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Quarterly Newsletter
Summer 2004

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President's Perspective

By Dr. David F. Grace, President, Superintendent, Lincoln Elem. SD 156, Calumet City, IL

Dear Members,

I hope that all of you have had a very peaceful and productive summer and are now ready and recharged for the return of your students. It has been a very busy summer for the IEC as well, with our continuing growth with both the natural gas and electric supply. To date, we are supplying electricity to more than 353 school districts. Our yearly billed supply now exceeds 460,000,000 KWH. This represents growth of more than 60,000,000 KWH per year and approximately 50 more districts than last year at this time. In Natural Gas we are currently supplying approximately 88 school districts more than 26,000,000 therms. The IEC schools are saving significant \$ in both electric supply and natural gas. At a time when we are seeing our revenues shrinking, it is really important to be able to tell our Boards that we have been able to reduce costs without impacting our students.

Electric Supply in our Regions:

In the ComEd region, we have negotiated a new supply contract with Ameren Energy Marketing and are seeing significant savings in all the IEC supplied districts. We have been successful in securing a supply contract that will supply our schools with electricity at significantly lower costs than will be commercially available to other schools. Thanks again for your faith in your organization.

In the Ameren region, we are in the second year of a two-year supply contract that is showing savings similar to last year and has enabled us to continue to expand our school district participation in this region. Since there is no PFO in this region, our supply is again the best

possible option to secure savings for your district in the Ameren Region. Check with Kristi Fitzanko at Ameren Energy Marketing at 309-677-5246 or call Ronald C. Steigerwald at 847-567-3051 for answers to your questions.

In the Illinois Power region, we are continuing to supply electricity under the PPO and continue to pursue independent supply for our member districts.

We have not forgotten the other regions of the state and are continuing to work toward the time when we will be able to provide electric supply to those regions. We have approached legislative initiative and regulatory changes and have been unsuccessful to date in being able to penetrate these markets. However, we keep trying and are confident that we will be successful at some time in the future.

Natural Gas Supply in our Regions:

We continue to grow in our natural gas supply as well. We continue to gain market share in a mature market and provide more savings than other marketers. As we move forward, our mission is to provide energy services to schools in Illinois, enabling them to save money on energy costs. As we are successful in meeting these energy needs of schools, we have continued to grow. As we have seen in our electric supply purchases, competition has enabled school districts to experience significant savings.

As we begin another school year, let me wish you all a great and prosperous 2004-2005!

Does Electricity Also Come From Cows?

By Louie Ervin, Executive Vice President, Latham and Associates, The IEC Energy Advisor, Cedar Rapids, IA

The Illinois Energy Consortium (IEC) was created to make it simple for schools to achieve benefits from the deregulated **retail** electric market. The IEC has been so successful in making it simple to purchase **retail** electricity that it needs to remind school participants of the real source of its electricity and how it gets delivered to your doorstep.

Heaven forbid that any Illinoisan would have the myopic view of the New Yorker who was interviewed several years ago on national television. At that time, dairy farmers across the country were striking because of low milk prices and demonstrated in Washington by pouring milk down the sewer by the tanker truckload. When the New Yorker was asked how she felt about the dairy farmer strike, she responded: *"It really doesn't concern me because I buy my milk at the store."*

Much like the grocery store, the IEC purchases **wholesale** electricity for sale at **retail**. In a metaphoric sense, the upstream supply chain goes back to the individual power plants (or the metaphoric cows). The midwest wholesale electric market underlies the Illinois retail electric market. The wholesale electric market and power transmission are regulated by the Federal Energy Regulatory Commission (FERC), which must comply with federal laws such as the Federal Power Act. The retail market and intra-state power distribution are regulated by the Illinois Commerce Commission, which must comply with the Public Utilities Act and other state laws regarding deregulation of electricity in Illinois.

Both the wholesale and retail market rules are in a constant state of

flux. For example, the FERC issued a series of orders to move the wholesale electric industry toward market-based prices and has pushed for creation of Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) with real-time electric prices for balancing supply and demand. Frankly, this process of school retail supply takes reliable, efficient specialists that are in these markets every day. The industry specialists that work for the IEC understand the supply chain from generation, transmission and delivery to your meter, which is the electric equivalent of the supermarket cash register. Okay, you get the point - there is much to completing a wholesale power transaction before even addressing the Illinois retail delivery rules and regulations.

Maybe it would be easier to just purchase electricity from the grocery store rather than from the cow! That is where the IEC comes in for it's participating school members. Certainly, as educators, school districts could, with enough resources, individually manage the process of purchasing and delivering electricity in the Illinois deregulated retail market. Alternatively, school districts could just pick a retail marketer and pay the marketer's implicit price to manage the power supply and transmission process. But, how do school districts know which marketer is best? You can trust the IEC, which was created by IASB, IASA and Illinois ASBO to simplify wholesale power purchases and transmission for delivery of retail electricity and savings to schools. Illinois school districts don't even have to go to the grocery store or be concerned with milking a cow!

