



ComEd's 10% rate shock

By Steve Daniels
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Exelon Corp. CEO John Rowe's decision to link Commonwealth Edison Co. to an East Coast power grid will raise Chicago-area residents' electric bills by 10% in 2009, according to a new estimate by state regulators.

The increase will nearly wipe out the electric-rate relief won in hard-fought Springfield negotiations earlier this year.

The power-bill boost comes as the result of ComEd's move in 2004 to join PJM Interconnection LLC, which supervises power markets mainly in Mid-Atlantic states.

The decision to join PJM instead of its Midwestern counterpart, commonly known as Midwest ISO, means the Northern Illinois power market is now tethered to the East Coast, where electricity supplies are far tighter and prices correspondingly higher than in the Midwest.

PJM has reacted to forecasts of supply shortages with a new pricing regime that will increase power prices in the hope of inducing generators to build plants.

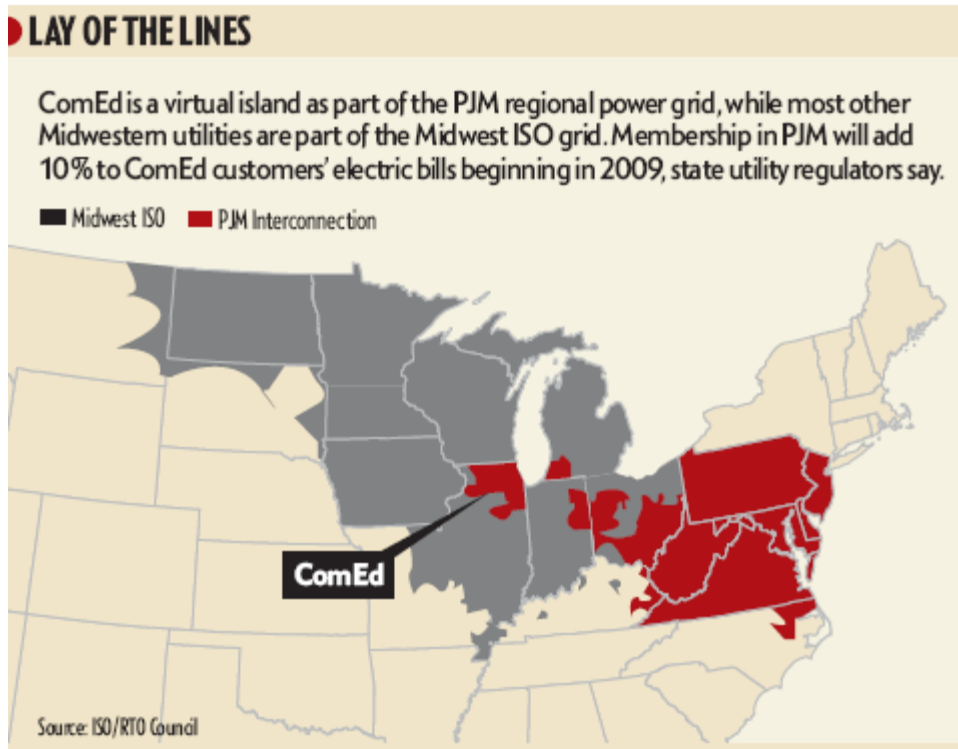
Because of PJM's new regime, Chicago-area households and small businesses will see rates jump by 1 cent per kilowatt-hour by 2009, according to Illinois Commerce Commission staff calculations — 10% above next year's average rate of 10.2 cents per kilowatt-hour.

Downstate Illinois customers of Ameren Corp. won't see such an increase because Ameren is part of Midwest ISO.

There are other factors likely to raise Chicagoans' electric bills as well. In October, ComEd filed for a \$360-million rate increase for delivering power, which if approved in full would raise household electric bills by about 8% starting next year. Put the two items together, and that's an 18% increase in electric bills by 2009.

By itself, the PJM-related increase would nearly erase the relief won in this year's Springfield negotiations, which reduced ComEd's 24% rate hike that took effect at the beginning of the year to 13%.

In those negotiations, Exelon's Mr. Rowe won an important and overlooked concession: State officials are barred for the next 15 years from trying to force ComEd off the PJM grid.



The bottom line for Exelon is that its power plants — mainly the six nuclear stations it operates in Illinois — will reap a windfall of more than \$500 million by 2010 from customers paying into the higher-priced PJM system, and more revenue increases will come later, according to an estimate from analyst Jonathan Arnold at Merrill Lynch & Co. in New York. That will help compensate for the one-time payment of \$800 million that Mr. Rowe agreed to make to help reduce ComEd customers' bills.

At issue is a complex series of auctions held this year by PJM to establish higher prices over the next several years for the right to reserve the output from power plants within PJM's borders. These "capacity payments," paid by utilities and passed on to ratepayers, are in addition to the cost of energy itself.

PJM's plan is to raise the cost of power to prompt generators to build more plants. But owners of existing plants, including Exelon's already highly profitable nuclear facilities, receive the higher payments with no requirement that they build new plants. And PJM's western markets, like Chicago, aren't yet suffering from the power-supply crunch afflicting the East Coast.

"We're stuck with a situation where customers are paying billions of additional dollars with only the hope those dollars will attract investment" in new power plants, says Robert Weishaar, a Washington, D.C., attorney representing industrial power users who oppose PJM's system.

Local officials are beginning to question the PJM tie-in. In a hearing before the ICC last week, Commissioner Robert Lieberman chided PJM officials for hiking electric rates with no promise of anything in return from the industry. "It's not clear to us what we're getting for that," he said.

Commission Chairman Charles Box questioned why Chicagoans should be paying higher electric bills when the supply crunch is on the East Coast. "That's not the ratepayers in Northern Illinois' problem, is it?" he said.

While allowing that the new pricing system is unproven, PJM officials say it's their best option for avoiding power shortages. "It represents the least expensive mechanism to make sure you have long-term viability,"

says Andrew L. Ott, PJM vice-president of markets.

ComEd Vice-president William McNeil says the utility joined PJM well before its capacity-auction idea, at a time when PJM's markets and systems were more advanced than Midwest ISO's. But he says ComEd supports the new pricing system as a necessary "incentive to encourage" construction of new plants.

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