

# Highlights from the Customer Choice and Competition Symposium

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## Opening Remarks from Kevin Wright, President, Illinois Competitive Energy Association

This month marks the 10<sup>th</sup> anniversary of electric consumer choice in Illinois. The landmark legislation was an ambitious restructuring of the way the electricity business worked. It's a good time to make a clear-eyed assessment of the progress made so far, as appropriate.

First, let's remember where Illinois was before the law was implemented. In the mid- to late-1990s, there was widespread dissatisfaction with the state's regulatory paradigm and utility structure. Illinois rates were significantly above the national average. Illinois utilities had chronic capital cost overruns, operational inefficiencies and frequent double digit rate increases. Commercial consumers, especially, were unhappy. They couldn't shop for power. They were beholden to the regulated rate set by the ICC. Many even threatened to relocate from Illinois to nearby states to save on electricity costs.

So, in the late '90s, political leaders in Springfield took action. They authorized Illinois' largest electric utilities to divest their power generation assets and created a market for power.

Today, the electricity market in Illinois is among the most robust nationwide. There are now 37 alternative retail electric suppliers licensed to serve business consumers. Eight suppliers are eligible to serve residential consumers. In its 2009 Retail Market Development Annual Report, the ICC found that 73 percent of non-residential users and more than 90 percent of large industrial and public sector energy users are buying power from a competitive supplier, instead of the regulated utility. More than half of all the electricity used in Illinois is provided by retail suppliers, not utilities.



The benefits have been two-fold. First: cost savings for consumers. Before restructuring, Illinois consumers paid 12 percent above the national average. They now pay six percent below the national average. When adjusted for inflation, Illinois consumers pay 11 percent less now than they did in 1997. One estimate puts the total savings for Illinois electricity consumers in excess of \$1 billion in the past decade.

The second benefit has been innovation and an array of choices and customized energy solutions. Competition has been the catalyst for innovations such as demand response, energy efficiency programs and has led to the vast development of renewable resources.

The reason for this success is that competition works. Competition drives price down to its lowest practical level and demands efficiency and innovation of those who want to be successful. Also, having a market versus fully regulated monopoly utilities puts the risks associated with capital investment on investors, not ratepayers.

The chief concern is the lack of choice in the residential market. While choice has theoretically been available to residential consumers since 2002, the reality is that major barriers to residential competition exist. These barriers are not insurmountable and are falling. Certainly the goal going forward must be to increase the retail supplier penetration of the residential market. But an often underappreciated fact is that residential consumers are benefiting from competition through the wholesale market. Residential customers, today, are getting a competitive price for power.



The Illinois General Assembly and the Illinois Commerce Commission deserve a great deal of credit for putting the state on a path toward competition and is working diligently through the years to address the challenges and complexities of building a robust retail electricity marketplace. There is still work to do to bring even more benefits to consumers. But on this 10<sup>th</sup> anniversary of electricity restructuring, things are looking up.

## David Vite, President, Illinois Retail Merchants Association



*"Why did restructuring happen? First, there was a general movement away from economic regulation. Prices were stagnant. Utilities were going in for more rate increases and businesses were just not going to take it anymore. The century old regulatory bargain, to keep politics out and allow utilities to get a fair rate of return, was collapsing."*

*"We avoided the Enron fiasco because the bill had a very strong regulatory component on those companies that were to participate in the retail market. Ironically, the ones that were most insistent on the strong regulation were the very people who were going to be selling electricity in the market. Retail suppliers knew that if it didn't work, they would be held accountable. This strict accountability in the bill is one of the things I'm most proud of."*

*"There were intense disagreements. But everyone came together. The bill wasn't perfect. It will never be perfect. But about 90 percent of large C&I consumers are now taking power from an alternative supplier. So, obviously, we did something right."*



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## John Shelk, President, Electric Power Supply Association



*"It was not easy to make restructuring happen nor easy to keep it going. But it was certainly the right thing to do."*

*"States are laboratories of democracy and not every state has chosen the same path. If you never thought you'd see in your lifetime competitive markets come to the Southeast, it just might happen. And it's the regulators in that region that want the choice in the wholesale market."*

