



DEPARTMENT OF PUBLIC WORKS

*Environmental Sustainability Division*

**m e m o r a n d u m**

**TO:** Mayor Laurel Lunt Prussing and City Council  
**FROM:** Mike Monson, Chief of Staff and Scott Tess, Environmental Sustainability Manager  
**DATE:** August 26, 2013  
**SUBJECT: Municipal Electric Aggregation**

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**Brief Description**

The City of Urbana is 14 months into a two year agreement with Homefield Energy setting a competitively bid, fixed electricity price. State law allows municipalities to purchase electricity for residents and small businesses as a single or aggregated purchasing pool from retail electric suppliers on the open market, a process commonly known as Municipal Electric Aggregation. Residents and small businesses may opt out of aggregation, should they wish to remain on the Ameren Illinois default supply service.

In order to prepare a bid and agreement for the next iteration of aggregation when the current agreement expires in June 2014, the City Council needs to undertake certain actions, including authorizing the mayor to accept an electricity bid for the city and approving a new contract with our energy consultant, Good Energy. Details about those actions and important background information follows.

**Benefits From Aggregation**

- a. **Lower prices.** By competitively bidding the purchase of electricity as a large group, a lower per kilowatt hour (kwh) price of electricity may be gained. This was certainly the case in 2012, when Urbana and other Good Energy cities obtained one of the lowest electricity rates in the state.
- b. **Green power.** A municipally led aggregation can incorporate the purchase of renewable energy credits equal to 100 percent of the electricity used by the aggregation group. With aggregation, the electric supplier's cost to purchase REC's is incorporated into the per kilowatt hour price that residents and small businesses in the aggregation group pay.
- c. **Price stability.** The price of electricity is fixed throughout the term of the aggregation agreement and will not fluctuate due to regulatory or market activities.

**Summary of Urbana's First Four Quarters of Aggregation**

Aggregation price:	\$0.04055 / kwh (4.05 cents per kilowatt hour)
Average Utility price:	\$0.05569 / kwh (5.56 cents per kilowatt hour)
Opt-out:	4%
Total Usage:	87,004,338
Total Savings:	\$1,331,416.00 (not including PEA credit)
Total Savings Adjusted:	\$1,029,577.16
City Fee Revenue:	\$87,004

## **Consultant**

Good Energy provides bid specifications and procurement services, opt-out services, renewable energy credit procurement services, document preparation, monthly opt-out letters to offer aggregation prices to households that change addresses, and experience and contacts with the Illinois Commerce Commission and retail electric suppliers.. The aggregation price and the customer service provided by Good Energy has been excellent. Since Good Energy did not provide aggregation referendum services for Urbana in 2012, they discounted the fee they charged the city to \$0.0005 / kwh (five-hundredths of a cent per kilowatt hour). The draft contract they have proposed for the next aggregation agreement lists a fee of \$0.00075 / kwh, which is the rate they charge every other city and county in Illinois.

## **Participation**

Residents and small businesses are mailed an opt-out letter at the beginning of each aggregation agreement allowing them to remove themselves from the aggregation group and use the Ameren Illinois utility electric service. Residents and small businesses need only to take no action in order to be included in the aggregation group. As of 8/20/13, participation in Urbana was as follows:

Opted Out	743	(4%)
In Aggregation Group	12,790	(69%)
In Process Of Being Enrolled	1,310	(7%)
Undeliverable Or Not Active	3,744	(20%)

## **Second Municipal Electric Aggregation Bid**

The second aggregation request for bids is expected to be released in late September or early October. Good Energy expects slightly higher prices than Urbana enjoyed in the first aggregation bid. Urbana has enjoyed one of the lowest prices in the state. The second aggregation bid group will be approximately 400,000 residences and small businesses representing more than 100 cities and counties. This number is roughly twice the size as the last time we participated (first two bidding rounds of the three Good Energy consortiums will be grouped together this time). This larger size may garner a lower electricity price from retail electric suppliers. By joining a larger group, we should avoid any market penalty for our high rate of customer churn in a university town and the fact that our households use relatively less power than many cities because we have so many apartment dwellers.

Good Energy contracts contain a “meet or beat” clause. Good Energy will ensure a combined electricity price equal to or lower than the fixed utility price, which will consist of an average of the summer and winter default rates weighted across all three Ameren Illinois zones. The baseline price to compare will include the consultant’s fee, but not the municipal fee or voluntary REC costs.

With the meet or beat clause, customers would see the supplier’s price lowered to the average default rate, or be returned to Ameren Illinois service. Customers returning to Ameren service are subject to a 12-month hold on Ameren supply after 60 days of service. This means that if a customer switches from the aggregation group to Ameren service and remains on Ameren service for 60 days, the customer may not switch back to the aggregation group or another retail electric supplier for 12 months from the date of the switch to Ameren service.

## **Purchased Electricity Adjustment**

The “meet or beat” price does not include the Purchased Electricity Adjustment (PEA) credit, which is calculated by the Illinois Commerce Commission and only appears on Ameren Illinois customer bills

(those who pay the default rate). The PEA fluctuates monthly and it can raise or lower the electricity bill of an Ameren customer. The PEA is intended to equalize the difference between what it cost Ameren to acquire electricity and what the utility charged its customers.

During this past summer and through September bills, the PEA has led to a significant decrease in the default rate, as much as an expected 1 cent per kilowatt hour in September. But Roger Pontifex, managing supervisor of business applications for Ameren Illinois, said he expects the PEA to decrease significantly beginning in October and to stay low, either as a credit or charge, for the foreseeable future after that.

