



MEMORANDUM

To: Mayor Laurel Prussing and City Council Members

From: Mike Monson, chief of staff

Date: April 12, 2012

Re: Good Energy consulting contract

Summary: The city council is being asked to approve a resolution authorizing a consulting contract with Good Energy of New York City for municipal electric aggregation. The contract is still being negotiated and won't be finished until Monday, April 16.

The final contract will include a provision that allows the city to opt out of the contract, without penalty, during the first 30 days. By approving the contract, Urbana will become a part of Good Energy's bidding pool for municipal electric aggregation, which consists of 53 Illinois communities in the Ameren Illinois service area consisting of 220,000 households and small businesses.

This total represents 25 percent of Ameren's residential customers in Illinois. And Good Energy has contracted with additional Ameren cities, with 80,000 more residences, who are planning a November referendum. Good Energy officials are quite confident that their large bidding pool will result in a highly competitive bid price that Urbana would not be able to achieve on its own.

Good Energy intends to solicit bids from retail electric suppliers for its bidding pool this Wednesday, April 18, with the bids due back on May 1, though that date could be pushed back a few days if Ameren delays in releasing electric load data for cities necessary for bidding.

By approving the contract, the city will get to participate in the bid, see if Good Energy's buying power results in a competitive bid price, and accept or reject the bid without any financial penalty. Indications are that city residents could see savings of as much as 25 to 30 percent on their electricity bills, if current prices hold.

Background: Good Energy is a consulting firm, not a retail electric supplier. They have 53 communities in Ameren territory as clients. For communities that signed up with them, they ran

the pre-election campaign, paid for and placed advertising and campaign materials and spoke at public events. They are essentially a turn-key firm, doing most of the aggregation work for a municipality, in return for a fee of 7.5/100ths of a cent per kilowatt hour of power used by a customer within the municipality once aggregation starts

On Friday, April 6, Good Energy Managing Partner Charles de Casteja telephoned Mike Monson, Urbana's chief of staff, to suggest that the city of Urbana should consider joining Good Energy's bidding pool and sign a consulting contract.

De Casteja offered the following terms: Because Urbana had already passed its referendum, Good Energy would reimburse the city for the \$9,000 it had spent on the campaign, plus reimburse the city for its current consultant's work to date, estimated to be about \$6,000. Good Energy would also charge the city a reduced fee of 5/100ths cent per kilowatt hour, a 33 percent reduction from their standard rate. That rate would amount to about \$75,000 per year that would be charged to Urbana aggregation customers in total. Good Energy recommends a two-year electricity contract, so the fee over two years would be about \$150,000.

De Casteja said that even with the fee, he strongly believes Urbana customers will end up saving money by going with Good Energy. He explained that Urbana's customer profile is not optimal for a retail electric supplier. Two-thirds of the city's residents live in multi-family housing, using less power than a typical single-family home, and the population is more transient than is typical because of the presence of the University of Illinois. Bidders will charge the city a premium due to those facts, but the premium would disappear if Urbana joins Good Energy's larger buying pool, he said.

Because of the opportunity to capture a large number of customers, de Casteja said he expects highly competitive bids from as many as five large retail electric suppliers, with interest being expressed by energy giants such as Constellation Energy (recently purchased by Exelon), Direct Energy, First Energy and Homefield Energy (Ameren spinoff). De Casteja said he expects Good Energy to get a lower price due to its buying power than Urbana could ever get on its own.

And because Good Energy's consulting contract includes a standard 30-day opt out clause, Urbana – unlike the other cities that signed up with Good Energy earlier – will have the opportunity to verify if Good Energy's price estimates are, in fact, accurate when the bid is awarded around May 1, he said.

Issues: Good Energy's terms with the winning retail electric supplier will include some – but not all – of the provisions called for in the city's Plan of Operation and Governance. That plan will need to be amended in the near future to reflect changed circumstances if the city goes with Good Energy.

However, one key city goal can still be met. Good Energy's bid will enable the city to purchase 100 percent renewable power (national wind power) through Renewable Energy Credits. In fact, all but a handful of the 53 Good Energy cities will be going 100 percent renewable, including Peoria, in what may be the largest residential renewable energy purchase ever in the United States.

The RECS will be Green-e certified and/or will be sourced through MISO/registered renewable sources. Good Energy estimates that the RECs purchased through its buying pool will provide avoidance of more than 4.2 billion pounds of carbon dioxide emissions from conventional power plants using non-renewable fossil fuels.

