Regulatory Research Associates
REGULATORY FOCUS

ILLINOIS REGULATORY REVIEW – JULY 25, 2013

Illinois Commerce Commission (ICC)

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Please note that the sections below are updated through 7/25/13, but are maintained on a real-time basis in the Commission Profiles section of our website.

No. of Commissioners:	5 full-time
Method of Selection:	Gubernatorial appointment, Senate confirmation
Term of Office:	5 years--staggered terms
Chairman:	Designated by the governor, subject to Senate confirmation
Governor:	Pat Quinn (D)--serving a term extending to January 2015

Commissioners	**Party**	**Began Serv.**	**Term Ends**	**Background**
Doug Scott (Chairman)	D	3/11	1/14	Director, Illinois Environmental Protection Agency; State Legislator
John Colgan	D	10/09	1/15	Vice President of Public Policy, Illinois Association of Community Action Agencies; Exec. Director, Illinois Hunger Coalition
Ann McCabe	R	3/12	1/17	Principal, consulting firm; Regional Director, the Climate Registry; Policy Analyst
Miguel del Valle	D	2/13	1/18	Chicago City Clerk; state legislator
Sherina Maye	I	3/13	1/18	Attorney; mentor, Young Women's Leadership Charter School; associate board member, Chicago Committee for Minorities in Large Law Firms

Miscellaneous:

Commission Membership--Commissioners Maye and del Valle are serving pending Senate confirmation of their appointments.

Commissioner Selection Criteria--No more than three commissioners may be of the same political party. A commissioner may continue to serve for an indefinite period beyond the end of his/her term pending reappointment or replacement.

Commission Budget--Fiscal 2013--approximately $130 million. About one-fifth of the ICC budget is allocated to the Public Utility Fund and is derived from a gross receipts tax on the revenues of the regulated utilities, electricity excise taxes, and base maintenance contributions from the electric utilities serving more than 12,500 customers. The commissioners' salaries are paid from the Illinois General Revenue Fund.

Services Regulated--In addition to investor-owned electric, gas, telecommunications, sewer, and water utilities, the ICC also regulates alternative retail electric suppliers, alternative gas suppliers, certain transportation operations, and railroad crossings.

Staff Contacts:
Beth Bosch, Director, Public Affairs (217) 782-5793
(Section updated 7/25/13)

RRA EVALUATION:

Illinois regulation continues to be relatively restrictive from an investor perspective. The large electric utilities, namely Commonwealth Edison (ComEd) and Ameren Illinois (AI), are required by law to invest more than $3 billion, in *total over the next several years, in various infrastructure expansion/upgrade projects. Cost recovery is to be addressed in annual formula rate plan (FRP) proceedings, through which a formulaic approach to determining each company's authorized return on equity (ROE) is to apply. The first two FRP proceedings for both ComEd and AI were decided in 2012, and certain restrictive policy decisions were imposed upon the companies. (Recently enacted legislation clarifies certain aspects of the earlier FRP decisions that ComEd and AI had claimed were contrary to the original FRP statute.) The most recent ROE (9.71%) to be authorized for the companies under the FRP paradigm is below the average of the returns accorded electric utilities nationwide over the preceding 12 months. Additionally, the 9.28% ROE established in June 2013 for Peoples Gas Light & Coke and North Shore Gas was meaningfully below the prevailing average of returns authorized for gas utilities. A variety of adjustment clauses are in place that allow the electric and gas utilities to recover variations in certain costs between base rate proceedings. In addition, pending legislation would allow the gas utilities to use adjustment clauses to recover costs related to their infrastructure replacement programs. We continue to accord Illinois regulation a Below Average/2 rating. (Section updated 7/25/13).*

Commission Staff: The ICC has approximately 280 officers and employees. The Staff, which is headed by the Executive Director, participates in most cases. Each commissioner may select as many as two executive assistants who are not under the supervision of the Executive Director. (Section updated 7/25/13)

Commissioner Salaries: $134,000 Chairman/$117,000 Commissioners (Section updated 7/25/13)

Consumer Interest: Represented by the Attorney General, the Citizens Utility Board, the City of Chicago, the Illinois Industrial Energy Consumers, the Building Owners and Managers Association, and the Illinois Retail Market Association. (Section updated 7/25/13)

