



MEMORANDUM

TO: Mayor Laurel Lunt Prussing and Members of the Urbana City Council
FROM: Bart Hagston, Environmental Sustainability Manager
Mike Monson, Chief of Staff
DATE: Feb. 2, 2012
RE: Update on Municipal Electric Aggregation

At the Jan. 23 Committee of the Whole meeting, staff presented a recommendation for moving ahead on the selection of a consultant to assist the City in developing a municipal electric aggregation program. The Committee approved the recommendation for consideration by the City Council on Feb. 6. However, in the time since that presentation, staff has decided against that approach and have decided to explore the assistance of alternate retail electric suppliers (ARES) directly, without use of a consultant as a middleman.

Following are the reasons for this change in approach:

- Some ARES have demonstrated themselves to be very knowledgeable about the process and are organized and ready to step in and provide active assistance;
- The potential for savings under this approach may be even greater, as consulting fees would be severely reduced or eliminated, meaning residents would not have a fee tacked onto their electric bill to pay the consultant;
- This approach was identified as sound by our previously considered consultant.

Under the new approach, the City would select an ARES to assist the City with a limited amount of pre-referendum education and, post-referendum, would serve as the selected electric supplier and handle implementation of the aggregation program. The selection of an ARES would be based upon experience and qualifications. A Request for Qualifications (RFQ) was developed by staff and sent to all eight ARES that are registered within the Ameren Illinois territory on Jan. 30. They were given until Feb. 8 to respond to the RFQ, after which, one or more will be interviewed for consideration. Based upon this process, staff will be recommending to the City Council a contract with the selected ARES sometime in February.

The City will limit the scope of pre-referendum services with the ARES to handling resident calls, providing a speaker for public meetings, and likely two mailings to residents that would be educational in nature and approved by the city.

Staff also has agreed to undertake a combined pre-referendum education campaign with the City of Champaign so that our messages are coordinated, costs are kept low, and economies of scale can be achieved.

Champaign has contracted with Surface 51 of Champaign to produce a brand identity and website for an electric aggregation referendum campaign, at a total cost of \$8,918, to be delivered by mid-February. Champaign has asked Urbana to participate in the effort, with Urbana to pick up one-third of the overall cost, or just less than \$3,000. The city has tentatively agreed to those terms and a budget amendment will be forthcoming later this month. The brand identity will include an overall color scheme and graphic elements that will include an overall logo or logo icon that can be used on the website and on PowerPoint presentations, social media and other educational materials.

Assuming the ballot question is approved on March 20, the city would work with the electric supplier to lock in a favorable price for electricity. The price lock would be timed to maximize potential savings. Since energy prices fluctuate daily and seasonally, by having an ARES under contract we can best time the market to receive favorable pricing, while a typical bidding process only shows market pricing as a snapshot in time.

The pre and post-referendum services provided by the ARES will be absorbed into their supply contract costs out of their profit margin.

It should be noted that Urbana's approach to aggregation is in stark contrast with a number of other central Illinois communities. Those cities have hired a consulting firm that will charge a fee of around one-tenth of a cent per kilowatt hour for the life of the electricity contract. In Urbana, that would have translated into a consultant's fee of about \$150,000 annually, an amount staff considers to be excessive.

The goal of city staff has been to minimize the cost to residents and to the city. By avoiding costly consulting fees, the city council has more freedom to consider paying a slight premium for 100 percent "green" or renewable power, or a mix of green power and traditional power.

Electricity prices currently look very favorable for saving residents money through aggregation. The current default price that most local residents pay for electricity through Ameren is 6.3 cents per kilowatt hour. The price on the open market for individual households was recently 5.1 cents per kilowatt hour, and it's likely the city could see that price reduced by a few more tenths of a cent due to the cost efficiencies of aggregation. These cost savings apply during the months of October through May. From June through September, Ameren charges lower summer rates that are comparable to what staff expects the city's aggregated electric rate to be.

A typical household uses around 10,000 kilowatt hours (kWh) annually, or 833 kWh/month. As staff has said previously, we expect the average household to save between \$80 and \$150 annually through aggregation. Citywide, estimates are that aggregation would save residents between \$1.5 and \$2 million annually and could save small businesses another \$500,000 per year.

Staff also recently received confirmation from Ameren as to the eligibility of potential business participants in an aggregation program. This issue was previously unclear due to seeming conflicts within Illinois law. The maximum service level of a "small commercial retail" customer in an aggregation program will be 15,000 kWh/year. This level is just slightly larger than electric use at an average household, so only the smallest businesses – like a small barber shop or small office -- will be eligible to participate in the city's aggregation program.