

# Session One: Motivations for and Implications of the Illinois Power Agency Act

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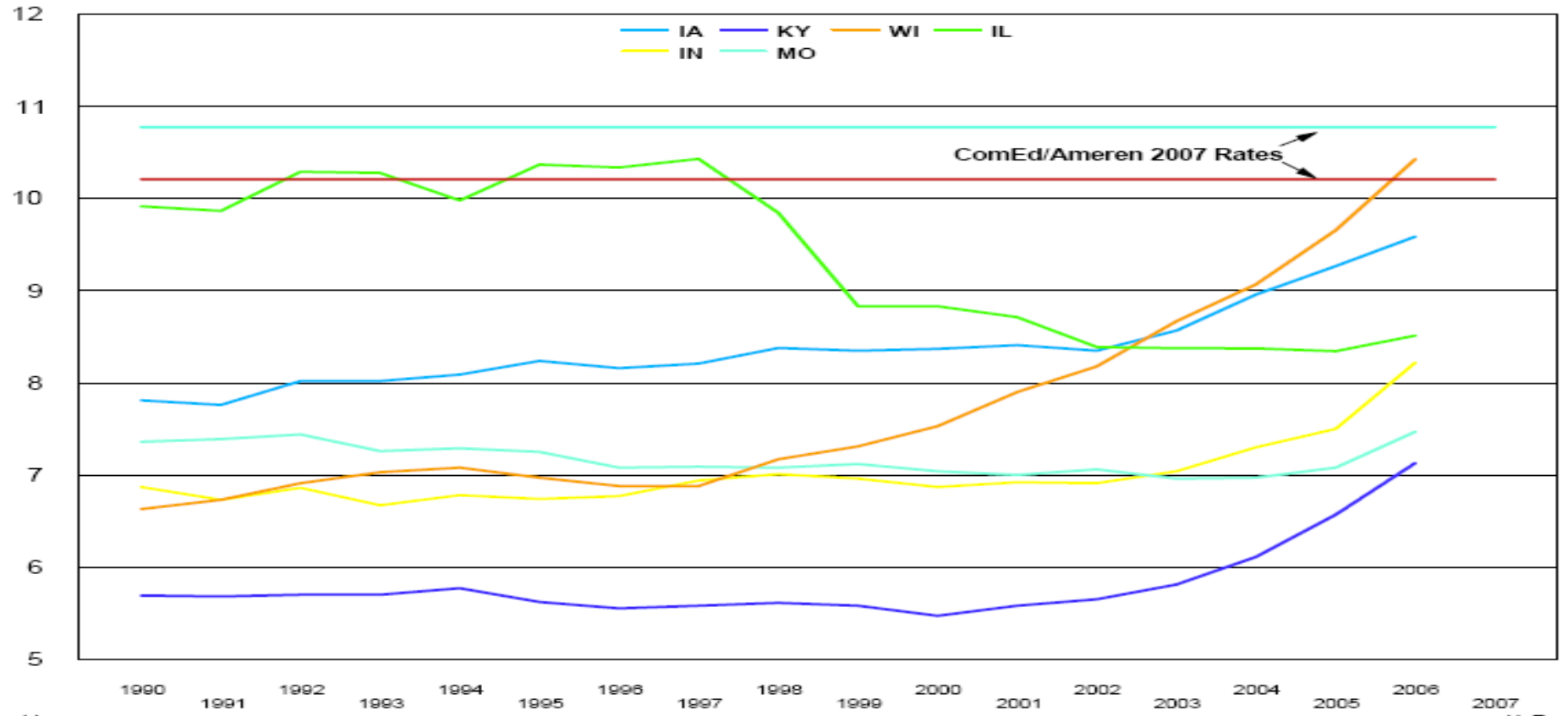
November 1, 2007

# 2006 Auction Prices

	ComEd	Ameren
Small to Medium Customers	\$64/MWH	\$65/MWH
Large Customers	\$90/MWH	\$85/MWH

cents/kWh

### Comparative Electric Rates



ComEd/Ameren 2007 Rates

# Litigation

- People of the State of Illinois et al v. ICC  
Illinois Appellate Court
- People of the State of Illinois v. ExGen et al  
Federal Energy Regulatory Commission
- People of the State of Illinois v. FERC  
U.S. Court of Appeals for the D.C. Circuit
- People of the State of Illinois v. Ameren IP/CIPS  
Jackson County Circuit Court
- ICC Docket 07-0240 (public release of auction data)
- ICC Docket 06-0800 (auction improvement docket)

