Illinois Regulatory and Energy Price Update

Northern Illinois Energy Users

NEU

August 2009

Highlights in this update:

SENATE BILL 2150 - NEW ELECTRIC RENEWABLE PORTFOLIO STANDARD INCREASES ELECTRIC COSTS

The Illinois Legislature adjourned this spring after attempting to pass several new pieces of legislation that will probably increase natural gas and electric costs. The most significant piece of legislation was signed into law on July 10, 2009 was Senate Bill 2150, Renewable Portfolio Standards ("RPS"). Under SB 2150 all Retail Electric Supplier's ("RES's") are required to include renewable energy in their electric supply portfolio. RPS is the same provision in the Illinois Power Agency Act requiring the Illinois Power Agency to include renewable energy in its supply portfolio. The following are the minimum percentages of renewable energy that each RES must include in its supply portfolio:

4% by June 1, 2009;
5% by June 1, 2010;
6% by June 1, 2011;
7% by June 1, 2012:
8% by June 1, 2013;
9% by June 1, 2014;
10% by June 1, 2015;

After June 1, 2015 the percentage increases 1.5% each year to 25% by June 1, 2025. To the extent that it is available, at least 60% of the renewable energy resources used to meet these standards by a RES shall come from wind generation. Also beginning on June 1, 2015, 6% of the resources used to meet the minimum standards must be from solar photovoltaics. The quantity and source of renewable energy will be verified through PJM's Environmental Information System Generation Attribute Tracking System and Midwest ISO through its Midwest Renewable Tracking System.

RES's will meet compliance under SB 2150 through a combination of compliance payments to the Illinois Power Agency and actual purchases of renewable energy. The Illinois Power Agency will use the compliance payments to purchase renewable energy credits on behalf of all retail customers in Illinois. All renewable energy credits purchased will be permanently retired. Renewable energy must come from Illinois or adjoining states if it is not available in Illinois.

The cost impact of RPS is still uncertain and will likely vary among RES's. The price of renewable credit payments to the Illinois Power Agency has not been determined. However, the Illinois Commerce Commission (ICC") issued an order on July 29, 2009 that defined the maximum compliance rate for ComEd customers at $1.0 per MWH and the maximum rate for Ameren customers at $0.94 per MWH. The estimated cost for ComEd customers is about $0.76 per MWH for the June 2009 to May 2010 period. These rates assume the customer purchases their electricity from ComEd and are applied to all MWH used by the customer. RES's may be able to offer a lower RPS rate.

In the event that at RES fails to comply with the RPS they must pay double for the shortfall amount. If this occurs twice in a five-year period their certification to provide retail electric service in Illinois will be revoked for one year.

The effective date of SB 2150 is June 1, 2009. Customers who have contacts that were signed or extended with their supplier prior to March 15, 2009 will not be assessed the RPS charge until their current contract either expires or is extended. For example, if a customer signed a two-year contract on January 1, 2009 they will avoid paying the RPS charge until January 1, 2011.

The RPS charge will likely be shown as a line item surcharge on the RES invoice.

HB 4321 (a bill similar to SB 2150 for natural gas) was proposed that would have required natural gas utilities to implement cost effective energy measures to reduce costs to consumers. The annual investment amount for efficiency measures is based on the total amount of natural gas and costs delivered in 2009. Annual efficiency investments are:

0.2% by May 31, 2012; increasing by the following additional percentages each year:
0.4% by May 31, 2013;
0.6% by May 31, 2014;
0.8% by May 31, 2015;
1% by May 31, 2016;
1.2% by May 31, 2017;
1.4% by May 31, 2018; and
1.5% by May 31, 2019 and in each 12 month period
Total 7.1% by May 31, 2019

This bill was not passed and will likely resurface during the 2009 Fall veto session.

