

2001

ANNUAL REPORT

2002



I l l i n o i s E n e r g y C o n s o r t i u m

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Annual Report

2002

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I l l i n o i s E n e r g y C o n s o r t i u m

President's Report

Dear Members;

The Illinois Energy Consortium (IEC) was formed in the summer of 1999 in response to the newly de-regulated electric supply market in Illinois. Our goal was to create an entity that could help save money for school districts in Illinois. Since its inception that summer, we have worked to better educate our consumers, labored to negotiate with suppliers and utilities alike to reduce their costs, and conjoled and confronted regulators and legislators to help encourage competition in this newly created market. All of these efforts have paid off for our member districts in that we have helped them realize significant savings on their utility bills over this three (3) year period of time. Since our creation, we have saved schools more than \$2.5 million dollars and are still working to increase this figure each year. Our history has not been without drama or temporary setbacks. However, through it all we have been united in our purpose and unwavering in our commitment to provide schools with the best opportunity to save money on energy costs so they could use these precious resources for their community's most precious resource, their students. To know where our organization is going, it is important to know where we have been so I will provide a brief history in the following paragraphs.

In the spring of 1999, the Illinois State Legislators officially set in motion legislation de-regulating the electric supply market for commercial/industrial users selected in a "lottery" by each utility. The IEC was jointly created by the three (3) school professional organizations (Illinois Association of School Boards, the Illinois Association of School Administrators and the Illinois Association of School Business Officials) to ensure that schools were able to participate and indeed benefit from this new legislation. This organization (the IEC) was to be governed by a Board of Directors made up initially of three members of each organization. In this way, only active school representatives would be involved in designing and operating this not-for-profit organization and all decisions would truly be for the benefit of school districts.

The first task of this newly formed organization was to educate school district personnel and raise awareness of the lottery to encourage school districts to participate and thus enable them to benefit from the potential savings. Mass faxes were sent and workshops held throughout the state. As a result,

school districts were prominently represented in the list of selected participants in the first lottery.

Next, the schools were encouraged to have their Boards of Education act to join as members and participants in the IEC. All together more than 68 districts joined the IEC in the ComEd region in January of 2000 representing approximately 310 school buildings. From this humble beginning we expanded into the CILCO, Illinois Power and the Ameren regions. Over the next eighteen (18) months, we initiated electric supply service to more than 250 public school districts representing more than 1,400 schools.

As one of the very few newly de-regulated electric suppliers in Illinois, the IEC has had to discover weaknesses in the law and work to correct them for the benefit of our schools. When dealing with varying regulations and tariffs in each unique utility region, we have had to involve consultants and attorneys to reach the necessary agreements to enable our members to achieve the savings they have enjoyed. We have been very successful in saving schools many thousands of dollars, each with the aggregate savings statewide in excess of \$2 million dollars. We have been successful because we were formed by public school representatives with the sole mission of helping schools save money on energy bills.

When I look back over the past three (3) years we have been serving school districts in Illinois, I am amazed at how much we were able to accomplish in this short of a time span. We supply more than 34% of the school districts in Illinois with electricity. In response to their requests, we have expanded into natural gas supply as well and currently serve approximately fifty (50) school districts. As a not-for-profit school consortium, we have been formed to assist school districts in meeting their energy needs while helping them save money as well. As market conditions change and/or legislative actions occur, we will be active in seeking whatever actions are appropriate to meet the needs of Illinois public schools since we are governed entirely by Illinois public school staff (past and present) and Board members. ♦



Dr. David F. Grace,
President

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Statewide Marketing Director's Report

The Illinois Energy Consortium (IEC) was formed by the Illinois Association of School Boards (IASB), the Illinois Association of School Administrators (IASA) and the Illinois Association of School Business Officials (Illinois ASBO) as a not-for-profit corporation in the summer of 1999. The IEC is governed by a nine (9) member Board of Directors comprised of the Executive Director and two members from each of the three (3) Associations.

The Board of Directors met monthly at the startup of the consortium and then met quarterly. Special meetings were scheduled periodically when needed. The sole purpose of the consortium is to offer electricity and this year, natural gas to Illinois school districts at a discounted rate, this enables school districts to save money and to use those savings for the children of their district.