Rate Case Timing/ Interim Procedures: Legislation enacted in 2011 created a formula rate plan (FRP) framework for Commonwealth Edison's and Ameren Illinois' electric delivery service, under which cases are to be conducted annually and must be decided within eight months of filing. For other electric companies and gas utilities, rate case decisions are required to be issued within 11 months of filing. Interim rate changes can be implemented, subject to refund, only after a showing of financial need by the utility, or over-recovery by the Staff. Interim increases have rarely been sought. (Section updated 7/25/13)

Return on Equity: Legislation enacted in 2011 provides for Exelon subsidiary Commonwealth Edison (ComEd) and Ameren subsidiary Ameren Illinois (AI) to be subject to a formula rate plan (FRP) ratemaking paradigm. The FRP calculations incorporate a formula for purposes of determining the allowed return on equity (ROE) that is applied to the prior year's results -- application of a 580 basis-point premium (590 basis points for the first "reconciliation" only) to the 12-month average 30-year Treasury Bond yield. If, in the context of an FRP filing, the utility's actual ROE in a given period were more than 50 basis points above or below its authorized ROE, the company would be required to refund to/collect from ratepayers any amounts outside of this deadband. In addition, the utility's allowed ROE may be reduced if it fails to meet certain performance metrics.

On Dec. 5, 2012, the ICC authorized a 9.71% ROE in AI's second FRP case. (AI was formerly comprised of Central Illinois Light, Central Illinois Public Service, and Illinois Power). On Dec. 19, 2012, the ICC authorized a 9.71% ROE in ComEd's second FRP case. The most recent Illinois-jurisdictional electric rate decision for MidAmerican Energy (MidAmerican) occurred in 2002, when an 11.36% ROE was established. MidAmerican is a subsidiary of MidAmerican Energy Holdings, which is owned by a consortium of private investors led by Berkshire Hathaway.

The ICC's most recent ROE determinations for local gas distribution companies occurred on June 18, 2013, when the Commission authorized a 9.28% ROE for Integrys subsidiaries Peoples Gas Light & Coke and North Shore Gas. AI is authorized a 9.06% ROE, as established in a January 2012 decision. MidAmerican is authorized a 10.13% ROE for its gas operations, as established in a 2010 decision. The most recent rate decision for AGL Resources subsidiary Northern Illinois Gas was issued in 2009, when the ICC established a 10.17% ROE. (Section updated 7/25/13)

Rate Base and Test Period:

Statutes permit rate filings to be based on historical or future test years. As per 2011 legislation, electric delivery service formula rate plan filings are to be based on a historical test year, reflecting estimated net plant additions through the end of the year in which the case is filed. "Reconciliation" adjustments are to be made to account for differences between the company's revenue requirement in effect during a given year and what it would have been had actual cost data been available at the time those rates were established. By law, the ICC, at its discretion, may include construction work in progress in rate base for projects that will be completed within 12 months of the end of the test year in a rate case, and for certain pollution-control facilities. (Section updated 7/25/13)

Accounting Issues:

Prior to electric industry restructuring, electric utilities collected amounts from ratepayers to fund nuclear decommissioning, and these funds were deposited into external trusts. As part of Commonwealth Edison's (ComEd's) electric restructuring plan, the company's nuclear plants and the associated decommissioning funds were transferred to unregulated affiliate Exelon Generation. Decommissioning costs are no longer reflected in distribution rates.

In 1999, Illinois Power (which subsequently merged with other Ameren subsidiaries to form Ameren Illinois) sold the Clinton nuclear plant to AmerGen Energy. Upon closing, the existing decommissioning funds and liability were transferred to AmerGen, which is now part of Exelon Generation. (Section updated 7/25/13)

Alternative Regulation:

In 2011, legislation was enacted that requires Commonwealth Edison and Ameren Illinois to invest specific amounts in their electric transmission and distribution systems, with recovery of these investments to occur in the context of annual formula rate plan (FRP) proceedings, subject to ICC approval. The enacted legislation specifies a formula for calculating each utility's authorized equity return for use in the FRPs, and requires adjustments if the company's earned ROE falls outside a 100-basis-point dead-band around the authorized ROE. The FRP calculations, among other things, are to: reflect the utility's actual capital structure, excluding goodwill; incorporate a legislatively-set formula for purposes of calculating the allowed return on equity (ROE) to be applied to the prior year's results -- application of a 580 basis-point premium to the 12-month average 30-year Treasury Bond yield; and, provide for recovery of pension- and pension-related costs, and certain incentive compensation expenses. If, in the context of an FRP filing, the utility's actual ROE in a given period were more than 50 basis points above or below its authorized ROE, the company would be required to refund to/collect from ratepayers any amounts outside of this dead-band. In addition, the utility's allowed ROE may be reduced if it fails to meet certain performance metrics. The new law requires the utility's FRP to be terminated if the average annual rate increase for the years 2012 through 2014 exceeds 2.5%. All FRPs are to terminate at year-end 2017 (unless legislation is enacted permitting the continued use of these rate plans), and unrecovered costs associated with the investment programs would presumably be addressed in traditional base rate proceedings.

From 1992-2002, Northern Illinois Gas (NI-Gas) operated under an alternative regulation plan, whereby differences between the actual cost of gas and a market-based index were shared equally with ratepayers. The plan was subsequently terminated due to allegations that the company had manipulated the plan's results. In February 2012, NI-Gas and the ICC Staff filed a settlement that would resolve all outstanding ARP-related issues. The settlement called for NI-Gas to refund to customers $64 million. The Administrative Law Judges conducting the proceeding subsequently recommended that the company be required to refund to customers a total of

$72.1 million, including the $64 million stipulated amount and an additional $8.1 million, as had been recommended by the Citizens Utility Board to reflect a prior "calculation error. " On June 7, 2013, the ICC issued an order approving the ALJs' recommendation. (Section updated 7/25/13)

Court Actions:

The Appellate Court has initial jurisdiction over most appeals of ICC decisions, with subsequent appeals allowed, on a discretionary basis, following a petition to the State Supreme Court. Jurisdiction to review Commission decisions under the Electric Supplier Act lies with the Circuit Courts. Judges are nominated in primary elections or by petition, and elected in general or judicial elections on a partisan ballot.

In 2011, the Appellate Court reversed an earlier ICC decision to authorize Peoples Gas Light & Coke (Peoples) to utilize an adjustment clause to facilitate recovery of costs associated with the company's accelerated main replacement program. The Supreme Court subsequently denied the company's request to hear an appeal. On July 5, 2013, Gov. Quinn signed S.B. 2266, which allows the ICC to approve the use of adjustment clauses, similar to the one overturned by the Court in 2011, for the natural gas local distribution companies, including Peoples.

In 2012, the Attorney General (AG) appealed, to the Appellate Court, the ICC's decision in Peoples'/North Shore Gas' 2011/2012 rate cases to allow the use of a volume balancing adjustment (VBA) rider (a decoupling mechanism). The Appellate Court ultimately affirmed the ICC's decision, thereby permitting the companies to continue to use the VBA riders. In mid-June 2013, the AG appealed the matter to the Illinois Supreme Court.

Ameren Illinois and Commonwealth Edison appealed certain aspects of the ICC's formula rate plan (FRP) orders in each of their first two FRP proceedings. Legislation enacted in May 2013 effectively resolved some of the issues that were the subject of these appeals (see the Legislation section). (Section updated 7/25/13)

Legislation:

The Illinois General Assembly is a bicameral body, which meets annually beginning in January, and is normally scheduled to recess by May 31, but the session may be extended under certain circumstances. In addition, the General Assembly reconvenes for a brief "veto" session each Fall. We note that any legislation passed after June 1 that has an effective date prior to Jan. 1 of the following year requires a three-fifths super-majority vote by each chamber for passage. The Senate currently consists of 40 Democrats and 19 Republicans, while the House of Representatives has 71 Democrats and 47 Republicans.

In 2011, legislation was enacted that requires Commonwealth Edison (ComEd) and Ameren Illinois (AI) to invest specific amounts in their transmission and distribution systems, with recovery of these investments to occur in the context of annual formula rate plan (FRP) proceedings, subject to ICC approval (see the Alternative Regulation section).

