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Price of electric nearly cut in half by new Illinois Power Agency

By Alan J. Ortvals

Consumers hit a home run with electric rates this spring as the new Illinois Power Agency was able to reduce the price of power by 42 percent from that set by the reverse auction in 2006.

Because the IPA was only buying about 30 percent of the area's power needs, the actual reduction will be about 12 percent - and this applies only to the power portion of the bill, not the delivery charge. Eventually, the IPA will be responsible for procurement of 100 percent of the power needs of residential and small business customers.

In January 2007, electric rates in Illinois hit the roof as utility deregulation took effect. Those rates were set using a "reverse auction" process and set off a consumer outcry that led to the passage of the Electric Rate Relief Law of 2007. That law put an end to the reverse auction process; empowered the Illinois Attorney General to negotiate rates on some electric contracts; left some contracts alone; and created the IPA to negotiate future rates. Because of the staggered structure of the contracts, the IPA will gradually negotiate the price on more and more power as the old contracts expire, culminating in 100 percent by 2013.

The rate set by the reverse auction in 2006 was about \$65 per megawatt hour. The IPA was able to bring that price down to just \$32 for Ameren customers. According to Jim Chilsen, spokesman for the Citizens Utility Board, the utility companies claim that price reduction was due to the poor economy and reduced demand. But Chilsen doesn't buy that explanation.

"When the economy slumps, there's less of a need for electricity and that does reduce the price," Chilsen said. "There's no question, that helped. But, in New Jersey, where they still use a reverse auction process very similar to what Illinois got rid of, their auction resulted in June 1 prices that are staying the same or even increasing slightly, despite the drop in wholesale electricity prices and despite the faltering economy. New Jersey consumers aren't enjoying any savings," he added.

Mark Pruitt is executive director of the IPA. Prior to accepting the position, Pruitt managed energy procurement for state agencies and local municipalities while at the University of Illinois-Chicago's Energy Resources Center. According to Pruitt, there were several factors that came into play to produce the price reduction.

One, he says, is that the reverse auction was run as a "clearing price auction," meaning that it simply acted to clear out the highest bidders. Such a process does not create a competition to produce the lowest price.

The process the IPA used, says Pruitt, was a sealed bid, "pay-as-bid" model, the way construction projects are usually handled. None of the bidders knew what their competitors were going to bid, so they had to sharpen their pencils and give their best prices in an effort to win the bid.

Two, the 2006 auction was also a "full-requirements" auction, meaning that bidders had to be able to deliver the entire amount needed. In addition, said Pruitt, bidders were also required to guarantee delivery of an additional contingency amount in case more was needed than projected. This, according to Pruitt, created more risk for the bidders and thus raised the price even more. It also

reduced the number of producers who were able to bid.

By contrast, the IPA broke the power requirements into blocks of 50 megawatts. Bidders could bid on one block or multiple blocks. By lowering the ante, more bidders were able to come to the table.

"We had more bidders this year and more successful bidders this year bidding more and different types of products," Pruitt said. "We had people bidding on peak and off-peak for each month and then for groups of months. You could bid on October and November, for example, or June and July, or July and August, so we had a lot of bidding activity. It was gratifying to see. This system is really designed to get bids that are at market."

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