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State Of The IEC Report

by Ronald C. Steigerwald, Statewide Marketing Director for IEC

Quarterly Newsletter
Summer 2002

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As I write this newsletter article, I would like to share with you the breakdown by power supply companies of the number of school districts that currently participate in the IEC's electric program. The breakdown is as follows:

<u>School Districts</u>	<u>School Bldgs.</u>	<u>Meters</u>
ComED		
138	396	1267
Illinois Power		
32	195	175
AMEREN CIPS		
75	214	75
Cilco		
20	50	66

Not bad for the consortium's initial start up into the marketplace all by itself and in three years time. The numbers show that over one-third of the school districts in Illinois are members of the IEC. In fact, we have over 400 members, but unfortunately, we cannot provide service to some of these districts in the western part of the state and some districts/buildings cannot save money as members of the IEC. However, almost two-thirds of the school districts in Illinois have not stepped up to the plate to even get a no cost, no obligation quote from the IEC to determine what their savings might be.

Keep in mind that these totals reflect the information we have in our computer for May's billing. This **does not** include the school districts that will be transferred over to the IEC once Cilco finishes the savings analysis that districts have been patiently waiting for because of Commonwealth Edison's delay.

What is keeping your district from joining?

Now that the school year is ending, pull

out your electric and natural gas contracts to check when they expire. Then give me a call to come and talk to you about the IEC and its electric and natural gas programs. I am more than happy to gather your information and forward it to Cilco, our electric program administrator or Peoples Energy, our natural gas program administrator. They will review your bills and other pertinent information and send you, an analysis of your proposed savings, free of charge and without obligation. What could be easier? Do not wait, do it now before the summer passes you by.

Remember the electricity lottery?

In recent months, I have been called and received questions in workshops as to why an electric meter in my school district is not with the IEC. The answer has been that those particular meters were not selected in the initial lottery. Therefore, the simplest and easiest way to transfer those meters to the IEC is to call Kristi Fitzanko at Cilco. Her direct telephone number is 309.677.5246. Kristi will help you with the transfer.

Construction time

Summer is once again upon us and many school districts are deep into new building/renovation projects. This is also the time to advise Cilco, our electric program administrator and Peoples Energy, our natural gas program administrator, about these new changes. They need to know the new meter numbers and account numbers so they can be added to the IEC. Do not delay. This is very important information that both Cilco and Peoples Energy need, to ensure that your utility service is not interrupted.

Energy Grant

Once again, the Illinois Clean Energy

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Timing Is Everything

By Louie R. Ervin, P.E., IEC Energy Consultant with Latham and Associates, IEC Energy Advisor

Whether it is proposing marriage, buying stocks or contracting for natural gas, timing is critical to your overall success. Some natural gas consumers still use the old periodic one-point-in-time approach to select a natural gas provider. Anyone can get lucky with the old "snap-shot-approach" to purchasing, but the odds are they will not be lucky enough to hit the gas market at the very lowest price possible.

Most purchasers understand that natural gas prices are highly volatile and are beyond their control or ability to time with any precision. As a result, purchasers will often defer to the "budgeting-approach," which is to keep getting prices from marketers until one gives a price that is within the budget. Marketers quickly catch on to a purchaser who uses the "budget-approach" and offers "indicative prices," which may be within the budget but are not guaranteed. Because natural gas prices are so volatile, some marketers will quote the most favorable recent price, knowing that the actual contract price will reflect the current higher market price.

Other sales tactics are to use "hidden costs." Do the quoted prices include:

1. Indemnity against all imbalance penalties?
2. Indemnity against storage penalties?
3. Capital carrying cost of inventory from date of injection to withdrawal?
4. No premium for swing gas that is required to cover usage on excessively cold days?
5. Full market price for re-sale of unused gas on warm days?
6. Marketer's monthly management fees?
7. Other hidden or add-on costs?