On May 22, 2013, the General Assembly voted to override Gov. Quinn's earlier veto of Senate Bill (S.B.) 9, legislation that clarifies certain provisions of the 2011 FRP-related legislation. Specifically, S.B. 9 requires the ICC to use the utilities' year-end rate base values and year-end capital structures in all rate reconciliations. In addition, the bill specifies that any reconciliation-related amounts are to accrue interest calculated using the utility's weighted average cost of capital. S.B. 9 is intended to be a "restatement and clarification" of the earlier FRP legislation and "preempts and supersedes" the ICC's final orders in the above-noted dockets, to the extent such orders are "inconsistent" with the bill. S.B. 9 allows ComEd and AI to file tariffs that comport with the provisions of the bill, including recovery of any amounts not previously authorized for recovery by the ICC.

On July 5, 2013, Gov. Quinn signed S.B. 2266, which allows the ICC to approve the use of adjustment clauses for the natural gas local distribution companies to recover the costs associated with certain infrastructure investments. Amounts included in the adjustment clause are to be updated annually and will reflect the overall rate of return authorized by the ICC in the company's most recent rate case. In addition, the average annual rate increases under the clause are to be limited to 4%, and will not be allowed to exceed 5.5% in any given year. Any amounts included in the clause are to be transferred to the company's base rates at the conclusion of its next rate case.

Earlier in the 2013 legislative session, S.B. 1665 was introduced. The bill called for the gas utilities to be subject to an FRP paradigm similar to that in place for the electric utilities. The legislative session concluded and the bill was not passed. (Section updated 7/25/13)

Corporate Governance:

State law grants the ICC broad authority over utility "reorganizations," which include any transactions that result in a change of control in the ownership of a majority of the voting capital stock of an Illinois public utility, including acquisitions, mergers, and holding company formations. Electric-only utilities that were merging with a non-Illinois utility or a non-Illinois utility holding company were exempt from such oversight from 1998 through 2006; subsequent legislation extended this exemption beyond 2006 for Commonwealth Edison (ComEd).

In addition, the ICC has authority over securities issuances and affiliate relationships. The utilities must gain prior ICC approval for long-term debt issuances that, during a given calendar year, total more than 10% of the utility’s debt or, during the previous 24 months, total more than 20% of the utility’s debt. Utilities may not, without ICC pre-approval: guarantee the performance of any contract or other obligation of any other entity; use, appropriate, or divert any of its assets to any business enterprise that is not a department or division of the utility; or, invest, loan, or advance any of its assets to any other entity. The ICC may also preclude a utility from paying dividends (common and/or preferred) if the Commission determines that the utility has become financially impaired or is likely to become impaired by the payment of a dividend.

In the context of various merger proceedings, the ICC has imposed conditions to ensure that the statutory requirements outlined above are met (see the Merger Activity section for further detail). (Section updated 7/25/13)

Merger Activity:

Prior to 1998, the ICC had broad authority to review all energy utility mergers. Electric industry restructuring legislation enacted in 1997 reduced, through 2006, ICC oversight of mergers when the Illinois participant had no gas utility assets and was merging with an entity other than an Illinois utility holding company. In such cases, the merger candidates were only required to notify the ICC of their intention to merge. Legislation enacted in 2007 extended this provision beyond 2006 for Commonwealth Edison (ComEd) and limited ICC review of combination-utility mergers to some degree.

For proposed mergers subject to ICC review, the Commission is required to utilize a "no net harm" standard and must consider whether: (1) the proposed transaction will diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost utility service; (2) the proposed transaction will result in the unjustified subsidization of non-utility activities by the utility or its customers; (3) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities properly included by the utility for ratemaking purposes; (4) the proposed reorganization will not significantly impair the utility's ability to raise capital on reasonable terms or to maintain a reasonable capital structure; (5) the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois utilities; (6) the proposed transaction is likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and, (7) the proposed transaction is likely to result in any adverse rate impacts on retail customers.

In 1995, the ICC approved the merger of Iowa-Illinois Gas & Electric and Midwest Resources to form MidAmerican Energy. In 1999, the ICC approved the proposed merger of MidAmerican and CalEnergy. The ICC subsequently approved the acquisition of MidAmerican by a private investor group, led by Berkshire Hathaway, and the acquisition was completed in 2000.

