



Illinois Regulatory and Energy Price Update



February 2009

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COMMONWEALTH EDISON COMPANY, SPECIAL INVESTIGATION OF COST OF SERVICE STUDY, ICC Docket No. 08-0532

On January 30, 2009 Commonwealth Edison Company (“ComEd”) filed a revised Cost of Service Study (“COSS”) separating costs by primary and secondary service levels. ComEd was ordered to prepare this revised COSS by the Illinois Commerce Commission (“ICC”) in its 2007 rate proceeding, Docket No. 07-0566. The Final Order in Docket No. 07-0566 issued in September 2008 approved ComEd’s proposed COSS and indicated that its COSS was deficient by not separating and not properly allocating primary and secondary service costs to large customers. This revised COSS, if approved by the ICC, will be used to reallocate costs among customer classes.

Large customers testified in ComEd’s 2007 rate proceeding that ComEd misallocated primary and secondary service costs to large over 10-MW customers. The result of this misallocation drastically increased rates to these customers. To address the COSS issues raised by large customers, the ICC ordered that the rate increase for high-voltage and over 10-MW size customers only be 25% of the increase ComEd claimed was needed to serve these customers.

The Final Order specifically required ComEd to prepare a revised COSS analyzing:

- How costs vary by primary and secondary voltage level;
- How Customer Care costs to a residential customer taking service from a Retail Energy Supplier compare to a customer taking supply service from ComEd;
- How usage impacts customer data management costs, installation costs, service

drops, and customer information costs and whether factors other than the number of customers in a class should be taken into account in the assignment of these costs to rate classes;

- How uncollectible debt expense costs across all residential classes are allocated;
- How account ownership and maintenance responsibilities of street lighting in the City of Chicago and other municipalities impact costs and how these costs are allocated.

The filing by ComEd on January 30th includes several COSS options based on the foregoing required analyses. The results summarized in Table 1 show that ComEd is still attempting to justify large increases in the distribution facilities for over 10-MW size customers and high-voltage customers.

Table 1. Comparison of ComEd Distribution Facilities Charges (\$ per kW-Month)

Customer Class	Distribution Facilities Charge (\$/kW-Month)		
	Pre 9/16/08	Final Order (Current)	Revised COSS P-S Split
Small Load (Less than 100 KW)	\$4.29	\$4.86	\$4.88
Medium Load (100 KW to 400 KW)	\$5.01	\$5.67	\$5.13
Large Load (400 KW to 1 MW)	\$5.37	\$6.04	\$5.36
Very Large Load (1 MW to 10 MW)	\$5.22	\$5.71	\$5.07
Extra Large Load (Over 10-MW)	\$2.46	\$3.28	\$5.25
High Voltage (Other)	\$2.22	\$2.87	\$4.71
High Voltage (Over 10-MW)	\$1.09	\$1.33	\$2.01
Railroad	\$2.46	\$3.17	\$4.80

The following preliminary hearing schedule suggests that a Final Order will be issued after August 2009. Since this is an investigative proceeding, the normal 11-month deadline for rate cases does not apply. After the Final Order is issued it is assumed that ComEd will file revised rates based on revenue requirements approved by the ICC in September 2008 (Docket No. 07-0566).

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Preliminary Hearing Schedule

- January 30 - ComEd files revised Cost of Service Study (and supporting Direct Testimony)
- February 2 - ComEd serves its Workpapers
- February 24 - In-person "Discovery Workshop"
- May 22 - Staff/Intervenor Direct Testimony
- June 19 - ComEd Rebuttal Testimony
- July 17 - Staff/Intervenor Rebuttal Testimony
- July 31 - ComEd Surrebuttal Testimony
- Week of August 10 – Hearings

Proposed Order Issued in NICOR Rate Increase Proceeding, ICC Docket No. 08-0363

On February 9, 2009 ICC Administrative Law Judges ("ALJs") Sainsot, Kimbrel and Benn issued a proposed order recommending that NICOR be allowed to increase rates by \$68.8 Million (12.1%). NICOR's April 29, 2008 filing requests a \$140 Million rate increase (26%).

