

# Logan County Electricity Aggregation Consortium

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APRIL 4, 2016

FARNSWORTH GROUP | ICCAN

# Outline

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Introductions

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Program Review

Current Market

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# Introductions

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## STEVEN SMITH

### **Farnsworth Group**

- Director of Business Development and Renewable Energy
- Economic Development Advisor to central Illinois communities including Logan County

### **Illinois American Water**

- Managed asset acquisition and system construction projects

### **Ameren-CILCO**

- General Manager for meter reading, customer billing and customer service

## MARK PRUITT

### **Illinois Community Choice (ICCAN)**

- Advisor to over 60 aggregation programs including Chicago
- Advisor to Argonne National Lab, Illinois Institute of Technology and US DOE Grow Solar program

### **Illinois Power Agency**

- Established pricing for Ameren and ComEd residential customers

### **University of Illinois**

- Managed electricity and natural gas purchasing for 39 state agencies and 12 municipalities

# Background: Retail Choice



ACCOUNT NUMBER	1	01234-56789
NAME	JOHN DOE	2
SERVICE	123 N MAIN	3
AT	ANYTOWN, IL 61602	

4	BILL DATE	Nov 16, 2010
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TOTAL AMOUNT DUE BY	5	Dec 7, 2010	\$110.13
AMOUNT PAYABLE AFTER DUE DATE	6		\$111.77

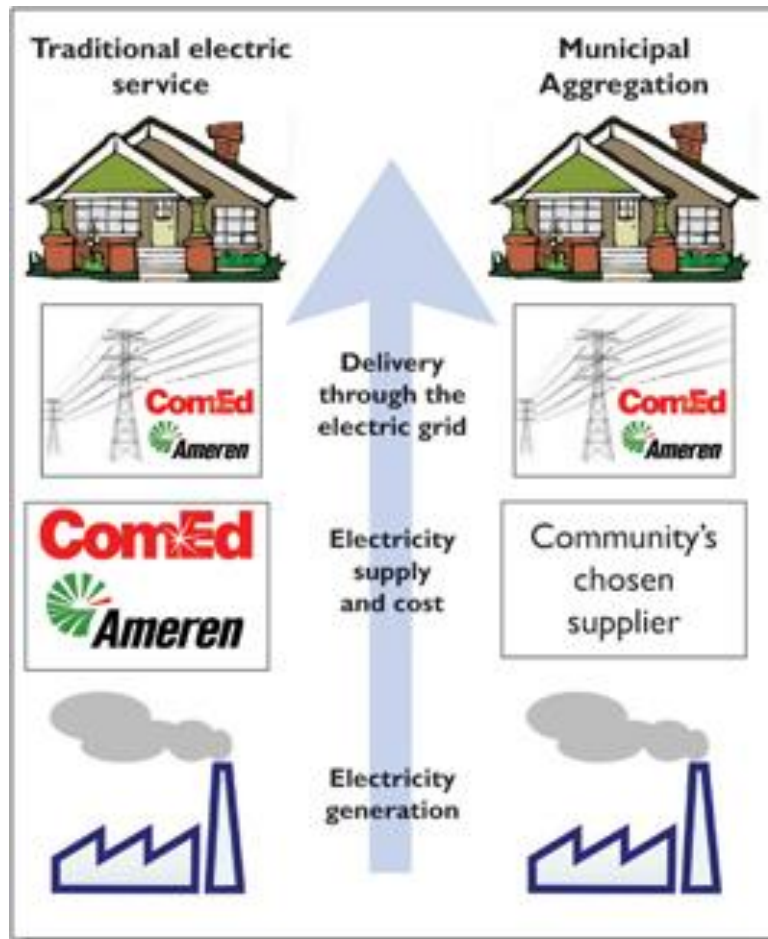
Payment received on Oct 25, 2010 98-27

TYPE OF READING	METER NUMBER	SERVICE FROM TO	NO. DAYS	METER READING		READING DIFFERENCE	METER MULTIPLIER	THERM FACTOR	USAGE	
				PREVIOUS	PRESENT					
Total kWh	1856	10/15-11/15	10	1200.00	1550.0000	12.0000	13.0000	14.0000	1550.0000	16
Total Therms	987654	10/15-11/15	31	1000.0000	1048.0000	48.0000	1.0000	1.0000	48.0000	A
Service To										
SUMMARY										
Service To										
Total kWh		11/15/2010		350.0000	Sales Therm			11/15/2010	48.0000	