Central Illinois Light Company (CILCO) of Peoria, Illinois was selected as the Program Administrator for the new electric consortium. Their primary duties are to do the cost analysis for each school district that submits their information to them. They also do the monthly billing on behalf of the IEC. It is a one page bill showing the savings for the current month and the savings for the past twelve (12) months.

Currently, over 400 school districts are members of the electric consortium out of approximately 897 Illinois school districts. Over 300 school districts receive their electricity from the consortium. The reason the consortium cannot supply the remaining members is because we cannot provide our service in the western part of the state as of yet because of current pricing limitations. The ultimate goal of the IEC is to provide electricity and natural gas for all school districts in the State of Illinois.

Late this summer, the IEC Board of Directors approved a new low cost electric program for school districts in the Commonwealth Edison, Ameren and Illinois Power areas of the state. Many school districts have called to inquire and have sent us their information so that we may do a cost analysis for them. This is just another example of how the IEC is constantly on the lookout for cost savings programs, etc. for school districts.

This spring, Latham & Associates, consultants to the IEC, was contracted by the IEC to do a feasibility study on supplying natural gas to Illinois school districts. Latham & Associates asked Illinois school districts to complete a survey to help them with their study. The response by school districts was exceptional.

Latham & Associates completed their study and presented it to the IEC Board of Directors. The Board of Directors unanimously approved starting a program for

natural gas for all Illinois school districts that began March 1, 2002.

With this new natural gas program, school districts no longer have to worry about when to buy natural gas, who to buy it from, what the best price is, how much to nominate and most importantly, how to budget and pay for it? Those worries are over with this new approach to purchasing natural gas.

The Board of Directors also made a decision to start this new natural gas program in specific areas of the state. The areas they chose were Nicor, Peoples and North Shore natural gas regions. The Board's next plan is to expand natural gas service to schools in the rest of the state. In early winter the IEC Board hired Peoples Energy Services of Chicago to be the new natural gas program's Program Administrator and Supplier. This differs from the electric program because CILCO is not the supplier.

As of this report, we have nearly fifty (50) school districts on board with over sixty (60) waiting in the wings for the date when they can switch. Although some of these school districts are quite large, such as Chicago Public Schools and Elgin U-46, we also have many small districts.

During the months of July through October, Louie Ervin of Latham & Associates and Ron Steigerwald, the Statewide Marketing Director, have been extremely busy testifying before the Illinois Commerce Commission and the electric deregulation hearings sponsored by State Representative Novak of Kankakee and State Representative Meyer of Romeoville. It is the hope of the IEC that changes can be made without having to seek legislative changes in the spring of 2003.

However, the IEC's Board of Directors will actively seek legislative changes in the deregulation of electricity in the spring and natural gas later down the road. A subcommittee has been formed to propose and seek these legislative changes. We know that anytime you seek legislative changes it is difficult and time consuming road to travel. However, with almost three (3) years under our belts, we believe it is time the legislature hears from the Illinois Energy Consortium on how they can help us, the school districts in Illinois, who want to continue to save money in a market place that continues to be scrutinized by federal and state governments.



Ronald C. Steigerwald, *Statewide Marketing Director*

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Program Administrator's Report (Natural Gas)

The Natural Gas program commenced delivering gas to our first school in April 2002. To date we have signed contracts with fifty six (56) school districts, three hundred and thirty (330) schools representing approximately 15 million therms of gas deliveries annually. We have developed a proprietary purchasing strategy that is regularly reviewed by our buying committee. This program is unique and one that will prove to be very beneficial to our schools over time. We made two (2) fixed price purchases in 2002 that helped lower our average price for the winter of 2002-2003 to a point that the costs were better than if the schools had simply floated with the market. Our goal for the next winter will be to have about 80% of our prices locked in advance.

