

Report Card: Illinois' Electricity Market

Presented by The Citizens Utility Board (CUB)

February 2013

Illinois consumers who for years have had just one choice for their electric supplier—ComEd or Ameren—are now barraged with options in the Land of Lincoln’s power market.

In fact, the federal Energy Information Administration (EIA) says Illinois outpaced all other states in the nation in the expansion of electric competition last year:

- **More than 1.4 million residential customers switched to alternative suppliers in 2012, a 562 percent increase from the beginning of the year.** ¹
- **A total of 1.7 million residential customers have switched suppliers, including residents in 467 communities that have launched or are launching special competition programs called “municipal aggregation.”** ²
- **The average price offered in municipal aggregation communities has been 4.85 cents per kilowatt-hour (kWh) in ComEd territory, and 4.08 cents per kWh in Ameren territory.** ³
- **Based on those average rates, CUB estimates that Illinois residents saved \$92 million to \$218 million in 2012.**

While residential customers have enjoyed savings in the short term, long-term savings are a big question mark given that ComEd and Ameren rates are expected to drop in June of 2013. For now, the short-term savings have muted customer complaints. However, confusion about electric competition seems widespread—and it’s been made worse by reports of questionable door-to-door and telephone sales techniques.

This report card assesses Illinois’ fledgling electric market, according to three categories: short-term savings, consumer protections and innovation. While giving an overall grade to Illinois’ electricity market, it also will alert consumers to potential rip-offs in the industry, list the highest and lowest prices in the market, and explain what is likely to be a major market shift in the summer of 2013.

A Short History of Illinois’ Electricity Market

Currently, Illinois electric customers have up to four supply choices. They can:

- 1) Stay with ComEd or Ameren;
- 2) Choose among dozens of alternative suppliers now vying for their business;
- 3) Go with the supplier their community has chosen—if their community has passed a referendum and launched a “municipal aggregation” program;
- 4) Choose to stay with ComEd or Ameren but participate in special pricing plans, called Real-Time Pricing or Power Smart Pricing.

1 “Residential Customers Taking Service from a RES,” detailed report by Illinois Commerce Commission, 2012: <http://www.pluginillinois.org/>
2 “New aggregation programs drive consumer participation in Illinois electricity choice,” Today In Energy, Energy Information Administration, January 24, 2013: <http://www.eia.gov/todayinenergy/detail.cfm?id=9691>
3 Illinois Commerce Commission Plug In Illinois statistics: <http://www.pluginillinois.org/MunicipalAggregationList.aspx>

ComEd

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Account Number 12345-67890

Name JOHN Q SMITH

Service Location 22 N MAIN ST CHICAGO, IL

Bill Summary

Previous Balance \$98.21

Total Payments \$98.21

Amount Due \$80.23

Meter Information

Read Date	Meter Number	Load Type	Reading Type	Meter Reading		
				Previous	Present	Usage
11/6	123456789	General Service	Total kWh	70982 Estimate	71492 Actual	510

Service from 10/7/12 to 11/6/12 - 30 Days

Residential - Single

Electricity Supply Services \$44.99

Electricity Supply Charge 510 kWh x .07511 38.31

Transmission Services Charge 510 kWh x .00809 4.13

Purchased Electricity Adjustment 2.55

Delivery Services - IL Electric \$27.04

Customer Charge 14.26

An electricity supplier’s charges would replace those listed in the “supply” section of a consumer’s ComEd or Ameren bill, highlighted above.

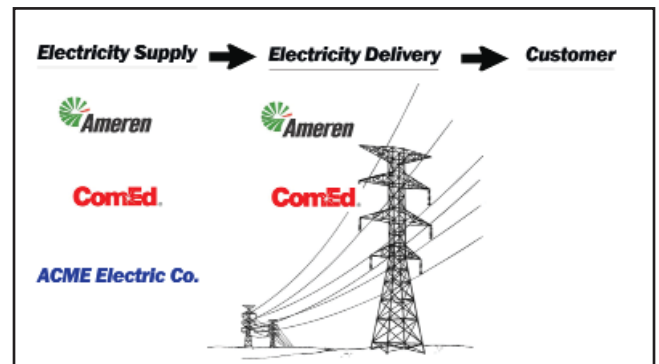
For years the residential electricity market was virtually nonexistent. A 1997 Illinois law that restructured the industry set the stage for residential electric competition to open five years later—but nothing happened in 2002. In fact, nothing happened until 2010. Suppliers began to enter the Illinois market for two main reasons:

- 1) ComEd and Ameren were locked in higher-priced contracts that elevated their supply rates and made room for competitors to beat the utility prices;
- 2) An Illinois Commerce Commission (ICC) decision made it easier for alternative suppliers to bill for their services through ComEd and Ameren.

