



# **CITIZENS UTILITY BOARD**

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**Fewer Jobs for Illinois:  
The Economic Impact of the  
ComEd and Ameren Rate Hikes**

*Prepared by the Citizens Utility Board  
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## **Introduction**

On January 2, electric rates for ComEd and Ameren customers increased significantly as a result of a reverse power auction conducted by the utilities in September. The auction, along with delivery service rate increases approved at the end of the year by the Illinois Commerce Commission (ICC), produced an average 26 percent increase for ComEd and an average 40 to 55 percent increase for Ameren. According to the companies' own data, these rate hikes will annually result in Illinois consumers paying an additional \$2.3 billion on their electric bills (ComEd press release, Nov. 14 2006; Ameren press release, Oct. 9, 2006).

The impact of the rate hike on individual consumers has been well documented, with many customers reporting their electric bills have doubled and even tripled. It is also clear that the rate hike will have a significant impact on the state's economy, as revenue is drained from consumers and businesses across the state. This analysis attempts to quantify that impact.

## **Methodology**

This study uses the Regional Economic Models Inc. (REMI) simulation model, a widely-used and respected tool for simulating regional economic impacts (Treyz and Petraglia 1997; Treyz 1995; Weisbrod and Friedman 1996). The REMI model, provided to CUB by Synapse Energy Economics, of Cambridge, MA, is particularly well suited for use in the current analysis.

The REMI forecasting and policy analysis system includes key econometric estimates and integrates inter-industry transactions, long-run equilibrium features, and

economic geography. The model is calibrated to historical Illinois economic and demographic data at the county level. It includes methods for tracking substitution among factors of production (such as shifting outlays from energy to capital and labor) in response to changes in relative factor costs; migration responses to changes in expected income; labor participation rate responses to changes in real wage and employment conditions; wage rate responses to labor market changes; consumer consumption responses to changes in disposable income and commodity prices; and local and regional competitiveness via market share responses to changes in regional production costs and agglomeration economics (REMI 2003; Treyz 1993).

By taking into account the impacts of higher electric prices on the cost of doing business for commercial customers, the effects of those price increases on competitiveness, employment, wages and consumer spending can be estimated. Similarly, higher electric rates reduce household disposable income and affect the demand for consumer goods and services of all types. These consumption changes also feed into further impacts on commercial activity, which are also accounted for in the model (Treyz, Rickman and Shao 1992). Thus, the REMI model can be used with a high degree of confidence to estimate the impact of rate increases on the Illinois economy.

According to the REMI model, Illinois loses one job for every \$116,121 paid in higher electric rates. This analysis applies that finding to the current rate hikes to determine the economic impact of the increases.

## **Findings**

ComEd and Ameren have estimated the increased power costs attributable to the auction at a combined total of \$6.5 million a day (ComEd press release, Nov. 14, 2006; Ameren press release, Oct. 9, 2006). Under the auction rules, those costs are passed through directly to Illinois electric customers on their monthly bills. On an annual basis, these rate hikes cost consumers a combined total of \$2.3 billion a year.