## 17 ELECTRIC SERVICE BILLING DETAIL - Rate Zone I

<b>DS - Residential Service (DS-1)</b>				<b>Service From</b>		<b>10/15/2010 to 11/15/2010</b>	
<b>Annual kWh Up to 7,999</b>							
Customer Charge						\$13.55	
Meter Charge						\$4.72	
Distribution Deliv Chg Non-Summer				350.00	kWh @	\$0.01528000	\$5.09
Electric Environmental Adj				350.00	kWh @	\$0.00205710	\$0.72
Rider EDR Charge				350.00	kWh @	\$0.00168571	\$0.59
Total Delivery Service Amount						\$24.67	
<b>Electric Supply (BGS-1)</b>				<b>Service From</b>		<b>10/15/2010 to 11/15/2010</b>	
Purch Elec Non-Summer(0-800 kWh)				350.00	kWh @	\$0.05893000	\$20.74
Purchased Electric Adj				350.00	kWh @	-\$0.00294286	-\$1.03
Rider PER Supply Cost Adj				350.00	kWh @	\$0.00208571	\$0.73
Transmission Service Charge				350.00	kWh @	\$0.00308571	\$1.08
Total Supply Amount						\$21.52	
<b>Taxes</b>				<b>Service From</b>		<b>10/15/2010 to 11/15/2010</b>	
Illinois State Electricity Excise Tax						\$1.16	
Distribution Tax						\$0.45	
Total Tax Related Charges						\$1.61	
<b>Total Electric Charges</b>						<b>\$47.80</b>	

# Background: Aggregation



**Local municipalities may negotiate electricity supply contracts on behalf of residential and small commercial accounts within their borders.**

- Automatic enrollment

**Consumers still have choice:**

- Aggregation program
- Another retail electricity supplier
- Ameren Illinois default or hourly rates

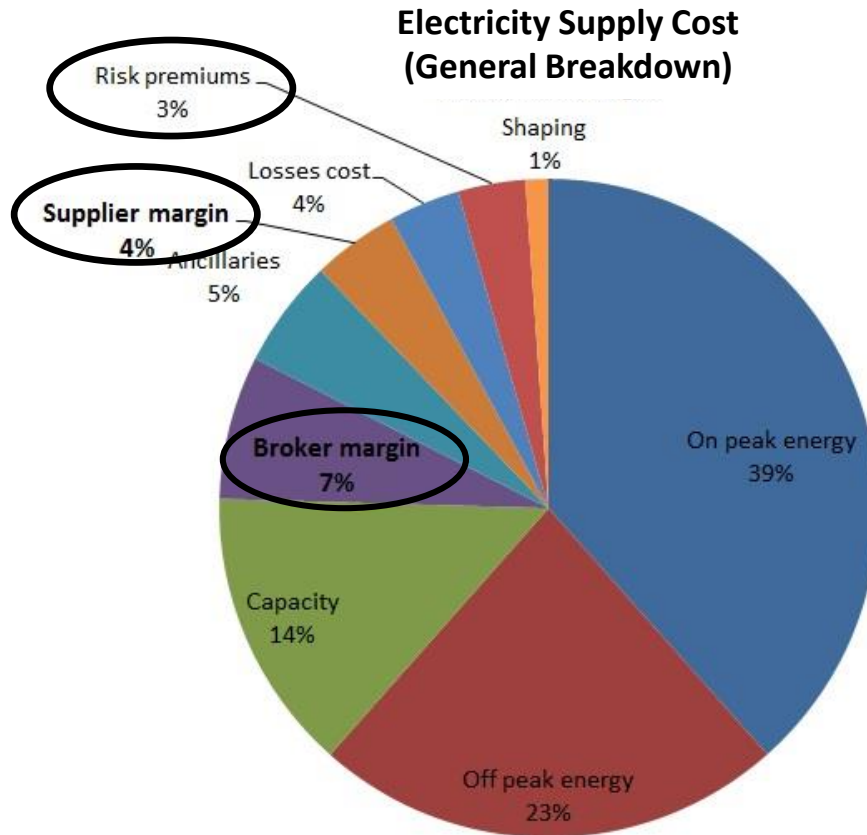
**Aggregation programs seek to deliver:**

