

**2008 Innovations Awards Program  
APPLICATION**

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ID # (assigned by CSG): 08-M-08MI

**Please provide the following information, adding space as necessary:**

State: **Michigan**

Assign Program Category (applicant): **Energy**

1. Program Name: **Energy Purchasing Cooperative Program**
2. Administering Agency: **Department of Management and Budget-Purchasing Operations**
3. Contact Person (Name and Title): **Anthony J. Des Chenes, Director, Commodities Division**
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9. Please provide a two-sentence description of the program.

**In 2004 the State of Michigan began working collectively with interested public organizations to leverage cooperative purchasing power for electricity and natural gas. Today, the resulting State of Michigan Energy Purchasing Cooperative has 19 members made up of State universities, cities, counties and K-12 schools.**

10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on March 1, 2008 to be considered.

**The Program has been in place for four years.**

11. Why was the program created? What problem[s] or issue[s] was it designed to address?

**The Energy Purchasing Consortium was created to provide buying power for the State and State Universities. At the time the State and universities were trying to find ways to stretch their dollars. By combining their volumes both the State and the original members (Department of Management and Budget, Michigan State University, Western Michigan University, and the University of Michigan-Flint) saw a seven percent electrical rate reduction.**

12. Describe the specific activities and operations of the program in chronological order.

**The Energy Purchasing Cooperative was formed in 2004 with the creation of the Michigan Consortium, consisting of the State of Michigan and 13 of the State's universities. What started out as just a special electrical contract and a strong public-private partnership has expanded into natural gas and now new energy areas and conservation.**

**Every year since that first contract the program has added members to now include cities, counties and K-12 schools. As of January 2008 the Energy Purchasing Program consists of 19 members and inquiries are coming in monthly about the program. In 2006 the program changed to include Natural Gas "Tier 1" providers and "Tier 2" providers. Tier 1 vendors manage gas flows and assume the liability to provide gas as specified and management services. Tier 2 vendors provide only gas and no management services. Also, in 2006 renewable energy in the form of natural gas harvested from landfills has been added to the portfolio of purchases.**

**In 2008, the Energy Consortium will continue to work on attracting new members and to look at "Green Energy" and energy conservation. Michigan Governor Jennifer Granholm implemented Executive Directive 2007-22 Enhancing Energy Efficiency and Conservation by State Departments and Agencies, to continue to work on energy efficiency and savings, but also to work with other public bodies to achieve the goals of the Directive.**

13. Why is the program a new and creative approach or method?

**This program is unique in that it cuts across different government entities. This program consists of the State, cities, K-12 and universities. The program also addresses the needs of the members for both electric and natural gas. The consortium also is looking at new and innovative technologies such as wind, renewable energy and conservation.**

14. What were the program's start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

**The costs for the program start-up were minimal. The only out of pocket cost to start the program was to hire an energy consultant at \$36,000 per year.**

**Staff required to run the program is one person from Purchasing Operations on a part-time basis and one person part-time from Financial Services to process invoices.**

**Contracts were put in place and those contracts are handled by Purchasing Operations. Most of these contracts are standard contracts that the State of Michigan uses. The financial software was already in place.**

**The cost and time to run this program is minimal. There is no full-time staff dedicated to the program. We do maintain a consultant at approximately \$42,000 per year.**

15. What are the program's annual operational costs?

**The program is self funded.**

16. How is the program funded?

**Each member pays a \$100 monthly fee to the State for processing their natural gas bills.**

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number. **No**

**Legislation was already in place allowing the State to enter in this consortium. Public Act 431 of 1984 as amended, MCL 18.1263.**

18. What equipment, technology and software are used to operate and administer this program?

**There is no unique equipment, technology or software needed to administer the program. All financial transactions are performed within the State of Michigan's current financial software program.**

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address.

**No.**

20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ? **No**

21. Has the program been fully implemented? If NO, what actions remain to be taken?

**Yes, but looking at expanding.**

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

**The goal of the program is to achieve cost savings for the State and the Cooperative members. This is achieved through negotiating electrical rates and by applying risk management tools.**

**An example of this would be the two-year contract entered into in February 2004, by the Department of Management and Budget, Michigan State University, Western Michigan University and the University of Michigan-Flint with Consumers Energy with reduced electrical rates by seven percent. This saved the State approximately \$1.5 million and the universities about \$730,000.**

23. How has the program grown and/or changed since its inception?

**The program is growing into broader areas of energy including electric, wind and royalties-in-kind.**

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

**There may be many obstacles to initiating such a program. The first is the sense of independence. In the State of Michigan the state universities are independent**

**entities that operate their own budgets and purchases. There may be some resistance to partner with the State Government, there needs to be a sense of trust. Developing deliverables and a Memorandum of Understanding between the State and the other parties is one way around this obstacle.**

**Another obstacle is that “everyone can do it better”. Once the program is up and running it is important to make sure that all of the members operate within the rules of the consortium and do not “use’ the consortium to bench mark and go off on their own. The benefit of the program is of the collective group. Everyone benefits if they work within the consortium.**

**Communication is probably the most important aspect to any program like this. To build trust and to expand the program there must be a clear line of communication. In this case the State has a point person and there are regular meetings of the consortium members.**