

Electricity Markets and Regulation

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9/23/2013

Disclaimer:

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

And Thanks...
to the Office of Retail Market Development

Contents

- History
- Recent market developments
- Future

Legal Framework for Setting Public Utility Rates – Federal Law

[Bluefield Water Works v. PSC of West Virginia 262 U.S. 679 \(1923\)](#)

“A public utility is entitled to such rates as will permit it to **earn a return on the value of the property which it employs for the convenience of the public** equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the **financial soundness** of the utility and should be adequate, under efficient and economical management, to **maintain and support its credit** and **enable it to raise the money necessary** for the proper discharge of its public duties.”

[FPC v. Hope Natural Gas Co. 320 U.S. 591 \(1944\)](#)

“The ratemaking process under the Act, i.e., the fixing of “just and reasonable” rates, involves a balancing of the investor and the consumer interests.”

“... it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business.”

Legal Framework for Setting Public Utility Rates – IL Public Utilities Act

- **Sec. 1-102.** The General Assembly finds that the health, welfare and prosperity of all Illinois citizens require the provision of adequate, efficient, reliable, environmentally safe and least-cost public utility services at prices which accurately reflect the long-term cost of such services and which are equitable to all citizens. ...It is further declared that the goals and objectives of such regulation shall be to ensure
 - (a)(iii) utilities are allowed a sufficient return on investment so as to enable them to attract capital in financial markets at competitive rates;
 - (a)(iv) tariff rates for the sale of various public utility services are authorized such that they accurately reflect the cost of delivering those services and allow utilities to recover the total costs prudently and reasonably incurred;
 - (a)(v) variation in costs by customer class and time of use is taken into consideration in authorizing rates for each class.
 - (d)(iii) the cost of supplying public utility services is allocated to those who cause the costs to be incurred;
 - (d)(iv) if factors other than cost of service are considered in regulatory decisions, the rationale for these actions is set forth;
 - (d)(viii) the rates for utility services are affordable and therefore preserve the availability of such services to all citizens.

Electricity

- Investor-owned utilities
- Natural monopoly
- Balance customers and utilities

- PURPA – diversification in generation
- FERC 888, 889 – access and information

The 1997 Illinois Restructuring Act

- Very large industrial customers switching
- Rates frozen at 1997 levels
- Most residential rates decreased by 20%
- Saved approximately \$5.2 billion - 1998-2006
- Split off generation

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

Triennial Report 2006:

- The Commission has not received any applications for certification to serve the approximately 4.4 million eligible residential customers.
- High transaction costs – marketing, etc.
- Similar price to compare due to rate freeze

Public Act 94-1095. Effective February 2007.

- “A competitive wholesale electricity market alone will not deliver the full benefits of competition to Illinois consumers.
- “The General Assembly reiterates its findings from the Electric Service Customer Choice and Rate Relief Law of 1997 that the Illinois Commerce Commission should promote the development of an effectively competitive retail electricity market that operates efficiently and benefits all Illinois consumers.”

Residential competition - when?

- Once ComEd offers UCB/POR
 - Once there is default real-time pricing
 - Only through aggregation
-
- Once the Cubs win the World Series; In other words: Never!

New Laws

- The Retail Electric Competition Act of 2006
 - Created The Office of Retail Market Development
- Public Act 95-0700
 - UCB and POR
- Public Act 96-0176 Illinois Power Agency Act
 - Municipal aggregation

What is UCB/POR?

- It is two separate things:
- 1) **U**tility-**C**onsolidated **B**illing (Section 16-118(d) of the PUA)
- “[...] option to have the electric utility produce and provide single bills to the retail customers for both the electric power and energy service provided by the RES and the delivery services provided by the electric utility to the customers.”

What is UCB/POR?

continued

- 2) **P**urchase **o**f **R**eceivables (Section 16-118(c) of the PUA)
- “[...] provides RESs with the option to have the electric utility purchase their receivables for power and energy service...

