

Perspectives on the Future of Regulatory Policy

Session 3: The Role of the Illinois Power Agency

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The Role of the Illinois Power Agency

- **IPA's Role:** The central purchasing agent for **default service** electricity supply to ComEd and Ameren residential and small commercial customers.
- **IPA's Mission:** Meet consumer demand at the **lowest cost over time** using a **portfolio** of standard market products, long and short-term contracts, renewable and clean coal resources, demand management and energy efficiency, taking into account the benefits of **price stability**.
- **IPA's Current Challenge:** Need to recalibrate the demand/supply balance in a period of marketplace transition.
- **IPA's Future:** Likely to evolve as the marketplace evolves.

Factors This Conference Asked the IPA to Consider in Evaluating Its Future Role:

- **The impact of municipal aggregation**
- **Energy procurement methods under price and volume uncertainty**
- **The cost of minimizing risk**

Also of note:

- **The greater convergence of wholesale and retail markets through demand-side management**

The Impact of Municipal Aggregation

More Questions than Answers

On Utility Default Service

- **Volume Uncertainty:** will a steady-state level of default service be achieved?
- **If not, must focus shift further away from long-term contracts?**
 - Inability to recover costs of existing portfolio under rate impact caps
 - Revenue guarantees/price premiums for new long-term contracts under volume uncertainty
- **What will be the nature of the load that self-selects out of municipal aggregation?**
- **Does the utility reduce its role to that of middleman between the ARES and the RTOs?**

On Marketplace Evolution

- **How “sticky” are municipal aggregation customers?**
- **Will ARES with wholesale generating affiliates be the better financiers of long-term contracts and new generator build?**
- **Is the full requirements risk premium less for muni-agg suppliers than for default utilities?**
- **Will “headroom” or value-added service matter more?**
- **Does Municipal Aggregation become the new channel to market for all default service?**

Energy procurement methods under price and volume uncertainty

- Current market conditions and consumer expectations for low prices favor purchases from existing resources rather than funding new build.
- Energy markets are still only liquid 3-years out: will we be able to spot upward price pressures soon enough to take appropriate action?
- Fuel choice economics are affecting electricity costs more than clean air rules and are achieving better air quality results at lower prices –how long will this last?
- What happens when the economy improves? Has there been a permanent change to the energy consumption vs. GDP relationship?

The cost of minimizing risk

- What is the objective:
 1. Stable prices vs. lowest prices
 2. Comfort of being long on supply vs. trusting the marketplace
- Illinois has the benefits of robust and deep wholesale and retail markets; are there potential unintended consequences due to:
 1. Robust retail competition – guess wrong and lose customers
 2. Price caps to protect consumers – guess wrong and leave suppliers short of revenue
 3. Robust RTO-Based Multi-State Markets – guess wrong and expensive or unneeded “home grown” supply will loose out to the competition
 4. What happens when market prices start trending up?

Convergence of Wholesale and Retail Markets – “Smart Grid” Impacts

- Demand-side and supply-side options can compete with each other in real-time to meet economic and reliability goals.
- Niche markets target willing customers rather than socializing all costs (i.e. rolling blackouts, voltage reductions, higher rates to all for higher cost resources).
- Engages new parties such as appliance manufacturers and retailers.
- Greater economic efficiency: Consumers see the “real” costs of consumption decisions.
- But monetized by the RTOs, not the utilities, suppliers or the IPA.
- With so many players and the direct RTO-run value chain, can the IPA “purchase” demand side resources or does it simply recognize their impacts.

Will the nature of default service change as markets mature?

Too soon to tell

There will always be customers who either cannot or do not want to choose, but has UCB/POR done away with early concerns?

The next rounds of municipal aggregation will be important to observe and from which to learn more about marketplace dynamics.

Food for thought: Does municipal aggregation become the new default service?

What to do about areas of the State that have not elected municipal aggregation?

Would require much discussion and almost certainly legislative changes.

Will the central planning model that underlies the IPA eventually run its course?

At this point in time there are more questions than answers

Illinois has a history of recognizing that marketplace transformation takes time.

Answering the questions requires a fair balancing of interests, patience and willingness to acknowledge that there is no “free lunch”.

Will the central planning model that underlies the IPA eventually run its course?

Too soon to tell

Best outcomes can be achieved if we maintain competitively neutral policies that recognize that Illinois is not an island but a participant in a larger competitive marketplace offering new solutions and innovative opportunities.

Focus efforts on fair rules for consumers and suppliers, consumer education, and economically rational pricing to foster sound decision-making.

Offer targeted consumer assistance rather than sending incorrect price signals to all.