CUB fielded a steady stream of calls from consumers wondering about mail, phone, and door-to-door pitches they were receiving from “electric companies” that for the first time were NOT called ComEd or Ameren.

Further complicating the market was the introduction of “municipal aggregation.” Beginning in late 2010, Illinois communities began to use the collective buying power of their populations to negotiate with alternative suppliers. Since then municipal aggregation has been a major driver of competition in Illinois, with 467 communities passing referendums to negotiate the lowest electricity prices for residential and small-business customers in the state.

A major point of confusion in the market is that customers, no matter what choice they make, never completely leave the traditional utility. Even those who choose another supplier still must pay the utility, ComEd or Ameren, to deliver the power to their homes. In fact, most customers who participate in competition continue to get one bill, from their utility, with the alternative supplier charges tacked on. Ironically, despite claims that customers now have alternatives to the utilities, two major players in Illinois’ electricity market are actually sister companies of Ameren (Homefield Energy) and ComEd (Constellation Energy).



CUB's Report Card

Short-term Savings: A-

- With some exceptions, alternative suppliers have offered plans that beat utility rates, thanks to the fact that Ameren and ComEd have been locked in higher priced contracts. (See Appendix A, Appendix B.)
- The lowest rates have been offered through municipal aggregation, with average prices at 4.85 cents per kWh in ComEd communities and 4.08 cents per kWh in Ameren communities. That compares to ComEd’s current supply rate of about 8.3 cents per kWh and roughly 5.4 cents per kWh in Ameren communities. (See Appendix B.)
- CUB estimates that Illinois consumers participating in competition saved \$92 million to \$218 million in 2012. (See Methodology, Appendix D.)
- In one troubling development in late 2012, CUB began to get complaints from consumers who said they signed up for a relatively low variable rate only to see that rate shoot up to about 10 cents per kilowatt-hour after the first month of the offer. Fixed-rate plans that don’t charge an exit fee have been the safest bet for consumers in the short term.

- The good news about short-term savings is tempered by the fact that the jury is still out on whether competition in Illinois will produce long-term savings.
- The last of higher-priced utility contracts that have allowed Ameren and ComEd competitors to undercut the utilities are ending as of June 1, 2013. The expectation is that utility supply prices will drop significantly then—although it's impossible to predict exactly how much prices will drop.

Consumer Protection: C

- Given the fact that ComEd and Ameren rates could drop significantly in the near future, CUB is concerned about the number and amount of “termination fees” charged by companies to customers who want to get out of a contract early. As of Feb. 15, CUB observed that about half of nearly 100 non-aggregation offers it was tracking charged exit fees ranging from \$10 per month left on the contract to \$175. **Note:** Many municipal aggregation deals appear NOT to have exit fees, but it is a good detail to check with local officials.

- While it is difficult to judge where customer confusion ends and misleading, fraudulent, or simply incompetent marketing begins, CUB has received troubling reports about claims made by door-to-door and telephone marketers. Questionable marketing has been particularly troublesome in “municipal aggregation” communities, presumably from other alternative suppliers trying to get consumers to sign up before the community switches residents to another supplier.



- At their worst, the pitches have approached lunacy. A member of CUB's legal team reported to the staff that she received a call from an alternative electricity supplier in August 2012. In the span of 10 minutes, the CUB attorney was told:
 - The State and ComEd “recommend” she choose an alternative supplier.
 - If she didn't choose a supplier, she would pay a penalty on her bill.
 - The state would pay the supply portion of her bill if she chose the alternative supplier.
 - She would be protected from ComEd delivery service rate increases.

All of these statements are false. When the CUB attorney expressed her concern to the sales representative's supervisor she was told that there had been a “miscommunication” and that she had misunderstood what the representative had said.