Some of the key recommendations in the proposed order are:

1. Adopt NICOR's cost of service study. NICOR is proposing to continue using an Average and Peak COSS method adopted in a prior rate case. Under this method 25% of costs are allocated by volumetric usage and 75% by peak day usage (demand).
2. Adopt NICOR's rate design for commercial and industrial rates 76 and 77. The impact of this proposed ruling means that large Rate 77 customers may see an increase in their distribution rates around 30%. The increase for Rate 76 customers is approximately 16%.
3. Reject NICOR's proposal to reduce a customer's Maximum Daily Nomination during the April to October period. Proposed limits would be based on gas in storage at the end of April rather than total storage capacity.
4. Increase Storage Banking Service ("SBS") days from 28 to 31. (Days times a customer's Maximum Daily Contract Quantity)

5. Increase the monthly SBS charge from 0.29¢ per therm of capacity to 0.38¢ per therm.
6. Approve a 4-year pilot program that allows for intraday and evening nominations.
7. Approve Rider VBA, Volume Balancing Adjustment. Rider VBA would provide revenue stability for NICOR and will be applicable to only residential and small commercial Rate 4 customers. Rider VBA defines the margin ("profit") based on test-year therm sales and volumetric distribution revenue.
8. Reject proposed Rider UEA, Uncollectible Expense Adjustment. Rider UEA would allow NICOR to track actual uncollectible expenses with uncollectible expenses included in base rates (\$71.5 Million). When actual amounts differ from the base rates amount by +/- 5% customers would receive a per therm charge/credit.
9. Reject proposed Rider CUA, Company Use Adjustment. Rider CUA would recover or refund the difference between the actual cost of gas used by NICOR for operational use. These costs are currently included in base rates at a price lower than market prices at the time of NICOR filed its rate increase petition. Rider CUA would recover the price difference between gas included in base rates and actual gas costs.
10. Reject NICOR's proposed Energy Efficiency Plan that would be applicable to only residential and small commercial customers. Instead, the ALJ's recommend a special proceeding to review the funding of this program.
11. Reject proposed Rider QIP, Qualifying Infrastructure Plant. Rider QIP would allow NICOR to accelerate its infrastructure replacement program by allowing NICOR to recover a return on and depreciation expense on certain qualifying expenses. Under Rider QIP NICOR would accelerate the replacement of cast iron and copper pipelines.

A Final Order must be issued by March 25, 2009. New rates will likely become effective shortly after the Final Order is issued.



**COMED/PJM CUSTOMER CAPACITY OBLIGATION
UPDATE**

ComEd recently released an updated capacity value for customers for the June 1, 2009 to May 31, 2010 period. ComEd/PJM charges for capacity based on a customer's Peak Load Contribution ("PLC") at the time of ComEd's system peak. After each summer PJM determines the five highest hours and averages the values to determine the capacity value.

The five high days were June 9 and 10, July 17, 18, and 21. All peaks occurred with the hour ending at 4 PM. ComEd's system average peak during these hours was 17,619 MW. The weather-normalized demand for ComEd's system was 22,340 MW. The weather-normalized demand results in a 26.8% increase over actual demand. The result is that the average individual customer demand during these five hours was increased by the 26.8% factor. As a result, some customer PLCs for the June 1, 2009 to May 31, 2010 period may be higher than last year. The impact will be more noticeable for customers whose peak demand is not affected by warm weather.

**NATURAL GAS PRICING UPDATE
FEBRUARY 2009**

Table 8 is a comparison of Chicago area burner-tip prices for February 2009 for customers served by Peoples Gas Light & Coke Company, North Shore Gas Company and Northern Illinois Gas Company (NICOR). Burner-tip prices during February are in the \$5.274 to \$9.728 per MMBtu range, depending upon rate class and utility.

Burner-tip prices for non-utility supply service are based on a Chicago citygate price of \$4.916 per MMBtu calculated using the final NYMEX settlement prices (futures and Chicago swap) February. The NYMEX Chicago Swap settlement price is the difference between NGI's reported monthly Chicago index price and the final NYMEX settlement price for February 2009. Intercontinental Exchange ("ICE") reported a February 2009 monthly Chicago index price of \$4.925 per MMBtu, down \$1.290 from their January index price of \$6.215 per MMBtu. Prices for utility supply service are based on gas supply costs shown in Table 2.

