



ComEd cap extension: Recipe for disaster

Letter to the Editor,
Chicago Tribune
Nov 2, 2006

In the Tribune's Oct. 10 story, "ComEd fearful of a rate freeze," (Metro) House Speaker Michael Madigan said the rate freeze extension proposed by the House is needed to encourage competition and to keep utility rates down to acceptable levels.

We couldn't disagree more. If the rate freeze is extended, just the opposite will occur. The extension will drive out competitive suppliers and eventually lead to ballooning utility costs, which is inevitable once the cap is gone and the real cost of energy is exposed to the public. When it is, consumers will suffer an even greater rate shock. You will recall that the legislature had already reduced energy rates by 20 percent before installing the cap and has held rates at this artificially low rate throughout the supposed transition to a competitive market. Much has happened since the rate cap went into effect in the 1990s. The cost of every commodity used to generate electricity has increased substantially.

Competition works where markets are truly competitive. If there are any doubts, just look at New York and Texas, where competition is robust. At last count, 73 suppliers were competing for New York's energy dollars; and 40 are doing the same in Texas. Many of these suppliers serve residential customers.

Why are these two important markets so competitive? Neither state has a rate cap.

If Illinois wants competition, the Legislature must allow the rate freeze to expire. That's why competitive suppliers come to Illinois, and why they would like to stay. Extending the freeze will discourage competition and hurt customers, the very people the cap is intended to help. Extending the cap is a recipe for failure.

Ronald Carrier Manager
Regulatory and Legislative Affairs
Strategic Energy



No ComEd bankruptcy

Letter to the Editor,
Crain's Chicago Business
Nov 6, 2006

What a pea-brained idea to force ComEd into bankruptcy ("Better off with a bankrupt ComEd?" Oct. 16). Does anyone really think Bankruptcy Court would do a better job than the company's board and parent Exelon of running one of the nation's largest utilities? The only way ComEd has been able to survive nine years without a rate increase has been to cut costs and thus services.

Our state government is playing Russian roulette with a vital public service.

Finally, has no one considered the fundamental unfairness of wiping out the shareholder's equity?

Roland G. Ley
Arlington Heights



Electricity providers face barriers: Companies want to enter residential market in Illinois

Anna Marie Kukec,
Daily Herald
Nov 8, 2006

Whether Illinois has a competitive market for residential electric customers could be changing, but don't expect it to be soon.

The Illinois Commerce Commission, which oversees power suppliers statewide, has one alternative electricity supplier called BlueStar Energy Services that's certified, but it hasn't started offering service to residential customers yet.

Such unregulated, alternative electricity companies have been waiting in the wings to see if the current rate freeze — which has lasted nearly 10 years as Illinois deregulates — would continue past its Dec. 31 deadline, or whether market-based rates established during a September auction will go into effect in January.

The frozen rates are below 1995 levels, which makes it hard for these companies to compete when they're buying their supplies at current market prices, they said. It's just one of several barriers they face, said John Gomoil, director of government and regulatory affairs for Direct Energy, an unregulated electricity and natural gas provider for businesses in Illinois. It serves residential customers in other states and would like to enter the Illinois market at some point.

"We'd love to serve residential customers in Illinois, but we have not applied for certification yet because there are several barriers that exist and if these barriers are addressed, then we'll apply," said Gomoil, who is based at Direct Energy's Oak Brook office.

Barriers include the following:

- Lack of a state office that works with the companies to smooth the transition to a competitive marketplace. Direct Energy is supporting House Bill 4977 that seeks to create an office, similar to one in New York, that would report to the ICC.
- Customers cannot sign up with an alternative supplier over the phone due to state consumer protection laws. Phone sign-up can be done with regulated electric utilities such as ComEd, the dominant electric utility in the area.
- ComEd won't bill customers on behalf of the alternative companies and provide one simple bill to the customer, some said.

But ComEd doesn't see it that way. If suppliers believe it is more convenient for customers to receive a single bill for both electric supply and delivery, the Illinois law already gives those suppliers the ability to provide that, said ComEd spokeswoman Judy Rader.

"ComEd, Ameren and retail electric suppliers have invested significant amounts of time and money to make the systems work that permit single billing," said Rader. "Suppliers



have the option to simply bill a customer for their electric supply product and allow ComEd to bill separately for its delivery service charges," she said.

