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Why Join the Illinois Energy Consortium?

by Ronald C. Steigerwald, *Statewide Marketing Director for IEC*

Does It Make Sense to Switch Your Electricity to the IEC Now?

If you previously missed an opportunity to switch over to the Illinois Energy Consortium (IEC), now is your chance. The IEC has been working very hard to start new programs in the Commonwealth Edison, Ameren and Illinois Power areas. Because of this hard work and the help of our program administrator, Cilco, these new programs are now available. Just pick up your telephone and call Ron Steigerwald at 847-567-3051 or fax a copy of last month's bill for each electric meter in your district along with a copy of your current contract to 815-753-9367. Cilco will then send you an analysis of your savings along with the instructions on how to switch over your meters to the IEC.

What Is Going On Behind The Scenes?

Louie Ervin of Latham & Associates, consultants to the IEC, and Ron Steigerwald have been extremely busy the past several months working hard to seek changes in the way the price of electricity is calculated by each of the three major power companies, Commonwealth Edison, Ameren and Illinois Power. Louie and Ron have testified twice before the Illinois Commerce Commission and before State Representative Philip Novak's electric deregulation meetings held all over the state. It is our sincere hope that the outcome of these meetings will bring continued and possibly greater savings to our school districts.

Energy Saving Workshops

Ron Steigerwald is working with the Federal Government to sponsor and put on several energy saving workshops across the state for our members. One is definitely scheduled for the month of March. Ron has a meeting coming up with an-

other agency that will also put on energy saving workshops for IEC members. Just another bonus of being a member of the IEC.

In addition, Ron is working with the Gas Institute of Research with the hope of them putting on several workshops with regards to our new program on natural gas. This organization does extensive research on natural gas and would provide quality information to our membership.

Natural Gas – Have You Sent Us Your Information?

If you have not taken advantage of the IEC's new natural gas program, I would suggest that you do two things **immediately**:

1. Visit our website at www.illec.org and click on natural gas and see for yourself the advantages of joining our program along with the current pricing.
2. Either call Ron at 847-567-3051 or better yet, fax a copy of last month's bill for each gas meter in your district along with a copy of your current contract to 815-753-9367. Peoples Energy Services, our program administrator will send you an analysis of your savings.

I cannot stress enough the fact that many school districts wait too long to join the IEC and find out at the last minute that they are unable to switch and therefore sacrifice saving quite a bit of money. This has happened many times in the last few months.

I would suggest you take advantage of sending us your information to receive an analysis, even if your current electric or natural gas contract expires in the next 6 – 8 months. You will not be sorry you did.

President's Perspective

by David F. Grace, President

Dear Members:

It has been a very busy start of the school year. I hope you have all enjoyed your summer break and are now enjoying yet another group of students in your schools. IEC has been very busy as well. We are actively marketing electricity in the Illinois Power and Ameren regions and have begun testifying at legislative hearings and participating in the Illinois Commerce Commissions hearings, as well, in an attempt to bring a more competitive market to Illinois schools for electricity. We already have a relatively competitive market in the Com Ed region and we are starting to see problems arise similar to the those in other regions. We are exploring legislative action through our

lobbyist and will share more in the future.

We have been delivering natural gas to schools in the North Shore Gas, Peoples Gas, and NICOR regions, some since May, and are expanding the pool of schools quickly. Our Program Administrator, Peoples Energy, has been extremely helpful in starting up this operation and we are looking forward to our first complete year and reporting the savings to those participants. We have been able to lock in natural gas at very competitive prices for this winter and look forward to serving schools in yet another area. In these difficult times we can all benefit from savings.

In addition, we are going to work with legislators and the ICC to try to make it possible to bring competition

into the other regions of the state. Currently, the smaller meters are not able to benefit in the other regions of the state due to telemetry requirements that make this very expensive. We are attempting to change this requirement so other schools could benefit by purchasing in our pool as well.

As we are successful in getting changes made in the other regions, we will hope to expand this service statewide. As we have seen in our electric supply purchases, competition has enabled school districts to experience significant savings. We are confident that we will be able to experience savings on gas as well. Enjoy the rest of this school year and I look forward to seeing many of you at future meetings or conferences.

Attention Superintendents, Business Managers, and Facility Managers

by Kristi Fitzanko, IEC Energy Advisor

Effective with your 2002 September bills, the Year-To-Date Savings figure has been changed to reflect a Yearly Savings amount. This new Savings total will be an accumulated 12-month figure. As the current month's savings is added to the total, the same month a year-ago will be dropped from the total. No matter what monthly bill you are reviewing, the Yearly Savings will always show you a 12-month total. If you are a new school district, the savings will accumulate from the first billing. After 12 months of savings have occurred, the bill will reflect the current month plus 11 months of accumulated savings.