*"I saw a sign at the W Hotel where I stayed last night that said this: 'Life isn't about finding yourself. Life is about creating yourself.' I think it's applicable here. It's not about predicting the future or locking ourselves into the future we think we know. It's about creating the future that will provide choice and innovations, that will allow us to control carbon, allow us to have economic growth, allow us to demand efficiency and innovation."*

*"This state did the right thing and led the way. Everyone who had a part in it should get a profile in courage."*



## Gerry Keenan, Managing Partner, Palmer Bellevue



*"We are now almost back to where we were 12 years ago. The market price for power is lower in states with competition versus vertically integrated states. So, legislators are thinking about restructuring again. It's becoming an economic imperative."*

*"About half of the electricity consumption in North America is through competitive markets. Europe has actually leapfrogged over North America. In places like Italy, we see competition working. This is truly a global phenomenon."*

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## Phil O'Connor, President, PROActive Strategies



*"The steadfastness of the FERC, Congress and the ICC in staying with this approach is commendable. No matter what kinds of bumps we've run into in the last 10 years, the regulators and the general assembly have remained the steadfast. Even if you look at the controversy a couple of years ago, here in Illinois, the actual solutions developed were always **more** choice, not **less**."*

*"Whenever you had big structural changes, whether it was the coming of railroad, telecommunications, you get a certain dose of banality and dishonesty and we certainly saw some of that in the Enron scandal. But it didn't become endemic across the industry, nor did it affect Illinois. It was a relatively isolated event. This is a testament to the versatility of the Illinois approach. The Illinois system has been quite resilient in managing the ups and downs."*

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## Greg Baise, President, Illinois Manufacturers' Association



*"Before restructuring, there was a collective feeling among my members that the utilities were poorly run, that the service was terrible and there was no constraint on the utilities to go to the ICC. The consumer was not being represented. The anger was palpable. Today, costs are no longer a central issue facing businesses in Illinois."*

*"I think restructuring has been the most extraordinary economic development initiative ever undertaken by the State of Illinois. I have told Governor Edgar on many occasions to take more credit."*

## Chris Hendix, Director of Markets and Compliance, Wal-Mart

*“One of the things we get asked is why we are such a big supporter of competition. It all comes back to what Wal-Mart does best. We are very good at squeezing costs out of our business and passing the savings on to our customers. Energy is one of our biggest expenses, so having the ability to shop for power is very important to us.”*



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## Craig Schuttenberg, Executive Vice President, Energy Choices



*“I’ve been involved with restructuring since the 1990s. When open access came to fruition in 1999, we helped a lot of the large customers make the switch. The first thing we had to do was to explain to them that the lights would stay on. That it was still the utilities, if they had to call. Not everyone understood that competition and customer choice is essentially a financial transaction. Where a supplier gets its power is not as important as how financially sound that supplier is. This paradigm shift took some time but today, I don’t get the same kinds of questions I used to. The sophistication of the market has grown remarkably.”*

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## Ron Cerniglia, Director - National Advocacy, Government and Regulatory Affairs, Direct Energy



*“Energy competition for residential consumers can work if the playing field is level. It has been done in a number of other states. States like New York, Ohio, Texas and shortly Pennsylvania are experiencing robust residential competition. Two million New Yorkers, for example, are exercising their choice to select their electric and gas supplier. 86 percent of residential customers in Texas are choosing competitive suppliers.”*

*“Sometimes we overlook this, but it’s probably the most important issue for residential customers: We continue to see high reliability numbers in competitive states. The system has not been compromised despite changes in the marketplace.”*

*“I am encouraged by developments in Illinois. And with continued collective support, I am confident that we will have a successful outcome that will benefit Illinois residential consumers.”*

## Torsten Clausen, Director of the ICC's Office of Retail Market Development

*"There is a huge difference between the residential and the C&I side just on the logistics of it. Implementing the changes that are necessary for the new billing options, for example, requires a great deal of changes on the utility side. We've heard the very impressive switching statistics – 95 percent of C&I market, half the load at ComEd – but if you look in terms of customer accounts – just on the ComEd side, for example, we see that only 50,000 accounts are on an alternative supplier...which is less than 1.5 percent of all ComEd accounts."*



