

State of Illinois

Illinois Commerce Commission

Illinois Commerce Commission)
On its own motion)

Proceeding to monitor the ongoing) Docket No. 03-0056
)
Development of the marketplace for)
Commonwealth Edison customers)

**Staff of the Illinois Commerce Commission
Second Market Monitoring Report**

I. Introduction and Summary

This is the second report of the Staff of the Illinois Commerce Commission (“Staff”) concerning the development of the retail market applicable to customers with a peak demand of three megawatts or greater (“3 MW”) customers that were the subject of Commonwealth Edison Company’s (“ComEd’s”) competitive declaration petition in Docket No. 02-0479. In its Order in that docket, the Illinois Commerce Commission (“Commission”) directed Staff to monitor the competitiveness of the 3 MW and larger retail market in the ComEd service area. The Staff of the Illinois Commerce Commission’s Initial Market Monitoring Report (“Staff’s Initial Report”) was submitted in December, 2003, and analyzed data from January 2002 to September 2003. In that report, Staff concluded as follows:

...there is evidence that the growth in unaffiliated supply among certain subclasses of customers is uneven and there is continuing evidence that there remain, despite changes to make RCDS [(Retail Choice Delivery Service)] service more attractive, a significant number of customers for whom RCDS options are still not a viable economic alternative to continued bundled service.

Subsequent to Staff’s Initial Report, the Commission stated the following on page 130 of its Order in Docket No. 05-0159:

Therefore, the Commission directs the ALJ to conduct additional proceedings within the confines of Docket 03-0056 and report back to the Commission within six months of the date of this Order.

(See Section III, Conclusion, Staff’s Initial Report (December 2003))

The data presented in this report indicate that the conclusion from Staff's Initial Report that is quoted above is still generally applicable. Thirteen more customers were taking some form of delivery services in December 2005—that is, service, either from a Retail Electric Supplier (“RES”) or from ComEd under the Power Purchase Option (“PPO”)—than were taking delivery services in September 2002. Additionally, the percentage of customers that cannot return to bundled service has continued to grow. However, customers on two riders associated with Rate 6L, the basic bundled serviced option, have largely remained on bundled service.

II. Supply Options Available to 3 MW and Larger Customers

As described below, three types of supply options are available to 3 MW and larger customers: bundled service options, (Rate 6L, Rate 6L-Rider 25, Rate 6L-Rider 26, Rate 6L-Rider 27 and Special Contracts), delivery services (Retail Electric Supplier service, PPO service or Interim Supply Service), and, hourly service (Rate HEP and Rate MEP).

A. Bundled Service

A 3 MW customer may be eligible for various bundled supply options under Rate 6L. Rate 6L is standard bundled service; Rider 25 is offered to electric space heating customers; Rider 26 is available to interruptible service customers; and Rider 27 is offered to customers that can generate electric power on their premises.

A number of customers are also taking service under a “Special Contract.” A Special Contract is typically a multi-year, discounted rate contract that can be viewed as a type of bundled service. ComEd ceased entering into new Special Contracts after the Commission adopted 83 Ill. Adm. Code Part 452 (Standard of Conduct and Functional Separation) in February 2002; however, the contracts that were in effect at that time were allowed to continue.

As described in Section III, below, customers that have moved from bundled service to delivery services are ineligible to return to bundled service.

B. Delivery Services

There are two basic delivery service options. First, customers may choose to buy electricity from a Retail Electric Supplier (“RES”). Second, customers that would have to pay a transition charge to ComEd if they switch to delivery services are eligible for PPO service. The PPO is a generation service offered by ComEd that is designed to save customers that choose that supply option the “mitigation factor” amount, less an administrative fee, compared to bundled service. The mitigation factor was set at 8% of a customer's base rate

or contract rate in 2002, and at 11% of a customer's base rate or contract rate in 2005.¹ A third option is available to delivery services customers that have lost their source of supply – they are placed temporarily on a transition service, Interim Supply Service (“ISS”).

C. Hourly Service

ComEd offers two types of hourly service to 3 MW customers. In particular, three MW and above customers may choose Rate HEP (Hourly Electric Pricing) or Rider MEP (Monthly Electric Pricing).

III. Customer Eligibility for Bundled Service

Between November 2002 and June 2003, delivery services customers were permitted to bundled service. With only limited exceptions, subsequent to that period, delivery services customers in the 3 MW group have been ineligible to return to bundled service.² Thus, bundled service customers that are considering switching to delivery services must consider that their decision to switch away from bundled service is irreversible.

A customer that switches to RES service can subsequently switch to PPO service or to either of the two hourly services, unless the customer accepts a multi-year customer transition charge (“CTC”). Typically, CTCs vary on a yearly basis, and depend on the current year's market value. Market values and therefore CTCs have fluctuated considerably during the transition period, making it difficult for prospective RES customers to estimate the total cost of switching away from bundled service. A plan that enabled RES customers to fix their CTCs for a multi-year period took effect in April 2003.³ The multi-year plan would tend to encourage customers to move from bundled service. Bundled service customers that accept a multi-year CTC become ineligible for PPO service.