Alternative supplier BlueStar Energy Services in Chicago was certified last year by the ICC to provide electric service to residential customers. But it has not started offering service yet, said BlueStar Chief Executive Officer Guy Morgan.

He said the current rate freeze and a possible extension are major roadblocks. "Whether we start serving the residential market depends on whether the market prices for the auction are not changed by the legislature," he said.

But if the freeze ends, BlueStar can start serving the residential market and that could encourage other companies to compete in Illinois as well, Morgan said. "We're also going to see where the market is in relation to the auction price," Morgan said. ComEd's Rader didn't see a need for HB4977, saying that the ICC is already focused on getting retail competition.

"Setting up a separate agency that would have to acquire expertise in utility matters would not be productive," she said.

David Kolata, executive director of Chicago-based Citizens Utility Board, agreed that barriers have discouraged competition.

"But the biggest problem by far is the untenable affiliate relationship between Exelon and ComEd," said Kolata, referring to ComEd's corporate parent, Exelon Corp. "Because every dollar in higher rates paid for by ComEd customers goes straight to Exelon's bottom line, the company has an incentive to keep prices high and competitors out."

Kolata believes the best way to promote competition is to require Exelon to sell ComEd. "We simply can't continue with a system where the biggest buyer of electricity, ComEd, is owned by the biggest seller, Exelon. That's an inherent conflict of interest."

Kolata also isn't convinced residential competition at market-based rates will be a good deal for consumers.

"We haven't seen residential electric competition lead to lower prices anywhere in the country," said Kolata. "Texas is cited as the great success story, but while roughly 30 percent of residential customers have switched to competitive supply in Texas, it's come at a great cost. That state now has the highest rates in the nation. "



Retail Marketers 'Poised' to Enter IL Market

Staff,
Power Market Today
Nov 9, 2006

With the approaching expiration of a nine-year rate freeze, ComEd said Wednesday that its residential customers may soon have a choice of electricity providers as a total of seven suppliers have either already been approved by or have recently filed with the Illinois Commerce Commission (ICC).

ComEd said there has been significant interest in serving Illinois consumers, once ComEd rates increase to reflect market levels. The utility noted that three new retail electric suppliers filed this past week seeking certification from the ICC, and four additional suppliers have been certified to provide service over the last few months. ComEd provides service to 3.7 million customers across Northern Illinois, or 70% of the state's population.

BlueStar Energy Services, WPS Energy Services and Direct Energy have said they are considering entering the Illinois residential electric market. BlueStar is already certified by the ICC to provide service to residential customers, but has not begun offering it yet.

"Consumers want a choice of electricity suppliers. They know that the forces of competition drive prices down," said Guy Morgan, CEO of BlueStar, a retail electric supplier based in Chicago. "Once electric rates increase to reflect the going market price, it will create an environment where BlueStar can compete to serve Northern Illinois residents."

While residential customers have had the ability to choose another electricity supplier since May 2002 as part of the Illinois restructuring law passed in 1997, other suppliers couldn't compete with ComEd's artificially low rates, which were put in place by the freeze. ComEd cited a June 2006 report from the federal government's Electric Energy Market Competition Task Force, which found that the absence of market-based rates was the primary barrier to residential competition.

"In states where rates reflect the market, they see a greater amount of competition for residential electric customers," said Anne Pramaggiore, senior vice president of regulatory affairs, ComEd. "Illinois customers could see many more energy choices after our electric rates come into line with market prices. ComEd supports a customer's right to choose an alternate supplier."

The utility has been working on helping its customers manage the significant rate hike when it goes into effect Jan. 2. An administrative law judge said late last month that it is recommending a new ComEd plan for full ICC approval (see Power Market Today, Oct. 26).

Under the plan, ComEd's residential customers would have the option to have rate increases capped at 10% in 2007, 2008 and 2009, with the deferred balance plus financing costs collected over the three following years, 2010-2012. ComEd has proposed



a 6.5% annual carrying charge to finance the deferral plan. Without a phase-in, residential customers' bills are expected to increase by an average of 22% beginning in January when ComEd's costs to buy power increase.

