

MUNICIPAL ELECTRIC AGGREGATION: WHAT IT MEANS FOR YOU

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MUNICIPAL ELECTRIC AGGREGATION

Electricity supply is one area to consider as municipalities look for ways to reduce costs, provide additional value to their communities and enhance their environmental impact. As you may know, Illinois is one of several deregulated states, offering businesses and the public the opportunity to purchase energy from a retail electric supplier. In fact, Illinois is a prime location where municipalities can make the most out of the deregulated energy market.

Through Municipal Electric Aggregation, Illinois municipalities can help residents and small businesses maximize their savings by reducing energy costs and furthering energy efficient practices for the community. It is the method by which municipal or county governments can enter into electricity purchasing agreements on behalf of consumers within their jurisdiction. By aggregating the buying power of a large number of small customers, a non-profit municipal entity can get a better deal for those customers than they would if they shop for electricity on an individual basis. In addition, it offers residents an opportunity to understand and take advantage of the benefits of a deregulated electric market.

AGGREGATION PROGRAMS

There are two ways for local governments to aggregate their communities for the purchase of energy – “opt-in” and “optout.” Opt-in aggregation requires the individual to enroll in the program before being included in the aggregation pool of customers. Opt-out aggregation automatically includes each household in the aggregated pool unless the individual affirmatively “opts out,” or decides not to participate.

We believe the more viable option is to provide aggregation service on an opt-out basis — customers are much more likely to utilize this service if it is provided to them on a default basis. Additionally, in opt-out aggregation the aggregator has a more predictable energy load to use in negotiating with suppliers. Having a relatively predictable pool size of customers may increase an electric supplier’s willingness to offer lower prices and enhanced services.

BENEFITS OF AGGREGATION

Properly implemented, municipal aggregation programs offer several benefits to the end-user, including:

w COMPETITIVE OPPORTUNITIES: Suppliers generally compete harder for a large group of customers available through a single solicitation (such as municipal aggregation) than when approaching customers one-by-one. Suppliers are willing to provide extremely aggressive pricing in aggregation settings because of the opportunity to acquire a large number of customers quickly and at a relatively low cost per acquisition.

w GREATER BUYING POWER: Aggregation of demand is a way to obtain services or products at favorable prices and terms. The same is true for the purchase of electricity. Because of economies of scale, load

aggregation increases the buying power of participating consumers, particularly if they seek customized services. The competitive pressure created by this increased buying power drives prices lower. This process means greater savings for municipalities and their residents.

w ENVIRONMENTAL BENEFITS: Municipal Electric Aggregation in Illinois is also a direct way to achieve meaningful environmental benefits. This provides an opportunity to identify environmentally-responsible energy sources, such as wind or solar, that will be part of the supply mix for the community. It is important to consider designing and implementing a meaningful energy efficiency and sustainability program that can be funded exclusive of municipal expenditures.
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w OTHER TANGIBLE ECONOMIC BENEFITS: Depending on how effective the program is managed, municipalities may be able to creatively apply the revenue streams for grants, free energy audits for local businesses, new energy efficiency projects, a new park or other uses. Municipal Electric Aggregation has been successfully implemented in several other states, with Ohio being a leader. Ohio introduced aggregation in 2001 and by 2003 it was responsible for 93 percent of the electricity switching over in the state. Some 200 municipalities in Ohio, via the Northeast Ohio Public Energy Council (NOPEC), demonstrated that it is possible to put a proposal for “opt-out aggregation” to their electorate. They received support, put municipal supply out to bid, and received a better price for electricity and/or gas supply than the standard price set by the incumbent utility. The procedure is now standardized, professional advice and expertise are widely available, and the whole process can be completed in a little over 12 months. Grants were made available from this program in Ohio. Those involved credit both the Public Utilities Commission of Ohio (PUCO) and the Ohio Consumer Counsel (OCC) for helping to make Municipal Electric Aggregation a success.¹

MUNICIPAL ELECTRIC AGGREGATION IN ILLINOIS

Municipal Electric Aggregation became available in Illinois due to the 2007 passage of the Illinois Power Agency Act, which authorized municipal and county authorities to negotiate electric power supply arrangements for their residential and small business consumers.

The Act allows local municipal or county governments to aggregate the electric loads of the residential and small business consumers within their boundaries, in order to negotiate terms with a power supplier. If accounts are transferred to a different energy supplier, the local utility (either ComEd or Ameren) remains the distributor of all electricity, while the new supplier would actually sell the electric power. In 2011, 24 towns in the ComEd territory placed referendums on their ballots, 21 of which were approved. Below is a snapshot of communities pursuing Municipal Electric Aggregation at this time.