The natural gas market, since the inception of the IEC, has seen only rising prices. Our strategy is to buy on dips in the market and there simply were not any real opportunities to do so that met our criteria. Much of our growth came in the fall and early winter when

prices had already reached very high levels and locking additional prices seemed impractical. These growing pains will be behind us now. We have unfortunately witnessed what is the second most expensive winter in Chicago ever. Prices going forward will only get more volatile. We will continue to work diligently to mitigate costs and take necessary steps to purchase gas in a fashion we believe will be in the members' best interests.

Our goal is to reach at least 50 million therms within three (3) years. This is aggressive, but attainable. Major opportunities are the city of Chicago, members of two other buying groups, as well as the hundreds of schools serviced by other marketers. ♦



John Nania, *Natural Gas Program Administrator*

Consultant's Report

Where is Electric Competition in Illinois?

Legislation was enacted to bring electric competition to Illinois beginning in October 1999. About a dozen new electric marketers began jockeying for business. The Illinois Association of School Boards (IASB), Illinois Association of School Administrators (IASA) and Illinois Association of School Business Officials (Illinois ASBO) created the Illinois Energy Consortium (IEC), a not-for-profit corporation with the sole purpose of providing statewide aggregate electric purchasing services for schools.

The IEC was at the forefront in delivering lower cost electric power to schools on the ComEd system beginning in January 2000. The IEC expanded electric service to schools in the Illinois Power, Ameren and CILCO service areas when and where it could bring savings to schools. The IEC remains at the forefront of Illinois electric choice today.

Although the IEC has provided savings of over \$2.5 million to participating schools, by fiscal year 2002-2003, true electric competition in Illinois was very limited. Most electric marketers exited the state. Still, the IEC was able to deliver some savings to most schools in the ComEd, Illinois Power and Ameren service areas with the cooperation of IEC's reliable suppliers.

The Illinois market for electricity is significantly

challenged today. To show savings to IEC schools from independent power supplies, those supplies must be at prices less than the indices of market value for electricity as published for each of the electric service areas. For numerous reasons, independent power suppliers have not been able to systematically beat those electric market index prices and as a result, many potential suppliers have, indeed, left the Illinois market.

The IEC has been very active in bringing electric savings to schools statewide. Dr. David F. Grace, Calumet City Superintendent and the IEC President, testified before the Illinois Commerce Commission (ICC) on January 15, 2003, in an attempt to correct the inequities between the electric market price indices by service area and the prices that are



Robert J. Latham, *President, Latham & Associates*



Louie R. Ervin, *IEC Consultant, Latham & Associates Inc.*

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Program Administrator's Report (Electricity)

A Look Back with an Eye on the Future

The Illinois electric market opened to 'Choice' on October 1, 1999, with only a handful of registered suppliers. Today, there are more than a dozen active suppliers participating in the Illinois deregulated marketplace. The IEC chose CILCO as its program administrator in December of 1999, in order to bring lower prices to school districts statewide.

After securing energy through a bidding process, the IEC began delivering electricity to school districts in the ComEd service area in December 1999. Savings were immediate and the program grew. The ComEd area was the easiest market to enter because their rules were simple to understand and implement.

CILCO developed a customized billing system to meet the needs of the IEC. It is the only system of its kind that will provide individual account billing, group billing at the district level, and savings statements every month. CILCO also represents the schools when dealing with ComEd related issues.

While the ComEd market was taking off, the IEC and CILCO worked diligently to understand the rules in the Illinois Power (IP) and AMEREN service areas. It became clear that competing in these areas was going to be more difficult than the ComEd area. A supplier for the AMEREN marketplace was secured, and electricity began flowing to AMEREN school districts in September 2000. Most school districts have seen savings as compared to their AMEREN rates. The Illinois Power rules have made saving money very difficult. In September of 2000, the IEC began delivering electricity to participating school districts. Savings was minimal over the year. Therefore in 2001, the IP program was reduced significantly to only a handful of participating school districts.

The IEC continues to look for opportunities to bring savings to school districts in the remaining service areas; such as, Alliant, MidAmerican, Mt. Carmel, CILCO, etc. These service areas have a smaller volume of energy load, which makes it difficult to find a

supplier who would serve the load at a competitive price. In addition, these utilities have historically provided their customer base with low electric rates, making it very difficult for the IEC to compete. For those school districts being served by an

electric co-operative or a municipally owned system, the Illinois Choice legislation exempted them from the law.