- Consumer savings, economic development, policy fulfillment

**Aggregation programs seek to avoid:**

- Consumer losses

# Background: Aggregation



**Most supply costs are market-based or set by tariff**

- Energy (peak and off-peak)
- Capacity
- Transmission (Ancillaries)
- Losses

**Aggregation generates value through:**

- Lower Supplier Margin, Broker Margin, Risk Premiums

**There is no “volume discount” to get cheaper electricity:**

- Sometimes aggregations have timed their purchases well (similar to locking in home mortgage rates)

# Program Review: Process

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## **Organized in 2012**

- Created consortium with Atlanta, Emden, Logan County, Mt. Pulaski, New Holland, and other non-Logan County communities

## **Program Objectives**

- Savings for all residents
- Lower Prices than what residents could get on their own

## **Solicitation Process**

- Request for Qualifications with separate Request for Proposals
- 5 Bidders

## **Supply Contract**

- Integrys Energy Services
- Fixed Price: 3.965¢/kWh (Lowest price in the state)
- Renewables: Increased to 25% (increased final price to 4.1¢/kWh)
- Started deliveries in September 2012

# Program Review: Approach

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## Costs and Savings

- Costs: \$1,875 for consulting services (Farnsworth and ICCAN)
  - \$0.000275/kWh vs. \$0.0050 - \$0.0075/kWh paid by other communities
- Savings: ~\$60,000 citywide

## Program Savings

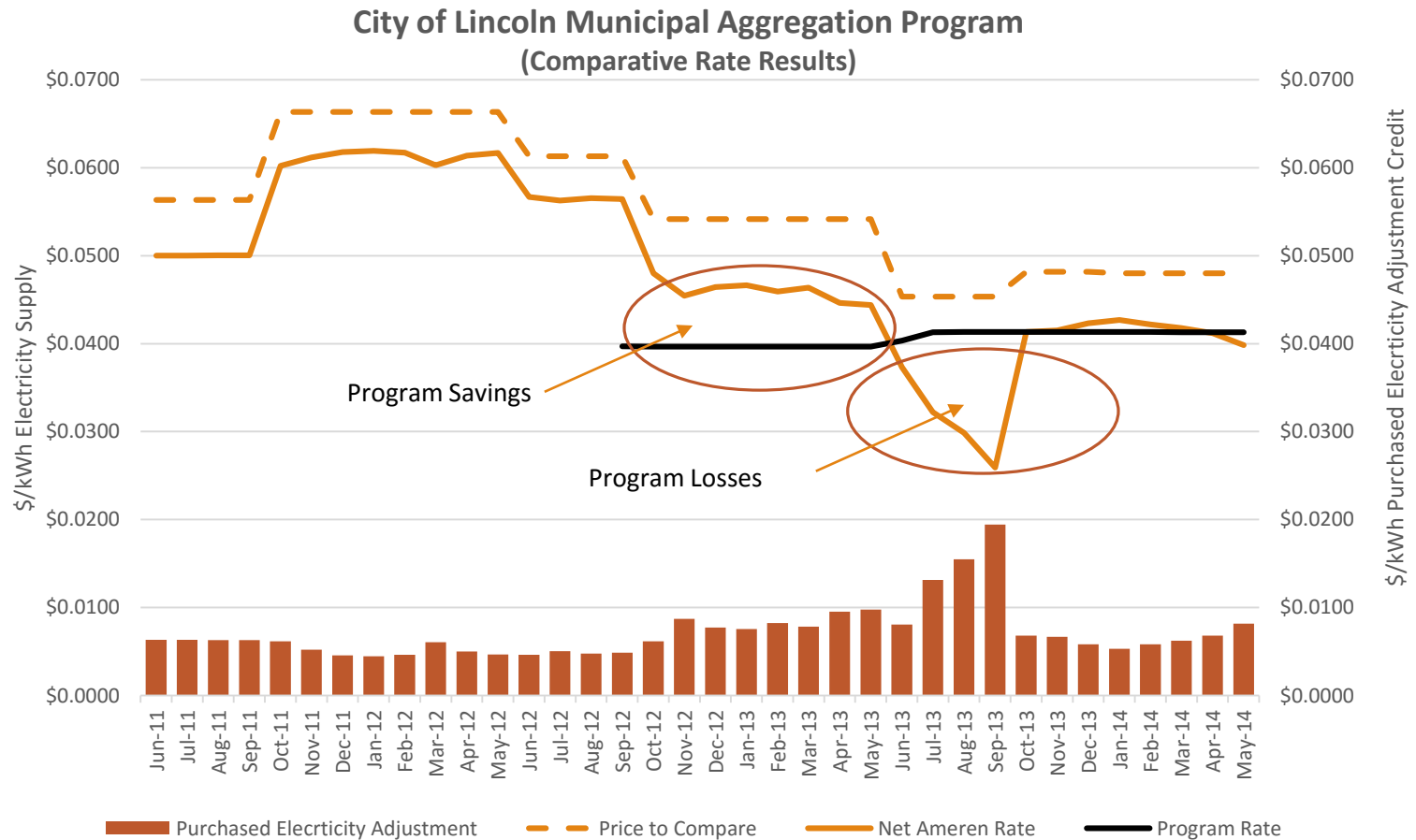
$$\begin{array}{r} \text{Ameren Default Rate + Purchased Electricity Adjustment} \\ - \text{Aggregation Program Rate} \\ \hline = \text{Program Savings} \end{array}$$

