electrical supply contracts with alternative suppliers will be:

- (1) subject to the bidding policies approved by the Board of Trustees;
- (2) awarded to the lowest responsible bidder;
- (3) for a term no less than month-to-month and no more than five years including extensions;
- (4) for a "total cost" that is less than or equal to the total cost of electric supply provided by Detroit Edison, where "total cost" is the sum of (a) electric supply consumption multiplied by the applicable rates/tariffs, (b) penalties, if any, (c) distribution costs, and (d) administrative costs;

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- (5) in compliance with the law and University policies and regulations and will conform to the legal standards and policies of the Board of Trustees;
- (6) reviewed and approved by the University's Office of the General Counsel prior to execution;
- (7) executed by the Vice President for Finance and Administration; and
- (8) any electrical supply contract with an alternative supplier that does not meet the foregoing conditions will be approved by the Board of Trustees.

The University's energy management staff will continue to monitor legislative, regulatory, and market conditions to optimize the University's electric purchasing strategy. The status of these efforts will be reported to the Board of Trustees in the Annual Energy Report.

Recommendation

RESOLVED, that the Vice President for Finance and Administration is authorized to enter into contracts with alternative electric suppliers to purchase electrical supply on a continuing basis, provided however, that all such electrical supply contracts must be:

- (1) in compliance with the bidding policies approved by the Board of Trustees;
- (2) awarded to the lowest responsible bidder;
- (3) for a term no less than month-to-month and no more than five years including extensions;
- (4) for a "total cost" that is less than or equal to the total cost of electric supply provided by Detroit Edison, where "total cost" is the sum of (a) electric supply consumption multiplied by the applicable rates/tariffs, (b) penalties, if any, (c) distribution costs, and (d) administrative costs;
- (5) in compliance with the law and University policies and regulations and must conform to the legal standards and policies of the Board of Trustees;
- (6) reviewed and approved by the University's Office of the General Counsel prior to execution;
- (7) executed by the Vice President for Finance and Administration; and
- (8) any electrical supply contract with an alternative supplier that does not meet the foregoing conditions must be approved by the Board of Trustees; and, be it further

RESOLVED, that the status of the electrical supply purchasing program shall be reported to the Board of Trustees annually.

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Budgetary Implications

Although subject to future electrical market conditions, it is anticipated that the Electric Choice program will provide the University with approximate savings of 5% to 10% over our default Detroit Edison electric rate. This translates to a potential savings of \$100,000 to \$200,000 per year.

Recommended on _____, 2004
to the Board of Trustees for approval by

Gary D. Russi
President