ComEd Advanced Metering Infrastructure Pilot Program

On June 1, 2009 ComEd filed a petition to implement a pilot Advanced Metering Infrastructure ("AMI") program of approximately 141,000 meters. ComEd is requesting ICC approval by November 2009. ComEd issued a press release on August 4, 2009 announcing that they filed an application for $175 Million in matching federal stimulus funds for this pilot program and additional future investments in smart grid technologies.

In Docket No. 07-0566 ComEd had proposed a similar full-scale program with a cost in excess of $830 Million. ComEd also proposed a special Rider SMP, System Modernization Projects, to recover all SMP related costs plus a guaranteed return on ComEd's investment.

The Final Order in 07-0566 rejected ComEd's full-scale proposal and ordered additional hearings to develop and approve a pilot program. AMI workshops were held starting in December 2008 to receive input from third-party organizations. Under this pilot program ComEd is proposing AMI metering in nine towns near its Maywood operating area consisting of about 100,000 meters. An additional 30,000 meters would be installed in the City of Chicago and 10,000 in Elgin. During this pilot program ComEd will study customer behavior of how they use AMI technologies to conserve energy and lower costs. The results of this study may be justification to implement a full-scale program.

Under this proposed pilot program ComEd estimates the cost to be about $49.1 Million. ComEd is also seeking to recover some of these costs through the American Recovery and Investment Act of 2009. Costs under this pilot program will be recovered under Rider AMP, Advanced Metering Program Adjustment and shown as a line item on ComEd distribution bills.

Significant Decrease in PJM Capacity Costs in 2012

Over the last few years PJM has held a series of auctions to set capacity prices under its Reliability Pricing Model ("RPM"). Capacity prices were previously set through May 2012. In May 2009 PJM held an auction for capacity for the June 2012 to May 2013 PJM planning year. The result of this auction is a **significant decrease** in capacity prices in June 2012. The June 2012 value decreases to $16.46 per MW-day, less than 10% of the value of $174.29 in June 2010.

Results of the May 2009 auction are summarized in Table 1 and are compared to results from prior auctions. All customers must pay for PJM capacity. ComEd determines a customer's Peak Load Contribution ("PLC") and their electric suppliers are required to purchase capacity from PJM for each customer's PLC. A customer's PLC is based on their average hourly load contribution during PJM's system peak (average of five highest hourly peaks during summer period).

Table 1. PJM RPM Capacity Prices

Start of PJM Planning Year	$/MW-Day
Prior to Jun-07	$15.00
Jun-07	$40.80
Jun-08	$111.92
Jun-09	$104.82
Jun-10	$174.29
Jun-11	$110.00
Jun-12	$16.46

HEARINGS DELAYED IN 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. This revised COSS, if approved by the ICC, will be used to reallocate costs among customer classes.

Intervenors filed direct testimony on May 22, 2009 and were scheduled to file rebuttal testimony on July 17, 2009. However, an order requiring ComEd to provide additional cost of service data for large customers has delayed the schedule. An updated schedule will not likely be announced until early September.

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.

STATUS OF EXELON'S PLAN TO DEVELOP 10 MW SOLAR

No word on status of Exelon's plans to develop a 10 MW solar plant on a 39 acre in the West Pullman Industrial Redevelopment Area of Chicago. This project is contingent on obtaining federal stimulus funds for a loan guarantee of 80% of the $60 million project cost. Exelon would partner with Sun Power Corp. in the design and development of this project.

The project would consist of 32,800 solar panels with a capacity of 10 MW. Exelon would market the electricity and own the renewable energy credits. When originally announced in April, Exelon indicated that the project could be completed by end of 2009.

PEOPLES GAS NATURAL GAS RATE INCREASE PROCEEDING, ICC DOCKET NO. 09-0167 AND 09-0166

On February 25, 2009, Peoples Gas and North Shore gas companies filed petitions for a general rate increase with the Illinois Commerce Commission. Peoples Gas requested a $161.9 million rate increase (35%) and North Shore requested a $22.0 million rate increase (34%). These rate increases come only 12 months after the ICC approved new rates in February 2008. On February 5, 2008 the ICC approved a $71.2 million increase for Peoples Gas and $0.2 million decrease in North Shore's revenue.