While all the playing fields have not been equal since the inception of Customer Choice, many school districts have saved money through the IEC program. The IEC is currently assembling a Legislative Committee. They will participate in addressing issues that restrict competition. The Illinois Commerce Commission (ICC) has been sponsoring workshops where customers and suppliers can address issues and suggest resolutions to keep competition alive and well in Illinois. Your IEC representatives have been at these workshops and will continue to represent your interest in the future.

It is the intent of the IEC to establish a statewide program that will bring savings to all school districts. For some districts, there is still work to be done. CILCO and the IEC will continue to work together to bring savings to participating school districts and strive to change rules that hamper competition. ♦



Kristi Fitzanko,
*Electric Program
Administrator*

Consultant's Report

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actually available in the market for deliveries to the IEC schools in those same service areas. Dr. Grace testified that this mismatch has eroded IEC school savings by about \$2.3 million annually.

As advisers to the IEC, we will continue to actively pursue independent power supplies from current and future suppliers that will provide additional benefits to the IEC schools. To provide more benefits to schools, we will also support the IEC in its pursuit of regulatory remedies to more closely match published market price indices to the actual market prices of electricity available for delivery to the IEC schools. We will also assist the IEC in legislative remedies that may also be available. Finally, we will continue to advise the IEC on other options it has available to provide continuing electric savings to the IEC schools.

We remain optimistic that revisions in the Illinois electric choice program will be made to provide more independent power supply options to the schools of the state. As those opportunities become more available, we believe that the IEC is well situated to take advantage of those opportunities for the benefit of schools. ♦



Financial Report

Statement of Activities for the year ended June 30, 2002

Changes in Unrestricted Net Assets	
Public Support and Revenue	
Electric Supply Fees	\$ 917,673
Expenses	
General and Administrative	911,379
Federal Income Taxes	944
Total Expenses	912,323
Increase in Unrestricted Net Assets	5,350
Net Assets July 1, 2001	25,145
Net Assets June 30, 2002	\$ 30,495

Statement of Financial Position for the year ended June 30, 2002

Assets	
Cash	\$ 33,282
Prepaid Taxes	3,492
Total Assets	\$36,774
Liabilities	
Accounts Payable	\$ 6,279
Total Liabilities	\$ 6,279
Net Assets	
Unrestricted Net Assets	\$ 30,495
Total Net Assets	\$36,774

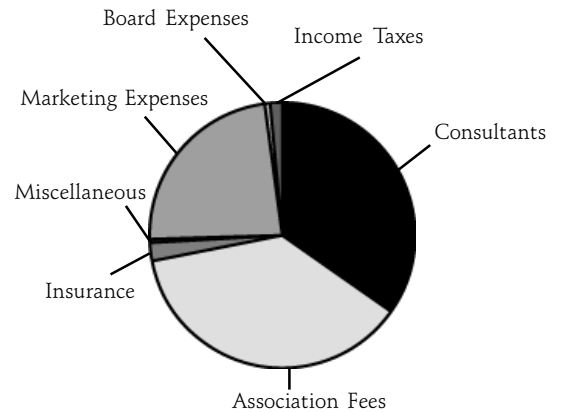
Statement of Cash Flows for the year ended June 30, 2002

Net Cash Flow from Operating Activities	
Increase in total net assets	\$ 5,350
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Decrease (Increase) in Prepaid Taxes	(3,492)
Increase (Decrease) in Income Taxes Payable	(4,437)
Increase (Decrease) in Accounts Payable	6,279
Net Cash Flow from Operating Activities	3,700
Increase in Cash	3,700
Cash in July 1, 2001	29,582
Cash in June 30, 2002	\$ 33,282