Residential Customers Switched

March 31, 2011

2,034

Residential Customers Switched

August 31, 2013

2,988,216

Number of Residential Customers switching to RES Service

Between March 2008 and March 2011:

Less than **2** customers per day

Number of Residential Customers switching to RES Service

Between May 2011 and May 2012:

1,300 customers per day

Number of Residential Customers switching to RES Service

Between May 2012 and May 2013:

6,500 customers per day

Residential Customers Switched

March 31, 2011

Ameren Illinois Rate Zone I: 0.02%

Ameren Illinois Rate Zone II: 0.01%

Ameren Illinois Rate Zone III: 0.01%

ComEd: 0.05%

Residential Customers Switched

August 31, 2013

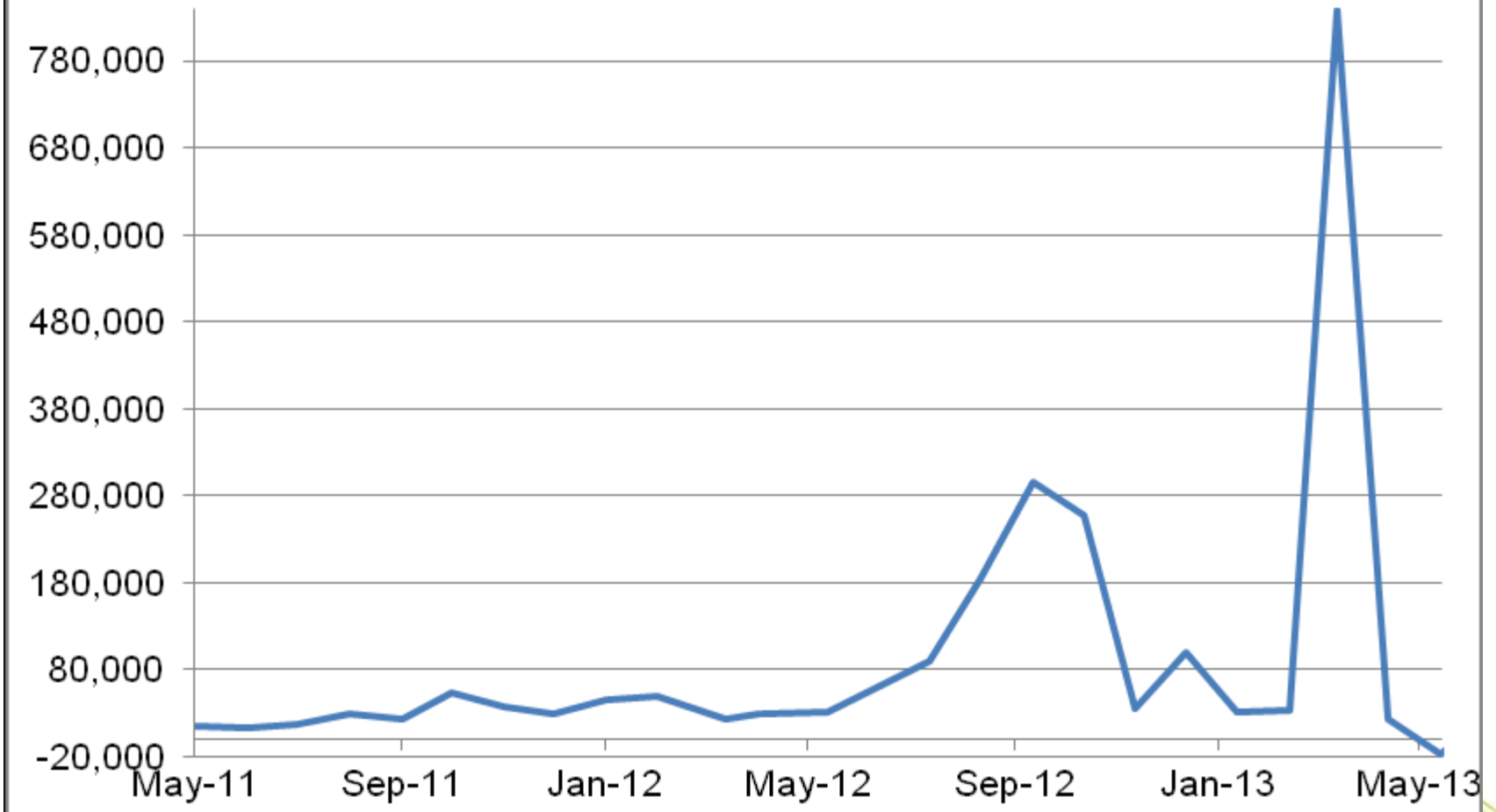
Ameren Illinois Rate Zone I: 53.8%

Ameren Illinois Rate Zone II: 77.0%