“In practical terms, you will probably not see it in the penny range or even in the half cent range once we get past September,” Pontifex said. “No one knows for sure until the Illinois Power Agency does the procurement (for Ameren Illinois).”

The size of the PEA has been larger this summer because Ameren Illinois decided to accelerate payments over the summer months to make up for earlier overcharges, and because the number of residents on the default rate has declined significantly as more and more communities move to aggregation, Pontifex said.

While PEA credits may make the effective utility rate higher or lower in any particular month, a two year aggregation contract ensures price stability and a hedge against any potential future price increases that may result from new air pollution regulations under consideration by the Federal government.

### **Renewable Energy Credits (RECs)**

As part of the first aggregation bid price, many cities, including Urbana, opted to procure RECs to offset the greenhouse gas pollution generated from the production of electricity the aggregation group uses. In the first four quarters of our current aggregation agreement, rate payers procured \$60,903 worth of RECs. No other funding source for purchase of RECs has been identified if the City chooses not to participate in aggregation. The consistent purchase of RECs accounts for approximately 32 percent of our 2020 greenhouse gas reduction goal in the Climate Action Plan. In this bidding round, Good Energy plans to offer REC options to cities where they can purchase credits to offset either 50 percent or 100 percent of their energy usage. In the current contract, Urbana residents are paying 0.007 (seven-hundredths of a cent per kilowatt hour) toward the purchase of RECs.

### **City Fee**

As part of the first aggregation bid price, the electricity supplier collects and remits a fee of \$0.001 / kwh (one tenth of a cent per kwh) to the city. This fee generated approximately \$87,000 for the city in its first year.

### **Requested Action**

The City of Urbana’s aggregation agreement with the retail electric supplier, Homefield Energy, expires at the end of the June 2014 electric billing cycle. Staff recommends that the City undertake the following actions to conclude a new aggregation agreement to commence in July 2014.

- a. **Consultant services.** In order to be included in a large multi-city aggregation pool, the City Council may pass the resolution titled “A RESOLUTION APPROVING A PROFESSIONAL ENERGY CONSULTING SERVICES AGREEMENT WITH GOOD ENERGY, L.P”

- b. **Retail electric supplier.** In order to expeditiously accept a bid for municipal electric aggregation, the City Council may pass the resolution titled “A RESOLUTION AUTHORIZING EXECUTION OF A SERVICE AGREEMENT WITH THE LOWEST RESPONSIBLE BIDDER FOR THE SUPPLY OF ELECTRICITY FOR RESIDENTIAL AND SMALL COMMERCIAL RETAIL CUSTOMERS WHO DO NOT OPT OUT OF SUCH A PROGRAM”

Attachments:

cc:

RESOLUTION NO. 2013-08-044R

**A RESOLUTION AUTHORIZING EXECUTION OF A SERVICE AGREEMENT WITH THE LOWEST RESPONSIBLE BIDDER FOR THE SUPPLY OF ELECTRICITY FOR RESIDENTIAL AND SMALL COMMERCIAL RETAIL CUSTOMERS WHO DO NOT OPT OUT OF SUCH A PROGRAM**

(Municipal electric aggregation/2013)

**WHEREAS**, Section 1-92 of the Illinois Power Agency Act, 20 ILCS 3855/1-92, permits a municipality, if authorized by referendum, to adopt an ordinance by which it may operate a program to solicit bids and enter into service agreements for the sale and purchase of electricity and related services and equipment to residential and small commercial customers who do not opt-out of such a program; and

**WHEREAS**, the City of Urbana ("City"), in a referendum held on March 20, 2012, submitted the public question of whether it should operate the program as an opt-out program; and

**WHEREAS**, the referendum passed by a majority vote of the qualified electors voting on the question; and

**WHEREAS**, the City Council finds that the best interests of the City are served by entering into an agreement with the lowest responsible bidder, pursuant to 20 ILCS 3855/1-92, to aggregate the residential and small commercial retail electric loads located within the City and to arrange for competitive electric supply to these retail electrical accounts; and

**WHEREAS**, because electricity is a commodity for which supply bids typically are made each morning and expire the same day at the close of business, the City must act promptly to accept any such desired bid in order to contractually guarantee a per kilowatt hour electric rate for its residential and small commercial customers; and

**NOW, THEREFORE, BE IT RESOLVED** by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

The Mayor of the City of Urbana, Illinois, be and the same is hereby authorized to execute and deliver and the City Clerk of the City of Urbana, Illinois, be and the same is hereby authorized to attest to said execution of a service agreement with the lowest responsible bidder for the supply of electricity for residential and small commercial retail customers who do not opt out of such a program, said execution and attestation to take place within the applicable time constraints required by the bidder; provided, however, that the energy price to be paid per kilowatt hour pursuant to the agreement is less than the default rate currently in effect, resulting in savings for the City's residential and small commercial retail customers.

Section 2.

This Resolution shall be effective immediately and shall remain in effect until such time as the year 2013 electricity aggregation program electric supplier selection process has been completed.

Motion was made by Alderman \_\_\_\_\_, seconded by Alderman \_\_\_\_\_ that the Resolution be adopted.

**PASSED BY THE CITY COUNCIL** this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Phyllis D. Clark, City Clerk

**APPROVED BY THE MAYOR** this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

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Laurel Lunt Prussing, Mayor