# Settlement

- Rate Relief to reduce rate shock
- Long term fixed-price contracts to ensure price stability
- Legislative reform

# Rate Relief

**Total:** approximately \$1 billion

**ComEd customers:** \$488 million

**Ameren customers:** \$488 million

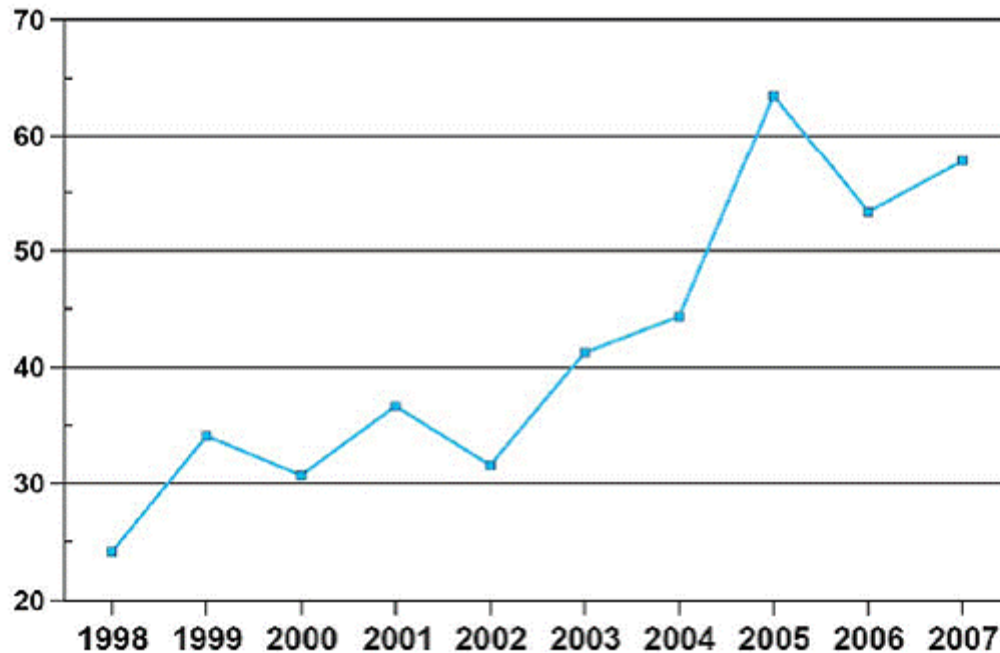
**Impact:** eliminates about half of the 2007 rate increase for residential customers

# Long term fixed-price contracts

In order to promote price stability for residential and small commercial customers, ComEd and the Ameren utilities are required to enter into multi-year financial swap contracts (not to exceed 3,000MW in any hour of the year.)

# Wholesale Electricity Prices

**PJM load-weighted, average LMP (\$/MWh),  
1998 to May 2007**



Source: PJM Market Monitor.



# Swap Prices

## ComEd contract with ExGen

Term: 6/1/08 – 5/31/2013

Quantity: 1,000 – 3,000 MW

Average Price: \$51.38/MWH

## Ameren Utilities contract with AEM

Term: 6/1/08 – 12/31/2012

Quantity: 400 – 1,000 MW

Average Price: \$51.38/MWH

# Electric Power Sector Reform

- Regulation?
- Competition?
- Public Power?

# Public Act 95-481

Passed by General Assembly  
July 26, 2007

Signed by Governor  
August 28, 2007

<http://www.ilga.gov/legislation/publicacts/95/095-0481.htm>

# **Illinois Power Agency**

## **Planning and Procurement Bureau**

Develops least cost plans and  
conducts competitive procurement processes for  
ComEd and the Ameren Illinois Utilities

## **Resource Development Bureau**

Develops electric generating projects  
for/with Municipal Utilities and Electric Coops

# IPA Officials

IPA Director is appointed by the Governor, with consent of the Senate

IPA Director appoints:

- Chief of the Planning and Procurement Bureau
- Chief of the Resource Development Bureau

# Illinois Power Agency

IPA officials and consultants:

- Must have expert qualifications, extensive experience and advanced degrees
- Must meet strict conflict of interest provisions