Local distribution costs shown in Table 3 range from \$1.607 to \$4.784 per MMBtu for a customer served by Peoples Gas, \$0.554 to \$4.812 per MMBtu for a

North Shore customer, and \$0.358 to \$1.105 per MMBtu for a customer served by NICOR.

**Table 2. February 2009 Natural Gas
Supply Costs \$ per Therm**

	Peoples Gas	North Shore	NICOR
Gas Supply Costs:			
Bundled Gas Supply Cost	\$0.7636	\$0.8556	\$0.5699
Commodity	\$0.7138	\$0.7775	\$0.5324
Non-Commodity Charge	\$0.0498	\$0.0781	\$0.0375
Demand	\$0.2156	\$0.3167	\$0.5528
Environmental Surcharges			\$0.0000
Rider 11, Peoples & North Shore	\$0.0272	\$0.0162	
Rider 12, NICOR - Small C&I			\$0.0025
Rider 12, NICOR - Large C&I			\$0.0006
Rider VBA - Balancing Adjustment	(\$0.0132)	(\$0.0058)	
Hub Service Credit	(\$0.0016)		
NICOR Transportation Service Adj.			(\$0.0014)
NICOR, Rider 5 Storage Adj. Factor			\$0.0001

**Table 3. February 2009 Burner-Tip Price Comparison
Peoples, North Shore and NICOR
(\$ per MMBtu)**

	Burner-Tip \$/MMBtu	Local Distribution (a)
NYMEX Final Settlement Price	\$4.476	
NYMEX Chicago Basis	\$0.440	
Chicago City-gate Price (b)	\$4.916	
<u>Peoples Gas Burner-Tip Price</u>		
Rate 2 - Utility Supply Service	\$9.522	\$4.606
Rate 4 - Utility Supply Service	\$9.700	\$4.784
Rate 4 - Utility Supply Service	\$9.610	\$4.694
Rate 2, SST, 50% Standby	\$6.666	\$1.750
Rate 4, LST, 50% Standby	\$6.620	\$1.704
Rate 4, LST, 50% Standby	\$6.523	\$1.607
<u>North Shore Burner-Tip Price</u>		
Rate 2 - Utility Supply Service	\$9.728	\$4.812
Rate 3 - Utility Supply Service	\$9.463	\$4.547
Rate 2, SST, 50% Standby	\$5.774	\$0.858
Rate 3, LST, 50% Standby	\$5.470	\$0.554
<u>NICOR Burner-Tip Price</u>		
Rate 6 - Utility Supply Service	\$6.021	\$1.105
Rate 7 - Utility Supply Service	\$5.917	\$1.001
Rate 76, 0% Standby (c)	\$5.282	\$0.366
Rate 77, 0% Standby (c)	\$5.274	\$0.358

(a) Local distribution charge = burner-tip less city-gate price.
Includes all taxes, city fees and gas loss costs.
(b) NYMEX last day settlement price plus NYMEX Chicago basis swap last day settlement price.
(c) Assumes 28 days storage in place of standby service.



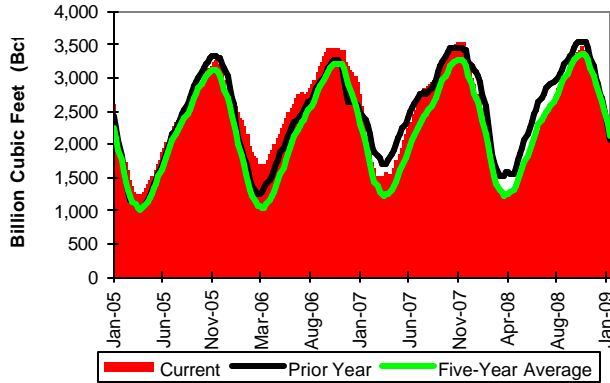
**Factors Affecting Natural Gas
Prices for February 2009**

Natural gas prices have fallen by over 100% since their peak of about \$13.5 per MMBtu since mid-July 2008. The main reason is reduced demand due to the poor economic situation that also reduced the speculator effect in high prices.

The following Figures 1 through 5 show current storage volumes, NYMEX futures prices, Chicago citygate prices, and rig counts through early February 2009.

As of the week ending February 6, 2009 the EIA reported storage at 2,020 Bcf compared to 1,976 Bcf a year ago. The five-year average for the end of January period is 1,996 Bcf. Current storage levels are 1.2% higher than the five-year average and 2.2% higher than volumes reported at the same time last year.

