

**OFFICE OF RETAIL MARKET DEVELOPMENT
ILLINOIS COMMERCE COMMISSION**

2008 ANNUAL REPORT



**Submitted Pursuant to Section 20-110 of the
Illinois Public Utilities Act**

June 2008

STATE OF ILLINOIS



ILLINOIS COMMERCE COMMISSION

June 30, 2008

The Honorable Rod R. Blagojevich
Governor

The Honorable Members of the Illinois General Assembly

The Honorable Members of the Illinois Commerce Commission

Please find enclosed the ICC's Office of Retail Market Development's first annual report. This report is submitted in compliance with Section 20-110 of the "Retail Electric Competition Act of 2006" [220 ILCS 5/20-110]. Section 20-110 requires the Director of the Office of Retail Market Development to annually report specific accomplishments in promoting retail electric competition.

Sincerely,

A handwritten signature in blue ink that reads "Torsten Clausen".

Torsten Clausen
Director, Office of Retail Market Development

**Annual Report to the General Assembly, the Governor,
and the Illinois Commerce Commission**

**Submitted pursuant to Section 20-110 of the
Illinois Public Utilities Act**

**Office of Retail Market Development
Illinois Commerce Commission**

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I. Introduction

Section 20-102 of the Retail Electric Competition Act of 2006 ("Retail Competition Act") states that

"a competitive wholesale electricity market alone will not deliver the full benefits of competition to Illinois consumers. For Illinois consumers to receive products, prices and terms tailored to meet their needs, a competitive wholesale electricity market must be closely linked to a competitive retail electric market. To date, as a result of the Electric Service Customer Choice and Rate Relief Law of 1997, thousands of large Illinois commercial and industrial consumers have experienced the benefits of a competitive retail electricity market. Alternative electric retail suppliers actively compete to supply electricity to large Illinois commercial and industrial consumers with attractive prices, terms, and conditions.

A competitive retail electric market does not yet exist for residential and small commercial consumers. As a result, millions of residential and small commercial consumers in Illinois are faced with escalating heating and power bills and are unable to shop for alternatives to the rates demanded by the State's incumbent electric utilities. 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."

To further that goal, the Retail Competition Act created the Office of Retail Market Development ("ORMD") within the Illinois Commerce Commission ("ICC"). Section 20-110 of the Retail Competition Act provides that on or before June 30 of each year, the Director of the ORMD submit a report to the Commission, the General Assembly, and the Governor, that details specific accomplishments achieved by the Office in the prior 12 months in promoting retail electric competition and that suggests administrative and legislative action necessary to promote further improvements in retail electric competition.

This is the first annual report of the ORMD pursuant to Section 20-110. The ICC appointed a Director of the newly created ORMD on February 19, 2008; accordingly this first annual report covers four months of activity of the new Office.

II. Public Act 95-0700

In addition to the creation of the ORMD, in 2007 the General Assembly passed and the Governor signed Senate Bill 1299 into law as Public Act 95-0700. The new legal requirements of Public Act 95-0700 are designed to remove certain barriers to competition for residential and small commercial customers in Illinois. While even a relatively small profit margin for a few heavy users of electricity might be able to attract several alternative suppliers to compete for those users, the same appears less likely to be the case for residential and small commercial electricity users absent some leveraging of the existing infrastructure of the incumbent utility.

A. Recent Competitive Activity

Four additional alternative retail electricity suppliers (“ARES”) have obtained ICC certification pursuant to Section 16-115 to serve residential and small commercial customers in Illinois since Public Act 95-0700 was enacted in November 2007. As a result of this recent activity, currently eight ARES are certified to serve those customers. When it comes to larger commercial and industrial customers, 29 ARES are currently certified to serve that group of customers.

On the topic of commercial and industrial customers, as of May 31, 2008, about 26% of the electric usage of Commonwealth Edison’s (“ComEd’s”) small commercial customers¹ was provided by ARES. For medium commercial and industrial customers², that number was about 61%. For large customers³ it was 89%, and for the really large customers (the ones with a demand of over 1MW), the number was around 97%. About 37% of the usage of AmerenIP’s small and medium customers (with demand less than 1MW) was provided by ARES (the numbers for AmerenCILCO and AmerenCIPS are 47% and 32%, respectively). Finally, about 96% of the electric usage of AmerenIP’s

¹ Non-residential customers with demand up to 100kW.