In 1996, the ICC approved the acquisition of South Beloit Water, Gas and Electric Company (SBWGE) by Interstate Power (IPC). In 1997, the ICC approved the merger of IPC, IES Industries (IES), and WPL Holdings to form Alliant Energy. The merger was consummated in 1998. In 2003, IPC and IES merged to become Interstate Power & Light (IP&L). In 2007, the ICC approved IP&L's request to sell its electric and gas distribution assets in Illinois to Jo-Carroll Energy, an electric cooperative, and the sale of SBWGE's electric and gas distribution assets to the Rock County Electric Cooperative Association. Consequently, IP&L no longer operates in Illinois.

In 1997, the ICC approved the merger of Union Electric and CIPSCO, then the parent of Central Illinois Public Service (CIPS), to form Ameren (the company is now part of Ameren Illinois--see below), but rejected both companies' proposed merger savings-sharing plan and recovery of the associated merger premium and transaction costs. The allocation of merger savings was addressed in subsequent rate cases. In 1999, the ICC approved the proposed merger of former Central Illinois Light (CIL) parent CILCORP and AES Corporation (AES). The merger closed in 2000. In 2002, the ICC approved Ameren's proposal to purchase CIL from AES, and the sale was completed in 2003.

In 1999, the ICC approved the proposed merger of Illinova, then the parent of Illinois Power (IP), and Dynegy. The transaction closed in 2000. In 2004, the ICC conditionally approved Ameren's proposal to acquire IP from Dynegy. As part of the merger agreement, Ameren committed to: honor an existing contract that extended through 2006, under which IP acquired roughly 75% (2,800 MW) of the supply necessary to meet its standard offer service obligations from Dynegy; invest between $275 million and $325 million on energy infrastructure over the first two years following completion of the transaction; increase annual charitable contributions by $1.5 million; and, support economic development in IP's service territory. In addition, IP agreed to file quarterly reports with the ICC Staff and other parties, demonstrating progress toward achievement of merger-related savings (estimated at $33 million annually). In accordance with the settlement, the savings were flowed to ratepayers in the context of IP's next electric and gas rate proceedings. The settlement also provided for implementation of a hazardous materials adjustment clause rider, largely to address asbestos-related litigation and remediation costs (see the Adjustment Clauses section). In addition, IP was authorized to recover a $67 million regulatory asset (reflecting $39.8 million of severance, relocations, and integration costs, and $27.2 million of early-debt-redemption premium costs related to completion of the transaction) over a four-year period.

In 2010, Ameren completed the reorganization of CIL, CIPS, and IP to form Ameren Illinois. (ICC approval of the transaction was not required.)

In 1999, Unicom, then the parent of ComEd, filed notice with the ICC of its intention to merge with PECO Energy to form Exelon. Formal ICC approval was not required under the relaxed merger review standards contained in the state’s 1997 restructuring law. The merger closed in 2000, and ComEd became a subsidiary of Exelon. In 2005, ComEd notified the ICC of Exelon’s plan to merge with Public Service Enterprise Group. However, the deal was later terminated due to the companies' inability to reach an agreement with New Jersey regulators. In March 2012, Exelon merged with Constellation Energy; Exelon was the surviving entity.

In 2011, the ICC conditionally approved the proposed merger of Nicor (parent of Northern Illinois Gas [NI-Gas]) and AGL Resources; the transaction closed in

2011. The ICC adopted a partial settlement and imposed certain additional conditions. The ICC order specifies, among other things, that: the company-wide gas distribution headquarters is to remain in Naperville, Illinois; NI-Gas' existing union contracts are to remain in place, and AGL is to maintain, for a three-year period following the closing of the merger, existing Illinois gas distribution operations' staffing levels; and, the company is to maintain existing levels of community and charitable contributions. In addition: any cost savings at NI-Gas resulting from the merger are to be flowed through to the company's ratepayers in a future base rate case; NI-Gas is to be subject to a base rate moratorium for a three-year period following the close of the transaction (until December 2014), unless the "financial integrity of [NI-Gas] is jeopardized to the extent of negatively affecting customers"; and, the costs associated with the merger are not to be recoverable from NI-Gas' ratepayers. The ICC determined that the proposed merger meets the statutory requirements for approval, including that the transaction will not: diminish the utility's ability to provide adequate, reliable, efficient, safe, and least-cost public utility service; significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure; have a significant adverse effect on competition; and, result in any adverse rate impacts on retail customers.