Other proposed terms;

- Good Energy is recommending going with a two-year contract, due to the current low electricity prices. The choice is up to the city, however, and we could go with one or three years.
- Good Energy will require the retail electric supplier to match or beat the Ameren default rate for two years.
- There will be no penalty or exit fee for residents who move within Urbana or move out of Urbana, as many University of Illinois students and faculty do each year. There will be an exit fee of \$25 for residents who don't opt out during the initial opt-out period, but later decide to leave the aggregation program to go back to Ameren or to sign up with another retail electric supplier. Urbana had previously not been planning to charge any exit fee.
- Good Energy will operate an opt-in program for residents who will initially be excluded from the program at the same time as the opt-out letters go out. This letter will go to customers who receive a space heat discount from Ameren for heating with electricity and to hourly pricing customers. The letter will inform these customers that they have been excluded from the city's program and direct them to a Good Energy website where they can use an on-line calculator to enter their electricity usage and current rates to see if they would benefit or not from joining the city's aggregation program..
- Good Energy has promised to work with the city to identify student apartments and to keep the aggregation program rate with the premise rather than the occupant at those locations.
- Good Energy will operate opt-in programs otherwise from time to time as market conditions indicate for people who move into Urbana after the opt-out period has taken place. The company will attempt to get new customers in at the aggregated price, but if electricity prices increase may not be able to do so, de Casteja said.
- De Casteja expects power to flow to Urbana customers by June or July. Customers will continue to receive just one bill per month from Ameren.
- Good Energy negotiates a standard fee for municipalities of 1/10th of a cent per kilowatt hour, which would generate approximately \$150,000 per year for Urbana. The money would be distributed to the city on a monthly basis by the retail electric supplier after power starts flowing.

Another expected benefit of hiring Good Energy is that the firm is expected to lessen the workload for city staff regarding aggregation. Good Energy's duties will include monitoring the retail electric supplier; running opt-in programs where new residents can join aggregation, working closely with Ameren on aggregation issues; working with the Illinois Commerce Commission and state Legislature on regulatory issues; and performing savings analyses for cities. Good Energy will have the ear of Ameren and the state because it currently represents 25 percent of Ameren's residential customers (March 20 referendum approval cities) and has signed

up more cities representing 80,000 households who will seek aggregation approval in the November election.

Good Energy has a good reputation with two Central Illinois cities, Peoria and Pekin, that have worked with the company for years. Assistant Peoria City Manager Chris Setti said company officials are “really good to work with” and “very professional but not afraid to enter into the fray.” The firm has served as a broker for Peoria in purchasing electricity for municipal buildings for several years, and now is an aggregation consultant to Peoria, he said.

Darin Girdler, assistant city manager for the city of Pekin, said that community also has been pleased with the business relationship.

Change of Course: Hiring Good Energy would represent a change of course in how Urbana had planned to pursue aggregation. The city had conducted a request for qualifications process in February, to which four retail electric suppliers responded. The city then conducted an interview process with three of the four firms, Integrys, First Energy and Constellation Energy, and kept them all as “finalists.” In recent weeks, our city attorney and consultant crafted a draft contract that was forwarded to the three finalists for comment and reaction. Those reactions were received this past Wednesday and two of the companies appeared willing to accept contract terms and eager to bid for city business, though they did include several suggested changes. The third finalist included a heavily marked up copy of the city contract and suggested that terms could be negotiated after a contract was awarded.

The city’s plan had been to review the comments, potentially make minor changes to the contract if necessary, then to send a final version of a contract to the three firms for certification that they would accept the terms. The city plan was then to conduct a bidding process among the finalists. Bidding is dependent upon receiving electric load data for Urbana, which Ameren now says is expected to be available in late April.

One of the goals of the city had been to move quickly to award a contract and implement aggregation as early as possible, so residents could begin saving money earlier and so Urbana could avoid the expected crush of many cities bidding for power at once. These goals appear able to be achievable under both this scenario and also with Good Energy.

Some provisions included in our draft contract and/or plan of operation and governance will likely not be a part of the Good Energy proposal and, therefore, our plan will need to be amended. For example:

- Our draft program called for an opt-out period to be held every year; Good Energy’s program calls for one initial opt-out period.
- Our program requires opt-in customers to receive the same rates as original aggregation customers; Good Energy does not require this, with the explanation that it would be unfair to the supplier if electricity rates should rise above the aggregated rate.
- Our program called for no exit fee for a person who quits the aggregation and goes back to the Ameren default rate or to another retail electric supplier. Good Energy would charge a \$25 fee in this instance. We expect relatively few residents to incur this fee.

Both our contract and Good Energy would hold the city harmless for any financial obligations or liability that may arise as a result of the program. Both programs would also require the retail electric supplier to agree not to solicit or contract directly with eligible residents or small businesses in the program for service or rates outside the aggregation. The supplier also could not use customer data and information for any other marketing purposes.

Options:

- Approve contract with Good Energy. City would likely benefit from larger buying pool and could see lower electricity rates than if it pursues a bid on its own. Good Energy will also do much of the work currently being done by city staff, freeing them to do other tasks. City also has the option of walking away without financial penalty if bid price is higher than expected.
- Reject contract with Good Energy and continue on our current path to seek bids from our finalists. This would not require us to amend our plan of operation and governance, and at least two of our three bidders seem eager to do business with the city.

Fiscal Impact: Good Energy will charge a fee on each kilowatt hour of energy used by aggregation customers and is expected to be paid about \$75,000 annually by the city. However, Good Energy will also negotiate a fee for the city of one-tenth of one cent per kilowatt hour, which would generate \$150,000 annually for the city. Even including these fees, the city still expects electric savings to be around 30 percent for residents compared to current rates.

Recommendation: Although the timing is admittedly rushed, city staff supports executing a contract with Good Energy and joining their bidding pool. We believe it offers the best potential for the lowest rates, combined with meeting most of the goals of the city for its aggregation program.