IV. Descriptive Data and Switching Trends

A. Number of Customers and Peak Demand

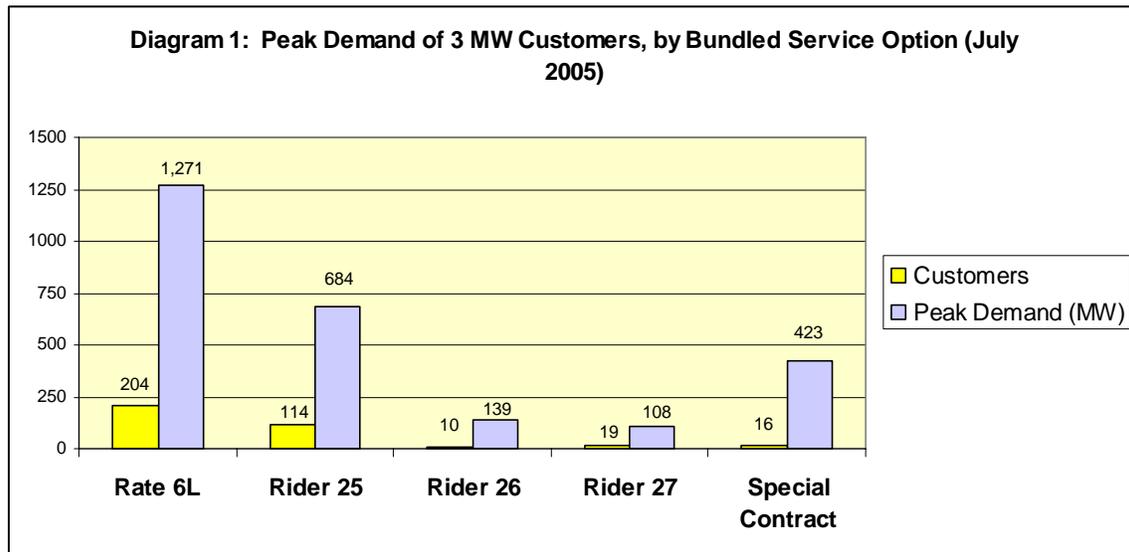
There were a total of 360 customers in the 3 MW group in December 2005. These customers comprise a peak demand of about 2,600 MW, or more than 10% of ComEd's system peak demand of about 22,000 MW. Customers in the 3 MW group consumed about one-sixth of all kilowatt-hours consumed in the ComEd service territory in 2004.

¹ See definition of “transition charge,” in Section 16-102 of the Public Utilities Act . (220 ILCS 5/16-102.

² See Rate 6L, ILL. C. C. No. 4, 38th Revised Sheet No. 29.

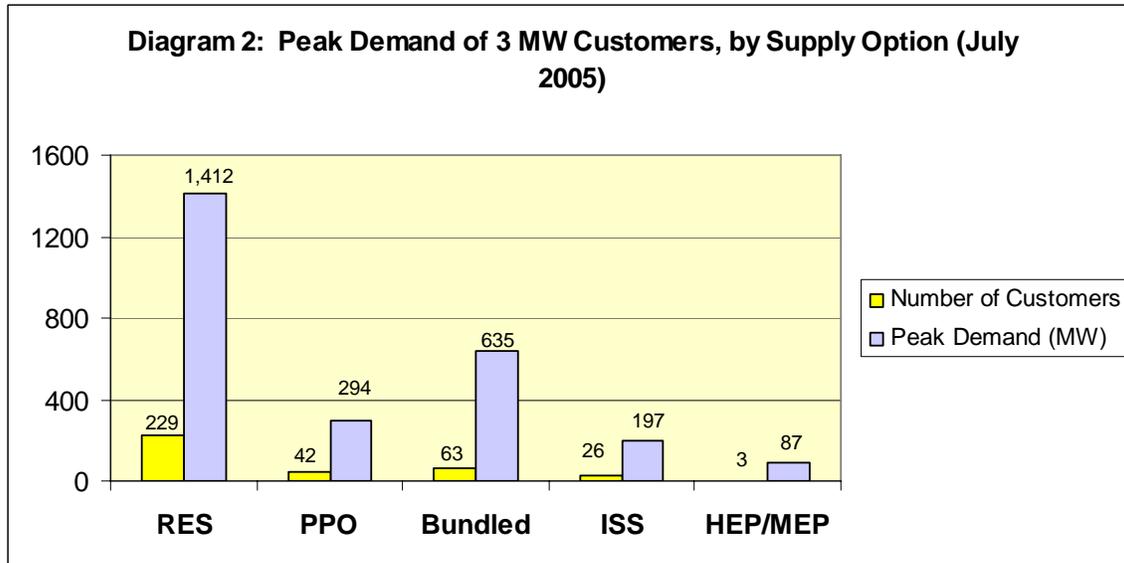
³ See Rider CTC-MY, ILL. C. C. No. 4, Original Sheet No. 235.

Diagram 1 shows the distribution of 3 MW and their original bundled service classifications. The data is from July 2005, the month with the highest peak demand among 3 MW customers during 2005. The diagram shows that about 88% of the customers (318/363) were grouped into the two largest categories, Rate 6L and Rider 25.



B. Customer Supply Option Distribution

Diagram 2 shows the supply options chosen by the 3 MW customers. The July 2005 peak demands of those customers is also presented. As of July 2005, 83% of the 3 MW customers (300/363) had chosen a supply option other than bundled service. The 300 customers had a combined peak demand of 1,990 MW. The bundled service customers had a peak demand of 635 MW.