## Purchased Electricity Adjustment

- A monthly true-up credit or charge applied to Ameren default accounts
- Announced 2 weeks before each billing month
- Approved by the Illinois Commerce Commission



# Program Review: Results



# Program Review: Back to Ameren

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## Pricing Offers for Program Year 3 were Rejected

- Price offers ranged between 4.6 and 4.8¢/kWh
- No savings guarantee when factored for likely PEA credits
- ICCAN advised returning accounts to Ameren, communities agreed

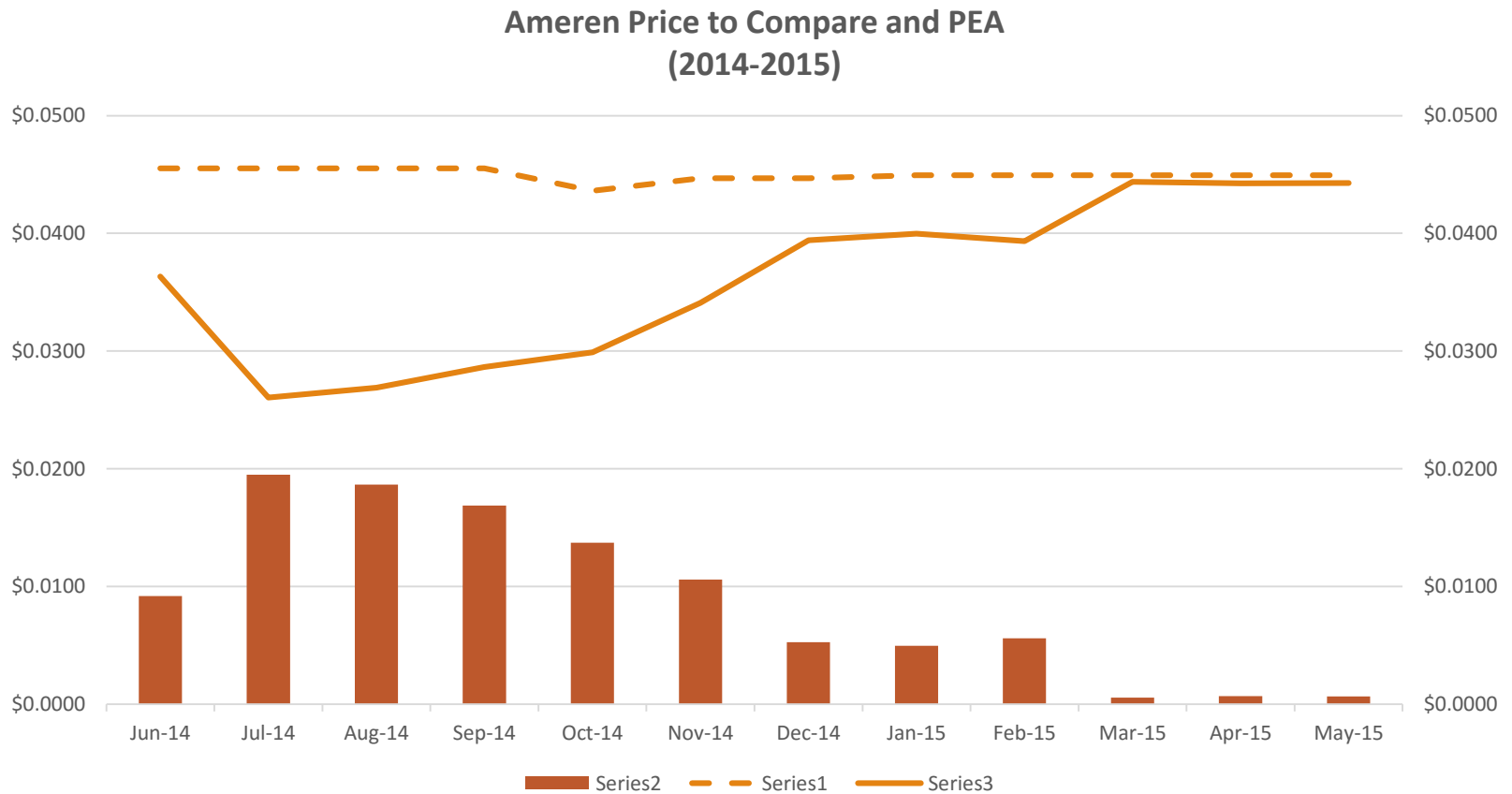
## Consortium accounts returned to Ameren

- No penalties
- No fees

Many aggregation programs in the Ameren region that continued to operate eventually lost money due to high PEA credits

On average, Lincoln residents that were on the Ameren Default rate for the 2014-2015 period saved ~\$50 compared to retail rates during that period.