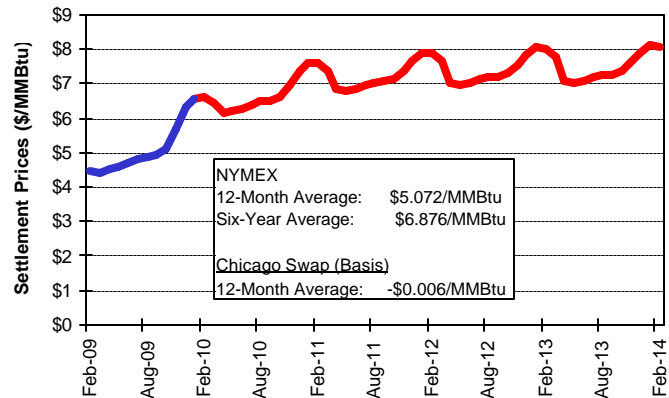
**Figure 1. U.S Natural Gas Storage
January 2005 through February 6, 2009**



The February 2009 New York Mercantile Exchange (NYMEX) futures contract closed at \$4.476 MMBtu, down \$1.660 from the January 2009 settlement price of \$6.136 per MMBtu. Settlement prices for the NYMEX natural gas futures contract for the period February 2009 through February 2014 are shown in Figure 2.

Also shown in Figure 2 is the average price of the Chicago Swap at -\$0.006 per MMBtu for the February 2009 to January 2010 period. The “swap” or “basis” is the price differential between the NYMEX futures contract and gas delivered to Chicago.

**Figure 2. NYMEX Natural Gas Futures
Settlement Prices on Last Trade Day of
February 2009 Contract**



The forward-looking 12-month moving-average NYMEX price trend is shown in Figure 3. The 12-month average price on the final trade day for the February 2009 contract is \$5.072 per MMBtu.

**Figure 3. New York Mercantile Exchange
3-Year Trend of Moving Average Price
of Forward 12 Month Contracts**

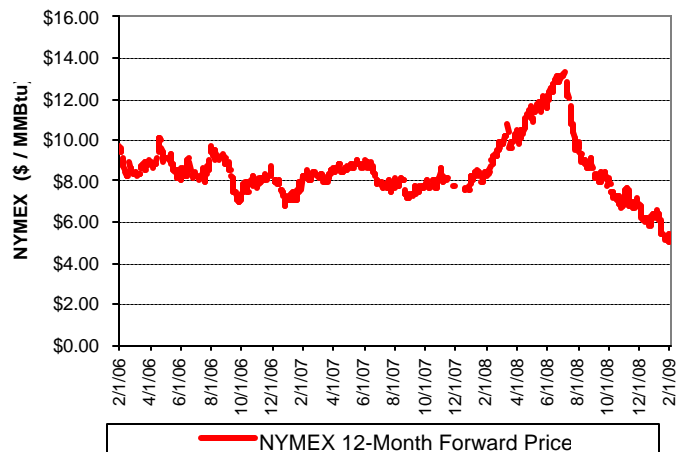


Figure 4 shows daily “Chicago” citygate prices reported by ICE (“Intercontinental Exchange”) for the January 1, 2005 to February 6, 2009 period. Table 4 summarizes average daily Chicago citygate prices and monthly index prices.



Figure 4. Intercontinental Exchange
"Chicago" Citygate Prices – Daily Prices
January 1, 2005 to February 6, 2008



Table 4. Intercontinental Exchange
Comparison of Daily vs. Monthly Index Prices

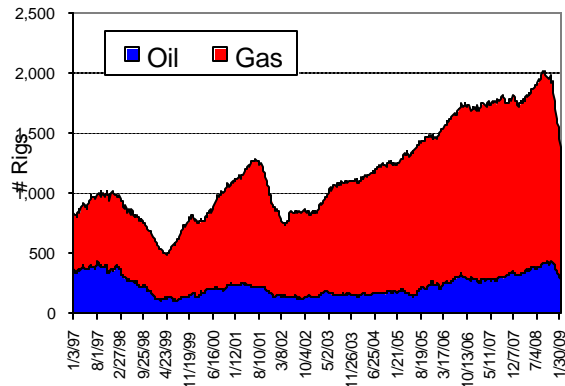
Month	\$/MMBtu	
	Daily Avg	Monthly Index
04' Avg	\$5.90	\$6.12
05' Avg	\$8.45	\$8.26
06' Avg	\$6.59	\$6.94
07' Avg	\$6.97	\$6.83
08' Avg	\$8.81	\$8.91
Jan-09	\$5.59	\$6.21
Feb-09	\$4.92	\$4.92

