



CUBFacts

The IPA and June 1 changes to your power bill

What is the Illinois Power Agency?

The Illinois Power Agency (IPA) is a state office charged with buying power on behalf of ComEd and Ameren, the state's two biggest electric utilities.

Eventually, the IPA will buy all of the power for ComEd and Ameren. But a portion of the electricity is tied up in existing long-term electricity contracts. Some of those contracts were negotiated by the Illinois Attorney General's Office as part of the 2007 Electric Rate Relief Law, and some stem from the utilities' now-abolished "reverse-auction" power-buying process.

As these contracts expire, the IPA will be responsible for purchasing more and more of the utilities' power until 2014, when it becomes Illinois' sole power-purchaser. The IPA's mission is to "ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time."

What parts of Ameren and ComEd bills are affected by the IPA?

Power bills are generally divided into the per-kilowatt-hour energy (or supply) charge, for the actual electricity a customer uses, and delivery charges—what customers pay to have ComEd and Ameren ship the power to their homes.

The IPA affects the energy charge. The delivery fees—a set monthly customer charge and a per-kilowatt-hour distribution charge—are fully regulated. That means ComEd and Ameren have to go before the Illinois Commerce Commission (ICC) and get approval to increase them in 11-month rate cases during which CUB challenges the requests.

Will I pay less for electricity?

In its first power buy in April of 2009, the IPA was able to secure lower electric rates (see chart on page 3). Ameren and ComEd rates dropped by up to 9 percent, on average, saving residential customers an average of about \$100 a year. Falling nationwide power prices contributed to the IPA's first-year success, but in New Jersey, which uses a

"reverse auction" similar to what was thrown out in Illinois, electric bills only stayed about the same.

The IPA again secured lower power prices this year, but for ComEd customers, that was overtaken by a jump in "capacity cost," which also helps determine the electric supply charge.

Higher capacity costs caused ComEd power prices to rise about 19 percent in June, but prices are expected to drop in 2011.

What is "capacity cost"?

Because power can't be stored, ComEd has to pay for capacity—to reserve enough power for hot days, when air conditioners are blasting.

Capacity cost isn't set by the IPA, but by a federally approved formula called the Reliability Pricing Model (RPM), which CUB has criticized for years because it is unfairly skewed to pad the profits of power generators.

CUB has worked for programs to encourage large power users to reduce peak demand, and that's one reason by 2012 the capacity cost is expected to be a fraction of what it is today, and electricity prices are expected to drop steeply.

Ameren, which has a different power-grid operator that doesn't set capacity costs through an RPM, is expected to see a drop in bills this June.

Why was the IPA created?

In 1997, utilities and big power producers, like Enron, pushed for a deregulated energy market. However, because of the close ties between those buying the power and those selling the power, there was little incentive to lower prices. So CUB fought for consumer protections that would slow the transition to a deregulated market, including a record 20 percent rate cut for most Illinois consumers and a 9-year electric rate freeze.

After the freeze, Illinois utility customers were hit with huge rate increases, as ComEd and Ameren began acquiring power using a new, supposedly competitive "reverse-auction" process. This system drove up power prices and allowed producers, like

ComEd parent Exelon, to sell power at artificially high prices, leaving consumers with a 26 to 55 percent average increase in their electric bills.

The bill increases sparked so much anger across the state, that in 2007, the state passed the Electric Rate Relief Law that granted Illinois customers \$1 billion in rate relief, eliminated the reverse auction, and created the IPA.

How does the IPA procure power?

Each year, after ComEd and Ameren estimate their customers' power needs, the IPA formulates a procurement plan to purchase power in three-year contracts. Power producers then compete against each other for the right to sell a portion of that electricity to the IPA at the lowest possible price. The IPA could purchase between 20 and 40 percent of a year's power needs, buying a higher percentage when prices are relatively low. The IPA procurement plans must get ICC approval on a yearly basis.