Electric Update - Post 2006 Initiative

By Kristi Fitzanko, Electric Program Administrator, Ameren Energy Marketing, Peoria, IL

For the past four years, the Illinois electric deregulated market has been evolving in phases towards full deregulation. This process has been called a 'Transition.' The market has been operating under rules that have continued to benefit the utility. Throughout this transition, the marketplace has experienced changes in the rules, entry and exit of various suppliers, acquisition/mergers of utility companies, and growth in customers demanding a fair market. This has all transpired under the watchful eye of the Illinois Commerce Commission (ICC). The ICC is currently conducting workshops aimed at assuring that the marketplace will be ready for full deregulation by the end of 2006.

On the ICC's website, www.icc.state.il.us, the project is called 'Post 2006 Initiative.' As stated on the website:

"The Post 2006 Initiative is an opportunity for stakeholders to participate in various workshops and identify issues and concerns as the end of the transition period nears. The state's legislatively mandated transition period from a fully regulated electric market to a largely deregulated electric market concludes at the end of 2006. This forum should serve as a starting point among the stakeholder groups that includes utilities, consumer groups, large business customers, alternative retail electric suppliers, governmental, and other industry participants. Chairman Hurley has appointed Commissioner O'Connell-Diaz to chair the Post 2006 Initiative."

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Illinois Power School Districts Can Save Up To 20% On Their Natural Gas Bill

By Ronald C. Steigerwald, Statewide Marketing Director, Illinois Energy Consortium (IEC), DeKalb, IL

If your school district is in the Illinois Power region, you could save up to 20% on your natural gas bill. The Illinois Energy Consortium (IEC) has expanded its natural gas program into the Illinois Power region. Time is money so you do not want to let this great opportunity pass you by.

All you have to do is fax Ronald C. Steigerwald a copy of your last month's bill for each gas meter in your school district. Ron's fax number is 847-634-8254. Also fax a copy of your current contract, even if it is a year away. We will then do an analysis of your gas consumption and let you know what your savings would be if you joined the IEC. It is that simple and there is no obligation. It is **your choice and your money**.

Is There Any New Construction Or Additions In Your School District?

Each year, I try to remind the IEC members to please let us know if you have built a new building or have added additions to your current buildings.

In order for our program administrators to compare apples to apples for savings, they need to know if they are comparing the same square footage to your current usage. So please, advise us of any physical changes.

For electricity, please notify Kristi Fitzanko, Ameren Energy Marketing at 309-677-5246. For natural gas, please notify John Nania, Peoples Energy Services at 630-416-8300.

Budget Got You Down? We Can Help

Are you into building the school district budget for next year? Are all the numbers starting to look alike?

Are your eyes getting glassy? Are you trying to come up with numbers for next year's electricity and natural gas costs? Well, if you are an IEC member, you do not have this problem.

If you need to know what to budget for electricity for next year, all you have to do is pick up the telephone and call Kristi Fitzanko, Ameren Energy Marketing at 309-677-5246.

For your natural gas budget figure, call John Nania, Peoples Energy Services at 630-416-8300. It is as simple as that.

You Are Not A Member Of The Illinois Energy Consortium Yet? What Is Keeping You?

The Illinois Energy Consortium is a not-for-profit organization sponsored by the Illinois Association of School Boards, the Illinois Association of School Administrators and the Illinois Association of School Business Officials. Their sole purpose is to provide school districts in the state of Illinois with the lowest possible price for electricity and natural gas so that school districts can save dollars and budget without guessing and protect themselves from being whipsawed by volatile natural gas and electric pricing.

This statement alone should stir in your mind that you should at least take a look at the possible savings your school district might have available by joining the IEC. The cost analysis is free and without obligation. All you need to do is fax your last month's bill for each gas and electric meter to Ronald C. Steigerwald at 847-634-8254. Ron will take it from there and someone from Ameren Energy Marketing for electricity or someone from Peoples

Energy Services for natural gas will advise you of your possible savings.

It is time you did this now! You are losing money!

(SPECIAL BULLETIN)

Great Savings In The Commonwealth Edison Area

Kristi Fitzanko of Ameren Energy Marketing, our program administrator, has advised us that there are some great savings for school districts in the Commonwealth Edison area that join the IEC. To find out what those savings would be, just fax a copy of your last month's bill for each electric meter to Ronald C. Steigerwald at 847-634-8254. Ron will work with Kristi to get you an analysis of savings as quickly as possible. **Don't delay. Do it now!**

Electric Update - Post 2006 Initiative

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Your school district and the IEC are stakeholders in this process. Ameren Energy Marketing, the IEC's Electric Program Administrator, is participating in these workshops and will be updating the IEC regularly as issues surface that would impact schools and the program.

There are too many issues to discuss here, but if you would like more information, please visit the Illinois Commerce Commission's (ICC) website. If you have further questions, feel free to contact Kristi Fitzanko, the IEC's Electric Program Administrator. You may reach her at 309-677-5246.

