

To: William T. Lichter
Village Manager

From: Leonard J. Flood
Director of Finance

Date: August 30, 2006

Subject: Resolution Regarding Village Participation in Northern Illinois Municipal Electric Cooperative (NIMEC)

On January 2, 2007 the State of Illinois is implementing a plan to deregulate Commonwealth Edison. Under this plan, ComEd will no longer generate electricity for its customers but will continue to provide power through its distribution system. Currently, approximately 25% of each ComEd bill is for distribution services with the remaining 75% going to the cost of electricity. In FYE 2006 the Village of Lombard spent just over \$300,000 on electricity with over 85% of the total for street lighting and water pumping and treatment.

As a result of this deregulation, electricity will be purchased based on market price and Exelon, the parent company of ComEd, will no longer be the sole supplier of electricity in Northern Illinois. This will result in new electricity suppliers being able to compete against Exelon and as a result, competitive forces will dictate the price of electricity. However, since ComEd has had prices fixed for the last nine years by the Illinois Commerce Commission (ICC) which will end with deregulation, the cost of electricity is expected to rise 20% to 60% according to information received from ComEd.

Municipalities across the state are now looking at ways to enter the market to purchase power in order to mitigate some of the economic impact of these rising rates. On a practical basis, this can only be done using a third party who will serve as a broker for the municipalities and has the knowledge and experience to seek bids from the various electricity providers. ComEd will also be seeking proposals from electricity providers through a process called a reverse auction which will take place on September 5, 2006 with the result announced approximate 10 days to two weeks later. The weighted average of the bids will determine the price of electricity for ComEd customers in Illinois for 2007. The broker will then, sometime after the auction, seek bids for electricity on behalf of the municipalities and to obtain a price lower than that offered by ComEd. If the broker cannot beat the rate offered by ComEd, the Village would still be able to purchase its power through ComEd.

The Village has interviewed two firms, Energy Choices, Inc. and NIMEC which provide similar broker services. Based on these interviews, NIMEC is being recommended to serve as the Village broker of electrical energy. NIMEC was selected over Energy Choices, Inc. due to its more reasonable pricing structure and municipal experience. In addition the firm is a municipal cooperative which will be pooling the energy needs of members of the cooperative in order to secure more competitive pricing based on higher volumes than can be provided individually to a single municipality.

The cost to join the cooperative is a one time fee of \$100. There is no formal contract to execute. The amount of compensation that, NIMEC, or any broker, receives is built into the prices bid by the power supplier. So there will be no other direct payments made to NIMEC by the Village.

Mr. David Hoover of NIMEC will be at the September 7, 2006, Village Board meeting to make a brief presentation to the Village Board on the matter and address any questions they may have regarding deregulation and the process used by his firm to secure a competitive price for our electrical energy needs.

Because of the way the bidding process works, the Village Manager will need to have the authority to sign a contract with the lowest cost electricity provider within hours of the bids being received by NIMEC. The resolution attached for Village Board consideration directs the Village Manager to engage the services of NIMEC by payment of a one-time membership fee of \$100 and provides Village Board authorization to allow the Village Manager to execute a contract with the successful energy supplier upon receipt of the bids by NIMEC. Such contracts would be brought to the Village Board at the next available meeting for ratification.

Attached are copies of two handouts from our meeting with Mr. Hoover of NIMEC which provides some additional information on the matter.