

ILLINOIS POWER AGENCY ACT

THE NEXT STEP IN ELECTRIC INDUSTRY RESTRUCTURING

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RATE SHOCK, BUT NOT SURPRISE

- Rates reduced below cost of service and frozen
- Lengthy transition period
- Power procured during period of higher fuel costs and wholesale energy prices
- Attempts made to raise awareness and adjust expectations
- Plans offered to mitigate rate shock and phase in new prices

RATE SHOCK REACTION

- Policymakers found a need to provide rate relief to retail customers
- Linkage by some of rate increases to the procurement method caused auction procurement process to lose viability
- Market participants sought to maintain competitive market structure
- Compromise reached around providing:
 - Interim rate relief
 - Extended transition of utility rates to incorporate competitive market power prices
 - Alternative method for utilities to procure power for bundled retail customers

A COMPETITIVE SUPPLIER'S YARDSTICK

- Market liquidity
- Transparency
- Stability
- Regulatory and legislative certainty
- Fairness
- Independent regulatory or third party oversight

TAKING MEASURE OF THE ILLINOIS POWER AGENCY ACT

- The Illinois Power Agency Act continues to recognize the value of competitive power supply for retail customers in Illinois.
 - How does the new act support healthy competition?
 - What competitive concerns are raised by the new act?
 - What competitive considerations should policymakers and industry participants keep in mind as the new act is implemented?

SUPPORT FOR COMPETITION

- Sanctity of auction contracts preserved
- Future procurements by means of competitive RFP processes
- Provision for mix of contracts, including long-term contracting
- Supply planning included as part of public process with regulatory oversight
- Provisions for interested party input to procurement plans
- Independent third party planning and administration of procurement
- Assurance of cost recovery for utilities

SUPPORT FOR COMPETITION

- Continued oversight and regulation by ICC
- Rate relief plan intended to finalize phase-in to market prices
- State commitment to not prohibit RTO membership
- Competitive declaration changes supportive of retail competition
- RPS and energy efficiency standards that should help stimulate those markets
- Resource development bureau potential to help stimulate new in-state build

COMPETITIVE CONCERNS

- Continued subsidization of retail rates and shielding of customers from market pricing signals
- Financial swaps contracts between utilities and affiliates as part of package
- Revival of Section 16-111(g) of the PUA allowing utilities to engage in significant transactions and restructurings with affiliates with no requirement for ICC review and approval

KEEP A COMPETITIVE WATCH

- Fragmented responsibilities among utilities, IPA, outside experts, ICC, and ICC monitor require careful coordination and properly constructed interfaces
- Finding and hiring the needed expertise to run procurement may prove challenging
- Turnover of experts in procurement planning and administration could result in disjointed, inconsistent approaches over time
- Many open questions remain related to the resource development bureau and how it will function
- Tight review deadlines of complex issues may make stakeholder input and ICC review difficult, possibly to the point of jeopardizing thoroughness and effectiveness
- Possibility of utility/affiliate cross-subsidization and preference under PUA Section 16-111(g) exists