# Program Review: Avoided Losses



# Program Review: Avoided Loss

Ameren Region: Rate Zone 1	Price To Compare (¢/kWh)	Purchased Electricity Adjustment (¢/kWh)	Adjusted Price to Compare (¢/kWh)	Program Rate (¢/kWh)	Savings / (Loss)
Communities: Chrisman, Kansas, Petersberg					
Consortium: Stone River					
June-14	4.657	-0.919	3.738	4.557	-17.97%
July-14	4.657	-1.949	2.708	4.557	-40.57%
August-14	4.657	-1.865	2.792	4.557	-38.73%
September-14	4.657	-1.688	2.969	4.557	-34.85%
October-14	4.465	-1.371	3.094	4.557	-32.10%
November-14	4.571	-1.058	3.513	4.557	-22.91%
December-14	4.571	-0.527	4.044	4.557	-11.26%
January-15	4.598	-0.497	4.101	4.557	-10.01%
February-15	4.598	-0.561	4.037	4.557	-11.41%
March-15	4.598	-0.056	4.542	4.557	-0.33%
April-15	4.598	-0.068	4.530	4.557	-0.59%
May-15	4.598	-0.067	4.531	4.557	-0.57%
<b>Annual Average</b>	<b>4.4989</b>	<b>-0.964</b>	<b>3.717</b>	<b>4.32</b>	<b>-13.97%</b>