The proposal was first submitted to the ICC by ComEd in May (see Power Market Today, May 24). Modifications to the proposal were submitted in August to respond to concerns expressed by stakeholders, such as the ICC staff and the Citizens Utility Board, in rebuttal testimony (see Power Market Today, Aug. 30). ComEd has asked the commission to act by late November or early December.

ComEd said it will continue to deliver the electricity to customers who choose an alternate supplier. The utility will also continue to own and maintain the poles, wires and other infrastructure that brings electricity to customers' homes and businesses, but another company would supply the power.

Commercial and industrial ComEd customers have already been enjoying competition through the 14 different energy suppliers. The utility noted that approximately 60% of the load of ComEd's largest business customers is served by another supplier. Pittsburgh, PA-based Strategic Energy is one of those business suppliers.

"Strategic Energy is bringing innovative energy buying strategies for commercial and industrial customers to Illinois. Our national expertise and robust knowledge of the electricity market will help these businesses take full advantage of competition," said Jeff Buxton, executive vice president of marketing for Strategic Energy. "Energy costs are a major business expense, and competition opens a variety of electricity products and service options previously unavailable to Illinois customers."

ComEd noted that competition has already taken hold in a number of other states, pointing out that Texas has more than 20 residential electric suppliers while New York also offers a choice of six to 16 residential energy suppliers in each electric service territory.

Electricity supply costs represent approximately two-thirds of the total electric bill for ComEd residential customers. For an average residential customer with a \$60 monthly bill, the 2007 increase would be about \$13.20 per month, a 22% increase. The increase would not take effect until Jan. 2, 2007. The electricity supply prices are locked in until June 2008.



ComEd rate hike means keeping lights on

Letter to the Editor,
Lake County News-Sun
Nov 9, 2006

We would like to take the opportunity to respond to the recent column by Charles Selle complaining about ComEd's decision to seek "two" rate hikes.

Actually, under ComEd's plan, customers will see a single rate increase in 2007. It is just that this rate increase has two parts: The cost of buying electricity and the cost of delivering the electricity.

The first piece of the increase is for buying electricity. ComEd does not own any power plants, and its contracts to buy electricity expire at the end of this year. We have to go to the market to buy power to serve our customers in 2007 and beyond.

The cost of power has gone up, resulting in a 22 percent increase on the average residential customer's bill. ComEd makes no profit on the energy we buy for our customers. Our customers pay what we pay.

We appreciate Mr. Selle's recognition that after a 20 percent cut and 10-year freeze, ComEd's electricity rates must increase due to those rising energy prices. While an average residential customer's monthly bill will increase about 44 cents per day, your 2007 rates will remain below 1995 levels.

What else costs less now than it did 10 years ago? Since 1996, gasoline has gone up 120 percent, utility gas is up 110 percent and medical care is up 47 percent. While no one likes a rate increase, we believe that electricity in Illinois is a good value.

The second piece is for a delivery service rate increase to recover the costs that we incur to deliver electricity. This covers the cost of putting up poles, stringing wires and paying the folks that work during the storms to keep the lights on.

Currently, the Illinois Commerce Commission is considering a request that, if granted, would increase an average residential customer's bill by an additional 2 percent. ComEd's costs, like any business, tend to increase over time. Wages, medical benefits and other items increase over time.

ComEd's costs have increased because we have invested more than \$6.5 billion into our system during the rate freeze. As ComEd's costs to keep the lights on increase in the future, we will ask to recover those costs.

We anticipate that we will need another increase for the costs of delivering electricity in 2008, approximately two years from now. We can only meet our obligation to deliver safe, reliable electricity to 3.7 million Illinois businesses and residents if we recover the increased costs of doing so.



By the way, he notes in his article that several top executives at Exelon are making a lot of money. We wanted to let you know that not a penny of that compensation is included in these rate requests. ComEd, not Exelon, is responsible for keeping the lights on.

Some politicians suggest we should continue to freeze ComEd's rates. If the General Assembly did that, it would inevitably threaten our ability to keep the lights on. We can't stay in business by collecting less in rates than we spend in buying and delivering electricity.

Having your electric company go bust is certainly not in anyone's best interest.