C. Switching Trends

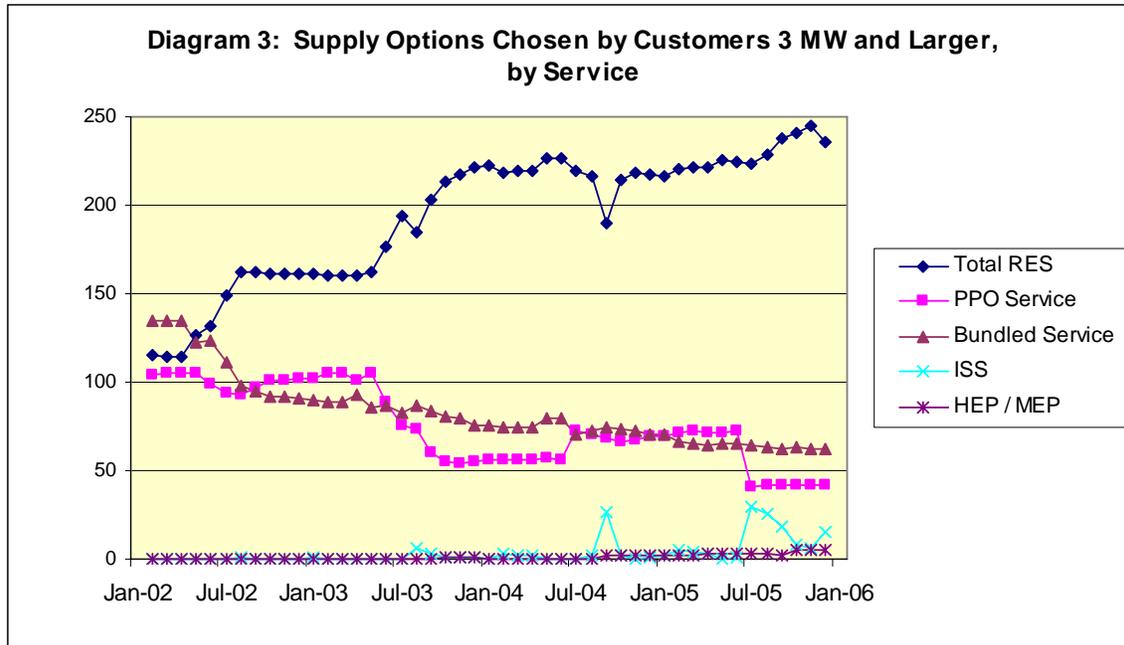
Diagram 3 shows the supply options chosen by the 3 MW customers during the period 2002-2005.

Diagram 3 indicates that the number of RES customers has steadily increased since January 2002, and more than doubled between January 2002 and December 2005. In December 2005, there were 239 RES customers, an increase of 124 customers compared to the January 2002 total of 115 PPO and bundled service customers.

The increase in RES customers during the 2002-2005 period was almost exactly matched by the decline in the total number of PPO and bundled service customers. As of December 2005, there were a total of 104 PPO and bundled service customers (42 PPO customers and 62 bundled service customers), a decline of 135 customers from January 2002, when there were 104 PPO customers and 135 bundled service customers.

The number of customers that were placed on ISS service occasionally reaches significant levels (for example, there were 30 ISS customers in July 2005), but generally, the average number of ISS customers is small. In 2004-2005, there was an average of seven customers taking ISS service.

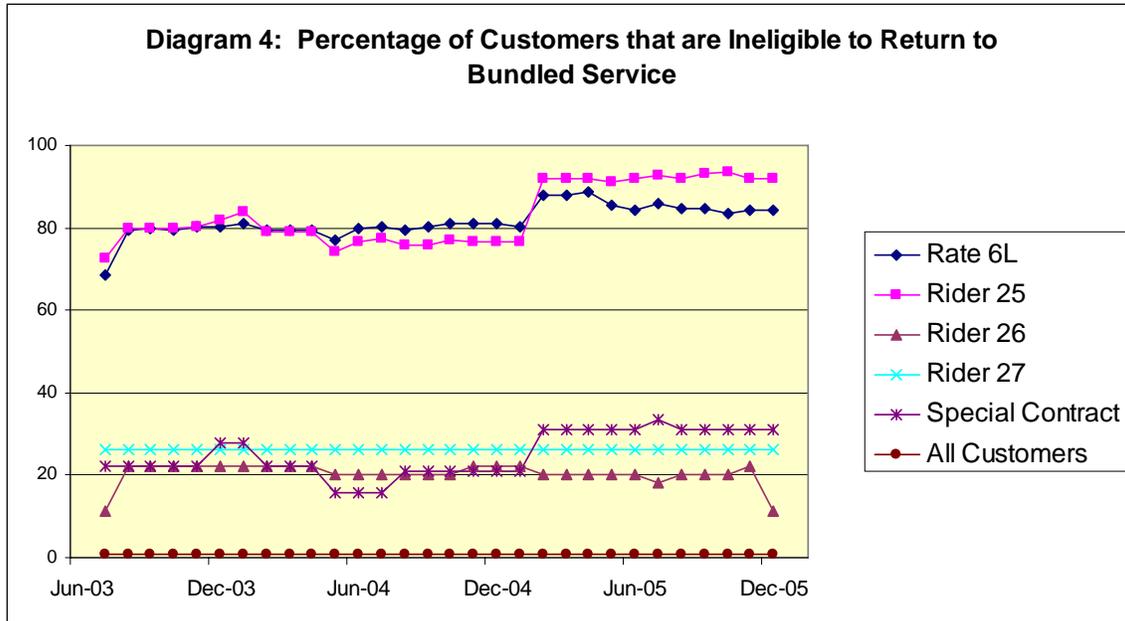
No customer has taken Rider MEP. There were five customers taking Rate HEP in December 2005.



V. Eligibility of Customers to Switch from Bundled Service

Diagram 4 shows the percentage of customers that are ineligible to return to bundled service, grouped by the customers' original bundled service classification. As of December 2005, 286 customers out of the total group of 360 customers (or 79%) are ineligible to return to bundled service.

Diagram 4 indicates that the percentage of customers that were formerly receiving service under Rate 6L or Rider 25 that are now ineligible to return to bundled service was above 80% in December 2005. The percentages of customers that were served under Rider 26, Rider 27 and Special Contract customers that are ineligible to return to bundled service was 11%, 26%, and 31%, respectively.