- Based on such experience and reports from the field, CUB has compiled a list of the top five most egregious marketing offenses. Use extreme caution if a marketer:

- 1) Asks for your account number at your doorstep or on the phone—before you've even decided whether you want to sign up.
- 2) Claims to be recommended by city or state government.
- 3) Claims to be from “the electric company,” and fails to clarify that he or she is employed by an alternative power supplier—not the utility.
- 4) Offers a low introductory rate—that skyrockets after one month or a few months.

5) Promises that this offer will protect you from utility rate hikes. (You still pay utility delivery rates—so you will NOT avoid an increase in those utility rates.)

- Suppliers may get increasingly desperate in their marketing tactics, as potential customers get eaten up by rival suppliers through municipal aggregation programs and as the market changes in June of 2013. Consumers must be vigilant.

Innovation: D-

- A major weakness in Illinois' electricity market is that companies have focused solely on the price advantage caused by relatively expensive utility contracts. That advantage is unlikely to last. Alternative suppliers should focus on innovative programs promoting energy efficiency, dynamic pricing, and money-saving technology.

- Since the cheapest kilowatt-hour is the one you don't use—the "negawatt"—alternative suppliers should:

- Incorporate efficiency and demand response into municipal aggregation deals. Providing such external value is crucial to the municipal aggregation model in the long term.

- Introduce dynamic pricing programs, such as "time of use" rates and real-time pricing, that reward customers for not using electricity during "peak" times, when power demand is highest.

- Create programs that promote money-saving technology, such as a smart thermostat program that would provide customers with high-end thermostats to make their homes more efficient.

- It is also disappointing that alternative suppliers have not done more to welcome "net metering" customers. Net metering is an innovative program in which customers who generate renewable electricity—through solar panels, for example—can sell excess electricity back to the supplier. Unfortunately, at this time, few alternative suppliers are offering net metering—even though they are required to do so.

- Instead of innovation, alternative suppliers have relied on "green" plans. Although these offers are not scams, "green" offers tend to have higher prices—and they are a potential source of misunderstanding. Such plans do NOT assure customers that the electricity they use comes from renewable sources. In a "green" plan, consumers pay a premium to offset the energy they use with Renewable Energy Credits (RECs). That simply means the company promises that renewable energy—equal to the amount a customer uses—will be added somewhere to the power grid. However, consumers should know all alternative suppliers and ComEd are required to procure a small percentage of renewable energy to meet Illinois' renewable portfolio standard, so people participate somewhat in "green" plans no matter what supplier they choose.

A Promising Exception: The City of Chicago

One exception seems to be the City of Chicago's "municipal aggregation" deal with Integrys Energy Services, which could become a model for other communities.

Chicago's plan, compared with others, employs more of an emphasis on efficiency and demand response, and it promises a coal-free portfolio for City residents.

Plus, the contract contains the strongest consumer protections that CUB has seen in the state. The City has estimated that the offer could save consumers more than \$100 over the course of two years, and the contract promises to meet or beat ComEd's supply price at all times. Finally, it allows Chicago customers to exit the deal at any time, without paying an exit fee.

• With nearly two million Illinois consumers switching, alternative power suppliers have so far squandered the opportunity to promote innovation. Knowing this, CUB launched an education campaign around CUBenergysaver.com, a free online service that allows customers of any supplier to build a customized home efficiency plan. The service, which allows customers to link to their ComEd bills, measures real savings. So far, CUBenergysaver.com has shown customers how to cut their electric and natural gas bills by an average total of \$108 and reduce energy consumption by an average of about 6 percent.



REPORT CARD

Illinois Electricity Suppliers

Category	Grade
Short-term Savings	A-
Consumer Protections	C
Innovation	D-

OVERALL GRADE:
INCOMPLETE

Conclusion: CUB Recommendations

While consumers have been able to enjoy savings in the electricity market in the short term, the jury is still out on whether those savings will last beyond this June, when utility supply rates are expected to drop. Therefore Illinois' experiment in residential electric competition gets an overall grade of **INCOMPLETE**.

CUB has the following recommendations for alternative electricity suppliers:

1) Introduce creative pricing programs. The most reliable way to help consumers cut costs is not to rely on the market, but to launch innovative programs that promote energy efficiency, money-saving technology, and creative pricing plans—such as “time of use” or “real-time” pricing.

2) Practice better transparency. All alternative electric suppliers should promptly and accurately report their prices to the Illinois Commerce Commission (ICC) for display on the ICC's PluginIllinois.org website. Not all of the prices are listed on the site.