In 2007, the ICC conditionally approved the proposed merger of Peoples Energy and WPS Resources (WPS). The transaction closed in 2007, and the new entity is known as Integrys Energy Group. The conditions imposed by the ICC were as specified in a unanimous settlement filed by the parties. Specifically, People's Energy subsidiaries Peoples Gas Light & Coke (Peoples) and North Shore Gas (North Shore) agreed to file base rate cases in 2007 to address the treatment of merger-related savings. These cases were completed in 2008, and the revenue requirements reflected the flow-through to ratepayers of $11.4 million of synergy savings for Peoples and $1.6 million for North Shore. Recovery of transaction costs was limited to $44.9 million, in aggregate, for both companies, comprised of $9.7 million of separation costs; $28 million of system integration costs; and, $7.2 million of communications and other costs. Of these costs, $35.1 million ($30.9 million for Peoples and $4.2 million for North Shore) were amortized over a five-year period beginning in 2008. The remaining $9.8 million of transaction costs is to be amortized over a five-year period commencing in 2010. The companies also agreed to expend $7.5 million annually to fund energy efficiency programs.

In 1997, the ICC approved the merger of United Cities Gas (UCIT) and Atmos Energy following a settlement under which 50% of a previously approved rate increase for UCIT was foregone in order to flow a portion of merger-related savings to customers. In June 2012, the ICC approved Atmos' sale of its Illinois-jurisdictional utility assets to Liberty Energy (Midstates) Corp., an affiliate of Algonquin Power & Utilities Corp. The transaction also involved the sale of Atmos' Missouri and Iowa utility assets to Liberty Energy. The transaction closed in August 2012, and the utility now does business as Liberty Utilities. (Section updated 7/25/13)

Electric Regulatory Reform/ Industry Restructuring:

Full retail access was phased in by May 1, 2002, in accordance with state statutes. The utilities either divested or spun off their generation assets. After up-front bundled rate reductions, bundled rates for all customers were frozen through Jan. 1, 2007. Competitive transition charges (CTCs) were implemented during the rate freeze in order to provide for recovery of non-mitigated stranded costs from customers who were served by alternative suppliers. The CTC level varied periodically with the market price of power, which was calculated using a company-specific market index. Limited securitization was permitted (see the Securitization section), as was competitive billing and metering.

In 2007, amending legislation (see below) was enacted, classifying service for customers with demand in excess of 400 KW as competitive, with these customers permitted to take standard offer service (SOS) from the utilities through May 2008. All other customers were classified as non-competitive. However, as permitted by law, Commonwealth Edison (ComEd) sought and received approval of competitive service declarations from the ICC for customers with between 100 KW and 400 KW of demand. Such approval was predicated on the ICC's finding that customers representing 33% of eligible load in each customer class were being served by competitive suppliers and that at least three alternative retail electric suppliers were offering service comparable to the class of tariffed service to those customers. These customers were permitted to receive bundled service through May 2010. The utilities were not permitted to seek a competitive declaration for customers with annual demand less than 100 KW (residential and small commercial) prior to July 1, 2012. Customers for whom service has not been deemed competitive are served under SOS rates.

Considerable controversy arose during 2006 with regard to the 2007 end of the transition period and the level of rate increases that were expected to result from the implementation of the ICC's descending clock auction competitive standard offer service (SOS) power procurement process. Pursuant to legislation enacted in 2007, this process was discontinued, and the power to meet SOS obligations for mid-2008 through mid-2009 was procured via a requests-for-proposals process overseen by the ICC. Existing contracts executed under the 2006 auction were honored. The legislation, as specified in a settlement reached among various stakeholders, required the utilities and power generation companies to contribute $1 billion ($800 million from Exelon, $150 million from Ameren, and $50 million from competitive suppliers), in aggregate, to fund various customer "rate relief" programs designed to mitigate the impact of market-based pricing on residential customers. These programs were in place during the four years ended Dec. 31, 2010. In addition, the utilities were required to enter into multi-year financial swap contracts or contracts with a generation company or marketing company designed to promote price stability.