VI. Supply Choices of Rate 6L Customers

In this section, the supply choices of each of the service categories are presented. Two diagrams are presented in each subsection. One of the diagrams shows the supply selections (i.e., RES Service, PPO service, ISS, or hourly service) for customers in the particular supply category and the second diagram shows the breakdown between ComEd-affiliated supply (i.e., ComEd bundled service, PPO service, ISS, hourly service, or service from ComEd's RES affiliate Exelon Energy) with supply options that are not affiliated with ComEd (i.e., RES service excluding Exelon Energy).

A. Rate 6L

Diagram 5 shows the supply selections by Rate 6L customers. The number of RES customers significantly increased during the 2002-2005 time period, while the number of PPO and bundled service customers dropped by about 50% during that period.

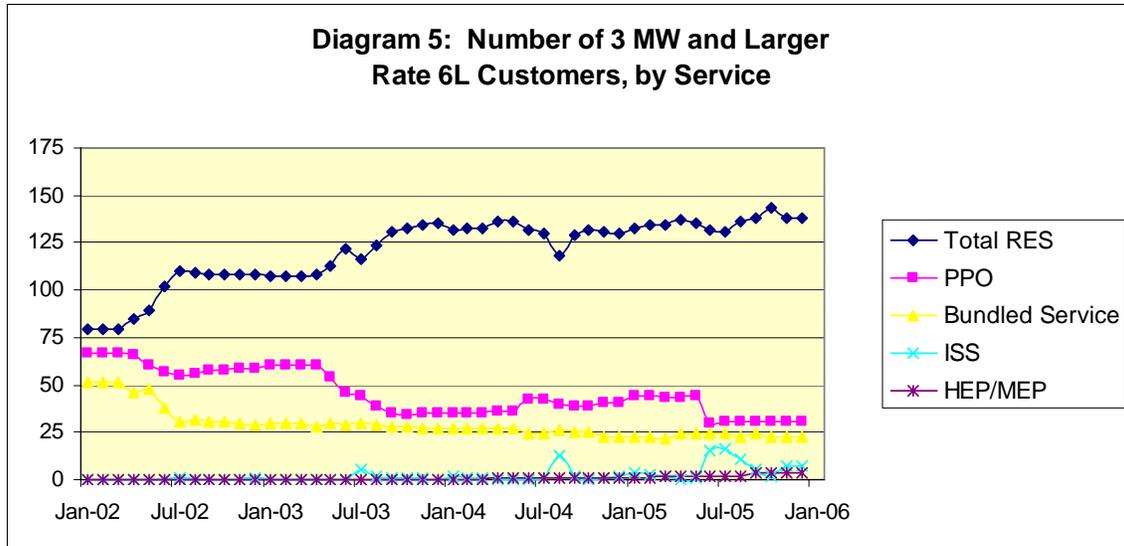
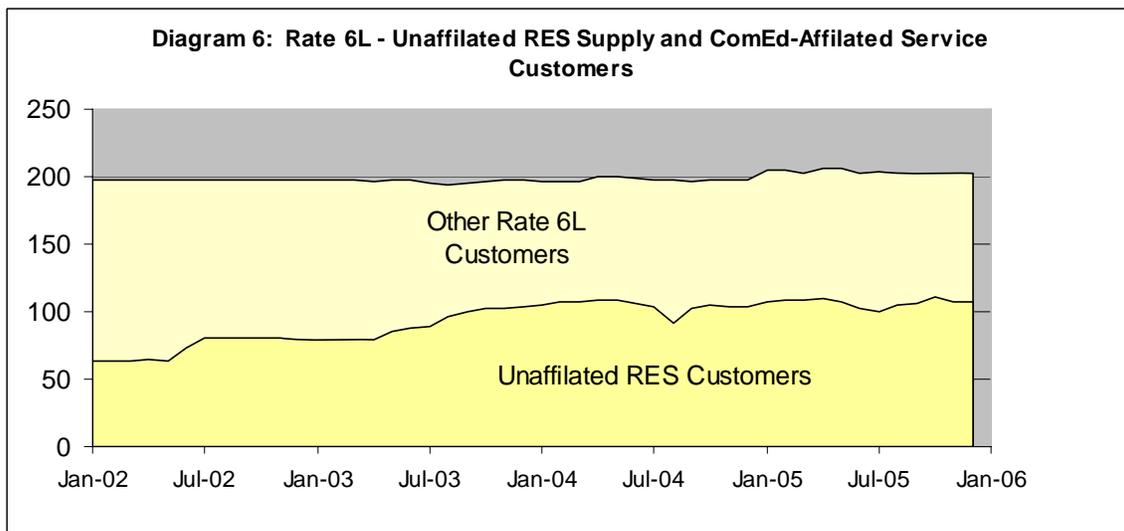
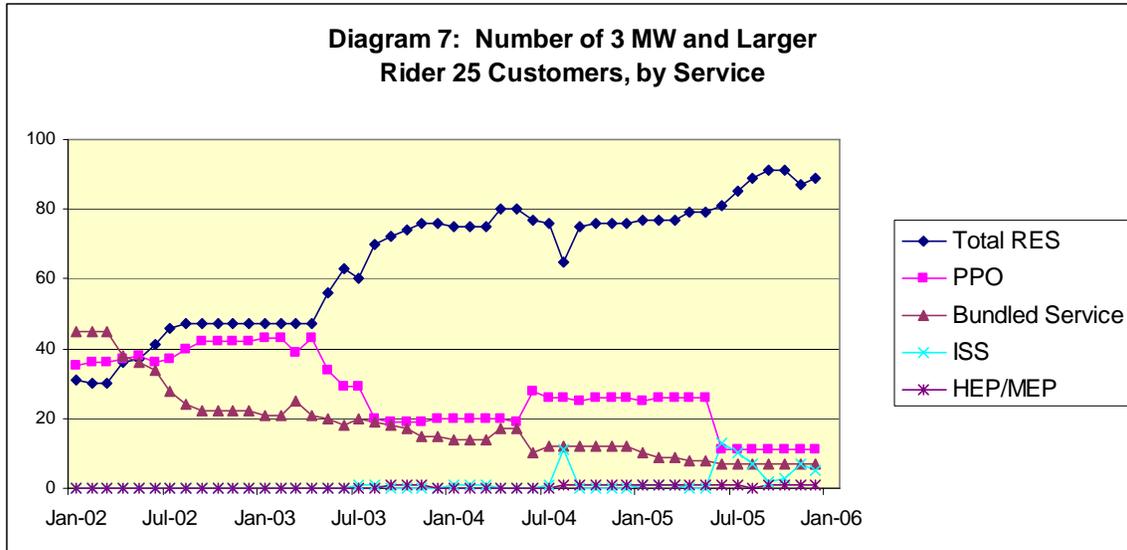


