

060483

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION
For Inclusion on Board Agenda

Resolution or Ordinance (Blue) _____
Waiver of First Requested
Recommendations of Boards, Commissions & Committees (Green) _____
Other Business (Pink) _____

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: William T. Lichter, Village Manager

DATE: August 30, 2006 (COW)(B of T) September 7, 2006

TITLE: A RESOLUTION AUTHORIZING THE NORTHERN ILLINOIS MUNICIPAL ELECTRIC COOPERATIVE (NIMEC) TO SERVE AS THE BROKER FOR THE VILLAGE IN REGARD TO OBTAINING BIDS FROM ELECTRICITY PROVIDERS AND AUTHORIZING THE VILLAGE MANAGER TO APPROVE A CONTRACT WITH THE LOWEST COST ELECTRICITY PROVIDER

SUBMITTED BY: Leonard J. Flood, Director of Finance

BACKGROUND/POLICY IMPLICATIONS

A staff report on this matter is attached. Mr. David Hoover, Executive Director of NIMEC, will be in attendance at the September 7, 2006 meeting to make a short presentation to the Village Board.

Review (as necessary):

Village Attorney X _____
Finance Director X _____
Village Manager X _____
Date 8/30/06

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



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 approximately 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.

NIMEC

NORTHERN ILLINOIS MUNICIPAL ELECTRIC COOPERATIVE
BANDING TOGETHER TO DRIVE DOWN PRICING

DEREGULATION OF COMMONWEALTH EDISON

AUGUST, 2006

The State of Illinois' plan for deregulation will take effect on January 2, 2007. ComEd will no longer generate electricity for its customers; it will simply deliver the power through its distribution network. ComEd has transferred its nuclear reactors and other generation facilities to its parent, Exelon. In essence, ComEd will become a "wires" company.

Beginning in 2007, market forces will dictate the price of electricity. Exelon will no longer be the sole provider of electricity for northern Illinois. New electric suppliers will be permitted to compete against Exelon. Competitive forces will then dictate the price of electricity.

ComEd will buy power on behalf of its northern Illinois customer base and pass the power through with no markup. In September, 2006, ComEd will hold a "Reverse Auction" whereby authorized electric suppliers (including Exelon) can bid on the price of power that each supplier decides to sell to ComEd.

ComEd will then select the lowest priced bids to fulfill its 2007 needs. The weighted average cost of these bids will determine the pricing of electricity for northern Illinois users in 2007.

Because ComEd has held its prices fixed for the last nine years despite rising costs, the price for electricity in 2007 is expected to rise 20% to 40%, depending upon a customer's current rate structure.

If a customer takes no action, this transition to deregulated power will be transparent, except for the higher prices. There is only one option available to commercial customers to mitigate this increase in price: negotiate directly with the power suppliers.

The Northern Illinois Municipal Electric Cooperative (NIMEC) is organizing interested municipalities in the Chicago and area to form a buying cooperative. With the aggregated volumes, we are confident that we will be able to

negotiate a lower price. Fortunately, the primary uses of municipalities' power (water and street lighting) are more attractive to the suppliers due to their consumption dynamics. As such, they will likely bid lower prices than the general auction rates.

NIMEC has established relationships with 4 of the largest electric suppliers to the northern Illinois market. NIMEC will take the combined volume of its membership and coordinate the bidding of the combined volumes.

ComEd's Auction rates will be released in mid September. NIMEC will conduct the bid in early October, once the Auction rates are known. At that time, the members will have the opportunity to select the lowest bid or the ComEd Auction rate, whichever is lower.

NIMEC's only fee will be a \$100 lifetime membership fee. 100% of the savings (between the Auction rate and the lowest bid) will be realized by each NIMEC member.



DEREGULATION OF COMMONWEALTH EDISON

- * DEREGLATION
 - * "ONE FOR ALL" PRICING, SET BY AUCTION
 - * POWER PROVIDED BY GROUP OF SUPPLIERS
 - * DELIVERED BY COMMONWEALTH EDISON
- * PROPOSAL
 - * JOIN NIMEC
- * PURPOSE
 - * BID AGGREGATED MEMBERSHIP VOLUME FOR LOWER PRICING
- * DECISION
 - * CHOOSE LOWER: AUCTION RATE OR BID PRICE
- * SAVINGS
 - * MUNICIPALITY TO ENJOY 100% OF SAVINGS
 - * NO NIMEC OR CONSULTANT FEES
- * COMMITMENT
 - * \$100 LIFETIME MEMBERSHIP FEE
 - * 17 MONTH COMMITMENT TO NEW SUPPLIER

G. Village Staff has conducted broker interviews and, based on said interviews, Village Staff is recommending that the Northern Illinois Municipal Electric Cooperative (NIMEC) serve as the Village's broker relative to the acquisition of electrical energy, due to NIMEC's more reasonable pricing structure, municipal experience, and the fact that NIMEC 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;

F. Municipalities across the State are now looking at ways to enter the market to purchase electric power in order to mitigate some of the economic impact of these rising rates, which, on a practical basis, 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;

E. Since Commonwealth Edison has had prices fixed for the last nine (9) 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 Commonwealth Edison;

D. During fiscal year 2006, the Village spent just over \$300,000 on electricity, with over 85% of the total being in regard to street lighting, water pumping and water treatment;

C. As a result of this deregulation, electricity will be purchased based on market price and Exelon, the parent company of Commonwealth Edison, will no longer be the sole supplier of electricity in Northern Illinois, resulting in new electricity suppliers being able to compete against Exelon, and competitive market forces dictating the price of electricity;

B. Under the aforementioned deregulation plan, Commonwealth Edison will no longer generate electricity for its customers, but will continue to provide electric power through its distribution system;

A. On January 2, 2007 the State of Illinois is implementing a plan to deregulate Commonwealth Edison;

WHEREAS, the President and Board of Trustees find as follows:

**A RESOLUTION AUTHORIZING THE
NORTHERN ILLINOIS MUNICIPAL ELECTRIC COOPERATIVE (NIMEC)
TO SERVE AS THE BROKER FOR THE VILLAGE IN REGARD TO
OBTAINING BIDS FROM ELECTRICITY PROVIDERS AND
AUTHORIZING THE VILLAGE MANAGER TO APPROVE
A CONTRACT WITH THE LOWEST COST ELECTRICITY PROVIDER**

ADOPTED this 7th day of September, 2006, pursuant to a roll call vote as

follows:

AYES:

NAYS:

ABSENT:

APPROVED by me this _____ day of September, 2006.

William J. Mueller, Village President

ATTEST:

Brigitte O'Brien, Village Clerk

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