The Illinois Power Agency (IPA), established in 2009, is headed by a director appointed by the governor, subject to Senate approval, and is comprised of two bureaus: a power procurement bureau that is overseeing the SOS procurement process; and, a resource development bureau that is empowered to conduct feasibility studies concerning construction of new generation facilities, and is authorized to finance (through the issuance of revenue bonds), develop, construct and/or operate generation or co-generation facilities that use Illinois coal and/or renewable resources.

In light of the pre-existing power procurement arrangements, the IPA was responsible for procuring power to meet only a portion of the SOS requirements of Exelon's and Ameren's utility subsidiaries through mid-2013. The IPA is now responsible for procuring all of the utilities' SOS requirements. (Section updated 7/25/13)

Gas Regulatory Reform/ Industry Restructuring:

Since 1983, large commercial and industrial customers have been permitted to select a gas supplier, with the incumbent local distribution companies (LDCs) providing delivery services under transportation-only rates. Such service has been available for residential/small commercial customers since 2001. The incumbent LDC retains supplier-of-last-resort responsibility. The ICC has oversight of gas marketers for certification and service standards. (Section updated 7/25/13)

Securitization:

The state's electric restructuring law allowed the utilities to securitize up to 25% of their existing capital. In 1998, Commonwealth Edison issued $3.4 billion of securitization bonds, and Illinois Power issued $864 million of securitization bonds, as permitted by the ICC in accordance with the law. All securitization bonds matured in 2008, and no further securitization is permissible. (Section updated 7/25/13)

Adjustment Clauses:

Fuel/Power Costs--Historically, the large electric utilities, namely Ameren Illinois (AI) and Commonwealth Edison (ComEd), were permitted to recover fuel costs and the energy component of purchased power costs through a monthly automatic fuel adjustment clause (FAC); however, the FAC was discontinued in conjunction with the implementation of electric restructuring.

The power to meet the utilities' standard offer service (SOS) obligations is now procured competitively (see the Electric Regulatory Reform/Industry Restructuring section); SOS costs and revenues are subject to an annual true-up mechanism. MidAmerican Energy (MidAmerican) continues to use an FAC, as the company was not subject to the provisions of the restructuring law, and continues to own generation plants to serve its customers.

In conjunction with the approval of Ameren's acquisition of Illinois Power (now a part of AI [see the Merger Activity section]), the ICC approved a settlement that permits IP to utilize a hazardous materials adjustment clause (HMAC) rider, largely to address asbestos-related litigation and remediation costs. Upon closing of the merger, Ameren deposited $20 million in an HMAC Cost Fund to address asbestos-related issues. In 2007, and each year thereafter, IP will be permitted to withdraw from the fund 90% of the amount by which its annual prudently incurred asbestos-related costs exceed amounts reflected in base rates, or must deposit into the fund 90% of the amount by which actual expenditures are less than those reflected in base rates. When the fund balance reaches zero, the HMAC Cost Fund will be terminated and an HMAC rider will be implemented to reflect 90% of the difference between actual asbestos-related costs and those reflected in base rates. Once all asbestos-related issues are addressed, the rider is to be terminated. ComEd uses a similar rider.

Electric Energy Efficiency--Statutes permit the utilities to use adjustment clauses for recovery of costs associated with legislatively-mandated investment in energy efficiency programs and renewable resource projects (see the Integrated Resource Planning section). All the electric utilities employ these mechanisms.

Regional Transmission Organization Expense--AI and ComEd utilize adjustment clauses that flow through to customers variations in Federal Energy Regulatory Commission-approved transmission costs.

Bad-Debt Costs--As permitted by state statutes, AI, ComEd, Northern Illinois-Gas (NI-Gas), Peoples Gas Light & Coke (Peoples), North Shore Gas (North Shore), and MidAmerican utilize riders to facilitate recovery of variations in bad-debt costs.

