

CLARIFICATION PAPER  
FROM THE EVANSTON UTILITY COMMISSION

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THE DISTINCTION BETWEEN PROVIDING ENERGY AND DELIVERING ENERGY

Recently there has been a great deal of discussion about both how energy is purchased in Evanston and the quality of energy delivery service in Evanston. It is important when engaging in these discussions to bear in mind that these two functions are:

- Independent and generally unrelated
- Provided by separate entities

*Historical Perspective*

Prior to the de-regulation of consumer electricity in Illinois, Commonwealth Edison was a “vertically integrated” utility, which generated electric power (generation), transmitted the power from the power plants to the substations near the users (transmission), and distributed the power to the consumers (distribution). Deregulation began with the *Electric Service Customer Choice and Rate Relief Law of 1997*. Electric rates were “bundled” in this arrangement. That is, electricity prices covered the cost of the electric energy, the transmission and the distribution, rolled together.

In the interest of greater competition for electric energy and the prospect of subsequent lower electricity prices, Commonwealth Edison was converted to a “wires company,” which does not generate power, but only delivers it. ComEd’s State Line and Kincaid generating stations were sold to Dominion Generation, a Virginia company. ComEd’s other eight coal-fired plants, and its gas-fired peaking plants, were sold to Southern California’s Edison International, which created a Chicago-based holding company named Midwest Generation. ComEd’s nuclear plants were transferred to a sister company, Exelon Nuclear. Exelon Corporation is the parent company of both ComEd and Exelon Nuclear. ComEd’s role is now strictly transmission and distribution – no power generation.

The electricity market opened in October 1999, beginning with the largest non-residential customers. In January 2001 the market was opened to non-residential customers of all sizes. The retail electricity market opened to residential customers in May 2002.

For those customers who did not elect to buy power from an independent power supplier, ComEd bought electricity on their behalf and sold it to them at regulated rates. In addition, they fulfilled their new role of simply delivering electricity to all customers.

However, in 2006, the State of Illinois decided to relieve ComEd of this function. The state now conducts a periodic auction where electricity providers bid on the contracts to provide electricity to retail customers in the territory where ComEd delivers power. This is intended to eliminate any perceived inertia or favoritism toward contracts from a ComEd sister company or from former ComEd facilities. ComEd still handles the billing for the electricity provided from the state auction.

In January 2007 the ten-year rate freeze for residential customers (established by the 1997 rate relief law) expired. ComEd's rate structure for supply and delivery was completely revamped. Also, the market drivers for energy pricing that had developed over the interim period began to have their effect on residential customers. That is, prices began to rise again.

#### *Energy Supply Today*

During the process of deregulation, electricity prices became "unbundled." The price for each component of electric service (generation, transmission and distribution) is now shown on the bill as a separate item. This breakout of the costs enabled customers to readily compare cost of the supply portion, on which choice is available, to other options. As the default supplier, ComEd remains the "provider of last resort" for electric energy and is obligated to procure power for any customer that has not elected another supply option. The cost of this power is a "pass-through" and ComEd earns no profit on the sale to its customers.

Despite allowing independent electric suppliers to sell directly to residential customers, the rules for billing and other matters made it uneconomical for those suppliers to individually serve the millions of customers in the residential and small commercial markets. However, in 2010, the Illinois Commerce Commission created rules that require ComEd to handle billing for any retail electricity seller, just as ComEd handles the billing for electricity from the state auction. Independent electricity sellers do not generally generate the electricity they sell. They are middle men, making purchase contracts with the generators. They tend to use a combination of long-term, middle-term and short-term contracts to achieve the most economical mix of sources. For this reason, they can sell below the auction price. Some of the electricity sellers are affiliated with large energy companies, such as Integrys Energy Services (a sister

company of Peoples Gas and North Shore Gas), or Constellation Energy (a sister company of Baltimore Gas & Electric). Other electricity sellers are small brokerage firms.

#### *Historical Perspective on Energy Delivery*

During the 1980s, when ComEd was a vertically integrated (generation, transmission and distribution) utility, its program to construct nuclear plants became very lengthy and expensive for a number of reasons. Rate increases were sometimes pared back or denied and budgets became very tight. As a result, capital was directed primarily to power plant construction. This prioritization resulted in the deferral of maintenance of the transmission and distribution systems. Reliability of these systems suffered. This issue came to a head in the early 1990s when the City of Evanston formed the Energy Commission primarily to investigate electrical reliability and induce ComEd to correct the problems. At first, the relationship was antagonistic, but eventually, a spirit of cooperation evolved as the problems were tackled and each side began to realize that working cooperatively was mutually beneficial.

#### *Energy Delivery Today*

With deregulation, ComEd no longer has internal competition for capital between generation projects and transmission and distribution projects. ComEd's current role as a wires company has placed their focus on energy delivery. The deferred maintenance of the past has been steadily addressed for more than a decade. Today, Evanston has the highest reliability of any municipality on the North Shore.

Independent of the City's oversight, ComEd completely replaced the switchgear and the building that houses it, at substation TSS 47, the heart of Evanston's distribution system, located south of Emerson and east of Dewey. The new switchgear is state-of-the-art and is completely controlled from the Load Dispatch office in Joliet, making it unnecessary to man TSS 47. The supervisory control and data acquisition (SCADA) system in Joliet that controls TSS 47 and the entire ComEd distribution system is also the result of enormous investment. It is among the world's most sophisticated SCADA systems and has great automation capability that avoids many outages or reduces others to a flicker of the lights. With continuous attention to detail, the overhead system has reached the point where few interruptions occur, other than as a result of severe storms. At the City's urging, and with input from the Utility Commission, ComEd has also begun to remedy underground cables as well.

The Utility Commission continues to focus on reliability of the electric distribution system in Evanston. Outages will continue to occur. Severe storms will continue to cause system damage, though measures can be taken to make the system more resistant to storm damage. It is important to recognize that continuing to improve the reliability of Evanston's electric distribution system cannot be achieved by threats and belligerence. The great progress to date has been achieved through proactive cooperation and attention to details.

For the reasons stated above, it is the opinion of the Utility Commission that a change in the provider of electricity distribution in Evanston could only harm the reliability of this service, not improve it. Purchase of electricity is a separate issue that does not involve ComEd.