The ICC has suspended both rate increase requests filed on February 25 and initiated a formal review. The following hearing schedule shown in Table 2 indicates a final order will be issued in late January 2010. Intevenor testimony and rebuttal testimony has been filed and ComEd set to file its surrebuttal testimony on August 17.

Table 2. Hearing Schedule

Jun 10, '09	Intervenor Direct Testimony
Jul 8	Company Rebuttal Testimony
Aug 4	Intervenor Rebuttal Testimony
Aug 17	Company Surrebuttal Testimony
Sep 29	Initial Briefs
Oct 10	Reply Briefs
Nov 6	Proposed Order
Jan 24, '10	Rate Case Deadline

No party representing large commercial and industrial customers filed testimony or is actively participating in these proceedings. A detailed review of Peoples Gas' and North Shore's petition contained in the NEU May 2009 Energy Regulatory and Energy Price Update.

Key issues in these proceeding are:

1. The proposed increase is **NOT** an across-the-board increase for all customers. Larger transportation customers will receive increases in excess of 74% if approved by the ICC without modification. The proposed rate increase for North Shore customers is 39% for Rate 2 customers and 144% for Rate 3 customers

2. Limit Rate 2 customers to using 41,000 therms or less per month. Currently many customers who should take service under Rate 4 (Peoples Gas) and Rate 3 (North Shore) elect to take service under Rate 2. Rate 2 does not contain a demand charge and these larger customers obtain lower costs under Rate 2.

3. Proposed Rider UEA, Uncollectible Expense Adjustment, which would recover uncollectible expenses from customers through the gas supply charge. These costs are currently included in base rates. Peoples Gas estimates that $29 million would be removed from base rates and North Shore estimates about $1.9 million. The ICC rejected a similar proposed uncollectible rider in the 2007/08 rate proceeding

4. Proposed Rider ICR, Infrastructure Cost Recovery, would allow Peoples Gas to accelerate the replacement of cast iron pipeline and connecting facilities (meters and regulators). A similar proposal was made and rejected in their 2007/08 rate proceeding.

NATURAL GAS PRICING UPDATE AUGUST 2009

Table 4 is a comparison of Chicago area burner-tip prices for August 2009 for customers served by Peoples Gas Light & Coke Company, North Shore Gas Company and Northern Illinois Gas Company (NICOR). Burner-tip prices during August are in the $3.886 to $6.740 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 $3.50 per MMBtu calculated using the final NYMEX settlement prices (futures and Chicago swap) August. The NYMEX Chicago Swap settlement price is the difference between NGI's reported monthly Chicago index price and the final NYMEX settlement price for August 2009. Intercontinental Exchange ("ICE") reported an August 2009 monthly Chicago index price of $3.499 per MMBtu, down $0.059 from their July index price of $3.558 per MMBtu. Prices for utility supply service are based on gas supply costs shown in Table 3.

Local distribution costs shown in Table 4 range from $1.474 to $3.240 per MMBtu for a customer served by Peoples Gas, $0.715 to $2.686 per MMBtu for a North Shore customer, and $0.386 to $0.905 per MMBtu for a customer served by NICOR.

Table 3. August 2009 Natural Gas Supply Costs $ per Therm

Gas Supply Costs:	Peoples Gas	North Shore	NICOR
Bundled Gas Supply Cost	$0.5138	$0.5087	$0.3998
Commodity	$0.4635	$0.4305	$0.3705
Non-Commodity Charge	$0.0503	$0.0782	$0.0293
Demand	$0.2583	$0.3309	$0.5480
Environmental Surcharges			
Rider 11, Peoples and North Shore	$0.0168	$0.0156	
Rider 12, NICOR - Small C&I			$0.0034
Rider 12, NICOR - Large C&I			$0.0008
Rider VBA - Balancing Adjustment	($0.0257)	($0.0025)	
Hub Service Credit	($0.0001)		
NICOR Transportation Service Adj.			($0.0013)
NICOR, Rider 5 Storage Adj. Factor			$0.0002