Gas Commodity Costs--Local gas distribution companies (LDCs) may recover commodity costs through the purchased gas adjustment (PGA) clause. The PGA is automatically adjusted monthly based on fully-forecasted gas costs for the prospective base period, which is either the prospective month for commodity costs or a number of prospective months representing the months remaining in the reconciliation period for non-commodity costs and demand costs. The PGA provides for interest to accrue on the unamortized amounts based on the Commission-established customer deposit rate. The ICC conducts annual investigations to examine the prudence of each LDC’s gas procurement practices, with refunds required of any imprudently incurred costs. Statutes permit the LDCs to elect to discontinue their PGAs, with a representative amount of gas costs to be rolled into base rates, as determined by the ICC. If the representative amount determined by the ICC is "unacceptable," the utility may retain the PGA. The LDCs continue to utilize the PGA.

Gas Energy Efficiency/Decoupling--In the context of rate cases decided in early-2012 for Peoples and North Shore, the ICC permitted the companies to use a volume balancing adjustment (VBA) rider, on a permanent basis, to decouple the companies' delivery charge revenues from sales in order to eliminate the impact on margins of variations in weather, customer participation in conservation programs, and certain other factors. AI, MidAmerican, Peoples, North Shore, and NI-Gas use adjustment clauses to recover costs associated with energy efficiency programs.

Other Gas--Adjustment clauses are in place for AI, Peoples, North Shore, and NI-Gas for the recovery of manufactured gas plant site remediation costs. In 2010, the ICC authorized Peoples to implement a rider to recover certain costs associated with the accelerated replacement of the company's cast iron main system. In 2011, the Appellate Court reversed the ICC's approval of this rider for Peoples based on a finding that the ICC lacked statutory authority to approve such riders; the Supreme Court subsequently denied the company's request to hear an appeal. In accordance with legislation enacted in 2013 (Senate Bill 2266), the ICC is permitted to approve adjustment clauses for the LDCs to recover the costs associated with their infrastructure replacement programs. (Section updated 7/25/13)

Integrated Resource Planning:

With the advent of retail competition, previously existing integrated resource planning rules were rescinded. However, subsequent legislation was enacted that contains portfolio requirements with regard to energy efficiency programs and renewable resources (see the Renewable Resources section). Specifically, energy efficiency programs are required to comprise the following portion of the utilities' resource portfolio for the 12-month periods commencing June 1: 0.2% in 2008; 0.4% in 2009; 0.6% in 2010; 0.8% in 2011; 1% in 2012; 1.4% in 2013; 1.8% in 2014; and, 2% in 2015. In addition, effective in June 2008, and continuing for a period of 10 years, the utilities are required to implement demand-response measures designed to reduce demand by 0.1% versus each prior year. Costs associated with these programs are to be recoverable through a separate mechanism, and compliance is to be subject to a 2% limit on the rate increase impact of each of these programs.

Statutes specify energy efficiency requirements for the state's natural gas utilities. Specifically, a 7.1% reduction in gas usage versus 2009 levels is to be achieved by May 31, 2019. The law includes the following aggregate demand reduction targets for the 12-month periods ending May 31: 0.2% in 2012; 0.6% in 2013; 1.2% in 2014; 2% in 2015; 3% in 2016; 4.2% in 2017; 5.6% in 2018; and, 7.1% in 2019. The target is to increase by 1.5% annually beginning in 2020. Programs proposed by the utilities to meet these goals are subject to approval by the ICC. (Section updated 7/25/13)

Renewable Energy:

Statutes require renewable resources to comprise the following percentages of each utility's portfolio of supply resources beginning on June 1 of each of the following years: 2% in 2008; 4% in 2009; 5% in 2010; 6% in 2011; 7% in 2012; 8% in 2013; 9% in 2014; 10% in 2015; and, increasing by 1.5% per year beginning in 2016 to reach 25% by 2025. Renewable energy is procured on behalf of Ameren Illinois and Commonwealth Edison as part of the power procurement arrangement overseen by the Illinois Power Agency. (Section updated 7/25/13)

Reliability:

Pursuant to the Illinois Public Utilities Act and ICC rules, all electric utilities are required to annually file an electric reliability report. The utilities file these reports with the Commission by the end of May for the previous calendar year. In addition, the Staff performs an assessment of each utility's reliability at least every three years. (Section updated 7/25/13)

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