

*The Institute for Regulatory Policy
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Session 2: The Current Status of
Retail Choice

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Disclaimer:

The opinions expressed in this presentation do not reflect the views of the Illinois Commerce Commission or its staff members.

Yeah, well, that's just, like, your opinion, man.

The 1997 Illinois Restructuring Act

- Lottery for the first “switchers”
- Very large industrial customers switching
- Rates were frozen at 1997 levels
- Residential rates for the State’s two largest utilities, ComEd and Illinois Power (now AmerenIP), were decreased by 20%.
- It is estimated that residential customers saved approximately \$5.2 billion as a result of the rate freeze and residential rate reductions in the years 1998-2006.

- However, the downside of the rate freeze was that residential customers were insulated from wholesale price increases for a decade.
- The resulting rate shock when residential customers were finally exposed to the inevitable price increases led to significant political criticism and legislative amendments to the Act.
- Even so, during the Mandatory Transition Period, thousands of non-residential customers achieved significant savings by taking advantage of the opportunity to switch from bundled service to delivery service.

The differences from the regulatory efforts to break up the famous “last mile”:

Telecom → full or partially facilities-based competition

- UNEs, DSLAMs, collocation, soft switches
- Cable and satellite TV providers, fixed and mobile wireless providers

Electric → no facilities-based competition likely

- Compete on price, price structure, service features (“green” power, electronic billing, customer care, etc.)

Triennial Report April 2003

- Twelve suppliers, either certificated suppliers or electric utilities serving outside their home service areas, sold power and energy to retail customers in 2002.
- With three exceptions, each RES that made retail sales in 2002 is either an Illinois utility or an affiliate of an Illinois gas and/or electric utility. Other suppliers may have participated in the market by marketing the utility's PPO.
- Most suppliers are concentrating their marketing efforts in the ComEd service territory. Eight suppliers sold power and energy (or took part in a PPO Assignment transaction) in the ComEd service territory during 2002, one more than in 2001.
- Four suppliers accumulated almost 90% of all RES sales to ComEd customers. In 2001, only three suppliers had obtained that level of retail sales, perhaps indicating that competition among RESs is increasing in the ComEd service area. Five different suppliers sold power and energy to downstate customers, two more than in 2001. The number of suppliers in the downstate areas is slowing increasing from previous levels.

ICC's Third Triennial Report on Retail and Wholesale Competition in the Illinois Electric Industry, issued May 2006:

- In some service territories of the state, a fairly significant number of customers are taking advantage of the opportunity to reduce their electric costs. In particular, a large percentage of high-use customers are switching to either a lower-cost service generation service offered by the incumbent utilities or to services provided by Retail Electric Suppliers.
- However, there are a number of problems facing the development of healthy competition for retail electric power in Illinois. With respect to the retail market, about 40% of the customers who have switched to delivery services have switched to the Power Purchase Option rather than to a supplier who is purchasing power on the wholesale market for resale to retail customers. From a long-run perspective, customer reliance on the PPO as a strategy to save money is worrisome because the PPO will only be available to customers through the end of 2006. Other problems in the retail market include a lack of interest among suppliers in serving residential customers and non-residential customers in the service areas of the State's smallest utilities.

ICC's Third Triennial Report on Retail and Wholesale Competition in the Illinois Electric Industry, issued May 2006:

“The expiration of the Mandatory Transition Period on January 1, 2007, will address some of the obstacles that have hindered the development of retail competition, but additional retail suppliers are needed if retail competition is to continue to grow in the areas and customer classes where competition has begun to take hold.”

Number of Active Retail Electric Suppliers per Utility Service Territory

2000-2005

Utility Service Area / Year	2000	2001	2002	2003	2004	2005
AmerenCILCO	0	0	0	1	1	1
AmerenCIPS	3	2	4	5	5	4
AmerenIP	4	3	4	3	3	4
ComEd	8	7	8	8	8	9

- The expiration of transition charges at the end of the MTP and the lifting of the rate freeze, by themselves, may stimulate competition to a certain extent, at least in some areas.
- After 2006, customers in the AmerenIP and ComEd service territories will no longer be subject to transition charges, essentially an "exit fee," if they switch to an alternative supplier, and thus will be able to retain all of the savings that RESs can offer them.
- The expiration of the existing bundled retail rate freeze will provide electric utilities an opportunity to seek an increase in the rates charged to bundled service customers. Bundled rates could rise from present levels at the end of the rate freeze, depending on prices in the wholesale market at that time.
- RESs, which are currently finding it difficult to undercut the generation price implied in the bundled rate in several service areas and for particular customer classes, may find it easier to compete against presumably higher utility bundled rates.

Non-residential Delivery Services Customers October 2005

Electric Utility	Eligible Customers	PPO Customers	RES Customers	Total Customers
AmerenCILCO	23,609	NA	10	10
AmerenCIPS	56,138	NA	104	104
AmerenIP	68,027	454	167	621
ComEd	338,074	14,867	6,322	21,189

- As of October 31,2005, about 22,000 customers, or about 4.2% of all non-residential customers, were receiving delivery services.
- Approximately 70% of the above 1 MW customers in ComEd's service territory purchase electricity from alternative suppliers.
- Approximately 30% percent of the above 1 MW customers in AmerenIP's service territory purchase electricity from alternative suppliers.
- Less than 6% of under 1 MW customers have switched in ComEd's service territory, and less than 1% of below 1 MW customers have switched in any other utility service territory.
- Approximately 18% of the retail load in Illinois is served by RES supply.
- Delivery services activity in the ComEd service territory is split between Retail Electric Supplier supply and the Power Purchase Option ("PPO"), which is an unbundled discounted power and energy service, required, by statute, to be offered to non-residential customers by utilities that impose transition charges.
- "PPO service should not be taken as a strong indicator of competitive activity since PPO customers are still purchasing their power supply from the incumbent utility."

- The end of the MTP, while likely beneficial to retail competition, will not necessarily result in a large number of additional customers switching to RESs.
- Switching may be limited in the foreseeable future to the State's largest customers, as is presently the situation. Even though utility bundled rates may rise in the future, utilities and RESs will both be buying essentially the same power and energy products from the same wholesale market.
- Utilities may be able to offer rates that are comparable to the rates that RESs will be able to charge to most customers, potentially leaving only perhaps a small number of customers to be served by RESs.

% of Usage on RES Supply

AmerenCIPS/Rate Zone I

■ Small (0-100 kW) ■ Medium (100-400 kW) ■ Large (400-1MW)