Diagram 6 provides a comparison of the number of Rate 6L customers that are taking ComEd-affiliated service with the number of customers that are taking service from non-affiliated RESs.

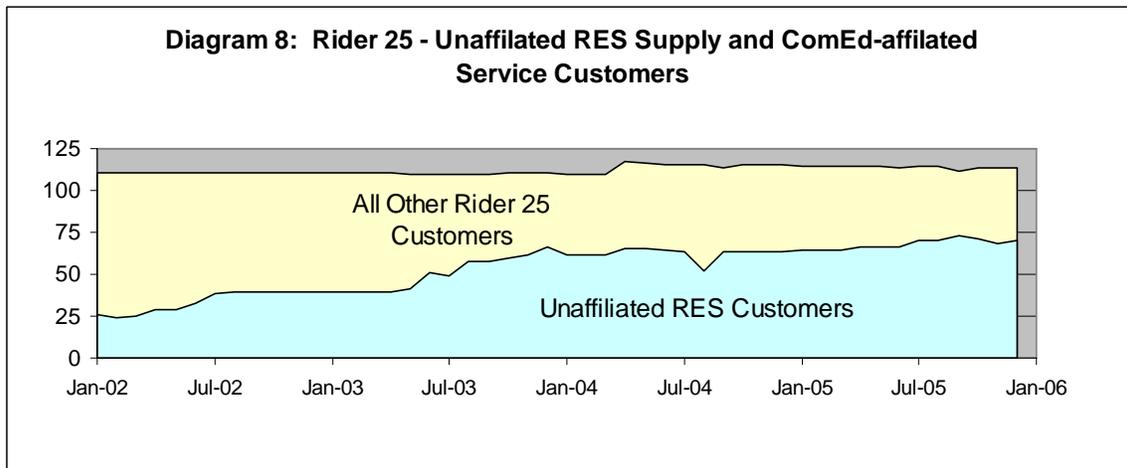


B. Rider 25

Diagram 7 shows the supply options chosen by Rider 25 customers over the four-year study period. Approximately three times as many Rider 25 customers were taking RES service in December 2005 than were taking that service in January 2002. As of December 2005, 89 out of the 113 Rider 25 customers were purchasing power from a RES.

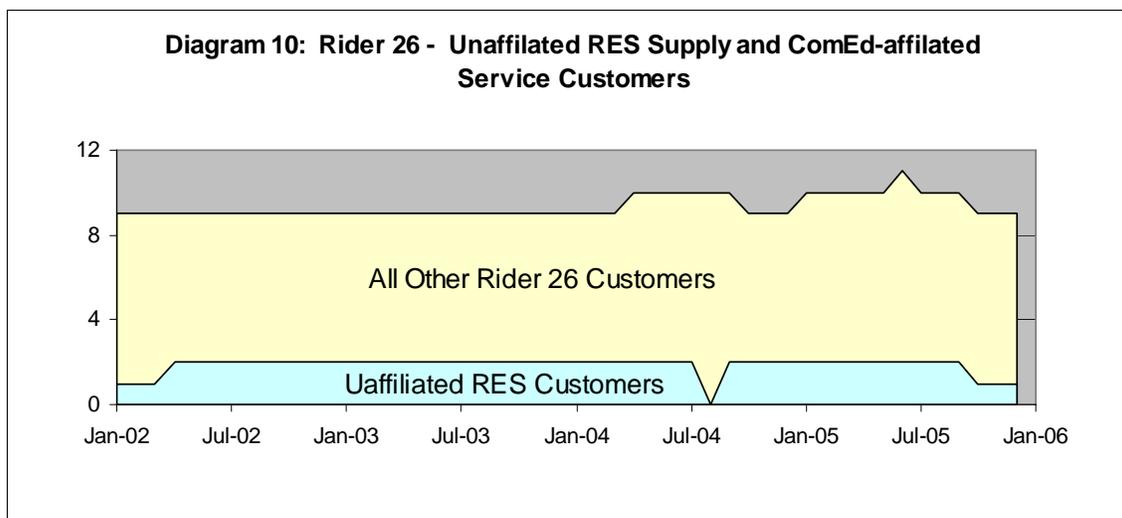
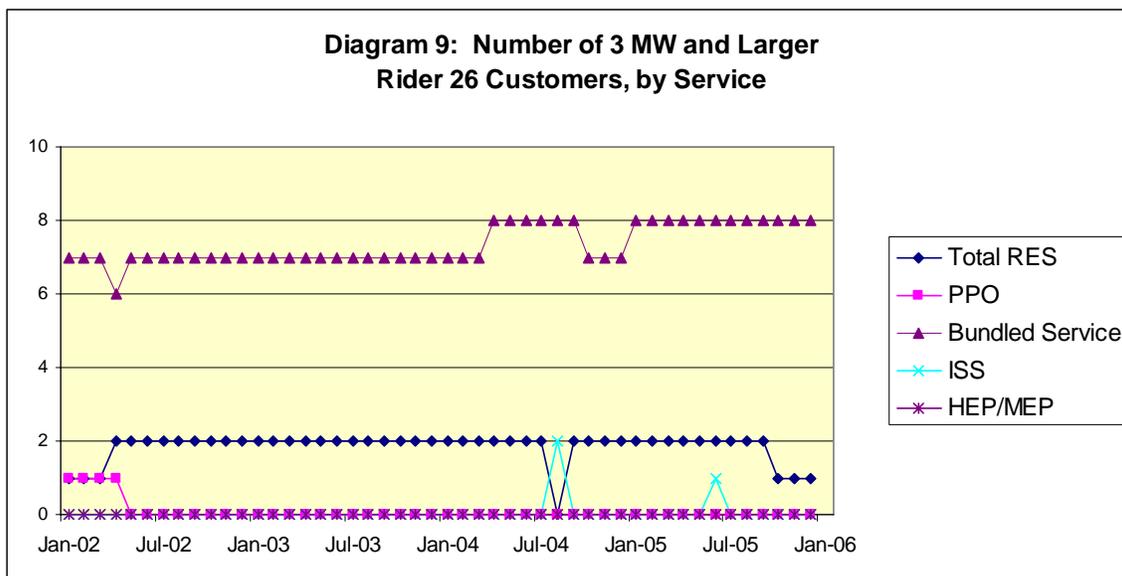


