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Quarterly Newsletter
Summer 2003

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President's Perspective

By Dr. David F. Grace, President, Superintendent, Lincoln Elem. SD 156, Calumet City, IL

Dear Members,

I hope that all of you have had a very peaceful and productive summer and are now ready and recharged for your students' return. It has been a very busy summer for the IEC. We have been dealing with the natural gas pricing and growth in our membership in both electricity and natural gas supply. To date, we are supplying electricity to more than 300 school districts. Our yearly-billed supply now exceeds 400,000,000 KWH. In natural gas, we are currently supplying approximately seventy-six (76) school districts more than 22,520,000 therms. All these commodities are supplied with savings to their districts. At a time when we are seeing our revenues shrinking, it is really important to be able to tell our Boards that we have been able to reduce costs without impacting our students.

Electric Supply in Our Regions:

In the ComEd region, we have seen savings increase significantly and are even seeing savings in the summer months. Historically, these summer months see the lowest savings or even negative savings. We are expecting even higher savings in this region this fall. As mentioned in my last letter, this is due to the efforts of our organization, as well as others, intervening at the Illinois Commerce Commission hearings. We have been successful in securing a supply contract that will supply our schools with electricity at significantly lower costs than were previously possible and a significantly lower cost than will be commercially available to other schools. Thanks again for your patience and faith in your organization.

In the Ameren region, we were able to secure a two-year supply contract that will show higher savings than last year

and has enabled us to continue to expand our school district participation in this region. Since there is no PPO in this region, our supply is again the best possible option to secure savings for your district in the Ameren Region. Check with Kris Fitzanko at CILCO or call Ron Steigerwald at the numbers printed in this newsletter (on the back page) for answers to your questions.

In the Illinois Power region, I have great news for you. We have signed an agreement with Illinois Power Company to better enable us to offer competitive electric supply to this region beginning in late fall. We will be bidding out electric supply in Illinois Power in September/October for delivery in November. If you are not already receiving electricity from the IEC you should certainly call and get an estimate of savings. Call with your information as soon as you can and we will put you on the list to respond with a quote as soon as we have the supply contract in hand. There is no risk and this will guarantee you receive a competitive quote on this supply. Many districts are already receiving IEC supplied electricity in this region at significant savings and will benefit from greater savings from our new bid as well.

We have not forgotten the other regions of the state and are continuing to work toward the time when we will be able to provide electric supply to those regions. We have approached legislative initiative and regulatory changes and have been unsuccessful to date in being able to penetrate these markets. However, we keep trying and are confident that we will be successful at some time in the future.

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News From the Statewide Marketing Director

By Ronald C. Steigerwald, Statewide Marketing Director for the IEC, Buffalo Grove, IL

Electric Lottery

I need to remind all school districts in Illinois that you need to check to make sure that all of your meters have been transferred to the IEC. I continue to come across school districts that realize they have never transferred all of their meters over to the IEC. The reason this has happened is that back in 1999 when they had the lottery to select meters that would be eligible for choice as to who supplied their electricity, the other meters remained with the current power company.

The following year all the remaining meters were eligible for choice. However, this important fact was not widely mentioned or published by the power companies. Therefore, all meters are eligible for choice. Please fax me copies of last month's bill for each of those meters. My fax number is 847-634-8254. You will be glad you did!

New Buildings/Additions

School has started and you want to make sure the IEC and CILCO, its program administrator, have all the up-to-date information on your buildings. As you know, the summer is the prime time for schools to build or add additions to existing buildings. However, the problem arises when

CILCO sends you your bill and they are not comparing apples to apples because you added additional space and did not tell them or you added a new building and did not tell them.

If this paragraph applies to your district, you need to pick up the telephone right now and call Kris Fitzanko at CILCO and give her your updated information. Her telephone number is 309-677-5246.