Table 4. August 2009 Burner-Tip Price Comparison Peoples, North Shore and NICOR ($ per MMBtu)

	Burner-Tip $/MMBtu	Local Distribution (a)
NYMEX Final Settlement Price	$3.379	
NYMEX Chicago Basis	$0.121	
Chicago City-gate Price (b)	$3.500	
Peoples Gas Burner-Tip Price		
Rate 2 - Utility Supply Service	$6.608	$3.108
Rate 4 - Utility Supply Service	$6.740	$3.240
Rate 4 - Utility Supply Service	$6.650	$3.150
Rate 2, SST, 50% Standby	$5.063	$1.563
Rate 4, LST, 50% Standby	$5.073	$1.573
Rate 4, LST, 50% Standby	$4.974	$1.474
North Shore Burner-Tip Price		
Rate 2 - Utility Supply Service	$6.186	$2.686
Rate 3 - Utility Supply Service	$5.811	$2.311
Rate 2, SST, 50% Standby	$4.556	$1.056
Rate 3, LST, 50% Standby	$4.215	$0.715
NICor Burner-Tip Price		
Rate 6 - Utility Supply Service	$4.370	$0.870
Rate 7 - Utility Supply Service	$4.405	$0.905
Rate 76, 0% Standby (c)	$3.886	$0.386
Rate 77, 0% Standby (c)	$3.933	$0.433

(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 31 days storage in place of standby service.

Factors Affecting Natural Gas Prices for August 2009

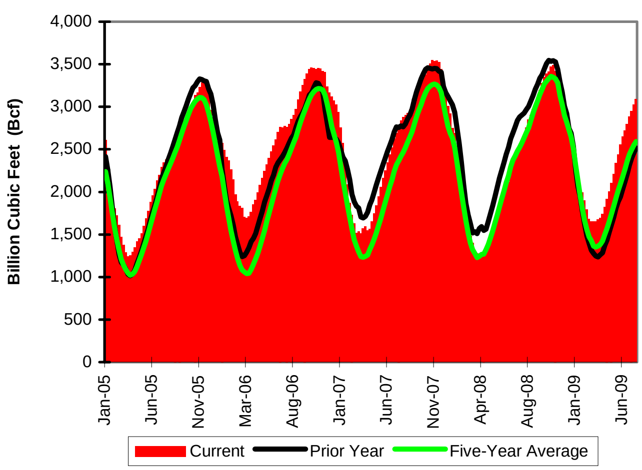
The Energy Information Agency ("EIA") reported in its August Short-Term Energy Outlook its expectation that short-term spot prices should remain below $4.00 per MMBtu through the remainder of 2009. Projected prices are expected to significantly increase from $3.92 in 2009 to $5.48 per MMBtu in 2010.

The EIA forecasts natural gas production to decline over the next few months. Historically high storage volumes are expected at the end of October 2009 and these high levels should limit price increases. Customers may even see further price decreases before the winter heating season.

The following Figures 1 through 5 show current Storage Volumes, NYMEX Futures Prices, Chicago Citygate Prices, and Rig Counts through early May 2009.

As of the week ending July 31, 2009 the EIA reported storage at 3,089 Bcf compared to 2,509 Bcf a year ago. The five-year average for the same period is 2,593 Bcf. Current storage levels are 19% higher than the five-year average and 23% higher than volumes reported at the same time last year.