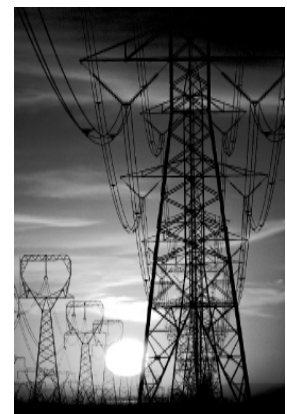
The IEC has put together a new electric offer that is available in the ComEd, Illinois Power, and Ameren service areas. While the offers are similar, the savings may be different. If your school district would like to

add additional schools, please phone me, Kris Fitzanko, Electric Program Administrator, 309-677-5246, for details. If your school district is not participating and would be interested in finding out about savings, please fax a copy of your most current bills to Judy Sharp, 815-753-9367 (Fax). She will forward the information to the Electric Program Administrator.

In case of an emergency, your host utility company should be contacted. The IEC is only providing the energy. Your local utility company is required to maintain your meters, electric lines, substations, etc. The emergency number is listed on your IEC bill for your reference.

If your district is adding a new building, upgrading an electric service, or changing any wiring within a facility, the local utility company again is your contact. In

most cases, your account manager with your utility company should be able to help you. If you are unable to make contact with someone, feel free to call me, Kris Fitzanko, 309-677-5246, and I will try to assist you in working with your utility company.



The Natural Gas Market

by John Nania, Peoples Energy Services

The natural gas market is unusually high for this time of year. It has not seen these levels since June of 2000. There are many factors contributing to this. The first is we have a very active hurricane season and hurricanes disrupt production of gas in the Gulf of Mexico. Even the most severe storms will not damage the rigs; however, they will force an evacuation and the equipment to be shut down.

Next is the level of storage. Last year we had, by all accounts, "full" storage as we entered winter. All the caverns we could fill were to capacity. Interestingly, comparing this September to last we actually have significantly more gas in storage now. Much of this is because last winter was so warm there was still a lot of inventory left over. This is obviously good news.

Gas production is something to watch carefully. A recent report released by Salomon Smith Barney suggests declining production should be about 5% year-to-year. The report states that domestic production should flatten out at 50 to 51 Bcf/day. This is very close to the amount we are currently using. Any up tick to the economy or a colder than

normal winter will disrupt this very delicate supply/demand equilibrium. As of the latest Baker Hughes Rig count for September 20, 2002, the active U.S. Gas Rigs number is 725. This is higher than historical norms. Unfortunately, the fact is that many of the producing rigs are doing so at a significantly lower output rate than just a couple of years ago. Of the 725 active rigs, 106 are in the Gulf of Mexico and thus subject to hurricane activity. These rigs also tend to be very large producers.

There are thousands of gas futures contracts traded each day. Some traders do so, because they are users like you and want to hedge costs. The bulk of trades are made by non-commercial users, they trade just for profit. There is a weekly report that tracks which direction, either short or long, these trades are moving. The non-commercial traders have continued to add to their long position for the past few weeks. This suggests that they believe the market is heading higher.

In summary, we continue to believe that the healthy inventory levels we will have this winter should keep a cap on prices and prevent them from the extraordinary run ups of two

winters ago. Conversely, the declining production rates are much more disturbing. There are very few new reserves coming on line over the next couple of years. We believe natural gas prices will remain bullish longer term and over the next couple of years we could see much higher prices.

The IEC is committed to minimizing your costs while providing price certainty. In our first few months, we have made purchases that represent less than half of your anticipated needs for the coming winter. We will be purchasing more aggressively over the next few weeks with expectations that prices should recede in October as the hurricane season abates. These purchases will only be enough to satisfy our needs for this winter and some time during the latter part of the winter we will be making longer-term purchases. We will explain why we are using this winter purchasing strategy in our next newsletter.

Lighting the Way - 70th Joint Annual Conference

IASB - IASA - Illinois ASBO Joint Annual Conference is 70-years and counting. That's how many times the educational leaders of Illinois have gathered for the Joint Annual Conference, a three-day event sponsored by the Illinois Association of School Boards, Illinois Association of School Administrators and the Illinois Association of School Business Officials.

Each day of the conference - November 22, 23 and 24 - will be

packed with events you can pick and choose to attend.

Be sure and attend our breakout session on Saturday, November 23, 3:30 pm - 5:00 pm.

Illinois Energy Consortium Electric and Natural Gas Program

- The IEC was formed by IASB, Illinois ASBO and IASA after energy deregulation to provide school districts with maximum energy savings. Obtain an update on IEC

services, including the IEC's natural gas program.

In addition to this session, be sure to come by and visit Booth #605. The IEC booth has a new look.

IEC Program Information By Month

by Kristi Fitzanko, IEC Energy Advisor

	<u># of School Districts Billed by Month</u>	<u>Monthly Savings</u>	<u>Year-to-Date Savings</u>	<u># of Meters Billed</u>
January, 2002	138	\$ 199,938.21	\$ 199,938.21	1267
February, 2002	138	\$ 210,446.72	\$ 410,384.93	1267
March, 2002	138	\$ 228,440.81	\$ 638,825.74	1267
April, 2002	138	\$ 281,214.08	\$ 926,295.96	1267
May, 2002	138	\$ 324,097.39	\$1,250,393.35	1267
June, 2002	138	\$(325,522.72)	\$ 924,870.63	1267
July, 2002	138	\$(510,215.16)	\$ 414,655.47	1267
August, 2002*	144	\$(300,648.26)	\$ 114,007.21	1322

*The billing for the month of August had not been completed at the time information was requested.