J. Barry Mitchell
President
ComEd



Former mayor says the ComEd freeze should, and will, end

Thomas V. Bona ,
Rockford Register Star
Nov 18, 2006

The chairman of the Illinois Commerce Commission doesn't think the state's freeze on electric utility rates will be extended, nor should it.

Charles Box, former mayor of Rockford, said Friday it would cost Commonwealth Edison millions of dollars a day, send its credit rating to "virtually junk-bond status" and threaten it with bankruptcy. Ultimately, that could result in consumers paying higher rates, Box said.

"I don't think there will be a freeze because of the economic impact," he told the Rockford Chamber of Commerce government affairs council. "I'm trying to separate fact from politics."

ComEd expects a 22 percent rate hike for residential customers and comparable, if not higher, increases for commercial customers. A 10-year rate freeze expires in January unless state legislators extend it.

Box, whose five-member commission unanimously approved the rate hike, said the hike makes business sense. ComEd bought electricity from brokers at a "reverse auction" this fall at market value, signed contracts and now needs a way to pay for it.

He said his residential bill in Rockford will likely go from \$60 a month to \$73 a month. But it would be more if ComEd had been able to raise rates 3 percent a year instead.

Box advised businesses to conserve energy and to shop around to cut energy costs, rather than lobby for a freeze.

He gave attendants a list of 14 alternative electric suppliers they could contact for commercial service.

John Gomoll, director of government and regulatory affairs for Direct Energy, said alternative suppliers like his can provide lower rates because the market price has gone down since ComEd's reverse auction.

When the rate freeze went into effect in 1997, legislators expected more competition in the deregulated industry would lower rates, Box said. But that didn't happen, and now many people want to work out a new deal.

"Nobody thought natural gas prices would shoot up like they did," Box said. "As businessmen, you all know that there's a benefit of the bargain. The companies are saying ... 'We played by the rules.'"



Major manufacturers and other large energy users don't know yet what their rate hikes will be. Bids for the highest level of service were too high because there weren't many bidders, Box said, so the Illinois Commerce Commission is studying ways to lower that.

Gomoll said the state doesn't make it easy for alternative suppliers to get to customers. He noted proposed legislation that would give Box's commission the ability to license more suppliers on the residential side.

Lawmakers could vote on whether to continue the rate freeze when they return to Springfield Nov. 28.

Legislation to extend the freeze for three years has twice passed out of committee in the House, but proponents haven't mustered the votes to win approval by the full chamber.



Extending freeze would do damage

Letter to the Editor,
The Daily Herald
Nov 26, 2006

The Daily Herald's editorial of Nov. 17 suggests a proposed five-month rate freeze extension is good for Illinois.

It's not.

Extending the freeze for five months will accomplish nothing, except force ComEd to begin serious cuts that could impair reliability. The utilities, the Illinois Commerce Commission and all interested parties have been working on a plan for more than three years. They addressed this issue in six months of ICC workshops, 11 months of ICC proceedings and nine years of transitioning to a competitive electricity market.

We agree with the Daily Herald that a rate freeze extension "lacks any grounding in market realities" and would destroy burgeoning retail competition among electricity suppliers. While many companies have shown real interest in serving Illinois businesses and residents, they also say they can't compete with artificially low prices.

But it's not only competition that will suffer. A rate freeze extension of any duration would cause ComEd to lose about \$4 million per day, forcing the company to cut back on all but the most critical expenditures. That could impact service, reliability, jobs, and the whole Illinois economy.

Our state leaders need to think long and hard before agreeing to extend the rate freeze for any period of time. When legislators in California capped rates during a time of rising power prices, the end result was bankrupt utilities, rolling brownouts and higher rates. Illinois customers shouldn't be forced to take that kind of risk because of some political procrastination.



Stop the pandering on electric rates

Letter to the Editor,
The Daily Herald
Nov 26, 2006

Let's start looking beyond the tip of our collective noses when it comes to electric rates in Illinois. It's time for our elected officials to stop pandering to the vulnerabilities of the voters/rate payers of Illinois.

Who wants an increase in something as essential as electricity? No one. This is especially true when wages are pretty much stagnant. There are no free lunches though. We all want and expect reliable electricity. Just think how helpless you felt the last time you lost power. Electricity is an integral part of our lives. Well, we have to pay for it. It's not our birthright or something found in nature that ComEd has somehow figured out how to charge for. It is a product that is manufactured and sold just like milk, bread or gasoline.