*"So when we talk about residential competition, we're not talking about a few thousands switches, we're talking about tens of thousands or hundreds of thousands of switches. This is an entirely different scale – these are very different numbers. On this scale, we can't have enrollment requests that have a lot of manual intervention. So, on the utility side, there are a lot of the system changes that have to take place and I don't think this gets talked about very much."*

*"It may sound strange but we're really just at the beginning of the residential market. A lot of things have to fall into place for suppliers to jump into the market. Those first suppliers who do jump into the market will set the stage."*

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## Bill McNeil, Vice President of Energy Acquisition, ComEd

*"As you look around the country, every state has encountered bumps in the road. Some states have been successful in navigating those bumps. Other states, like California, were not as successful. But I think it's clear that Illinois' retail markets are among the most healthy in the country."*



## Craig Nelson, Vice President of Regulatory Affairs and Financial Services, Ameren Illinois Utilities



Regarding the new residential offering in the Ameren service territory:

*"I think we're ready to go. We have the right technology in place throughout the process. There's been lots of training across the company, a new web site, DVDs, videos, brochures. We're ready. Will it work? We're certainly going to do our best to make it work. I'm optimistic."*

## Susan Hedman, Environment and Energy Counsel, Attorney General's Office

*"One thing that we can say about the future is that we're going to be very busy. And we're going to be very busy implementing a lot of new legislation. Many of you were involved in the legislative process and that process takes a lot of time and a lot of work. As soon as the bill is passed and signed, however, everyone realizes it takes even more time and even more work to implement it."*

*"Sometimes customers don't do what is in their economic self-interest. An energy efficiency portfolio standard can jumpstart decision-making to help people recognize that there are, in fact, energy efficiency investments that have a great payback and really are in the customers economic interest."*

*"I think that what we did in Illinois in these past years could significantly change the mix of resources and fuel types that are used in Illinois and could make a major difference in terms of whether or not Illinois is ready and able to have a strong economy in a carbon-constrained environment."*



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## Charles Jackson, Executive Director, Illinois Environmental Council



*"Bottom line: When we look forward to the future, beyond some of these next steps that we've been talking about already, we're looking to transform this economy. When you compare it to the IT revolution and the industrial revolution, there are a lot of parallels. It's really a question not if fundamental changes need to happen, but how fast those changes can be made. The arguments we have to make will require more creativity within the environmental community. We have to talk to lots of different people who are motivated by lots of different factors. There are public arguments that we're making. There are bottom-line, business case arguments that we're making. And there are moral arguments that we're making. I think we're getting much better at making the case for transforming our economy and moving away from carbon-based forms of energy."*

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## Chris Thomas, Policy Director, Citizens Utility Board



*"About the future: I think we're talking about a fundamentally different model of competition. Commodity-only competition doesn't hold a lot of promise in my opinion because risk management for small loads doesn't hold a lot of value for suppliers or for customers. Financial risk management is just sort of nibbling around the edges of the existing model. We're not getting at the true value that exists in load shape reform, which is our primary goal: to try and reform those load shapes in a meaningful way for customers to both improve the efficiency of the system and to reduce total costs for consumers."*

*"We're talking about a fundamental change that's sweeping and broad and its going to require a very sincere commitment from the interested parties. I do think we're set up – with the collaborative Smart Grid process – to ask the right questions and test the right theories."*

**William Massey, General Counsel of COMPETE Coalition, former FERC Commissioner**



*"I lived through the California energy crisis, which proved one thing: that a poorly constructed electricity market will perform poorly. However, we know that a well structured market will perform well and provide significant benefits to consumers."*

*"Our nation faces, by one estimate, a two trillion dollar build out over the next 30 years. Maybe we won't need all that, but maybe we will. There are two ways to do it. We can do it like we did in the late '70s and early '80s and take that two trillion dollars and pass it on to ratepayers. Or we can build it in a market-based system, which investors bear the bulk of the risk for poor business decisions. Which would you choose?"*

*"Illinois is very fortunate to be connected with two of the most prominent and premier electric markets in the world; MISO and PJM. Policymakers from other nations like studying those market structures."*

*"80 percent of the wind resources installed last year was in the large regional transmission markets. That's because these markets are very attractive to renewable investors."*

*"I say to Illinois to stay the course on competitive markets and try to expand it every way you possibly can."*

