

MEMORANDUM

CITY OF GRAND RAPIDS

DATE: November 20, 2007

TO: Kurt Kimball, City Manager

FROM: Eric DeLong, Deputy City Manager

SUBJECT: **Approval of Participation in Consumers Energy's Green Generation Renewable Energy Program**

In 2005, the City established the goal of purchasing 20% of the City's municipal electric power needs from renewable energy sources by the end of 2008. This goal was rooted in environmental and long-term sustainability concerns, and focused the City on an initiative to reduce the City's dependency on non-renewable resource power. Renewable energy has proven to be an important and rapidly growing segment of the energy industry, worldwide and across the nation. The City's 20% goal was based on the triple bottom line of economic, social, and environmental sustainability.

Widespread use of renewable energy could provide significant benefits to Michigan by delivering increased energy efficiency, reliability, security, economic development, employment retention and attraction, and improved environmental quality. Renewable energy systems can augment utility system reliability and security by diversifying energy supplies and decentralizing energy facilities. So far, Michigan's renewable resources are not as developed as other leading states.

Expanded renewable energy production would result in economic development and employment. Farming and rural communities can benefit from energy generated from agriculture and forestry wastes and by leasing land to wind energy developers. In addition, Michigan could build on its expertise in manufacturing and technology development to support new renewable energy technologies. The state legislature recognized the benefits of renewable energy by directing the Michigan Public Service Commission in Section 10r of Public Act 141 of 2000 [MCL 460.10r], Michigan's Customer Choice and Electricity Reliability Act, to establish the Michigan Renewable Energy Program (MREP). Several bills have been introduced in the Michigan House and Senate calling for the establishment of a Renewable Portfolio Standard (RPS).

The City formed a Renewable Energy Team early in 2005. For the past year and a half, the Renewable Energy Team has been meeting with various community partners, companies, and energy experts in search of the best way to fulfill the 20% renewable energy goal. The result of this learning has been the development of a Renewable Energy Business Plan that outlines the best short-, medium-, and long-term strategies for fulfilling these goals.

The best short-term strategy is to enter into an agreement with Consumers Energy (CE) to participate in the Consumers Energy Green Generation Renewable Energy Program. The recommendation is to enter into an agreement with CE for a Green Block purchase which would meet our immediate 20% goal from 100% Michigan based resources at a very favorable

rate. This is the most cost effective method of achieving the 20% goal. Furthermore, this would enable the City to monitor the evolving renewable energy market and position it to achieve medium- and long-term strategies when an opportunity becomes available.

Consumers Energy's current base load generation mix already contains 5% renewable energy. Sources for this energy include owned and purchased energy from hydroelectric, and energy purchases from biomass, landfill gas, wind, and wood waste. All of these sources are Michigan based. Energy purchased for CE's voluntary Green Generation Program (the voluntary renewable energy program) is certified as meeting rigorous "Green-E" requirements and includes wind and landfill gas. These facilities are also 100% Michigan based.

Mayor Heartwell and City staff have negotiated a very favorable Green Generation rate with Consumers Energy that is significantly less than the market rate for the program. The Renewable Resources Program (RRP) offers Consumers Energy's full-service electric customers the opportunity to participate in a voluntary program that promotes the development of renewable resources in Michigan. Green Generation is governed by the Renewable Resources Program tariff which is approved by the Michigan Public Service Commission (MPSC). At the request of Consumers Energy, MPSC has recently approved a tariff modification to enable the City to participate in this program at the lowest rate per green block.