So how do you know from whom to purchase and when to purchase? The IEC uses the services of experts, much

like you would use a stockbroker. However, recognizing that even the best stock broker cannot always predict the best stock and timing, nor the most expert gas supplier cannot always hit the market at its very lowest, the IEC uses a "portfolio-approach" to purchasing natural gas. Because the IEC has aggregated very large volumes, it can purchase volumes in increments in the range of 10% of total IEC requirements, which may be larger than 100% of many school districts' annual needs. The IEC will use the best expertise to time the purchase, not only on a daily, weekly, monthly or annual "snap-shot" basis, but its third-party administrator, Peoples Energy Services, constantly monitors the market for opportune purchase points throughout the day. The portfolio-approach also allows the IEC to lock-in fixed prices for individual months as opposed to taking the good and bad market prices in a 5-month or 12-month strip. Because the IEC participants commit to the consortium through June 2005, the IEC can purchase percentages of requirements at opportune times, at a fixed price, for future heating seasons.

Still, a purchaser using the portfolio or averaging approach may not be best served by having locked-in 100% of its needs at a fixed price. Two winters ago, prices reached unprecedented highs and purchasers were well served by locking in fixed prices in advance. Last winter saw prices slide downward and a floating or index price would have been a good purchasing strategy. School budgets are not amenable to "playing-the-odds," sometimes winning big and sometimes losing big. The IEC has dual objectives: (1) maximize savings for participants, and (2) create a relatively high level of budget certainty. The IEC will endeavor to mitigate price risk and to create savings by "layering-in" a portfolio of purchases at fixed prices over the next several months. The IEC will also endeavor to create a high level of budget certainty

for participating schools by having roughly 80% of purchases locked-in at a fixed price.

Because of the portfolio strategy, the IEC will have a high percentage of its purchases at a fixed price, but actual monthly prices will change each month. The IEC prices will be shown on the bill and can be viewed on the IEC web site in advance of billing.

The IEC takes the administrative burden and much of the uncertainty out of purchasing natural gas.

Please consider becoming a participant in the IEC.

The State of The IEC

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Community Foundation has provided grants for upgrading existing lighting to be energy efficient. Hopefully, your school district received this information this spring.

You should have submitted your request by June 17, 2002. Those received by June 17, will be reviewed as a group. Those submitted after this date will be reviewed on a first-come, first served basis, as long as the funds are available.

If you need more information, please contact Bob Romo, Program Officer, at 312/372-5191 or by e-mail at bromo@illinoiscleanenergy.org.

Natural Gas Update - Welcome Chicago Public Schools

On Wednesday, May 22nd, the Chicago Public School's Board of Education approved joining the Illinois Energy Consortium. The IEC extends a warm welcome to the Chicago Public Schools and their staff members. Welcome aboard.

Natural Gas Update

By John Nania, Program Administrator and Supplier for the IEC natural gas program, Peoples Energy Services, Jnania@aol.com

The meteoric rise in prices in the winter of 2000-2001, and now the sudden drop this winter have created a lot of questions. **Will what we learned help us make better decisions about our natural gas purchases going forward?** The possible answers are numerous and ever changing.

It depends on:

- Summer and winter weather
- Storage levels
- Hurricane activity
- The economy
- Alternate fuel prices
- Technological changes
- Speculators and hedge fund activity
- Production levels

It can also depend on your viewpoint, and whether or not you previously locked into a price and at what price level. If you did, this will alter your perspective about what to do going forward. This update is intended to give you our best guess of what could happen. This assumes you are an unemotional buyer (which of course you are not) without all the knowledge of past decisions' outcomes.

Could two years be any different? The summer of 2000 was a typical hot summer. Lots of gas was used to create electricity and thus there was less to go into storage. We began that winter with only about 70% of our storage capacity filled up. The summer of 2001 almost never happened. Only one day above 90° degrees! All the summer production was put in the ground for storage and we ended up over 100% of capacity (only in the gas business can you have more than 100% capacity)! The winter of 2000-2001, started out the fourth coldest since weather began being tracked 107 years ago. The winter of 2001-2002, had the warmest November-January. Economic activity affects demand, although not as much as

the weather. Year 2000, we saw a continuation of a sizzling economy. In 2001, economists can debate it, but it sure felt like a recession. Were these events predictable? No, but they all impacted gas prices dramatically.