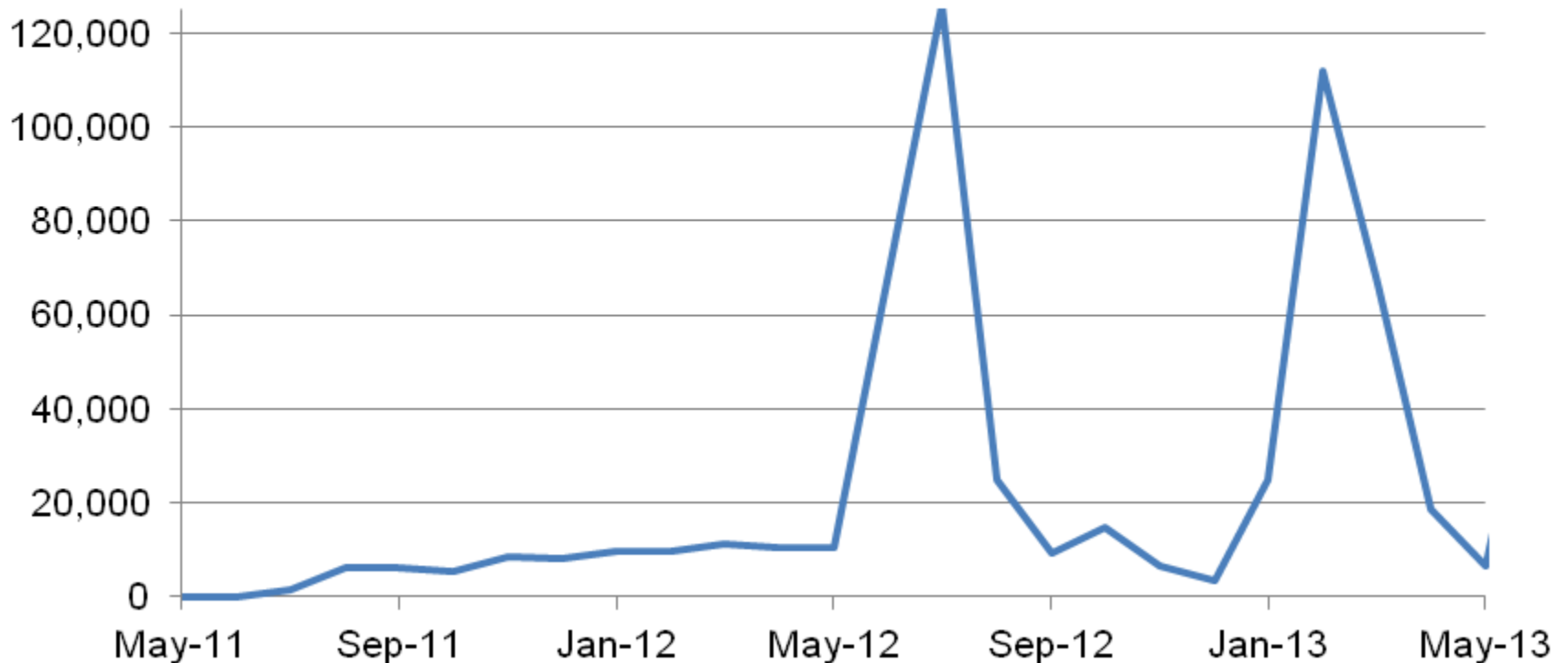
Ameren Illinois Rate Zone III: 62.3%

ComEd: 68.6%

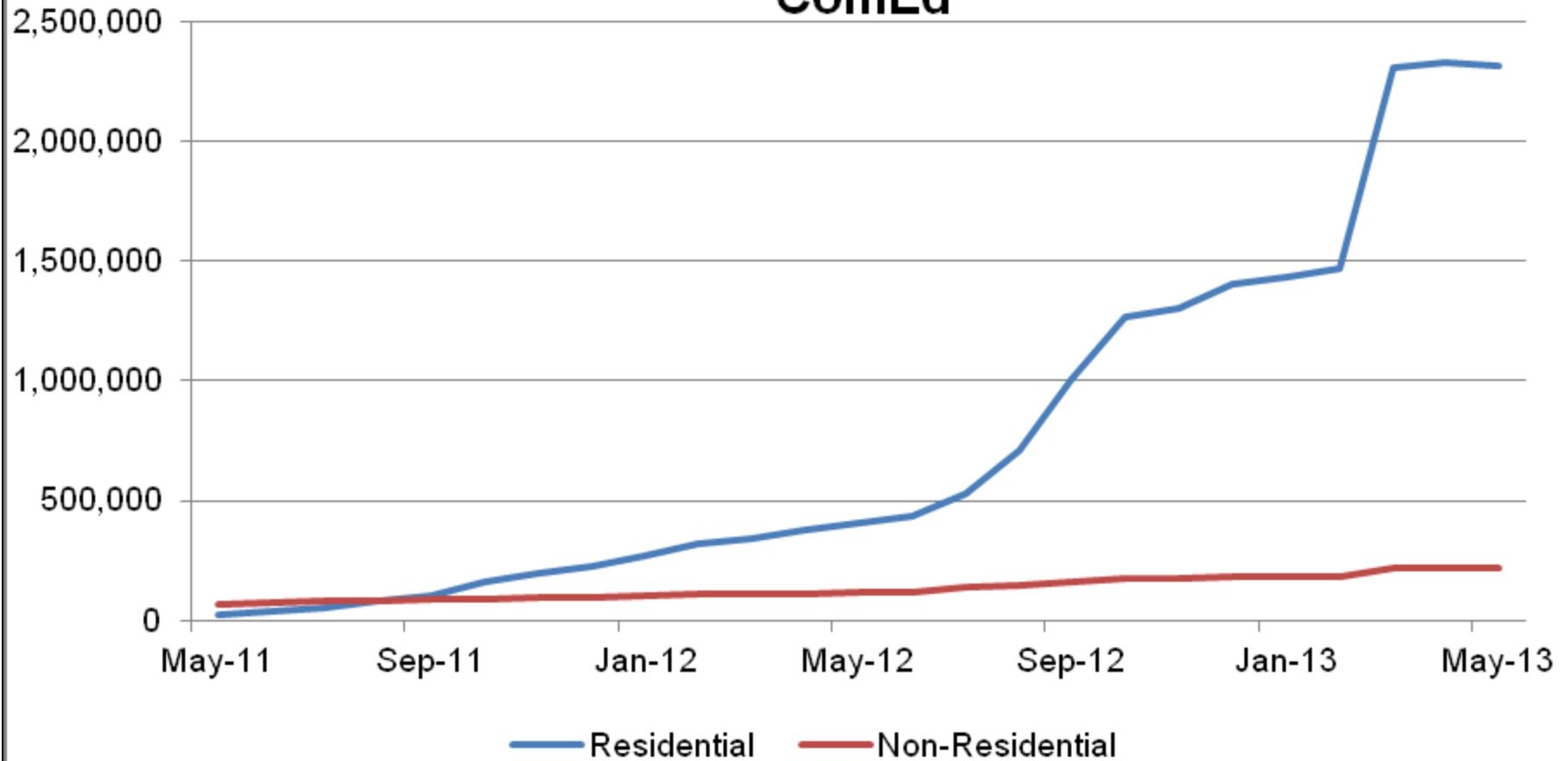
Monthly Net Residential Switching ComEd



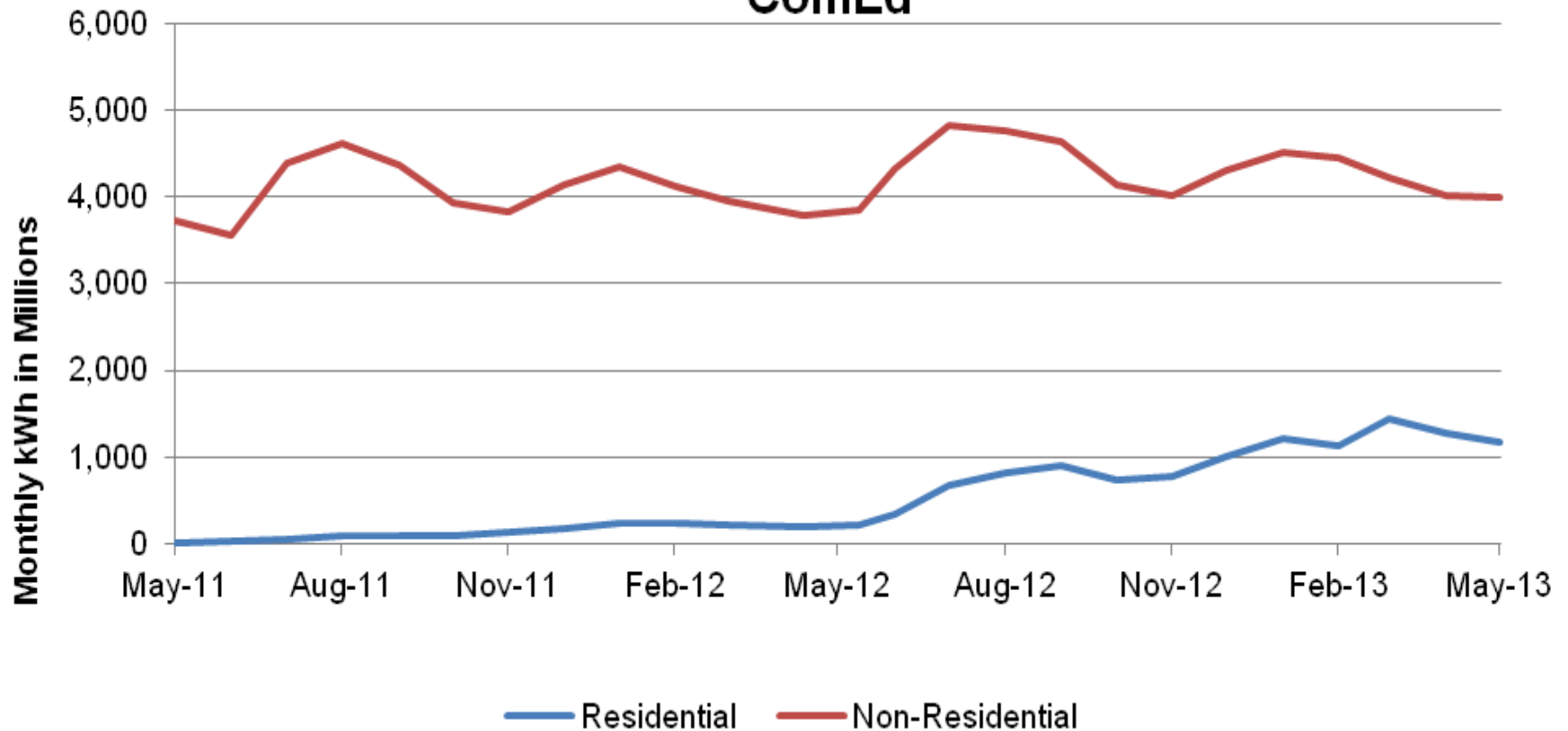
Monthly Net Residential Switching Ameren Illinois