The trend of Rider 25 customers that have switched to unaffiliated RES service from services affiliated with ComEd is displayed in Diagram 8.



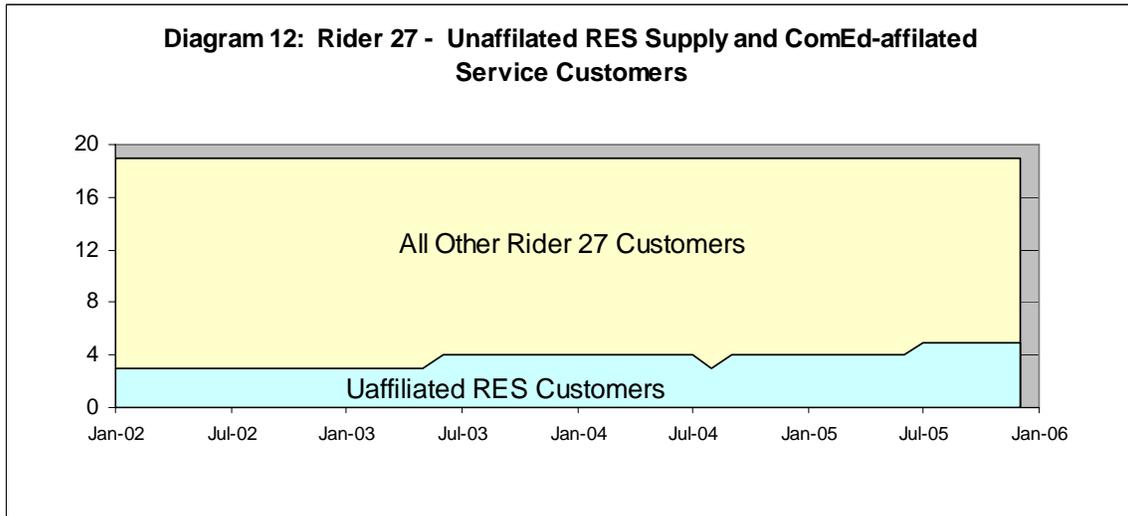
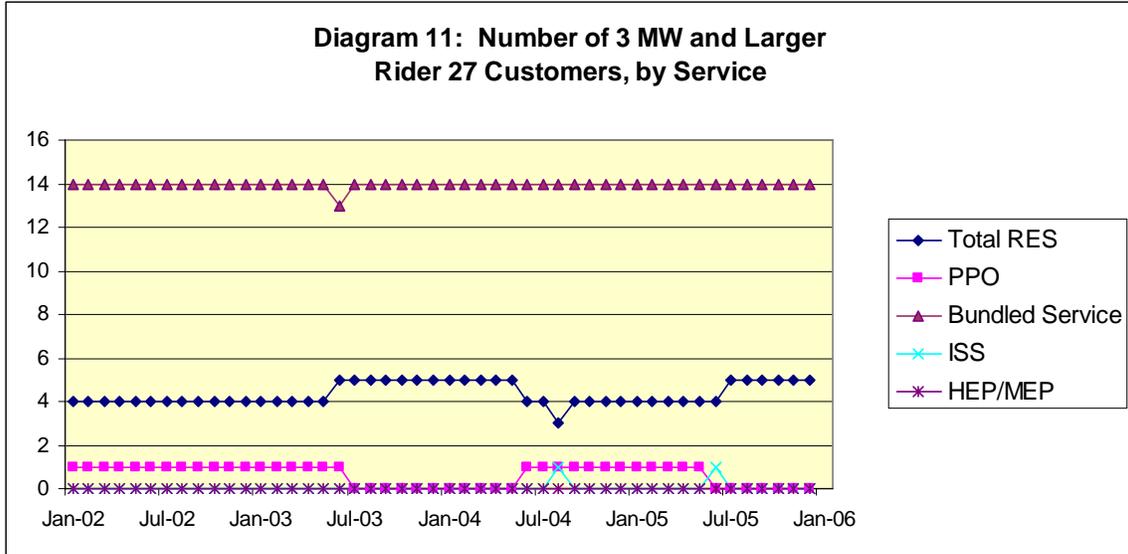
C. Rider 26

There were nine customers taking Rider 26 service in January 2002 and nine customers taking that service in December 2005, as shown in Diagram 9. As of December 2005, one customer was receiving RES service. See Diagram 10) All other customers were taking bundled service.