* Daily average through 2/6/09

Baker Hughes reported U.S. natural gas rig counts at 1,104 on February 6, 2009, down 320 from 1,424 reported at the same time last year. The oil rig count was 283, down 41 from the oil rig count of 324 last year.

Natural gas rig counts have fallen by about 31% since a peak of 1,606 in August 2008. The oil rig count has fallen by about 32% over the same period. This recent decline is due to falling natural gas prices and the current credit and financial crisis.

Figure 5. Natural Gas Rig Count
January 1997 through February 6, 2009



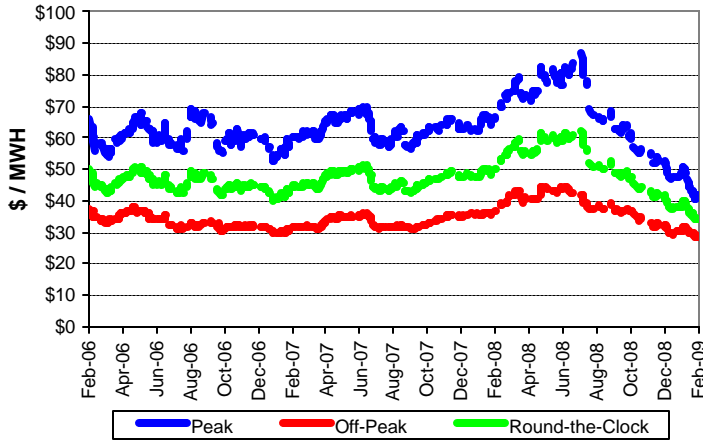
The highest weekly U.S. rig count (gas and oil combined) since 1940 was 4,530 recorded on December 28, 1981. The lowest rig count of 488 was recorded on April 23, 1999.

**ELECTRIC PRICING UPDATE
FEBRUARY 2009**

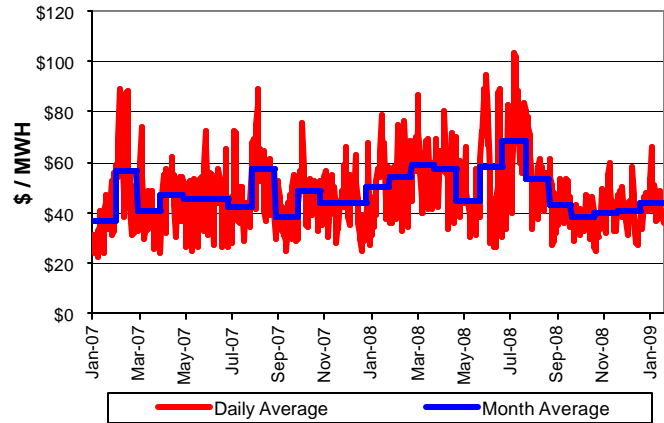
Figure 6 is a graphical review of the 12-month moving average price for the NYMEX Northern Illinois Hub ("NI-Hub") futures contracts for the period ending February 1, 2009. Results show current forward peak-period prices in the \$41 per MWH range for the February 2009 to January 2010 period. Off-Peak prices for the same period are in the \$28 per MWH range. Peak period prices are for the 6 AM to 10 PM, Monday. Electricity delivered to ComEd from the Northern Illinois Hub are about \$2 per MWH higher.



