



CITY OF URBANA, ILLINOIS
PUBLIC WORKS DEPARTMENT
ENVIRONMENTAL MANAGEMENT DIVISION

MEMORANDUM

TO: Mayor Laurel Lunt Prussing and Members of the Urbana City Council
FROM: Bart Hagston, Environmental Sustainability Manager
DATE: November 10, 2011
RE: Municipal Electric Aggregation

INTRODUCTION

City of Urbana staff have been looking into the issue of municipal electric aggregation (aggregation). State law (Illinois Power Agency Act, 20 ILCS 3855/1-92) allows local governments to aggregate the electric accounts from residences and small businesses in order to receive bids from alternate retail electric suppliers (ARES). Aggregation has the potential to save consumers money and, if desired, to increase the use of renewable energy. Municipal electric aggregation must be approved by voters via a referendum. Several dozen local governments in Illinois are exploring the placement of aggregation on the March 20, 2012 ballot, including Champaign, Savoy, and Champaign County.

BACKGROUND

Municipal Electric Aggregation

Aggregation is program that allows local governments the option to bundle together, or aggregate, residential and small commercial retail electric accounts and seek bids for a cheaper, and possibly cleaner, source of power. Right now, Ameren customers obtain power at a set rate. In contrast, large industrial and commercial customers can go out to market and obtain a lower rate and save money on their electric bills. By bundling residential and small commercial accounts, municipalities can obtain the same type “bulk purchasing” savings for their residents and small businesses. While residents currently have the power to switch electric suppliers on their own, few have done so and the rates are not as favorable as could be achieved through municipal aggregation.

Twenty-four communities in the ComEd service territory have already approved aggregation and those that have proceeded have seen significant savings.

Opt-Out Referendum

“Opt-out” aggregations mean that all eligible residential and small business electric accounts become part of the aggregated program, unless they elect to opt-out and return to the default supplier or choose another alternate supplier. Such an effort has to be approved by voters as a referendum. In order for the matter to be placed before City of Urbana voters on the ballot, an ordinance would need adopted by the City Council in enough time to meet the January 3, 2012 filing deadline. In order to educate the community about the referendum, a committee dedicated to such a task should be formed. Approximately 90-95% of eligible accounts typically do not opt-out of aggregation programs.

By statute, the ballot question must be in the following form: “Shall the (Municipality or County in which the question is being voted on) have the authority to arrange for the supply of electricity for its residential and small commercial retail customers who have not opted out of such a program?”

Benefits of Aggregation

The most important benefit is the opportunity for Urbana residents and small businesses to save money. According to estimates provided by energy consultant Mark Pruitt, annual electric savings of 8%, or around \$80 per household, could be realized through aggregation (caution - these are only initial estimates and may fluctuate due to various factors) . Community-wide this would result in an additional \$1.4 million being saved during the first year on residential and small business electric bills, savings which would then remain in the local economy.

In addition, there are few costs associated with aggregation beyond staff time and community outreach and education efforts. Offering this opportunity could also further Urbana's sustainability goals because the aggregation plan could be written to include a large percentage of renewable energy in the power mix and a municipal energy efficiency fund could be developed.

Green Power & Energy Efficiency

Currently, the power mix for Ameren Illinois is 75% coal-fired, 14% nuclear, 5% natural gas-fired, 4% wind energy, 1% hydro, and 1% other sources. Aggregation allows residents and small businesses the ability to request an energy mix with a higher percentage of renewable energy, while still saving money over existing rates.

The Village of Oak Park recently switched to an ARES through municipal aggregation and selected 100% renewable energy (Renewable Energy Credits bundled with the electric purchase) as the supply source. Based upon the bids received in Oak Park, the cost of 100% renewable versus traditional energy sources was + 2/10 of 1 cent (\$0.002) per kWh over the traditional energy price bid. If similar prices were bid in Urbana, the average cost to switch to 100% renewable energy would be roughly \$1.70/household/month. Such a move would avoid the annual emission of an estimated 158,000 metric tons of carbon dioxide equivalents and result in a community-wide GHG emissions reduction of 30%.

The City of Urbana could receive bids for an aggregated electric supply using various levels of renewable energy (0-100%) and could ultimately decide upon the mix that presents the most the desired combination of savings and green power. This decision does not need made until after the referendum.

Other municipalities, through aggregation programs, have also developed energy efficiency programs. These programs have been funded by revenue to the City from the selected electric supplier. The legislation that authorizes municipal aggregation also allows local governments to address energy efficiency measures. If such a fund were desired, concrete plans for how such funds would be used should be developed and publicly presented.

Steps to Aggregation

- City Council approve an ordinance placing referendum on ballot.
- City contract with a consultant to assist with aggregation process.
- Develop educational committee and conduct educational campaign.
- Referendum on March 20, 2012.
- If referendum passes, City must hold two public hearings on municipal aggregation.
- Aggregation plan developed, approved by City Council, and submitted to ICC.
- Solicit and receive bids from ARES.
- Bid that best achieves the goals of the aggregation plan is chosen. If no bids are acceptable, there is no obligation to accept any bid.
- If bid is accepted, then all residents and small businesses are notified by mail of impending supplier switch and given chance to opt-out.
- Accounts that do not opt-out are transitioned to the aggregation program. Resident still only receives one bill and still pays Ameren directly.

The resulting electric supply contract would typically be 12 – 30 months, based upon forecasted energy pricing and other factors. If aggregation is approved by voters in March 2012, the greatest savings potential lies in the remaining months of 2012/early 2013. Beyond that time, Ameren's electric rate is expected to drop slightly, due

to newer contracts brokered by the Illinois Power Agency that will take effect. Safeguards would be built into the supply contract so that the aggregation rate would never be greater than Ameren's current rate, minimizing the risk to those that participate in aggregation.

The intricacies of the aggregation process and ever-changing energy markets require that a knowledgeable consultant be employed to assist the City in this process.

OPTIONS

1. Do nothing. Residents and small businesses continue to utilize default supplier or select their own alternate supplier. However, consumers would not realize "bulk purchase" savings or move toward wide-spread use of green energy.
2. Educate residents about alternate electric suppliers and green power options, but stop short of undertaking municipal aggregation
3. City Council approve ordinance in December 2011 to place opt-out aggregation on March 2012 ballot and authorize use of a consultant when the appropriate point in the process is reached.

FISCAL IMPACT

It will cost an undetermined amount to contract with a consultant to assist the City with the aggregation process. These costs should be known within the next month or so. Municipal funds used in the aggregation process can be recovered by structuring them into the resulting supply contract.

If it is decided to develop a municipal energy efficiency program through funds structured into the supply contract, such funds could replace Federal energy grant dollars for home energy audits and insulation, as those funds will soon be expended.

Otherwise, nominal costs will be incurred by existing City staff spending time to work with the consultant and coordinate educational outreach on municipal aggregation.