RES Customers: May 2011 - May 2013 ComEd



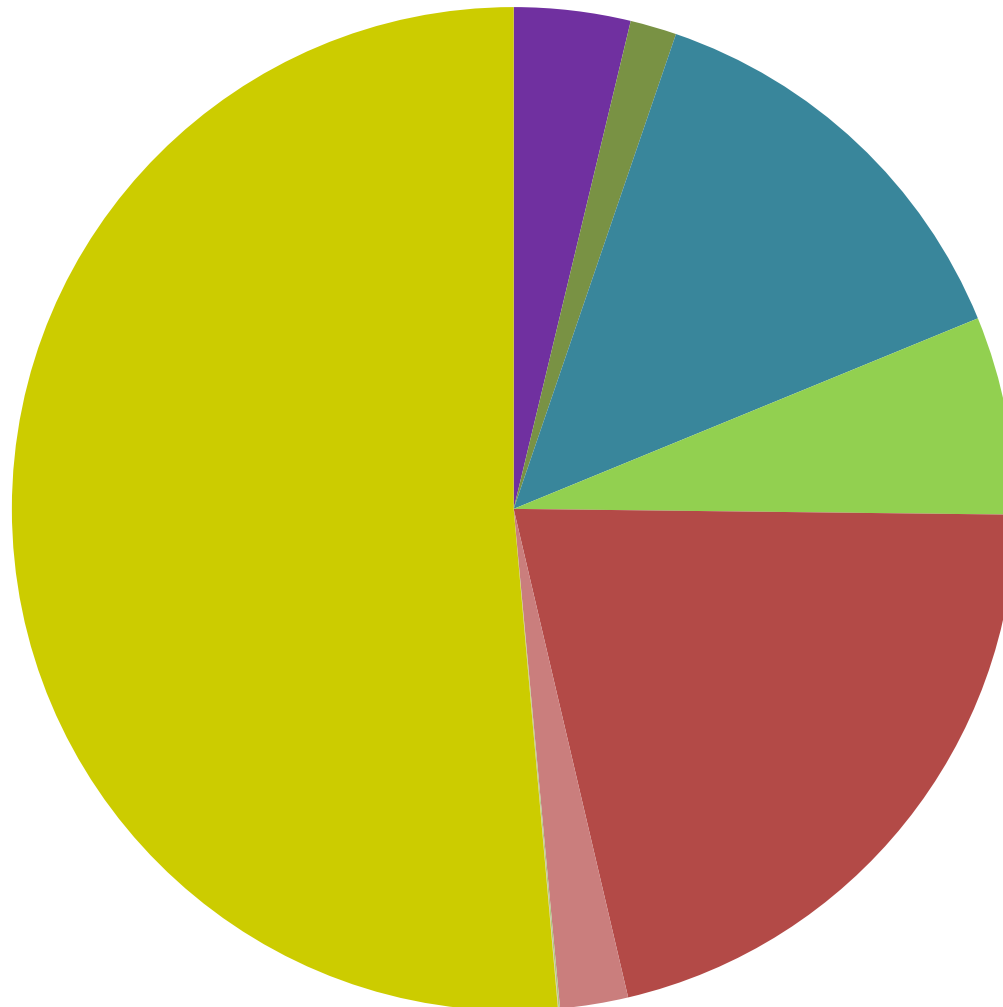
RES Supply: 2011 - 2013 ComEd



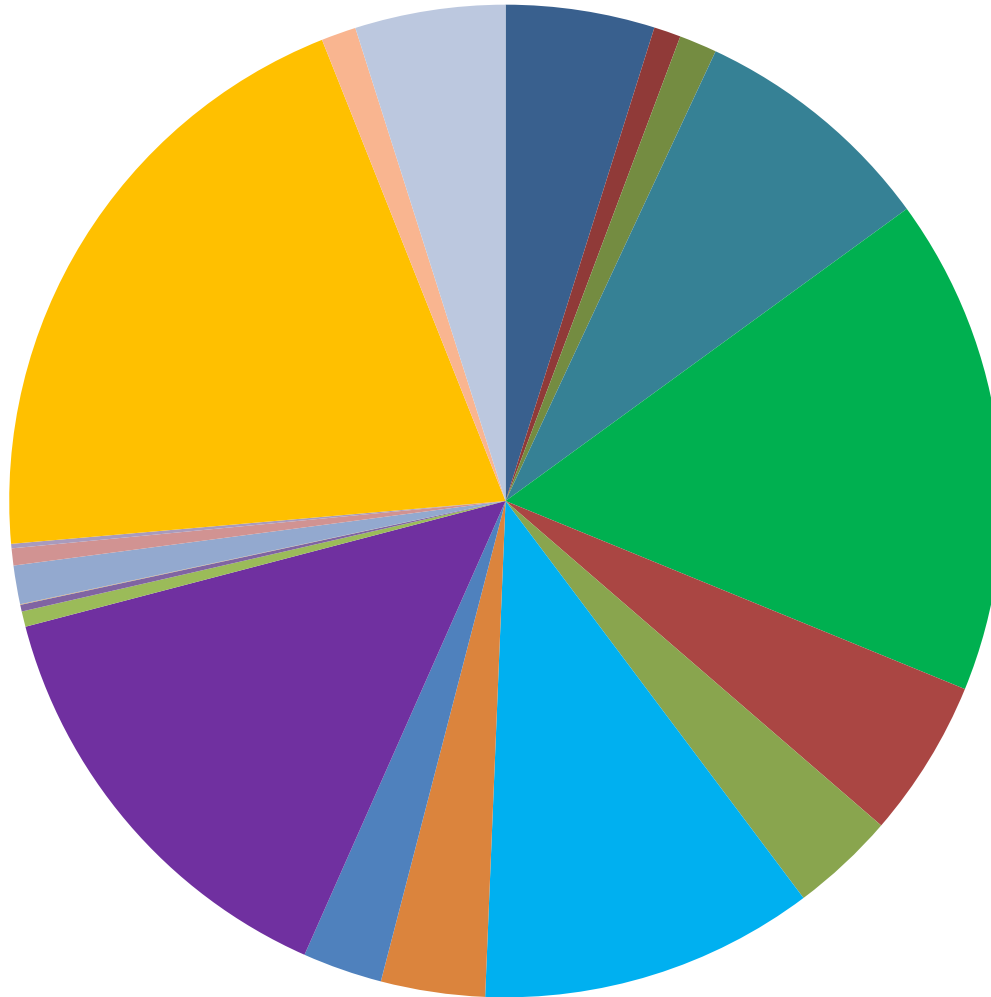
Other quick numbers

- Roughly 80% - usage, as of May 2013
- 2012 – 17% of residential RES
- 2013 – 78%
- 677 communities