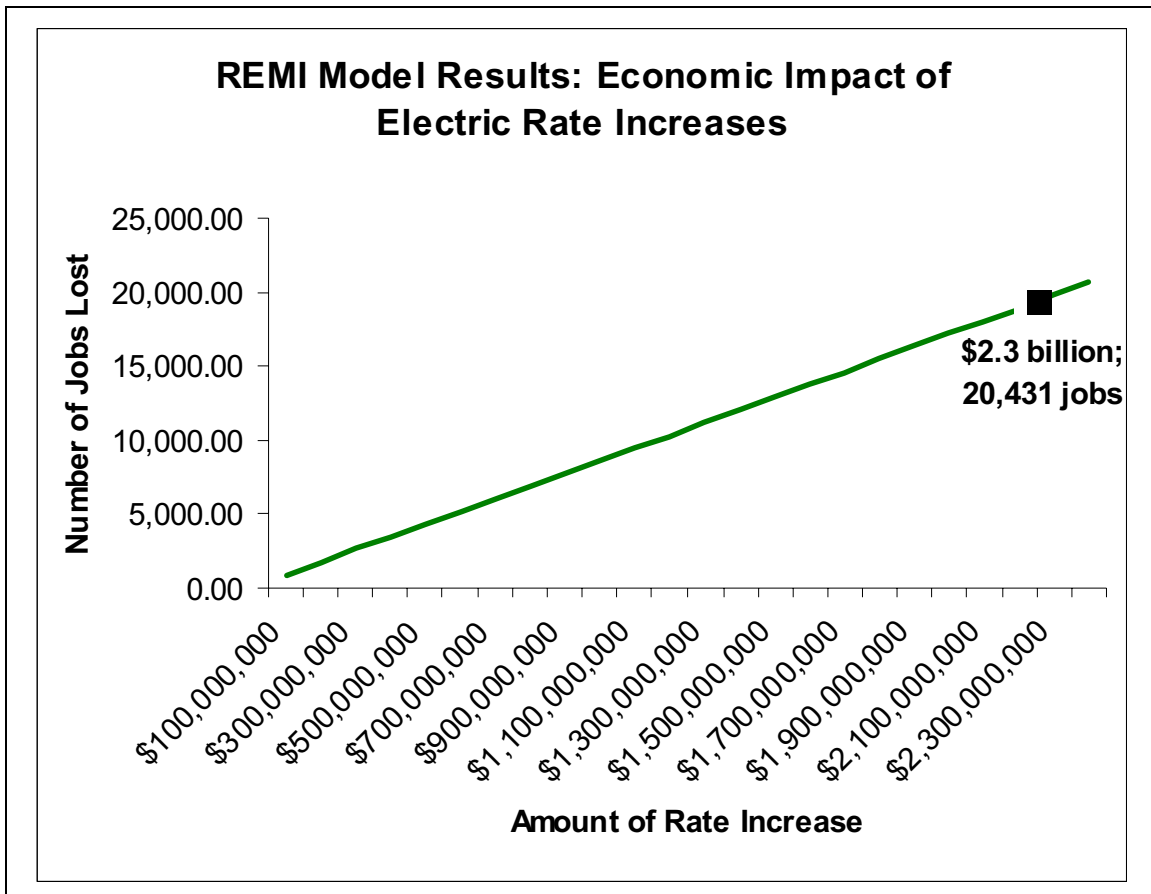
The REMI Model results, shown in the tables below, demonstrate that rate hikes costing customers \$2.3 billion a year will result in the loss of more than 20,431 jobs. In addition, Gross State Product, which is the broadest measure of economic activity in the state, declines by more than \$1.9 billion dollars.

In connection with this hit to the economy, net out-migration among employees 65 years old or younger is almost 6,300 workers in 2007. This means that 6,300 people could leave the state looking for work elsewhere. The model also projects that the personal income of Illinois residents would decline by more than \$1 billion.

Finally, the model separately examines the key construction and manufacturing sectors of the Illinois economy. It projects that the total value of manufacturing activity in the state declines by \$618 million and the total value of construction declines by \$340 million dollars. It is clear from these results that the Ameren and ComEd rate increases pose a very real threat to the health and prosperity of the Illinois economy.

**Table 1: Economic Impact of Ameren and ComEd Rate Increases**

Category	2007
Jobs	(20,431)
Gross State Product (Millions \$)	(1,914)
Net Economic Out Migration (Persons)	(6,264)
Personal Income (Millions \$)	(1,008)
Manufacturing Output (Millions \$)	(618)
Construction Output (Millions \$)	(340)



## **Conclusion**

As the above analysis demonstrates, the ComEd and Ameren rate hikes that took effect January 2 will result in the loss of some 20,431 Illinois jobs. In addition to causing hardship for individual employees out of work, those job losses have a ripple effect throughout the state. Individuals will have less disposable income to spend, local stores and businesses will close and communities will be deprived of vital goods and services. The key manufacturing and construction sectors of the Illinois economy will also see a substantial decline in economic activity.

Unfortunately, these job losses may only be the tip of the iceberg. Future procurement auctions are likely to produce additional rate hikes, resulting in additional job losses and a further drain on the Illinois economy.

## References

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