# Current Market: Ameren Rates

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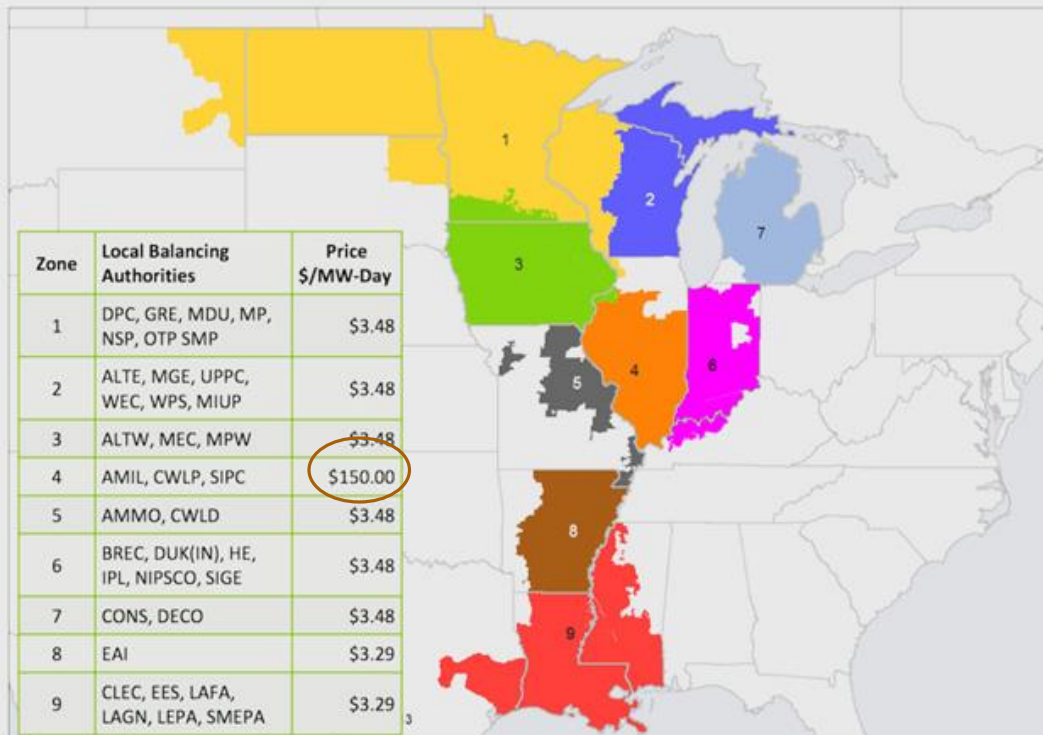
## Ameren's Current Default Rate Change:

- Approved from October 2015 – May 2016
- Frontloads ~ 1.0-2.0¢/kWh onto the first 800 kWh of monthly consumption to collect increased capacity charges resulting from MISO Auction for central and southern Illinois

Ameren Illinois Rate Zone	First 800 kWh of monthly consumption	+800 kWh of monthly consumption
Rate Zone I	6.776¢	4.679¢
Rate Zone II	6.713¢	4.616¢
Rate Zone III	6.768¢	4.671¢

# Current Market: MISO Capacity

## 2015/2016 Auction Clearing Price Overview



(Source: MISO)

MISO sets capacity rates through an auction process on an annual schedule

Capacity rates for the Ameren portion of MISO (Zone 4) for the June 2015-May 2016 period were substantially higher than neighboring MISO Zones

The higher rates account for 1.0 – 2.0 cents per kWh of the first tier of Ameren's new rate structure

# Current Market: Investigation

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## **Complaints filed by multiple parties to Federal Energy Regulatory Commission (FERC) regarding the MISO Capacity Auction**

- Market manipulation by bidders
- Faulty auction rules that allowed some bidders to exercise market power

## **FERC ordered an investigation into the auction, and for MISO to propose new Capacity Auction rules, including the potential for refunds: regarding the MISO Capacity Auction**

- “If FERC follows the logic of its New Year’s Eve ruling, and regardless of whether the commission finds Dynegy manipulated the market, then Illinois consumers will be in line for tens of millions of dollars in refunds,” Tyson Slocum, director of Public Citizen’s energy program.
- “It’s great news that FERC has acknowledged downstate electric customers deserve relief from an inflated and absurd pricing process. I am pleased with FERC’s decision to fix the auction rules, but FERC still needs to order refunds to consumers for the outrageously high prices,” Illinois Attorney General Lisa Madigan.