**Figure 6. NI-Hub Electric Futures Contract
Forward 12-Month Moving Average for
Northern Illinois Hub - \$/ MWH**



**Figure 7. ComEd Day-Ahead Hourly Pricing
PJM- Chicago Hub Price
Daily and Monthly Average \$ per MWH**

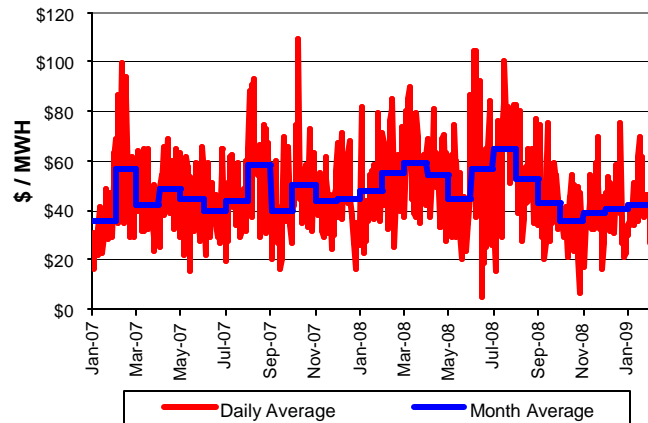


PJM-ComEd Hourly and Day-Ahead Prices

Figures 7 and 8 show average daily hourly prices for the PJM Chicago Hub for day-ahead and real-time hourly prices for the January 2007 through January 2009 period. Average 2008 monthly prices and historical calendar year prices are shown in Tables 5 and 6.

The average day-ahead hourly price during January 2009 was 4.36¢ per kWh and the average real-time hourly price was 4.25¢ per kWh. Day-ahead **peak prices** in January, based on **ComEd's 13-hour peak period**, averaged 5.08¢ per kWh. The average real-time **peak price** during January was 4.91¢ per kWh. Day-ahead and real-time off-peak average prices during January were 4.01¢ per kWh and 3.92¢ per kWh, respectively.

**Figure 8. ComEd Real-Time Hourly Pricing
PJM- Chicago Hub Price
Daily and Monthly Average \$ per MWH**



**Table 5. PJM Day-Ahead Prices
(¢/kWh)**

	Day-Ahead		
	Avg	Peak	Off-Peak
Cal '05	4.69¢	6.37¢	3.64¢
Cal '06	4.10¢	5.32¢	3.34¢
Cal '07	4.53¢	6.18¢	3.54¢
Cal '08	5.05¢	6.94¢	3.90¢
Jan-09	4.36¢	5.08¢	4.01¢



**Table 6. PJM Real-Time Prices
(¢/kWh)**

	Real-Time		
	Avg	Peak	Off-Peak
Cal '05	4.65¢	6.36¢	3.58¢
Cal '06	4.15¢	5.50¢	3.31¢
Cal '07	4.57¢	6.18¢	3.59¢
Cal '08	4.94¢	6.87¢	3.76¢
Jan-09	4.25¢	4.91¢	3.92¢

PJM opened its ComEd energy and capacity markets on May 1, 2004. The energy markets reflect PJM's locational marginal costs ("LMP") and are representative of the daily wholesale market and include the generation marginal cost, transmission congestion cost, and cost of marginal generation losses. PJM transmission costs, ancillary costs, distribution losses, and supplier mark-up fees are not included in the LMP price. PJM reports day-ahead and real-time LMP hourly prices for the following indexes:

- 1) Chicago General Hub
- 2) Chicago Hub
- 3) ComEd Zone
- 4) Northern Illinois Hub

PJM Transmission Related Costs

The following Table 7 is a summary of PJM transmission related costs for January 2009. These costs are generally difficult to calculate and forecast as many of the costs change each hour. As shown in Table 7, monthly PJM ancillary costs are comprised of many charges. These costs are generally listed as a single line item charge on customer bills

**Table 7. PJM Transmission Service Costs for
January 2009**

<u>PJM Transmission Related Charges</u>	<u>\$/MWH</u>
Ancillary	
Scheduling, System, Control and Dispatch	\$0.222
Regulation	\$0.378
Syc Reserv	\$0.015
Reactive	\$0.000
Syc Condensing	\$0.019
Day-Ahead Scheduling Credit	\$0.005
Inadvertent Energy Charges	\$0.000
Subtotal Ancillary	\$0.638
Transmission Loss Credits	-\$1.547
Operating Reserve	
Day-Ahead	\$0.120
Real-Time	\$1.339
Network Transmission (\$20,692 MW-Year)	\$3.149
PJM Capacity (\$128 MW-Day)	\$7.168
Total PJM Costs	\$9.528
a) Average cost based on 75% annual load factor	
b) Total excludes Real-time operating reserve costs	

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