# **Illinois Power Agency Funding Sources**

- Advance from state treasury
- Settlement proceeds
- Fees

# Illinois Power Agency Trust Fund

\$25 million

Funded from settlement proceeds paid by Dynegy, Midwest Generation, Exelon Generation, Ameren Energy Resources Generating Company, and Midamerican Energy Company



# Illinois Power Agency Appropriation

FY 2008      \$1.25 million

FY 2009      \$1.5 million

All funds are to be repaid  
(without interest)

# Illinois Power Agency Fees

## Planning and Procurement Bureau

Utilities are assessed fees to cover costs of  
planning process

Bidders are assessed fees to cover costs of  
procurement process

## Resource Development Bureau

Costs covered by fees assessed to applicants or  
recovered through revenue bonds

# IPA Procurement Planning Process

## purpose

to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest cost over time, taking into account any benefits from price stability, for ComEd and Ameren retail supply customers

# Annual Planning Process

Load forecast (minus EE & DR)

Renewable Portfolio Standard

Build/Self-Generation Option

# IPA Competitive Procurement Process

- Standard Products (7X24, 5X16, etc.)
- Requests for proposals
- Sealed binding commitment bidding
- Market-based price benchmarks
- Negotiation
- Pay as bid settlement
- Multiple rounds
- Utility required to buy from winning bidders

# **Confidentiality**

**FOIA exemption for information  
contained in or related to  
electric power procurement  
determined to be confidential  
and proprietary by IPA or ICC**

# Renewable Portfolio Standard

- Percentage of electricity needed to serve ComEd and Ameren customers that must come from renewables:
  - at least 2% by June 1, 2008;
  - at least 4% by June 1, 2009;
  - at least 5% by June 1, 2010;
  - at least 6% by June 1, 2011;
  - at least 7% by June 1, 2012;
  - at least 8% by June 1, 2013;
  - at least 9% by June 1, 2014;
  - at least 10% by June 1, 2015;
  - increasing by at least 1.5% each year thereafter to at least 25 % by June 1, 2025.

# Renewable Portfolio Standard

- Initially, renewable resources must be located in Illinois, to the extent that enough renewables are available in Illinois to meet the standard.
- At least 75% of the resources used to meet the standard must come from wind
- Renewable energy credits used to comply with the standard must be retired



# Renewable Portfolio Standard

## Renewable Energy Resource

Energy and its associated renewable energy credits or renewable energy credits from wind, solar thermal energy, photovoltaic cells, biodiesel, crops and untreated and unadulterated organic waste biomass, trees and tree trimmings, hydro power that does not involve new construction or significant expansion of dams, landfill gas produced in the State and other alternative sources of environmentally preferable energy.

# Energy Efficiency Standard

ComEd, Ameren and DCEO required to implement measures to achieve annual energy savings for all electricity DELIVERED by ComEd and Ameren:

- at least .2 % of energy delivered in the year commencing June 1, 2008;
- at least .4 % of energy delivered in the year commencing June 1, 2009;
- at least .6 % of energy delivered in the year commencing June 1, 2010;
- at least .8 % of energy delivered in the year commencing June 1, 2011;
- at least 1 % of energy delivered in the year commencing June 1, 2012;
- at least 1.4 % of energy delivered in the year commencing June 1, 2013;
- at least 1.8 % of energy delivered in the year commencing June 1, 2014;
- at least 2 % of energy delivered in the year commencing June 1, 2015 and each year thereafter.

# Demand-Response Standard

- ComEd and Ameren must reduce peak demand for their supply customers
- Demand-response measures must reduce peak demand by 0.1% over the prior year, starting June 1, 2008 and continuing through each of the next ten years.

# Cap On Amounts Paid to Meet EE/DR Standards

- Increases in total amounts paid by customers in connection with electric service (*i.e.*, charges for supply, transmission, distribution, surcharges and add-on-taxes) to meet the EE/DR standards are capped at .5% annually.
- Important to choose the most cost-effective measures available to avoid hitting the cap.
- Legislative review of cap by June 30, 2011.

# Total Resource Cost Test

**Benefit-cost ratio must be greater than one**

The benefit-cost ratio is the ratio of net present value of DSM program benefits (avoided electricity costs, including costs of complying with greenhouse gas controls + benefits to system and participant) to the net present value of DSM program costs (cost of program + implementation + evaluation) as calculated over DSM program life.