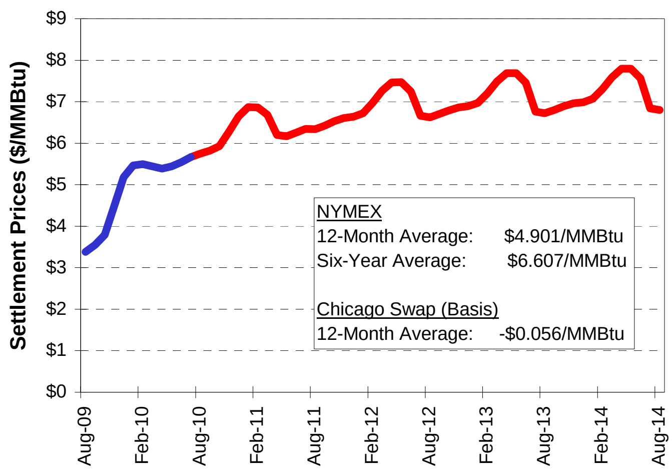
Figure 1. U.S Natural Gas Storage January 2005 through July 2009



The August 2009 New York Mercantile Exchange (NYMEX) futures contract closed at $3.379 MMBtu, down $0.570 from the July 2009 settlement price of $3.949 per MMBtu. Settlement prices for the NYMEX natural gas futures contract for the period August 2009 through August 2014 are shown in Figure 3.

Also shown in Figure 2 is the average price of the NYMEX Chicago Swap at -$0.056 per MMBtu for the August 2009 to July 2010 period. The "swap", also called the "Chicago 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 August 2009 Contract



The 12-month forward moving-average NYMEX price trend is shown in Figure 3. The 12-month average price on the final trade day for the August 2009 contract is $4.901 per MMBtu, a decrease of $0.399 per MMBtu from the 12-month price of $5.300 on the last day of the July contract.

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

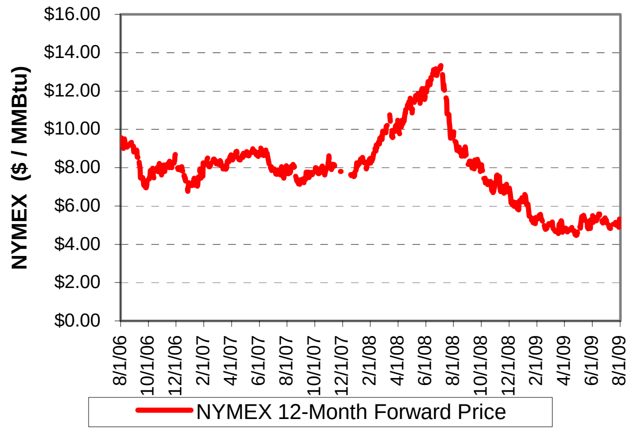


Figure 4 shows daily "Chicago" citygate prices reported by ICE ("Intercontinental Exchange") for the January 1, 2005 to August 1, 2009 period. Table 5 summarizes average daily Chicago city-gate prices and monthly index prices.

Figure 4. Intercontinental Exchange "Chicago" Citygate Prices – Daily Prices January 1, 2005 to August 1, 2009