How could the IPA lower electric costs?

Instead of a for-profit utility buying customers' power, the IPA is responsible. With close ties between power buyers and sellers creating a conflict of interest (like ComEd and its parent Exelon) under the old "reverse auction" system, a power-buying agency has more motivation to keep prices low. The IPA can use the collective buying power of Illinois consumers to negotiate with producers for better electricity prices. Also, by purchasing power over

three-year contracts, the IPA hopes to reduce the risk of price spikes and buy more power when market conditions are favorable.

In addition, the IPA can factor "demand-response" programs into its power purchasing, which could help to reduce energy consumption during peak-demand periods when prices are at their highest. For example, by coordinating with the residents of a condominium to cycle their air conditioners on and off during periods of peak consumption, overall demand would decrease, leading to lower prices for everyone.

The IPA also supports the creation of a "Smart Grid." That's the general term for complex electric-system improvements that have great potential to lead to lower prices and better reliability. For example, while most consumers pay a set rate for electricity, the actual price varies over the course of a day. A true smart grid could allow for "peak-time rebate pricing," meaning consumers who cut their usage during peak times would receive a credit on their bills, benefiting everyone in the process by lowering energy prices.

Who runs the IPA?

Mark Pruitt is the executive director and sole employee of the IPA. Before being appointed, Pruitt worked at the University of Illinois at Chicago's Energy Resources Center, managing energy procurement for state agencies and local municipalities. CUB is pushing for more resources and staff for this very important agency.

Roller-coaster rates!

Last June, electric rates dropped up to 9 percent, on average, under a new electricity-pricing system run by the Illinois Power Agency. This year, the IPA again secured lower rates, and Ameren's rates will decrease slightly. But, as of June 1, ComEd's energy charge will jump roughly 19 percent, in connection with a jump in "capacity cost," over which the IPA has no control. ComEd prices are expected to drop slightly in January 2011, and then drop steeply in June, 2011. New prices are listed below, compared with the old prices, listed in parentheses.

Company	Energy Charge Non-Summer	Energy Charge Summer
ComEd	Space heat: 4.731¢/kWh (4.006¢/kWh) Non-space heat: 7.653¢/kWh (6.480¢/kWh) After Jan. 1, 2011 - Space heat: 4.698¢/kWh - Non-space heat: 7.600¢/kWh	Space heat: 6.233¢/kWh (5.277¢/kWh) Non-space heat: 7.837¢/kWh (6.635¢/kWh) After Jan. 1, 2011 - Space heat: 6.190¢/kWh - Non-space heat: 7.782¢/kWh
AmerenIP Note: The space heat rates are NOT applicable to new customers.	Space heat: 5.611¢/kWh (6.303¢/kWh) for first 800 kWh, then 1.931¢/kWh (2.169¢/kWh) Non-space heat: 5.611¢/kWh (6.303¢/kWh)	4.911¢/kWh (5.516¢/kWh)
AmerenCILCO	5.893¢/kWh (6.619¢/kWh) for first 800 kWh, then 3.791¢/kWh (4.258¢/kWh)	4.919¢/kWh (5.525¢/kWh)
AmerenCIPS Note: The space heat rates are NOT applicable to new customers.	Space heat: 5.926¢/kWh (6.656¢/kWh) for first 800 kWh, then 3.402¢/kWh (3.821¢/kWh) Non-space heat: 5.926¢/kWh (6.656¢/kWh)	4.945¢/kWh (5.554¢/kWh)

NOTE: There also were slight changes in Ameren's "supply cost adjustment" charge and ComEd's "transmission services" charge.

ComEd "transmission services" charge is now .730¢/kWh (.606¢/kWh)

Ameren's "supply cost adjustment" charges are:

AmerenCILCO: .150¢/kWh (.184¢/kWh)

AmerenCIPS: .211¢/kWh (.232¢/kWh)

AmerenIP: .229¢/kWh (.268¢/kWh)