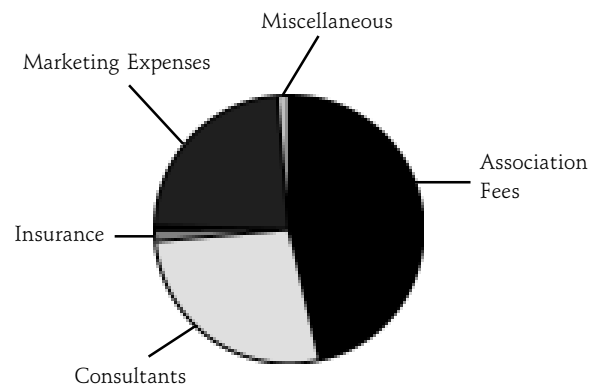
Schedule of General & Administrative Expenses for the year ended June 30, 2002

General & Administrative Expenses	
Association Fees	\$ 423,000
Consultants	247,679
Insurance	12,200
Legal Fees	1,580
Board Expenses	3,119
Marketing Expenses	211,498
Miscellaneous	12,303
Total General & Administrative Expenses	\$911,379

2001



2002



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Letter from the Sponsors

A fundamental guideline of the sponsoring Associations of the Illinois Energy Consortium (IEC) is to assist school boards and school administrators in the effective and efficient management of schools. To this end, there are certain areas where schools, while they have the need, do not possess the necessary resources of time and money to explore innovations. This was the case with the deregulation of energy in the late 1990's. Shortly after the passage of the energy deregulation law the Illinois Association of School Administrators (IASA), Illinois Association of School Boards (IASB) and Illinois Association of School Business Officials (Illinois ASBO) seized the opportunity to establish a means by which schools could access deregulated energy. The result was the formation of the Illinois Energy Consortium.



The IEC has already passed its formative years and is already a dependable and integral tool for energy savings. Schools throughout Illinois have already saved significant amounts of money on electricity and natural gas. We look forward to the continued expansion of IEC programs and services so that even more money can be saved in the future.

We are pleased to make this program available and want to take the opportunity of this first Annual Report to thank all of the IEC participating schools for supporting the efforts of the associations. It is through such support that Illinois schools were the first in the country to reap benefits of deregulated energy. It is through support such as this that we will be able to continue to explore opportunities for school improvements. ♦

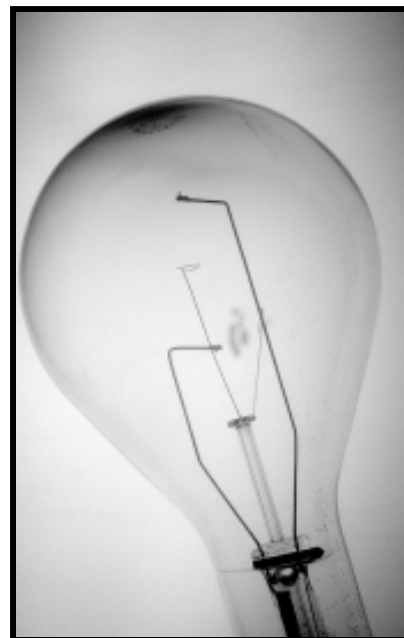
The Association Sponsors: **Dr. R. E. Everett**, *Executive Director*, Illinois ASBO; **Dr. Walter H. Warfield**, *Executive Director*, Illinois Association of School Administrators; and **Dr. Michael D. Johnson**, *Executive Director*, Illinois Association of School Boards

Statewide Marketing Director's Report

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The IEC will continue to publish its quarterly newsletter to members and nonmembers with the hope that the nonmembers will learn from our publication the advantages of belonging to the IEC. Publishing this newsletter quarterly will also keep our members informed of what is going on behind the scenes. The IEC continues to be an aggressive agency working for better prices and more savings for our members, but more importantly, for the kids of Illinois.

Finally, the IEC is working with several governmental agencies to offer energy conservation workshops throughout the state for member school districts. These workshops will be free of charge to the IEC members. This is just one more benefit of belonging to the IEC. ♦



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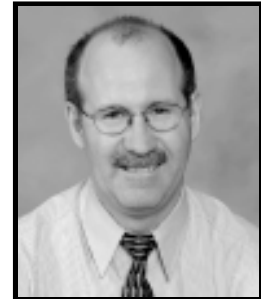
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