Upcoming Workshops

The IEC is working with the Gas Technology Institute (GTI) of Des Plaines, Illinois with regards to putting on four workshops around the state dealing with energy efficiency and equipment. The workshops are planned for October.

The plan is to have these workshops in the Commonwealth Edison, Ameren and Illinois Power service areas so all members can benefit. These workshops will be free for IEC members.

In addition, the workshop in the Commonwealth Edison area will be held at GTI in Des Plaines. The reason for this is that part of the workshop will include a tour of GTI. I have had the privilege of working with GTI when I worked at Township H.S. District #214 in Arlington Heights. They are a

tremendous research firm that does everything to help improve our way of life. I am sure everyone will enjoy this tour and learn a great deal. Keep your eyes and ears open for the one page flyer advertising these workshops.

Busy Summer

It has been a very busy summer for the IEC. We are in the process of selecting a legal firm to represent the IEC and its members. We realized this after this past spring and our involvement with the Illinois Commerce Commission and the three major power suppliers.

The natural gas pricing sub-committee of the IEC has been actively purchasing natural gas for next year. The sub-committee has met twice and has a future meeting scheduled if needed.

Finally, we will be pursuing the purchase of electricity in the Illinois Power area this fall. Keep your eyes on your fax machines for future updates if your district resides in this area.

Free Workshop for IEC Members

IEC's Energy for Illinois Schools Conference

October 9, 2003

The Gas Technology Institute (GTI)
Des Plaines, IL

October 14, 2003

The Chateau, 1601 Jumer Dr.,
Bloomington, IL

October 16, 2003

Collinsville Area Rereation District
Collinsville, IL

October 23, 2003

South Gate Inn
Mt. Vernon, IL

President's Perspective

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Natural Gas Supply in Our Regions:

We have continued to grow in our natural gas supply as well. We continue to gain market share in a mature market and provide more savings than other marketers. As we move forward, our mission is to provide energy services to schools in Illinois, enabling them to save money

on energy costs. As we are successful in meeting these energy needs of schools, we have continued to grow. As we have seen in our electric supply purchases, competition has enabled school districts to experience significant savings.

As we begin another school year, let me wish you all a great and prosperous 2003-2004!

Natural Gas Markets and IEC the Purchasing Strategy

By John Nania, Natural Gas Program Administrator for the IEC, Peoples Energy Services, Naperville, IL and Louie Ervin, Executive Vice President and IEC Consultant, Latham & Associates Inc., Cedar Rapids, IA

Picking when to make a fixed-price purchase for natural gas futures is at least as hard as picking a good stock. Natural gas, with the possible exception of electricity, has the greatest volatility of all major traded futures commodities. We listen to our stock broker and other industry experts before making a stock purchase, and recognize that informed decisions are better than uninformed decisions, but there are no guarantees. A conservative stock investor will mitigate stock market risks by doing dollar cost averaging. The IEC uses a similar approach to building our portfolio.

The IEC Board created a Pricing Committee which consists of: Dr. David Grace, IEC President and Superintendent, Lincoln SD 156; Dr. Ron Everett, Executive Director, Illinois ASBO; Tom Maloney, Office of the Treasurer, Chicago Public Schools 299; Ron Steigerwald, IEC Statewide Marketing Director and retired Business Manager, Township HSD 214; John Nania, Peoples Energy Services; Dr. Robert Latham and Louie Ervin, both of Latham and Associates.

The IEC gas supply contract is on a market index basis, with the IEC having the option to trigger a fixed price on all or a portion of the supply for any, or all, future months. The IEC Program Administrator, Peoples Energy Services, monitors the market and purchases IEC-specified percentages of future volumes in layers. The IEC goal is to "layer-in" about 80% of next winter's supply at fixed-prices to provide greater school budget certainty against a repeat of huge price spikes. Keep in mind that 80% fixed-price on normal weather volumes could be 100% for a mild winter or 60% for a cold winter.