The City has already taken positive steps to offset the minor additional cost of participating in the Green Energy program, including:

- The City will be working with Consumers Energy on developing Energy Assessment opportunities for savings. These savings would help offset the cost of Green Energy participation. CE offered to do a walk through analysis of our facilities to examine the immediate cost saving opportunities.
- The City has accomplished significant savings by making innovative investments into new technologies and improvements. For example, by making an investment in new Turblex Blowers at the Wastewater Treatment Plant, the City was able to realize annual energy consumption savings in the amount of over \$340,000.
- The City is also working with Consumers Energy to optimize savings through opportunities presented by the City's new generators at the Lake Michigan Water Filtration Plant. Under such a program, electricity demand could be reduced at the most utilized times through Peak Load Management. This would offer another source of savings that could offset the cost of paying for green energy, and could potentially bring in over \$70,000 in new funding a year for the City.
- The City is currently being reimbursed for nuclear plant decommissioning from Consumers Energy. The Lake Michigan Filtration Plant has already received refunds of \$52,200. The projection through December 2008 is for an additional \$92,900 in credits. At the Wastewater Treatment Plant, \$55,830 of credits has been received to date. The projection through December 2008 is for an additional \$123,600 in credits.

Consumers Energy can accommodate the City's requirements to provide a total of 16,621 MWhs annually (or 8,311 MWhs for each of the two facilities the City decided to supply with green energy—the Lake Michigan Filtration Plant and the Wastewater Treatment Plant.) This

level of participation would provide 15% of new renewable energy in addition to the 5% already in the City's generation mix. To meet this energy level, the City would need 4,617 blocks for each facility per month or a combined total of 9,234 blocks/month. This qualifies for the lowest possible discounted price of \$1.50 per block or a total of \$6,925.50 per account per month, for a total of \$166,212 a year for both the Lake Michigan Filtration Plant and the Wastewater Treatment Plant accounts.

These costs will be split equally between the water and sewer enterprise funds. In addition to the savings listed above, these costs will be offset through budget transfers of \$100,000 in each fund that have already been approved by CFO Scott Buhner. In this way, the bottom line budget of each fund remains the same and participation in the Green Generation Program will be cost neutral. The Utility Advisory Board (UAB) approved entering into an agreement with CE at its regularly scheduled meeting on May 17, 2007.

Given the importance of renewable energy for the future economy of Michigan and for the future of the environment, the Renewable Energy Team strongly recommends that the City of Grand Rapids enters into this Agreement with Consumers Energy. CE requires a minimum 12-month commitment for participation in Green Generation, and the Renewable Energy Team further recommends entering into a 36 month agreement with an option for an extension of up to a 36 month renewal thereafter.

At the participation levels indicated above, the City would become CE's largest Green Generation Program participant statewide. In addition, it would significantly reduce Grand Rapids' carbon footprint by offsetting greenhouse gasses in the amount of 10,200 tons per year of CO₂ (carbon dioxide), 100 tons per year of SO₂ (sulphur dioxide), and 10 tons per year of NO_x (nitrogen oxide.)

This public/private partnership will be a lead investment in Michigan's renewable energy industry and is a positive investment for the economy and the environment.

Please submit this item for consideration by the City Commission at their next scheduled meeting.

HA/ERD/jm
Enclosure

YOUR COMMITTEE OF THE WHOLE recommends adoption of the following resolution authorizing the City to enter into the Green Generation Participation Agreement for the Renewable Energy Program with Consumers Energy for the purposes of subscribing for green energy and reaching the City's 20% renewable energy goal.

CORRECT IN FORM

DEPARTMENT OF LAW

COMMITTEE OF THE WHOLE

Com. _____, supported by Com. _____, moved to adopt the following resolution:

RESOLVED, that a Green Generation Participation Agreement for Renewable Energy Program between the City of Grand Rapids and Consumers Energy, for the discounted price of \$1.50 per block or a total of \$6,925.50 per account per month, for a total of \$166,212 a year for Lake Michigan Filtration Plant and Wastewater Treatment Plant accounts, for a period of 36 months with an option for renewal for up to an additional 36 months, is hereby approved and the Mayor is authorized to execute the Agreement on behalf of the City in a form approved by the City Attorney.

This resolution was drafted by Haris Alibašić