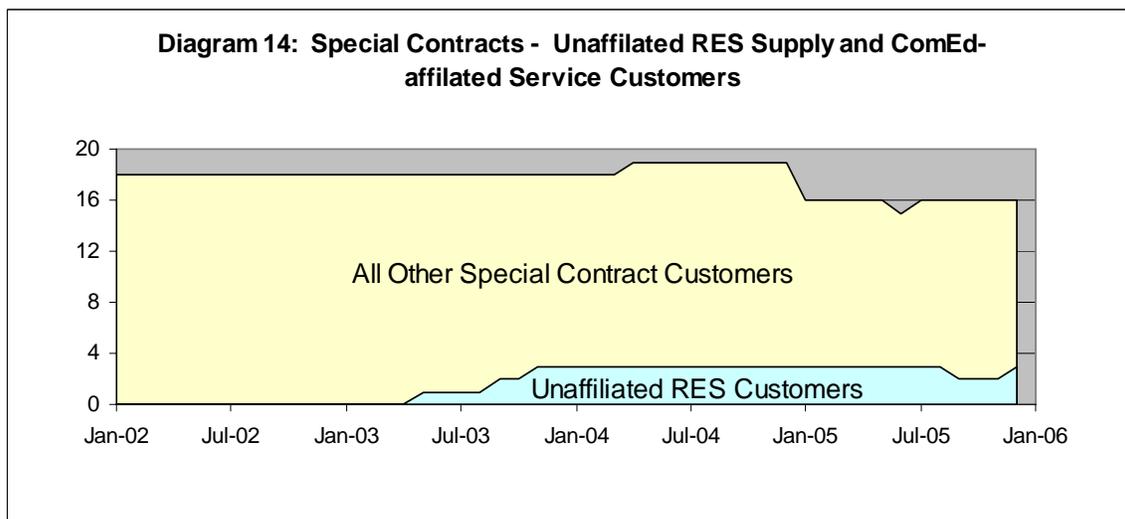
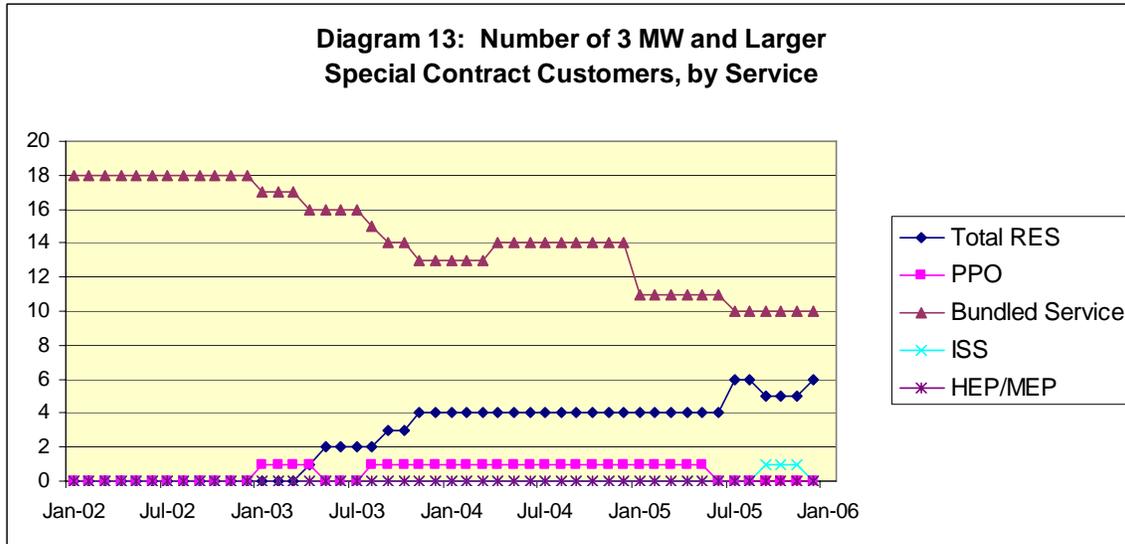
D. Rider 27

There are 19 Rider 27 customers. (See Diagram 11). For almost all of the 2002-2005 time period, 14 customers were taking bundled service. (See Diagram 12).



E. Special Contracts

Diagrams 13 and 14 display the switching trend for customers that had special contracts in January 2002. As the contracts have expired, Special Contracts customers have generally switched to RES service.