3) Lower exit fees. Some alternative electric suppliers charge no exit fees, which begs the question of why others see the need to charge \$100 or more. CUB calls on alternative power suppliers to eliminate their exit fees.

4) Don't confuse customers by using utility logos. For years CUB has argued that the similarity between the name and logo of an unregulated supplier and a regulated utility can lead to needless customer confusion. For example, Nicor Advanced Energy, an unregulated gas supplier, and Nicor Gas, the regulated utility have very similar logos. CUB has received numerous complaints from consumers who said they signed up for Nicor Advanced Energy offers—and paid more—only because they thought it was a program from the regulated utility. Now, Nicor Advanced Energy and electricity supplier Dominion Retail have entered into a licensing agreement in which Dominion provides electricity under the “Nicor Electric” name. Use of names and logos similar to that of a utility should be banned in Illinois' electricity market to prevent customer confusion.



CUB argues that similar names and logos—like those of Nicor Gas, the utility, and Nicor Advanced Energy, the unregulated gas supplier—have led to consumer confusion in the natural gas market.

5) Better training. Before companies launch their armies of sales representatives to Illinois doorsteps, their training should include a checklist of what NOT to say. CUB supplies them with a list in Appendix C.

Appendix A: Highest and Lowest Prices offered for Individual Illinois Households (as of Feb. 6, 2013)¹

ComEd (price to compare: 8.3 cents per kWh)

Highest:

- 1) Viridian: 9.8 cents per kWh variable rate
- 2) Xoom Energy: 9.0 cents per kWh variable rate
- 3) Public Power: 8.99 cents per kWh variable rate

Lowest:

- 1) PALMco: 4.7 cents per kWh variable rate (first 2 months only — prices could rise after)
- 2) FirstEnergy Solutions: 5.1 cents per kWh fixed rate through March 2014
- 3) Direct Energy: 5.13 cents per kWh through March 2014 (seniors and military only)

Ameren (price to compare: Zone 1, 5.467¢ per kWh; Zone 1 (Metro East), 5.467¢ per kWh (3.338¢ after 800 kWh); Zone 2, 5.417¢ per kWh (5.232¢ after 800 kWh); Zone 3, 5.456¢ per kWh)

Highest:

- 1) Public Power: 8.49 cents per kWh variable rate
- 2) Ambit Energy: 6.65 cents per kWh variable rate (Ameren Zone 3)
- 3) Public Power: 6.49 cents per kWh variable rate

Lowest:

- 1) Ambit Energy: 4.1-4.65 cents per kWh variable rate (depending on Ameren Zone)
- 2) PALMco: 4.7 cents per kWh variable rate (first 2 months only — prices could rise after)
- 3) First Energy Solutions: 4.75 cents per kWh fixed rate through March 2014

Appendix B: Highest and Lowest Prices offered for Municipal Aggregation Communities (as of Jan. 23, 2013) Note: Prices vary according to market conditions when contract signed.²

ComEd (price to compare: 8.3 cents per kWh)

Highest:

- 1) Fulton (FirstEnergy Solutions): 6.23 cents per kWh fixed rate through July 2014 (*November 2010 referendum*)
- 2) Fox River Grove, Glenwood, Harvard, Sugar Grove (Direct Energy): 5.99 cents per kWh fixed rate through September 2013 (*April 2011 referendum*)
- 3) Mount Morris (FirstEnergy Solutions): 5.94 cents per kWh fixed rate through May 2014 (*April 2011 referendum*)

Lowest:

- 1) Glenview (MC Squared): 4.035 cents per kWh fixed rate through May 2013. Contract goes through May 2015. (*November 2012 referendum*)
- 2) Kenilworth, Wilmette (MC Squared): 4.035 cents per kWh fixed rate through May 2013. Contract goes through May 2015. (*March 2012 referendum*)
- 3) Bannockburn, Kildeer (Constellation Energy): 4.056 cents per kWh fixed rate through September 2013 (*March 2012 referendum*)

Ameren (price to compare: Zone 1, 5.467¢ per kWh; Zone 1 (Metro East), 5.467¢ per kWh (3.338¢ after 800 kWh); Zone 2, 5.417¢ per kWh (5.232¢ after 800 kWh); Zone 3, 5.456¢ per kWh)

Highest:

- 1) Toluca (Constellation Energy): 4.79 cents per kWh fixed rate through August 2014 (*March 2012 referendum*)
- 2) Granville (Homefield Energy): 4.661 cents per kWh fixed rate through November 2015 (*March 2012 referendum*)
- 3) Canton (Integrus Energy): 4.65 cents per kWh fixed rate through June 2014 for Canton (*March 2012 referendum*)

Lowest:

- 1) Albers, Belleville, Effingham, Forsyth, Hamel, Mahomet, Maryville, Mattoon, Neoga, Palestine, Pittsfield, Pontoon Beach, Salem, Teutopolis, Troy, Tuscola (Homefield Energy): 3.909 cents per kWh fixed rate through June 2014 (*November 2012 referendum*)
- 2) Atlanta, Emden, Ipava, Lincoln, Logan County, Mount Pulaski, Table Grove (Integrus Energy): 3.965 cents per kWh fixed rate through September 2014 (*March 2012 referendum*)
- 3) Bethalto, Godfrey (Homefield Energy): 3.98 cents per kWh fixed rate through June 2014 (*March 2012 referendum*)

¹ Based on CUB review of supplier websites, Plug In Illinois (<http://www.pluginillinois.org/OffersBegin.aspx>), and emails from alternative suppliers).

² Illinois Commerce Commission Plug In Illinois statistics: <http://www.pluginillinois.org/MunicipalAggregationList.aspx>

Appendix C: Five Biggest Marketing Red Flags from Alternative Suppliers

A marketer...

- 1) Asks for your account number at your doorstep or on the phone—before you’ve even decided whether you want to sign up.
- 2) Claims to be recommended by city or state government.
- 3) Claims to be from “the electric company,” failing to clarify that he or she is not employed by the utility.
- 4) Offers a low introductory rate—that skyrockets after one month or a few months.
- 5) Promises that this offer will protect you from utility rate hikes. (You still pay utility delivery rates—so you will NOT avoid an increase in those utility rates.)

Watch a short video explaining each of these red flags at CUB’s YouTube page: www.youtube.com/cubillinois

Appendix D: Methodology for Estimating Residential Savings from Alternative Retail Electric Suppliers (ARES) in 2012

Electricity usage by customers enrolled with ARES³

2012 ARES electricity usage (ComEd territory): 6,293,277,592 kWh

2012 ARES electricity usage (Ameren territory): 2,267,720,444 kWh

Total 2012 ARES electricity usage: 8,560,998,036 kWh

Utility price-to-compare⁴

ComEd: 7.6 cents per kWh

Ameren: 6.1 cents per kWh

Average electricity price for individuals enrolled with ARES at current market prices⁵

ComEd territory: 6.39 cents per kWh

Ameren territory: 5.37 cents per kWh

Average municipal aggregation electricity price⁶

ComEd territory: 4.85 cents per kWh

Ameren territory: 4.08 cents per kWh

Potential savings if all ARES customers had negotiated their own contracts at current market prices

$[6,293,277,592 \text{ kWh} (0.076 \text{ cents per kWh}) + 2,267,720,444 \text{ kWh} (0.061 \text{ cents per kWh})] - [6,293,277,592 \text{ kWh} (0.0639 \text{ cents per kWh}) + 2,267,720,444 \text{ kWh} (0.0537 \text{ cents per kWh})] = \$92,703,018$

Potential savings if all ARES customers were enrolled in the average municipal aggregation offers

$[6,293,277,592 \text{ kWh} (0.076 \text{ cents per kWh}) + 2,267,720,444 \text{ kWh} (0.061 \text{ cents per kWh})] - [6,293,277,592 \text{ kWh} (0.0485 \text{ cents per kWh}) + 2,267,720,444 \text{ kWh} (0.0408 \text{ cents per kWh})] = \$218,873,087$

3 Illinois Commerce Commission Electric Switching Statistics, 2012: <http://www.icc.illinois.gov/electricity/switchingstatistics.aspx>

4 Price-to-compare includes utilities’ electricity supply and transmission charges, averaged out over 2012

5 Illinois Commerce Commission Plug In Illinois statistics, Feb. 13, 2013: <http://www.pluginillinois.org/OffersBegin.aspx>

6 Illinois Commerce Commission Plug In Illinois statistics: <http://www.pluginillinois.org/MunicipalAggregationList.aspx>