What hasn't gone up in the last 10 years? Have we all forgotten what gasoline prices were 10 years ago? The politicians decided 10 years ago that restructuring the electric utility industry in Illinois would promote competition and ultimately lower prices for consumers. Well, it's high time the politicians allow that to happen. The longer they keep electric prices at 1995 levels the longer they will shut the door to competition in Illinois. Continuing the rate freeze will not only stifle competition but will put at risk the reliability of the electricity we all depend on, hurt future economic development, and create the loss of tens of thousands of jobs. Wake up!



The 'slow-motion train wreck'

Editorial,
Chicago Tribune
Nov 27, 2006

Some Illinois legislators are convinced that Commonwealth Edison is bluffing, that extending the nine-year freeze on electric rates won't harm the utility or its customers. Extending the freeze would create a \$4 million-a-month gap between what ComEd pays for power and what it could collect from customers. But lawmakers believe ComEd's parent, Exelon, would somehow cover that gap.

That won't happen. Here's what would happen if legislators go through with their plan to keep electric rates frozen.

ComEd's credit rating would immediately be downgraded to "junk" status. The utility's credit rating already has been cut two notches by rating agencies because of the threat in Springfield. ComEd's cost to borrow money would rise.

ComEd would almost certainly file for bankruptcy to protect its assets. It would curtail spending on preventive maintenance and storm damage repairs--either on its own or by order of a bankruptcy judge. Ultimately, ComEd and its customers would end up paying more for power when its first auction contract expired and it went back to market a year from February. That is, if companies were willing to take a chance on contracting with ComEd.

This isn't a bluff. Michael Peevey, president of the California Public Utilities Commission, said he shudders to think that Illinois is on the verge of making the mistake--freezing rates that guaranteed a gap between the cost of power and the price utilities can charge--that California did. California's mistake led to a monumental, cascading screw-up that drove its utilities into bankruptcy. In Illinois, this would be accomplished by a single willful act of the legislature.

A decision by lawmakers to renege on an agreement made years ago would have a negative effect on the Illinois business climate. It would raise questions about the future reliability of electricity.

Philip Adams, an analyst with the bond research firm Gimme Credit, calls what's happening in Illinois a "slow-motion train wreck."

This is not about protecting ComEd. This is about protecting the Illinois economy.

Deregulation has paid benefits to electricity consumers in this state. Separating power generation from distribution has driven out inefficiencies in operations. It has shifted the risks of making bad business and investment decisions from customers to suppliers. ComEd's customers did not pay to build and operate the new, primarily gas-fired, power supply that has come on line since 1997. Investors in the companies that own that supply paid for 12,000 megawatts of new power, which could supply half of ComEd's needs on a



peak load day. They bet the power they built will be needed. If that bet is wrong, they--not ComEd customers--will take the hit.

Those market forces at the wholesale level have created incentives to control costs and propel more efficient operations. Exelon's nuclear fleet is the best example of this. Rate-payers built and paid for that fleet. It was sloppily run by the regulated utility. Now that Exelon's power generation is unregulated and subject to market forces, the nukes have become the best in the business. They generate more power more efficiently. Refueling time has been cut in half.

But deregulation is only half done here. Extending those market forces to the residential customer level remains the last hurdle.

Retail competition has become robust in New York and Texas, which did not freeze retail rates at levels so low they would deter competition. Texas created a "price to beat" for its utilities based on 1999 costs of providing power. That allowed utilities to recover their power plant construction costs, known as stranded costs, and included twice-a-year fuel adjustments based on the underlying price of natural gas.

Today, Texas residential customers can choose from nearly 40 power plans--with fixed or variable rates and minimum terms ranging from one month to three years--offered by more than 20 suppliers. New Yorkers, depending on where they live, can choose from 6 to 16 suppliers.

That's the kind of competition Illinois should have. ComEd says four electric suppliers are interested in competing here for residential customers. But that won't happen if the freeze is extended. Instead, Illinois would have the worst of all worlds: higher prices, no competition, bankrupt utilities. A train wreck.