The Pricing Committee does their research by having discussions with various industry experts and by

studying the underlying supply and demand factors of future market prices. Because the opportunities can arrive and depart nearly instantaneously, purchasers working in large organizations often miss optimum purchase points because of the time delay to get required authorization. To avoid this trap the Pricing Committee built a buying matrix, which can automatically authorize purchases of various layered percentages when the market price hits a specific target for a specific future month. The Pricing Committee meets periodically to update the purchasing matrix to reflect market changes.

We started our first full year on April 1st. Our original targets in both members and total therms were exceeded. There are sixty-nine (69) school districts representing approximately 390 locations and over 18,000,000 therms. The size of the group is important because it allows us to spread costs for operating this over a larger group and, more importantly, shop for supply with more strength for the best values.

After carefully consulting with many of you, we have defined the goal for this program as:

To provide the lowest possible total cost while ensuring that members are insulated from potential price spikes.

We anticipate that if we have a normal to colder winter, you will realize total costs that should be less than you would have otherwise paid. If the winter turns out warmer, there is a good chance your costs will be higher. By locking our gas in advance, you have also purchased what could be deemed insurance from catastrophic prices should they materialize. Unfortunately, with all the potential problems facing this market, this is a scenario that we should protect against even at these high prices.

The market this year has proven to be about as bad as everyone expected. Prices continue to hover at close to double historical norms for this time of year. There has been a lot of news about what is being dubbed "our next energy crisis." One that will not be centered on oil, but rather on our limited natural gas supplies. Costs for most exploration and production companies are rising because the best prospects in the U.S. were long ago depleted. The days of \$.20 and \$.30 cent gas may not return for a long time. The futures market has longer term rates that are only a small discount to today's rates. But natural gas is four (4) times more volatile than any other major commodity, making forecasting what will really happen just a few months down the road, almost impossible.

All members continue to pay the same price and we hope you like that. You pay one price for all your gas. Many of you have had unpleasant experiences with "true ups," which can be very expensive. The total price you pay for each month consists of the weighted cost of the fixed purchases we have made, the costs for the additional spot gas purchase we made, the cost for these "true ups" and the IEC fee to manage the program.

The IEC's supply price is listed on its website as a weighted average cost of gas, inclusive of supply-related costs. Currently, the IEC has purchased approximately 50% of next winter's normal weather volumes at a fixed price of about \$.536/therm. If the market continues to fall, the IEC anticipates being at its 80% fixed-price target within the next few weeks. It should be a price lower than this. This rate represents an average price less than you paid last year.

Save Money with the IEC

By Kristi Fitzanko, Electric Program Administrator for the IEC, Peoria, IL

COMED and AmerenCIPS School Districts:

There is still time to save money! If you are currently purchasing your district's electricity from the local utility company, we **can** save you money. The cost to you is simply a phone call to either Ron Steigerwald, Statewide Marketing Director for the IEC, or myself, Kris Fitzanko, IEC Electric Program Administrator. I will provide you with a detailed analysis showing you what you can expect to save.

Illinois Power School Districts:

If you are a member of the Consortium, but have not elected to switch from Illinois Power to the IEC, please call today. I will provide you with a savings analysis compared to what rate you are currently paying to Illinois Power. For those districts that have entered into a Special Contract with Illinois Power, your contract will be coming to an end in December. I am assembling a list of districts that would like an analysis later this year - call if you are interested.

All Participating School Districts:

Review your bills and make sure **all** your facilities are switched into the program. If you have a new school, we can very easily switch new locations also. If you have any questions, please call today.

Remember: Every month you put off making the call, district dollars are lost. Pick up the phone today, and call Ron at 847-567-3051 or myself at 309-677-5246.

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Illinois Energy Consortium
Marketing Services
Illinois ASBO
Northern Illinois University (IA-103)
108 Carroll Ave.
Dekalb, Illinois 60115-2829
www.illec.org

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