

OAKLAND UNIVERSITY
BOARD OF TRUSTEES
WORKING SESSION AGENDUM ITEM
November 3, 2004

**PROPOSAL TO CONTINUE CONTRACTING ELECTRICAL SUPPLY
FROM AN ALTERNATIVE SUPPLIER**

Division/Department: Finance and Administration/Facilities Management

Summary:

In February 2000, the Board of Trustees approved a two-year contract for Electrical Retail Wheeling, for contracting of electrical supply in the Detroit Edison Electric Choice Program with the low bidder, Quest Energy of Ann Arbor, Michigan. Power delivery from Quest Energy 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, which will require a payment of a market-based power charge. However, there is a rate case before the Michigan Public Service Commission which may waive this market-based power charge and allow customers such as the University to return to Electric Choice without penalty. A final decision on this case is expected in November 2004.

This proposal requests approval to allow the Facilities Management Department to contract for electric generation under the Electric Choice program on a continual basis. This proposed purchasing process would be similar to the procurement process for natural gas, which the University has utilized since the 1980's. Under this procurement process, bids are solicited and the natural gas or electric "supply" component is contracted separately from a vendor other than the local utility company. The local utility company then merely transmits the pre-purchased commodity to the University meter(s).

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.

Action to be Requested at the December 1, 2004 Formal Board Meeting:

At the December 2004 Board of Trustees meeting the Board will be asked to authorize the Vice President for Finance and Administration to purchase electrical supply from alternative electric supplier(s) and enter into contracts with said alternative electric suppliers on a continuing basis.

**Proposal to Continue Contracting Electrical
Supply from an Alternative Supplier
Board of Trustees Working Session
November 3, 2004
Page 2**

All such contracts will be reviewed and approved by the University's Office of the General Counsel prior to execution and will be in compliance with the law and University policies and regulations and will conform to the legal standards and policies of the Board of Trustees.

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 the Detroit Edison electric rate. This translates to a potential savings of \$100,000 to \$200,000 per year.

Reviewed by Secretary Victor A. Zambardi:

(Please Initial)

Reviewed by President Gary D. Russi:

(Please Initial)

**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, for contracting of electrical supply in the Detroit Edison Electric Choice Program with the low bidder, Quest Energy of Ann Arbor, Michigan. Power delivery from Quest Energy 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 rate 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, which will require a payment of a market-based power charge. However, there is a rate case before the Michigan Public Service Commission which may waive this market-based power charge and allow customers such as the University to return to Electric Choice without penalty. A final decision on this case is expected in November 2004.

This proposal requests approval to allow the Facilities Management Department to contract for electric generation under the Electric Choice program on a continual basis. This proposed purchasing process would be similar to the procurement process for natural gas, which the University has utilized since the 1980's. Under this procurement process, bids are solicited and the natural gas or electric "supply" component is contracted separately from a vendor other than the local utility company. The local utility company then merely transmits the pre-purchased commodity to the University meter(s).

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 purchase electrical supply from alternative electric supplier(s) and enter into contracts with said alternative electric suppliers on a continuing basis; and, be it further

**Approval of Authorization to Continue Contracting
Electrical Supply from an Alternative Supplier
Board of Trustees Formal Meeting
December 1, 2004
Page 2**

RESOLVED, that all such contract(s) shall be reviewed and approved by the Office of General Counsel prior to execution, and shall be in compliance with the law and University policies and regulations and shall conform to the legal standards and policies of 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.

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