# IPA Resource Development Bureau

- Develops, finances, constructs and/or operates electric generation and co-generation facilities that use indigenous coal or renewable resources, or both.
- Supplies electricity from the IPA facilities at cost to municipal electric systems, governmental aggregators and rural electric cooperatives in Illinois. (All subsequent retail sales must be at cost)

# IPA Coal-fired Facilities

- First facility that IPA develops, finances or constructs shall be a facility that uses coal produced in Illinois. (IPA may construct renewable energy facilities after work on the first facility has commenced.)
- Preference for technologies that enable carbon capture and sites with geology suitable for carbon sequestration

# Construction of IPA Facilities

For all facilities that cost more than \$100 million, IPA must demonstrate:

- Feasibility
- No material adverse effect on property tax
- All required permits/approvals obtained
- Binding commitments for at least 75% of the anticipated output of the facility for a time period sufficient to recover all costs
- Plan to sell remaining output of the facility to municipal utilities, electric coops and governmental aggregators.



# Illinois Power Agency

- Broad authority to enter into agreements of up to 40 years with any person, local government, State agency, or other entity
- Authority to transfer ownership of IPA facilities to municipal electric systems, governmental aggregators and coops
- Authority to exercise the power of eminent domain for construction, maintenance or operation of IPA facilities
- Rulemaking authority

# Illinois Power Agency

- IPA must solicit public comments on all proposed contracts to develop facilities
- IPA projects costing \$1 billion or more must be approved by General Assembly (Agency is also required to enter into management and operating agreements for facilities costing \$1 billion or more.)

# Illinois Power Agency

- IPA may not build nuclear power plants
- IPA may not own transmission and distribution facilities
- IPA may not sell excess energy or capacity through the procurement process administered by the Agency
- IPA may not sell electricity to retail customers
- Illinois electric utilities shall not be required to purchase electricity from IPA facilities

# IPA Facility Financing

The IPA is authorized to finance facilities through:

- Prepayments from purchasers of electricity to be generated by the facility
- Leasing or similar arrangements
- Grants, loans or guarantees from third parties
- Revenue bonds/IFA loan of net proceeds from bond issue

# Revenue Bond Requirements

- \$4 billion maximum
- Term can be no more than 40 years
- May be taxable or tax exempt
- IPA Director must certify that project fully complies with Act
- Governor and IPA Director must approve pledges of security
- Not a debt of the State or political subdivision thereof

# Revenue bonds to be secured by:

- Revenue from operation of facility
- Payments by other governmental units
- Any other revenues directly linked to facility
- Facility and related real property
- Reserve or debt service funds for facility
- Illinois Power Agency Debt Service Fund
- Illinois Power Agency Facilities Fund

# Miscellaneous Provisions of PA95-481

## Home rule pre-emption

Home rule unit may not levy any new taxes or fees specifically related to the generation of electricity, capacity to generate electricity or air emissions from the generation of electricity

# Miscellaneous Provisions of PA95-481

## Expanded Shut-off Ban

Electric heating customers  
in ComEd and Ameren service territories  
cannot be shut off from  
December 1 through March 31



# Miscellaneous Provisions of PA95-481

## Expedited Merger Approval Process

Applies solely to Ameren Illinois utilities

Benefits must exceed costs

No recovery of costs of merger transaction

No impairment of terms or conditions of employment or collective bargaining rights

# Miscellaneous Provisions of PA95-481

State can't prohibit  
ComEd or the Ameren Illinois utilities  
from membership in RTO  
of their own choosing

# Miscellaneous provisions of PA95-481

## Competitive Declarations

- Increased standard: no declaration until at least 33% of customers served by 3 or more ARES
- All large C&I customers (usage over 400 kw) automatically declared competitive (majority have already left & would be declared competitive by ICC under new standard)
- Utilities may seek to have customers with usage over 100 kw and under 400 kw declared competitive through expedited ICC process

# Miscellaneous provisions of PA95-481

## Competitive Declarations

- ComEd customers over 100 kw but less than 400 kw and Ameren customers over 400 kw but less than 1 MW may continue to take service from utility through May 2010
- ComEd customers over 400 kw and Ameren customers over 1 MW may continue to take service from utility through May 2008
- No residential, nonprofit or small business customer with demand less than 100 kw may be declared competitive before 2012