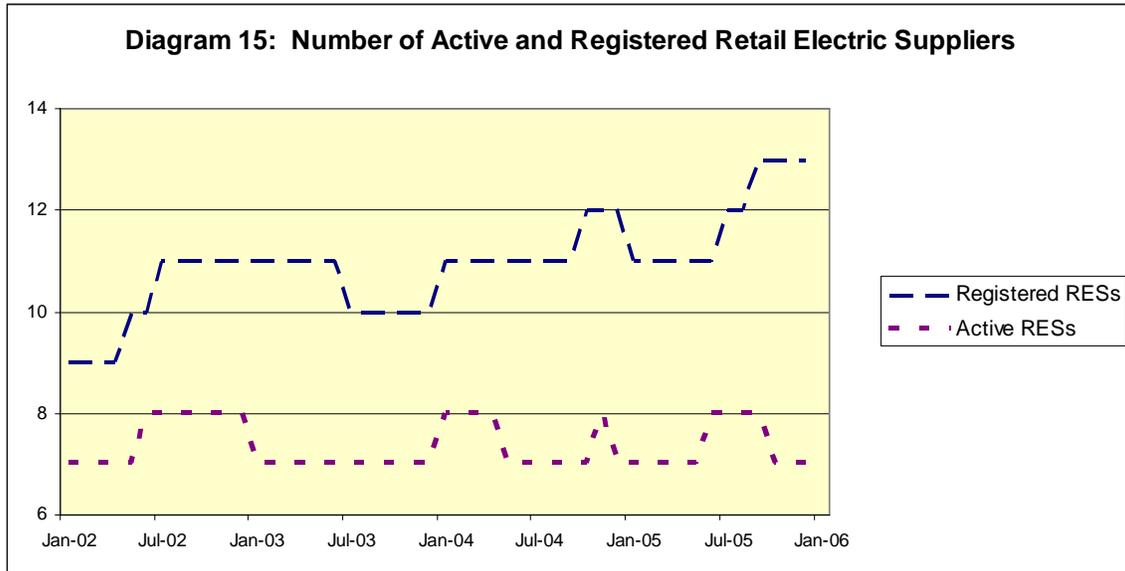
VII. Retail Electric Supplier Activities

A. RES Certification and Registration

About 20 RESs have obtained a certificate from the Commission to serve non-residential customers,⁴ but not all certified RESs have completed the registration procedures with ComEd that would enable them to become eligible to provide service in the ComEd service area. The number of registered suppliers is the maximum number of suppliers that could sell electricity to 3 MW customers.

⁴ A list of certified RESs is available on the ICC website at <http://www.icc.illinois.gov/docs/en/arescertlist.doc>.

Diagram 15 shows the number of suppliers that had completed the registration process during 2002-2005. Diagram 15 also shows the number of active RESs – i.e., the number of RESs that made at least one sale to 3 MW customers in a given month during that period. A total of at least seven RESs made sales during each month between January 2002 and December 2005.



B. Market Concentration

Market concentration measures attempt to estimate the degree to which a market consists of a large number of small suppliers or small number of larger suppliers. The Herfindahl-Hirschman Index (“HHI”) is a commonly used measure of market concentration. The HHI is calculated by adding the squares of the market shares of each of the sellers in the market. The interpretation of the HHI for a given market is as follows: if the HHI is below 1,000, the market is “unconcentrated”; if the HHI between 1,000 and 1,800, the market is “moderately concentrated”; and, if the HHI is above 1,800, the market is “concentrated.”⁵

The table below shows three different HHI measures. Each of the measures is calculated on the basis of kWh sales. The category labeled “All RES Suppliers” includes only the kWh sales of the RESs that made sales to 3 MW customers during a particular year; that is, sales to all other customers are excluded. (The “All RES Suppliers” category includes sales by ComEd’s RES affiliate Exelon Energy.)

⁵ See, e.g., the U.S. Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines, issued April 2, 1992, 57 FR 41,552 (1992).

The second category includes as a separate supply category sales made by ComEd to PPO, ISS and HEP/MEP customers. These customers can be considered to be customers that have exhibited an interest in moving away from bundled service. Sales to this group also include sales by Exelon Energy. The third category adds bundled sales to the sales made by ComEd and Exelon Energy.

The HHIs show that the 3 MW market can be considered to be “concentrated.” However, the HHIs have been decreasing over time.

Table 1: Herfindahl-Hirschman Index Calculations for the 3 MW Market

Market	Year			
	2002	2003	2004	2005
All RES Suppliers	2,797	2,704	2,673	2,499
Non-affiliated RES Suppliers + ComEd (ISS, PPO, Hourly, Exelon RES)	3,551	3,278	3,074	2,834
Non-affiliated RES Suppliers + ComEd (ISS, PPO, Hourly, Exelon RES, Bundled)	5,053	4,321	3,989	3,678

C. Services Offered by RESs

Only two Retail Electric Suppliers have been regularly submitting the reports required by the Commission’s order in Docket No. 02-0479 (two other RESs submitted reports in 2002 only). Thus, a complete picture of the type of services offered by RESs is unavailable. Data is also unavailable that might provide insight as to whether the prices offered by RESs are the type of prices that one might expect to find in a competitive retail market. On the basis of the limited data to which Staff has access, it appears that RESs have generally offering products for firm (non-interruptible) service that are priced on a commodity basis (i.e., delivery services charges are not included). It appears that prices generally are fixed but may vary by seasonal or peak/off-peak basis; recently, however, index-based prices have been offered.

VIII. Conclusion

Data presented in this second Market Monitoring report indicates that, by December 2005, about 83% of the three MW customers had moved from bundled service to a delivery service or an hourly service offered by ComEd. This percentage is higher than the percentage of customers that had switched from bundled service in January 2002. The number and percentage of

customers in two of the bundled service categories, “basic” bundled service Rate 6L and Rate 6L-Rider 25 (Electric Space Heating), that are taking delivery services now approaches 90%.

A minimum of seven and a maximum of eight Retail Electric Suppliers made sales to three MW customers during each month between January 2002 and December 2005. The Herfindahl-Hirschman Index calculations that were conducted for the three MW market show that the market can be characterized as concentrated, although the HHIs have decreased over time. Staff is unable to determine with any certainty the type of pricing offers and services that active RESs have offered in the marketplace.

Customers taking service under two riders associated with Rate 6L, Rider 26 (Interruptible Service) and Rider 28 (Displacement of Self-Generation), have generally remained on bundled service since 2002.