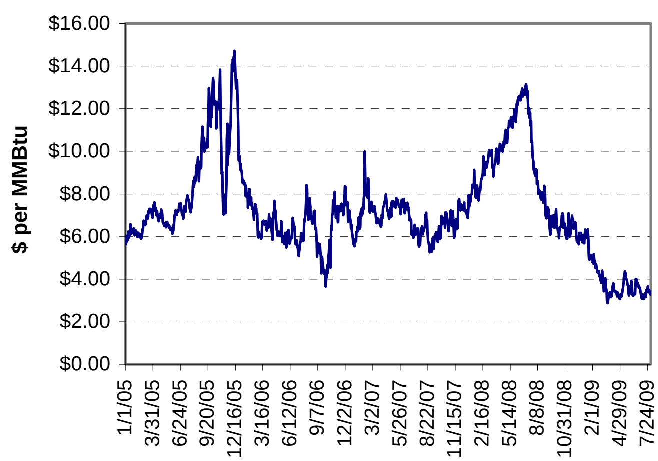


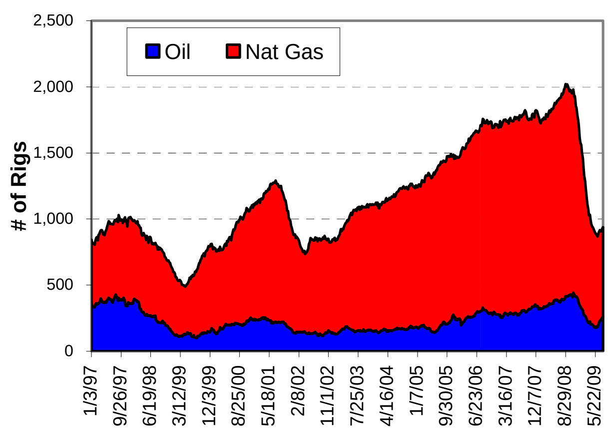
Table 5. Intercontinental Exchange Comparison of Daily vs. Monthly Index Prices

	$/MMBtu	
Month	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	$4.48	$4.93
Mar-09	$3.54	$4.04
Apr-09	$3.36	$3.54
May-09	$3.71	$3.11
Jun-09	$3.61	$3.42
Jul-09	$3.31	$3.56
Aug-09		$3.50

Baker Hughes reported U.S. natural gas rig counts at 714 on July 31, 2009, down 732 from 1,473 reported at the same time last year. The oil rig count was 196, down 161 from the oil rig count of 357 last year.

Natural gas and oil rig counts have fallen by over 50% from a combined peak of 2,031 in August 2008. This recent decline is due to falling energy prices that are the result of the reduced demand and the current worldwide financial situation.

Figure 5. Natural Gas Rig Count January 1997 through July 31, 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 AUGUST 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 August 1, 2009. Results show current forward peak-period prices in the $41 per MWH range for the August 2009 to August 2010 period. Off-Peak prices for the same period are in the $23 per MWH range. Peak prices are for the 6 AM to 10 PM period, Monday through Friday. Electricity prices 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

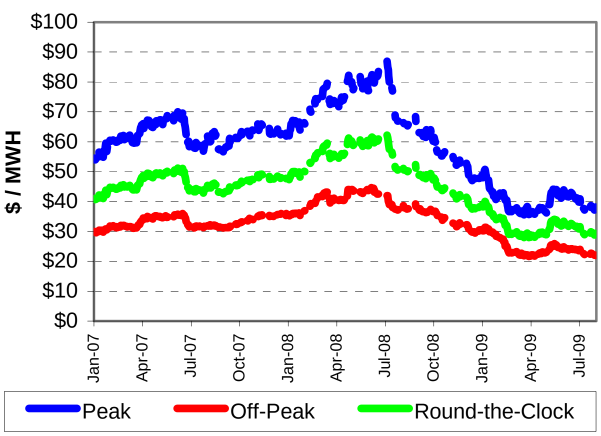
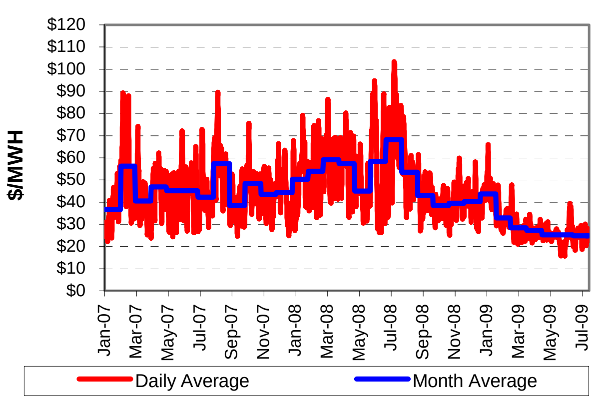


Figure 7. ComEd Day-Ahead Hourly Pricing PJM- Chicago Hub Price

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 July 2009 period. Average 2009 monthly prices and historical calendar year prices are shown in Tables 6 and 7.

