

Communities and counties form buying co-ops for power

Many communities and counties across Illinois are voting on aggregating their citizen's buying power into basically power purchasing cooperatives. This community and county wholesale power buying aggregation is what Illinois electric cooperatives have already been doing for their member-owners, in some cases for over 75 years.

Under the 1997 Illinois deregulation law, not-for-profit electric cooperatives and municipally owned utilities were treated differently than for-profit, investor-owned utilities such as Ameren and Commonwealth Edison. Because of their consumer-owned structure and aggregated buying power, the not-for-profit and locally owned and controlled electric cooperatives were allowed to maintain their local decision making authority on whether or not to maintain their aggregated buying power as a group, or to enter the deregulated market with both its risks and potential rewards.

Until recently, deregulation has not been a very successful experiment with a critical marketplace like electricity. And, there have been very mixed results in the few states that have deregulated the power marketplace.

With lower demand for electricity and excess supply of power caused by the recession, plus historically low natural gas prices due to new found reserves created with fracking technology, current market based wholesale power prices have declined. The decline in short term market based prices created what some expect to be a short term opportunity for a number of Alternative Retail Electric Supplier (ARES) power marketers. They have been able to secure short-term contracts and have targeted individuals who could switch electric suppliers. More recently in Illinois, they have sought after aggregated markets, specifically communities and counties.



Electric cooperatives already provide market aggregation and have formed generation and transmission cooperatives to provide long-term stability in power supply and price. This long-term approach is different than the approach ARES power marketers have taken, which includes aggressive mail and phone marketing and the marketing of short term one to three year contracts for wholesale power.

A reasonable analogy would be entering into a short-term adjustable rate mortgage loan agreement that contained a low variable rate of interest and a "balloon provision" (which requires all amounts due and owing to be paid in full at the end of a two or three year term, or refinanced at a much higher rate). Contrast this with signing a loan for a 30-year period at a fixed rate. Prudence for those who expect to be in business long term would likely be to choose the long term fixed rate, rather than the riskier short-term rate that can be expected to increase over the long term. Your co-op has respectfully chosen what the board deems to be the more prudent approach for the long-term.

To enter into the deregulated market, member elected board members

and locally elected municipal leaders would need to vote to open up their respective service territories to the marketing efforts of ARES power marketers. It is important to note that only the wholesale energy portion of electric bills would be open to the ARES marketing efforts. The responsibility for local service, billing and outages plus transmitting and distributing the wholesale power is still the local utility's obligation and expense.

The not-for-profit, consumer-owned electric cooperatives and municipal utilities have invested millions of dollars on behalf of their members and consumers in power supply options from the latest clean coal technology to renewable wind energy projects so as to provide long-term power supply stability. A long-term diversified power supply portfolio is simply a prudent risk management approach. This power supply investment and diversification, plus cooperative aggregation of members' buying power has proven successful over the long haul, and should provide reliability and price stability for the energy needs of member-owners, not just in the short term of a few years, but for decades to come.