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Illinois Energy Consortium - Experiences with Electric Competition

by Louie R. Ervin, Latham & Associates, Inc.

(The following article summarizes testimony the IEC has made to utilities, regulators and legislators to make true electric competition available to all Illinois schools.)

The Illinois Energy Consortium (IEC) purchases and delivers electricity and natural gas through joint purchasing arrangements for the benefit of Illinois public schools. The Illinois Association of School Boards, the Illinois Association of School Administrators, and the Illinois Association of School Business Officials sponsor the IEC.

The IEC began electric deliveries to schools in January 2000. To date, 280 Illinois school districts are participating in the IEC electric program, with yearly deliveries of about 330 million kWh. About 1,300 school facilities are participating. Since inception, net savings to Illinois schools have exceeded \$2.5 million. While the electric program is designed to be a statewide program, participation has been economically limited to the service territories of ComEd, Ameren and Illinois Power. Because of market prices for power, IEC has never been able to show net savings to its potential participants in the CILCO, MidAmerican and Alliant service territories, frustrating many school districts that hoped to participate in this electric choice program.

For the IEC electric program, CILCO is the program administrator and Retail Electric Supplier (RES) on behalf of the IEC and the participating schools. The IEC's contract with CILCO provides that the IEC can independently and at arms-length bid for electric supply from potential Illinois and out-of-state suppliers. Recently, finding competitive alternative electric supplies for schools has been difficult because actual available wholesale electric market prices are materially higher than the Market Value Index (MVI). The MVI is the price developed by Illinois utilities as the basis for computing Customer Transition Charges (CTCs). If market prices are low, then utilities can collect higher CTCs under the presumption of stranded costs for generating capacity no longer needed to

serve those customers lost to competition. The problem is that the MVI used by the utilities is not realistically representative of actual electric prices available in the market.

Recently, because actual electric market prices are materially higher than the MVIs for ComEd, Illinois Power and Ameren, virtually no electric supplier can compete with incumbent utility supply, either through bundled service or the Purchase Power Option (PPO). Unless MVIs soon begin reflecting actual prices available to real retail consumers, then no one, including the IEC, will be able to provide electric savings to schools. The incumbent utility will once again be the only viable electric supplier and utilities will have regained their customers, for which they have been paid billions of dollars for stranded costs presumed to accrue because of loss of customer loads.

The electric load profiles of Illinois schools are reasonably predictable. There are significant electric loads in the non-summer periods from September through May. Time of usage through the typical week is predominantly during on-peak hours. Average usage per hour versus peak usage per month or year (load factor), for the IEC as a whole, is about 45%. For the 330 million kWh per year, the peak load is about 85 mW.

Obviously, these IEC school loads are not continuous electric loads of 100% load factor and are less than 100 mW. As such, these school loads do not fit the 100% load factor and 100 mW bulk power blocks under which power is frequently traded in the market. These are "odd-lots" of power, distributed to 1300 school facilities across three electric service territories, with significant daily and hourly load variations. Regardless of supplier, there are very significant administrative requirements to deliver the power to these locations and the MVI should begin reflecting these costs.

In sum, the IEC's statewide electric purchasing program for the benefit of Illinois public schools is seriously limited by the availability of electric power in the vari-

ous service territories at delivered prices and terms that are competitive with the utility-specific MVIs and, hence, the related PPOs. The IEC experience is that the MVIs are simply not representative of prices for electric power that are actually available in the market.

If the MVIs are reflective of actual market prices and other terms and conditions under which actual power supplies can be attained, the IEC and other retail suppliers would be able to deliver power supplies competitive with the PPOs that are the incumbent utilities' own supplies. For the IEC, the goal of a statewide electric program with alternative power supplies would be consistently realized in ComEd, Ameren and Illinois Power service territories, if MVIs are reflective of actual market prices and other terms and conditions under which actual power supplies are to be attained. The IEC school electric aggregation program would be positioned to expand to the CILCO, MidAmerican and Alliant service territories at the end of the transition period, the end of 2006. With MVIs reflective of actual market prices, the IEC conservatively believes it could triple the kWh volume of electricity delivered to its potential school participants.

However, if the current systematic measurement of MVIs continues to understate actual market values, there simply will not be alternative power supplies delivered in Illinois. No supplier will continue to supply at below-market prices. The only realistic alternative for the IEC will be the PPOs for the respective service territories. Because of this, the calculation of the MVIs must be revised to reflect actual market conditions for actual deliveries of power to real customers such as IEC school participants.

If these MVI issues can be resolved, the IEC believes that it will be able to attract competitive electric power supplies in each of the electric service territories where there are MVIs. The IEC is working diligently with utilities, regulators, legislators and suppliers to correct the flawed MVI calculation.