# Current Market: Refund Math

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**If MISO is ordered to refund back \$125 of the \$150 capacity rate**

- Refund Rate would be \$0.01-\$0.015/kWh
- Refund amount would be ~\$130

**Refunds would only be for accounts effected by the Auction rate MISO Capacity Auction**

- Ameren default rate customers between 6/2015 – 5/2016
- Not aggregation program customers

**Potential refunds greatly outweigh potential savings from an aggregation program (estimated at ~\$28 for an average residential account when factored for the Purchased Electricity Adjustment)**

- This supported a recommendation to continue idling the aggregation program for the 2015-2016 period.



# Current Market: Other Options

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Lincoln resident can still secure electricity supply through retail electricity suppliers – at rates better than many aggregation program offers

## From the ICC Website

- AEP Energy (\$0.0555/kWh)
- Ambit Energy (\$0.0566/kWh)
- ILG&E (\$0.0569.kWh)
- Direct Energy (\$0.0569.kWh)

## From the ICC Website

- Chrisman (\$0.05827/kWh)
- Kansas (\$0.05824/kWh)
- Petersburg (\$0.05824.kWh)
- Bloomington (\$0.05669.kWh)
- Quincy (\$0.0579.kWh)
- Carbondale (\$0.05801/kWh)
- Taylorville (\$0.0587/kWh)
- Champaign (\$0.05926/kWh)

**Again, there are no “volume discounts” that guarantee savings.**

# Moving Forward: Options

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## Check the market

- Solicit prices for June 2016 - May 2017
- Solicit prices around May to account for:
  - The outcomes of the next MISO capacity auction
  - The next Ameren default rates
- Only accept pricing that:
  - Treats capacity as a pass-through
  - Allows residents to exit the contract without penalties or fees

## Convert to Opt-In approach

- Present a pricing offer to residents, but do not automatically enroll.
- [www.myenergychicago.com](http://www.myenergychicago.com)

# Moving Forward: Cautions

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## Outside pressure

- Consultants and brokers earn fees when there is a transaction
- Some municipal aggregation consultants in Illinois are earning more than their communities are saving.

## Brokers

- They represent suppliers and tend to direct their clients to those suppliers

## Do the Math

- Electricity purchasing is about managing risk
- There are no guaranteed savings, so aggregation communities should identify how much risk they want to take on for their residents.

# Conclusions

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## PAST AGGREGATION DECISIONS

### Initial aggregation offer

- Saved money based on one of the lowest reported rates in the state.

### Idling the program

- Saved money based on recognizing that utility credits (PEA) provided lower net prices than any aggregation program price

### Opting for Refund over program

- Waiting for the FERC investigation of MISO capacity rates is likely to yield higher refunds than any savings from an aggregation program might offer

## FUTURE AGGREGATION DECISIONS

### Need to be guided by objectives

- Guaranteed savings
- Lower prices than individual offers

### Timing is critical

- Must see new regional capacity rates to receive multiple retail supply offers
- Must see new Ameren rates before accepting any retail supply offer
- Must remember that the Ameren rates are adjusted every month by the PEA (usually with a credit) before accepting any retail supply offer.
- Changing market conditions may be completely different from today's

# Final thoughts

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ICCAN and Farnsworth Group have appreciated the opportunity to work with the Logan County communities and the City of Lincoln since 2012.

Our focus has always been on presenting the best options for the communities, even when those options prevent us from having a supply contract to charge against.

We believe that the communities want to enroll residents into aggression contracts that are guaranteed to save money – and not to gamble in a changing and complex utility market.