The average day-ahead hourly price during July 2009 was 2.48¢ per kWh and the average real-time hourly price was 2.50¢ per kWh. Day-ahead peak prices in July, based on NERC hours**,** averaged 3.06¢ per kWh. The average real-time peak price during July was 2.99¢ per kWh. Day-ahead and real-time off-peak average prices during July were 1.91¢ per kWh and 2.02¢ per kWh, respectively.

PJM hourly index prices in July 2009 are about 175% lower than prices during July 2008.

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

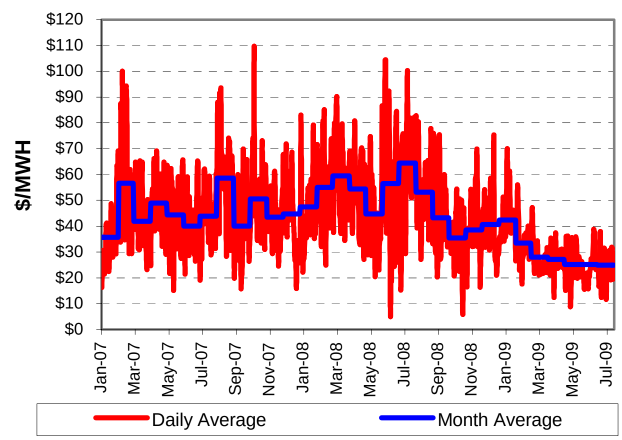


Table 6. PJM Day-Ahead Prices (¢/kWh) - NERC Hours

	Day-Ahead		
	Avg	Peak	Off-Peak
Cal '05	4.69¢	6.08¢	3.44¢
Cal '06	4.10¢	5.13¢	3.18¢
Cal '07	4.53¢	5.93¢	3.32¢
Cal '08	5.05¢	6.62¢	3.67¢
Jan-09	4.36¢	5.09¢	3.76¢
Feb-09	3.28¢	3.82¢	2.79¢
Mar-09	2.83¢	3.49¢	2.25¢
Apr-09	2.72¢	3.26¢	2.21¢
May-09	2.58¢	3.27¢	2.02¢
Jun-09	2.47¢	3.25¢	1.71¢
Jul-09	2.48¢	3.06¢	1.91¢

Table 7. PJM Real-Time Prices (¢/kWh) - NERC Hours

	Real-Time		
	Avg	Peak	Off-Peak
Cal '05	4.65¢	6.12¢	3.32¢
Cal '06	4.15¢	5.30¢	3.11¢
Cal '07	4.57¢	5.93¢	3.38¢
Cal '08	4.94¢	6.57¢	3.51¢
Jan-09	4.25¢	4.95¢	3.67¢
Feb-09	3.35¢	3.97¢	2.79¢
Mar-09	2.81¢	3.45¢	2.23¢
Apr-09	2.71¢	3.26¢	2.19¢
May-09	2.60¢	3.37¢	1.96¢
Jun-09	2.45¢	3.23¢	1.71¢
Jul-09	2.50¢	2.99¢	2.02¢

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 8 is a summary of PJM transmission related costs for April 2009. These costs are generally difficult to calculate and forecast as many of the costs change each hour. Monthly PJM ancillary costs, shown in Table 10, are comprised of many charges. These costs are generally listed as a single line item charge on customer bills

Table 8. PJM Transmission Service Costs for July 2009

PJM Transmission Related Charges	Jul-09 $/MWH
Ancillary	
Scheduling, System, Control and Dispatch	$0.222
Regulation	$0.361
Syc Reserv	$0.001
Reactive	$0.000
Syc Condensing	$0.001
Day-Ahead Scheduling Credit	$0.002
Inadvertent Energy Charges	$0.021
Subtotal Ancillary	**$0.608**
Transmission Loss Credits	-$0.752
Operating Reserve	
Day-Ahead	$0.122
Real-Time	$0.654
Network Transmission ($20,692 MW-Year)	$3.422
PJM Capacity ($128 MW-Day)	$8.280
Total PJM Costs	$11.680 *

* Excludes RT Operating Reserve

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