At the end of winter 2002, we had more gas in storage than ever before due to the warm weather. The storage outlook for the coming winter suggests that with a lot of certainty, we will have full storage again. This is good news for users. **We believe this can keep a lid on prices so that they will not rise to the 2000-2001 levels even with a warm summer being predicted.**

Another food for thought - consider the winter after this one, 2003-2004. Researchers have gone back and analyzed 10 and 30-year trends for price, storage, and production. They have learned that looking shorter term has little value in predicting future pricing patterns. Each variable looks like it will be heading into very rough waters. They also have looked real hard at where our gas will be coming from. Unfortunately, no new significant reserves are scheduled to come online before 2005. The government this week said production should be down about 6% this year. In our Nostradamusian view, all that could probably go wrong, will go wrong.

Prices tend to "bounce." Physicists and traders alike understand this. Prices within one year hit all time highs and then plummeted to near record lows. This volatility is alarming in any commodity market and unfortunately, these price swings tend to hang around for a long time. We theorize that hedge funds have a lot to do with it. From October 1999, until today, we have doubled the number of future contracts being traded. This, ironically, coincides with the time when the stock market started its fall. What is odd is that we are using about the same amount of gas. Why? Blame the hedge

funds. Traders like volatility, that's how they make money. The stock market could not offer volatility any more, so they looked around and found that gas did. Speculators, not users, do most of the gas trading in this country today! They have no interest in delivery—quite the opposite of your concerns. They have heightened the volatility of prices dramatically. One of the results is that we can get daily price swings of 5% or more for no apparent reason. This is not all bad because they can help exaggerate a market up, as well as, help push it lower than it normally would go. Result: this volatility can be your friend if acted upon correctly.

Because of the historical patterns and volatility we could easily see \$1.00 plus therm gas for winter of 2003-2004.

The IEC's strategic buying program will be implementing purchases starting this summer. Our best guess is that there will be a window of opportunity to lock prices between the first part of June and early August. There is not a strong push to do it now; spring (and fall) historically has not offered the best values. The best times usually are in the mid part of both summer and winter. This year's price pattern looks just like 10 of the last 11 (with 2001 our big exception...ouch!). As the IEC reaches target prices this summer, we will be purchasing most of our anticipated needs for this coming winter.

Depending on how low it gets, we may also secure at least a portion of your needs for 2003-2004.

Let's set our sights on realistic objectives. Fixed prices of the late 90's in the high \$.20 range are a thing of the past. We may not see them again for a few years. Consider fixed prices anywhere in the upper \$.30's per therm good and mid \$.30's range terrific (but a lot less likely).

IEC/Cilco Billing and Customer Service

by Kristi Fitzanko, IEC Energy Advisor

Whether you are a new school district or have been with the IEC program for a while, there are bound to be questions about your electric bills or the program. We have a full-time staff dedicated to providing your school district with outstanding customer service.

CILCO's Billing Group is comprised of four, full-time billing analysts. Each analyst has been assigned a specific service area, such as, ComEd, Illinois Power, or AMEREN. This provides a consistent level of knowledge about

your school district. Each analyst reviews your host utility bill (aka Delivery Service Bill) for accuracy. The Delivery Service Bill is then added to the energy bill, which together comprises the school facility bill. The facilities are then totaled into one 'Consolidated' bill, which is the first page of the IEC bill. This group also pays the host utility company the Delivery Service Bill on behalf of the school. (If the Delivery Service Bill includes gas charges, the entire bill is sent to the school district for payment directly to the host utility company.)

In order to answer your questions in a timely manner, the program administrator handles most of the communication. This allows the billing analysts to focus on providing timely and accurate bills.

If you have any questions regarding either your bill or program issues, you can reach me, Kristi Fitzanko, at my direct number 309.677.5246 or a toll-free number 1.888.451.3911. My fax number is 309.677.5458. Please feel free to call if you have any questions!

IEC Program Information By Month

	<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	\$438,887.53	1267
April, 2002	138	\$281,214.08	\$509,654.89	1267
May, 2002	138	\$ 172,550.11	\$453,764.19	1267

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