² Non-residential customers with demand between 100kW and 400kW.

³ Non-residential customers with demand between 400kW and 1MW.

large customers (with demand greater than 1MW) was provided by alternative suppliers (68% for AmerenCILCO, 97% for AmerenCIPS).

While residential customers have been eligible to choose an alternative electric supplier since May 2002, no ARES had been offering residential service until very recently. In April of 2008, BlueStar Energy Services ("BlueStar") started offering residential customers in ComEd's service territory the opportunity to switch away from the incumbent utility through a limited pilot program. BlueStar is currently limiting this program to a few hundred customers and it offers participating residential customers a 5% savings off ComEd's basic supply rate for six months.

B. Utility Consolidated Billing and Purchase of Receivables

Two of the new provisions of Public Act 95-0700 require the utilities to offer ARES utility consolidated billing ("UCB") and the purchase of receivables ("POR"). Under UCB, an ARES would electronically submit their monthly customer charges for power and energy to the utility which would then place those charges, along with its delivery charges, on one single bill to the customer. Under POR, an ARES would be able to sell its receivables (the amount that customers owe to that ARES) to the utility at a discount. The POR requirement encourages ARES to offer their services to every utility customer rather than serve only those above certain credit thresholds, thereby furthering the statutory goal of an "effectively competitive retail electricity market that operates efficiently and benefits *all* Illinois consumers."

On January 24 and 25, 2008, prior to the staffing of the ORMD, ComEd and the Ameren Illinois utilities ("Ameren") jointly hosted the first workshop to discuss the requirements of Public Act 95-0700. Numerous suppliers, both certificated and those considering seeking certification in Illinois, as well as consumer and governmental groups, were in attendance. Since January, an additional four face-to-face workshops have been held, the last one on June 18-19 at the ICC offices in Chicago. Further, the work to be done was divided into four major areas and working groups: Standards, Billing, Consumer Protection & Communications, and Pricing & Cost Recovery. The working groups convene via conference call as frequent as every other week, which means that during some weeks there are two working group conference calls. Each conference call is typically attended by 20-35 persons.

The initial focus of the workshop process has been on the technical implementation of utility-consolidated billing and the purchase of receivables ("POR"). This is primarily due to the fact that modifications to enrollment and billing processes

and systems take a substantial amount of lead time. Both the utilities and the suppliers have an interest in ensuring that the computer systems and business processes are set up effectively in order to allow efficient day-to-day electronic communications between them. The utilities and the suppliers have expressed a desire to arrive at a seamless enrollment and billing experience for the customers who switch electric suppliers.

To that end, and to find areas where consistency between Ameren and ComEd's practices is desired, a pre-existing but recently dormant technical working group has been re-activated and is currently meeting weekly. This technical working group (known as the Communications Protocol Working Group, or CPWG) was initially formed when retail choice was first allowed following the 1997 Electric Service Customer Choice and Rate Relief Law. The CPWG's purpose is to break down proposed business processes and communications protocols to a level of detail that will allow it to be translated into actual computer programming.

In addition to learning about experiences with utility consolidated billing and the purchase of receivables from active market participants in other states, the workshop participants are also evaluating the work done by the North American Energy Standards Board ("NAESB") on topics such as billing and payment terms, utility -- supplier dispute resolution, and customer enrollment procedures.

While Sections 16-118(c) (POR) and 16-118(d) (UCB) appear to be separate and distinct requirements, the workshop participants so far have focused on an offering that would combine the purchase of receivables with the important elements of utility consolidated billing. That is, if an ARES enrolls a customer with utility consolidated billing, the ARES then also has to sell the corresponding receivables to the utility at a discount. Because the POR provision in Section 16-118(c) is limited to customers with a demand of less than 400 kilowatts, this combination of utility consolidated billing and the purchase of receivables is therefore also limited to customers with a demand of less than 400 kilowatts. While there appears some interest in separate, or stand-alone, utility consolidated billing and purchase of receivables options, it has been determined to concentrate initially on the proper processes for the UCB/POR combination. Even with this initial focus on a single combined UCB and POR offering, the estimated completion date for the necessary systems implementation goes well into 2009. Ameren currently foresees March 2009 to be the date when testing of the new system with the suppliers will begin, with an estimated roll-out date of June 2009. ComEd currently estimates that its testing with the suppliers will begin in July 2009 and anticipates a November 2009 roll-out date.