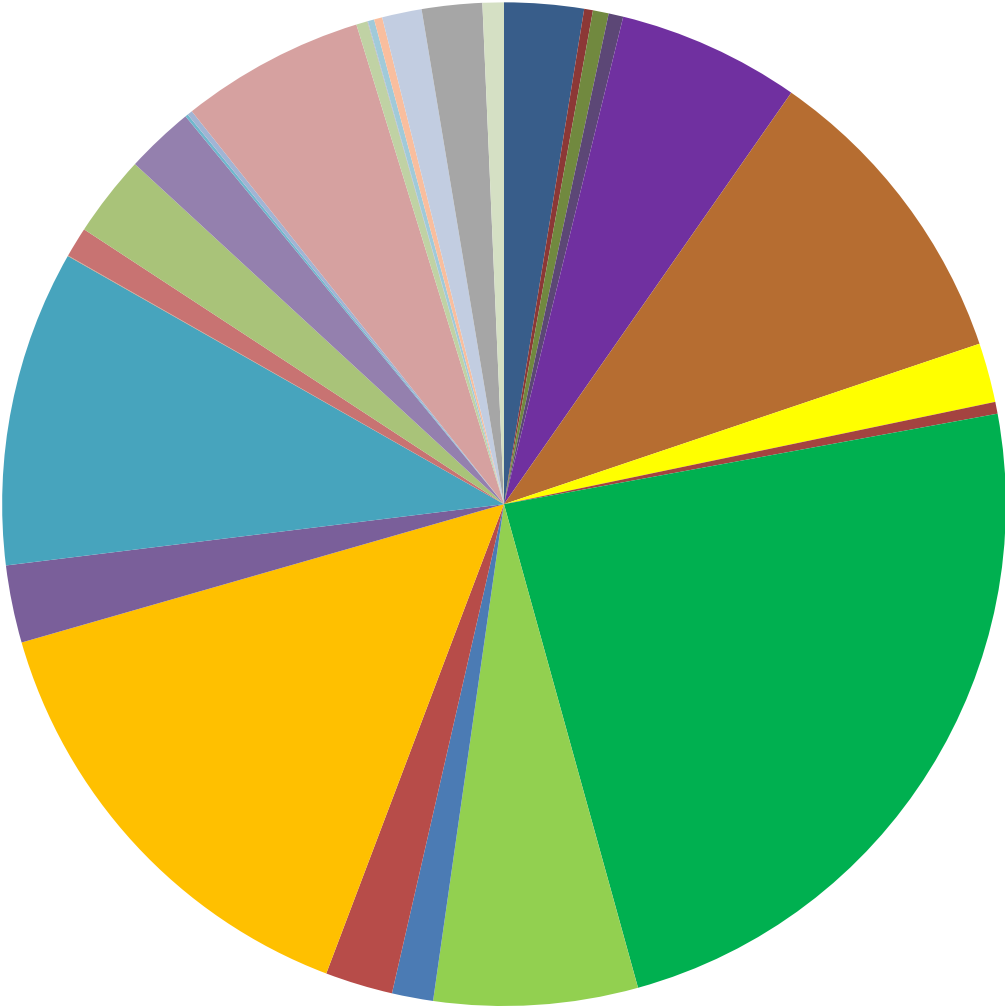
ComEd Residential Market by RES



ComEd Residential Market by RES



ComEd Residential Market by RES





Type of Residential Offer	# of Offers in July 2011	# of Offers in February 2012	# of Offers in April 2013
Total	31	48	63
Fixed	28 (90%)	41 (85%)	46 (73%)
Variable	3 (10%)	7 (15%)	17 (27%)
Fixed with Early Termination Fee	20 (71%)	27 (66%)	29 (63%)
Fixed without Early Termination Fee	8 (29%)	14 (34%)	17 (37%)
< than 12-month Term	1 (4%)	3 (7%)	23 (37%)
12-month Term	16 (57%)	22 (54%)	28 (44%)
13-23 month Term	2 (7%)	3 (7%)	2 (3%)
24-month Term	8 (29%)	12 (29%)	10 (16%)
> than 24-month Term	1 (4%)	1 (2%)	0 (0%)
Green/Renewable	9 (29%)	15 (31%)	18 (29%)

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STOP READING
SUPER
SAVER?
WELCOME HOME**

Save up to **23%**
on your electric
rate by switching
to Integrys today.

Offer available to residential customers in the Integrys service area. Offer subject to change without notice. Offer ends 12/31/09. Offer available to residential customers in the Integrys service area. Offer subject to change without notice. Offer ends 12/31/09. Offer available to residential customers in the Integrys service area. Offer subject to change without notice. Offer ends 12/31/09.

integrys we lead first.

Monthly Estimated Savings

inclusive of the PEA

Month	Total Estimated Savings
June 2012	\$3,261,660
July 2012	\$7,715,204
August 2012	\$12,743,479
September 2012	\$16,453,594
October 2012	\$22,973,699
November 2012	\$23,157,442
December 2012	\$26,152,327
January 2013	\$29,003,509
February 2013	\$33,492,012
March 2013	\$29,889,800
April 2013	\$27,059,548
May 2013	\$26,411,291

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The Future

- Price to compare
 - Services
- Innovation
- Education
- Trust