Campton Hills Referendum Passed

Crest Hill Supplier - Direct Energy, Rate - 5.89 cents per kWh through September 2013
Elburn Supplier - Direct Energy, Rate - 5.99 cents per kWh through October 2012
Erie Supplier - Nordic Energy Services, Term - 3 years
Fox River Grove Supplier - Direct Energy, Rate - 5.99 cents per kWh through September 2013
Fulton Supplier - FirstEnergy Solutions, Rate - 6.23 cents per kWh (residential) through July 2014
Glenwood Supplier - Direct Energy, Rate - 5.99 cents per kWh through September 2013
Grayslake Referendum Passed
Harvard Supplier - Direct Energy
Lincolnwood Referendum Passed
Milledgeville Supplier - FirstEnergy Solutions, Rate - 5.90 cents per kWh, Term - 3 years
Morris Referendum Passed
Mount Morris Referendum Passed
New Lenox Supplier - Direct Energy, Rate - 5.89 cents per kWh through September 2013
North Aurora Supplier - Integrys, Rate 5.75 cents per kWh (residential), Term - 2 years
Oak Brook Referendum Passed
Oak Park Referendum Passed
Polo Referendum Passed
Sugar Grove Supplier - Direct Energy, Rate - 5.99 cents per kWh through September 2013
Wood Dale Referendum Passed
Source: Illinois Commerce Commission (ICC)

IMPLEMENTATION PROCESS

While there is much more information to share on the process of Municipal Electric Aggregation, the top steps for implementation include the following:

1. Identify and retain a consultant or identify internal resources to manage program.
2. Submit referendum to be put to the electors at the next regular election in that location.
3. Receive affirmative vote of electorate.
4. Develop a plan of operation and governance for the aggregation program, and hold at least two public hearings on it.
5. Prepare an RFP and put it out to bid.
6. Notify electric utility customers in the city of the rates, conditions of enrollment and provide option to “opt-out” of the aggregation.

TIMELINE

Below is a general timeline of the key activities for a community plan for 2012.

CHALLENGES & CHOICES

Most communities may lack the necessary expertise and staff to handle the aggregation process on their own. There may be challenges with managing the technical and legal aspects of analyzing load data, administering the RFP process, leading negotiations with suppliers, and providing ongoing management and monitoring on behalf of constituents.

To help with the overall aggregation process, it may be prudent to consider working with a consultant with experience and capabilities to help get the job done. Municipalities typically work with a consultant to manage contracts and develop and implement energy efficiency programs, as well as to lead voter education efforts before and after the referendum. The

consultant's role is to design an aggregation plan that both complies with applicable law as well as serves the agreed upon needs of the community. The consultant assists in administrative issues, solicits bids, and coordinates the selection of a supplier. After supplier selection and execution of a contract, the consultant's role is monitoring and administering the contract. The local electric utility is subject to the same laws, regulations and tariffs as the services used by other retail customers; there is no degradation in utility service or bias against customers or communities utilizing municipal aggregation. In addition, the supplier serving the community is subject to strict oversight by the Illinois Commerce Commission, including licensing, consumer information and renewable portfolio standards. There are several attributes to look for when considering a consultant, such as:

w INDEPENDENCE – It is important that the consultant is completely neutral in the selection of a supplier. This independence may lend greater credibility to the public perception of the program.

w EXPERTISE/SOLUTIONS – The consultant should have a wide range of expertise with retail electric supply, wholesale energy markets, regulatory experience and demand-side management experience, especially if the municipality is considering energy efficiency and conservation programs in the future.

One such example with an efficiency program is right here in Illinois. The city of Aurora developed the *Go Green Aurora* campaign to increase renewable energy purchases by households and businesses, and qualify as the first U.S. Environmental Protection Agency (EPA) Green Power Community in Illinois. Aurora has helped conserve natural resources by reducing the city's carbon footprint, supporting the creation of clean energy jobs in the U.S. and assisting in the generation of new renewable energy.

w LOCAL PERSPECTIVE – It helps having a consultant who knows the essentials of electric supply and efficiency within Illinois. Each electric utility has its own nuances and restrictions with electric supply, rebate programs and other activities, which is why it helps to have a consultant who knows the area well.

MOVING YOUR COMMUNITY FORWARD

Municipal Electric Aggregation provides an opportunity to unlock savings for municipalities and their communities. It also can help support broader energy efficiency and sustainability efforts in the community, including solar generation of power. At BlueStar Energy, we believe that the cheapest and cleanest kilowatt hour is the one not used. Overall, this aggregation process can lead to lasting, meaningful change and real economic benefits to municipalities and their residents.

¹ Footnote: Stephen Littlechild, "Municipal Aggregation and Retail Competition in the Ohio Energy Sector," August 2007