Section 16-118(c) states that the receivables for power and energy service of alternative retail electric suppliers "shall be purchased by the electric utility at a just and

reasonable discount rate to be reviewed and approved by the Commission after notice and hearing. The discount rate shall be based on the electric utility's historical bad debt and any reasonable start-up costs and administrative costs associated with the electric utility's purchase of receivables." There has been discussion whether this should allow for multiple discount rates, such as one discount rate for residential and one discount rate for commercial customers up to 400 kilowatts demand, or even further breaking down the residential receivables into single family and multi-dwelling.

Section 16-118 (d) of the legislation allows the utilities the recovery of prudently incurred costs associated with the provision of utility consolidated billing and states that the costs associated with providing utility consolidated billing "shall be subject to periodic Commission review." Initial cost estimates by the utilities regarding the implementation of the UCB/POR combined offering show that a cost recovery from eligible retail customers (residential and commercial customers up to 400 kilowatts demand) would result in a charge of approximately 10 cents/month/customer or less, depending on the utility.

C. Retail Choice and Referral Programs

New Section 20-130 gives the Commission "the authority to establish retail choice and referral programs to be administered by an electric utility or the State in which residential and small commercial customers receive incentives, including, but not limited to, discounted rate introductory offers for switching to participating electric suppliers." At the most recent workshop on June 18-19, Ameren presented some ideas as to how it would administer such a referral program. For example, the utility could use its existing web site dedicated to suppliers to allow them to provide their introductory offers and, similarly, Ameren could modify its existing customer website to show a list of current introductory offers from alternative suppliers. These same options would then be available to persons calling Ameren's contact centers. This was the first substantive discussion of referral and incentive programs, and it is anticipated that further feedback and additional suggestions will follow in the coming months.

III. On-Cycle Switching

The utilities have also proposed that customer switching for residential and small commercial customers (up to 100 kilowatts demand in ComEd's case, up to 150 kilowatts demand in Ameren's case) only take place at the beginning of the customer's regular billing cycle. Allowing so-called off-cycle switching for all customers, which is

currently allowed for large commercial and industrial customers, would likely put a very significant burden on the utilities' meter reading requirements and result in additional costs.

IV. Rescission Window

There is an interest by several parties that residential and potentially even some small commercial customers be afforded a right to rescind a switch request for a period of more than the 3 business days found in other markets. This would mean that a customer's request to switch to the new supplier will not become effective until the rescind period has expired, even if that means the switching will not take place at the beginning of the next billing cycle. There seems to be consensus that a utility-generated letter, sent the day after the utility has received a request from the supplier to switch the customer, will inform the customer of the pending switch and state the date by which the customer needs to exercise his or her right to rescind the switch. There was some discussion as to whether the ARES, in addition to the utility, should also send a letter to the customer, with several suppliers stating that they currently do that in other residential markets. Furthermore, Ameren currently allows the customer to rescind a pending switch request directly, while ComEd currently only allows the relevant ARES to do this. Some parties expressed a preference for Ameren's approach while others preferred ComEd's.

V. Suggested Administrative and Legislative Action

As mentioned above, this annual report is supposed to "suggest administrative and legislative action necessary to promote further improvements in retail electric competition." At this point in time, there are no specific administrative or legislative suggestions, although this is likely to change in the future. Given that the stated goal of the General Assembly is to enable residential and small commercial customers to shop for alternatives from their current electric supplier, it is very important that those customers have the ability to make informed decisions. One major focus of the Office of Retail Market Development will be to engage all involved stakeholders to develop effective ways to ensure that residential and small commercial customers are not only made aware of their right to choose an alternative electric supplier, but also to create an independent place of information about the options available to them. In addition, the ORMD envisions being heavily involved in the enforcement of existing and future rules and regulations applicable to the market participants.