Spotlight on....John Nania



John Nania is the IEC's representative from Peoples Energy Services (PES). John has a business degree from Illinois State and a Masters from

DePaul. His learning continues every day though, as he considers himself a student of the market. Assisting the IEC members, along with his other clients to minimize energy costs, is his passion. He has teammates at PES including Jean Beacom and Jim Brett that "make working a blast." He has

been in the energy business most of his life. His uncle owned a large local energy marketer, Torco, for 35 years and John in his youth always dreamed of working there. In 1989, he got his chance. Later, the gas division which John was the Executive Vice President of, was sold to PES where he continues his work as their top sales agent.

John is an active community member serving on several local boards in his home town of Naperville. His other interests focus on his two kids. He coaches their soccer, baseball and basketball teams, which is

his other full time job. John and his wife of 17 years Laura, like vacationing in Florida where golf occupies a lot of his time.

John has been affiliated with the IEC from the gas program's inception and credits it's success to communicating the facts well, ensuring a disciplined approach to strategic buying is maintained and promoting endlessly. *"The IEC's business model is easily one of the most successful ventures I have ever been a part of. The incredible savings we have produced for members and our tremendous growth prove it."*

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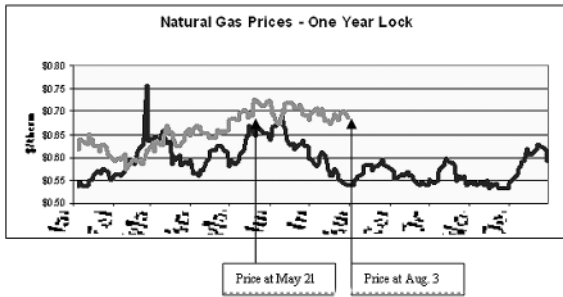
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Natural Gas Update

By John Nania, Natural Gas Program Administrator, Peoples Energy Services, Naperville, IL

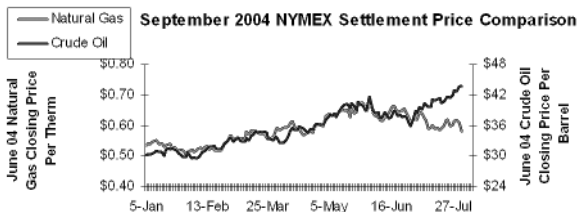
With the heating season right around the corner, we wanted to discuss our view of the natural gas market. As of August 3, the price to lock in gas for one year is approximately \$.70/therm. Back in late May, this number was \$.68/therm. Last year at this time, the comparable number had fallen to \$.54/therm.



Why are we still at higher prices than last year? Currently, storage inventory levels are comfortably in line with the historical pace, such that most analysts expect us to be able to replenish volumes in time for winter. There is still a potential for gas supply to be reduced by hurricanes in the Gulf, or for hot weather to spike demand to fuel electric “peak” generators. However, as summer comes to a close, these issues become less of a concern.

There are two factors that should impact natural gas prices this time of year. The first is the fear of winter supply shortages. Our production continues to decrease even though we are adding to our already record high count. The question is, will there be enough supply if the winter turns out to be cold. The second factor is oil prices. Clearly, oil has not cooperated. Due to continued fear of oil supply disruptions via unrest in the Middle East and Russia, oil prices have reached all time record high levels.

The chart below compares the September NYMEX contract price for crude oil and the September NYMEX contract price for natural gas. Note that these prices are for one month, rather than the one-year in the chart above. While the relationship has begun to weaken recently, these high oil prices continue to support higher natural gas prices.



What is the outlook for prices in the near term? This would seem to be primarily a function of its relationship to oil. It is probably safe to say that if oil stays above \$40/Barrel, the downside opportunity for natural gas is not significant. If oil does go below \$40, gas could certainly go lower than current levels. However, it would not be surprising if a reduced oil price only prevents gas from going back up. Another factor that may work against gas moving down much further is that end-users may start to focus on the coming winter, and worry about the impact of colder weather.

The IEC has worked very hard in anticipation of what we knew were going to be difficult times. Early last year, we started purchasing some of our gas for this winter. Right now, we own approximately 25% of our needs for this winter at approximately \$.505/therm or about 27% below market. This will act as an anchor on our prices. We have as a goal to purchase in advance the bulk of the remaining gas we need. This will be done over the next few weeks as the market softens a bit. We have a careful eye on the following winter right now and are looking for opportunities to purchase in advance at what should be desirable prices.

If you are trying to budget your gas cost, take the total you spent for last year and add about 10%. The market is up much more than that for everyone else, probably closer to 25-35%. The actual cost will be a fraction of just what we pay for the remainder we have to purchase and also the severity of the winter. Last year’s weather was actually a little warm; this year looks to be cold early and then average later.

New Service Area

We have begun servicing schools in the Illinois Power territory. The savings look to be substantial. Many schools in IP have never had any choice on their gas supply. To date, we have signed over 35 schools with an average savings of 19%. There is no hassle of installing phone lines required. If members sign up in the next month or so, we should have them online for this winter. If you have a school in IP and are interested in a quote, please contact Ronald C. Steigerwald at 847-567-3051.

As your natural gas supplier, we thank you for your continued business. We appreciate your faith in our ability to deliver a competitively priced product with superior service.

