OLR RESEARCH REPORT

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CHICAGO ELECTRIC AGGREGATION INITIATIVE

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You asked for a description of Chicago's experience in establishing an opt-out aggregation program for electrical service and how the program relates to similar provisions in SB 843, "An Act Concerning Revenue Items to Implement the Governor's Budget," currently before the Finance, Revenue and Bonding Committee.

SUMMARY

Unlike Connecticut, Illinois allows municipalities to aggregate (group) electric customers on an opt-out basis. Under opt-out aggregation programs, the municipality chooses an electric supplier, and those residents and businesses that have not already chosen a supplier are assigned to this supplier unless they affirmatively choose not to be. In contrast, Connecticut allows municipalities to act as aggregators, but only for customers who opt in to the programs. No Connecticut municipality offers an opt-in program at this time.

In November 2012, Chicago voters approved a referendum authorizing the city to seek a supplier to serve these residential and small business customers on an opt-out basis in order to reduce their electricity rates. Eight suppliers submitted bids and the city chose the bid submitted by a supplier affiliated with the local gas company. The aggregation program, which will be offered to approximately 900,000 customers, will reduce rates for participating customers.

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Further information about the program is available at http://www.cityofchicago.org/city/en/progs/electricity_aggregation.html.

As described in OLR Report 2013-R-0169, SB 843 includes a similar provision that would aggregate residential and small business customers in Connecticut who have not chosen a supplier and allow suppliers to bid for the right to serve these customers as a block. The winning bidder or bidders would be required to offer at least a 5% reduction from the current rates these customers pay. There are significant differences between this legislation and Chicago's program and in the existing extent of competition in the market.

CHICAGO OPT-AGGREGATION PROGRAM

Enabling Legislation and Referendum

Like Connecticut, Illinois passed legislation restructuring the electric industry to (1) allow electric company customers to choose a competitive supplier and (2) require electric companies to provide default service for those customers who do not choose a supplier.

Although Illinois passed its restructuring law in 1997, competition for residential and small business customers developed very slowly. As late as 2009, only 145 of the 3.45 million residential customers of the electric company serving the Chicago metropolitan area (Commonwealth Edison or ComEd) had chosen a supplier. In response, in 2010 the state adopted Public Act 96-01761. This law allows municipalities to aggregate residential and small business customers who have not chosen a supplier. The municipality can then negotiate agreements on behalf of such consumers located in its borders. Over 200 Illinois municipalities had taken advantage of this provision before Chicago did.

In accordance with the act, on June 27, 2012, the Chicago city council approved a resolution to place a referendum item on the November 6, 2012 ballot, seeking authorization to establish an opt-out aggregation program. The referendum passed with 56% of voters voting in favor.

Bidding Process

Before the election, the city retained a consultant to assist it in planning and implementing the program. The consultant:

1. helped the city develop the request for qualifications (RFQ) and the bid request from qualified RFQ respondents,

2. advised the city on selecting the supplier or suppliers, and

3. advised the city on public outreach and education related to the aggregation program.

In order to bid, suppliers were required to be licensed. They also had to demonstrate, among other things, that they:

1. had a corporate structure and local staff to provide energy for the program,

2. had an investment-grade corporate debt rating from one of the major investment rating agencies,

3. were able to reach program participants to provide education on the terms of the program and the act,

4. were able to provide customer service for non-English speaking participants, and

5. would supply power for the program without using coal-based generation.

Suppliers also had to agree to charge rates that were no more than ComEd's "price to beat," the equivalent of the standard service price in Connecticut.

Eight suppliers submitted bids, which were evaluated in a two-step process. In round one, bidders were required to demonstrate they could meet the city's customer service, clean energy, account management, and debt rating requirements. The city, in cooperation with the consultant, also evaluated RFQ responses with regard to the bidders':

1. technical qualifications,

2. responses to the solicitation,

3. communication plan and timeline,

4. experience in the ComEd service area, and

5. ability to enroll customers under an established schedule.

Two of these suppliers, Integrys Energy Services (which is affiliated with the local gas company) and Constellation NewEnergy (which is affiliated with ComEd) made it to the second round. In this round, suppliers were solely evaluated on price. The city judged the bidders based on the gross margin they proposed to charge above the cost of buying the power serving eligible customers.

Winning Bid

The city chose Integrys, which submitted a final bid that resulted in an electric price 2% below that offered by Constellation NewEnergy. Integrys' rate will initially be substantially lower than ComEd's default rate. Currently, ComEd's residential customers who do not use electricity for heating pay 8.3 cents per kilowatt-hour (kwh) for the power itself. (The total rate, including transmission, distribution, and other charges, is substantially higher.) Integrys' rate will be 5.42 cents per kwh for the power. The Citizen's Utility Board, the state ratepayer advocate's office, notes that the last of several expensive long-term electricity contracts for ComEd will expire by June 2013 and that its power prices should drop significantly then. Integrys has promised to match or beat ComEd's rate over the course of its agreement with Chicago, which runs until May 2014. The city estimates the program will save consumers an average of $135 to $165 over the first 16 months of the contract.

The city sent letters to eligible customers in late December allowing them to opt out of the program. Eligible customers were automatically enrolled in the program unless they opted out by January 9, 2013. ComEd will continue sending monthly bills, responding to outages, and delivering electricity. Participating customers can leave at any time and are not required to pay any fees when joining or leaving the program.

COMPARISON TO SB 843 AND CONNECTICUT'S MARKET

In Connecticut, SB 843 includes a similar provision that would (1) aggregate residential and small business customers who have not chosen a supplier and (2) allow suppliers to bid for the right to serve these customers as a block. The winning bidder or bidders would be required to offer at least a 5% reduction from the current rates these customers pay. As under the Chicago program, participating customers could choose an alternative supplier at any time. In both Chicago and Connecticut, suppliers in the aggregation program would be required to comply with requirements that apply to suppliers generally. These include the requirement to obtain part of their power from renewable resources.

There are several significant differences between the Chicago program and the program proposed in SB 843. While Chicago has a population somewhat smaller than Connecticut, the number of potential participating aggregation program customers here would be smaller. Unlike Illinois, Connecticut has developed significant competition for residential and small business customers. According to the Public Utilities Regulatory Authority, as of January 2013, 44.4% of residential Connecticut Light and Power customers and 61.8% of its small business customers had chosen suppliers. For United Illuminating, the comparable figures were 47.3% and 58%, respectively. Under SB 843, these customers would be ineligible to participate in the aggregation program. Moreover, the customers choosing suppliers had higher consumption levels than standard service customers, which suggests that the remaining customers might be less attractive to suppliers.

The structure of the bidding process also differs. As noted above, the approximately 900,000 Chicago default customers were offered to suppliers in a single block. SB 843 instead calls for auctioning the right to serve customers in blocks of 100,000 or more.

Another difference is that SB 843 contemplates that bidders would offer to pay the state for the right to serve the aggregated customers, while the Chicago program did not have a comparable feature.

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