

# Chicago ComEd customers to be charged more for electricity in coming years



Byron, one of Exelon's struggling nuclear plants, was picked in the power auction whose results were made public Aug. 21, 2015. (Chris Sweda / Chicago Tribune)

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New rules tied to the polar vortex lead to jumps in electricity prices down the road

Chicagoans will see a portion of their electricity bills rise in coming years because of new electric grid rules tied to the polar vortex, according to power auction results that were made public Friday.

The auction will increase part of the average ComEd residential customer's electricity bill in 2018-19 by roughly \$82 a year compared with what customers are paying now, and by about \$100 a year compared with what they might pay in 2017-18, according to industry experts. The increases per month in the ComEd region are about two to three times greater than what some analysts had been predicting.

The auction, which is held every year and sets prices three years in advance, was the first to implement the controversial rules that were approved after the extreme winter of 2013-14, when grid operators had to scramble to keep the lights on. The rules allow power plants in northern Illinois and other states to make more money from consumers in order to shore up electricity in frigid weather.

But critics have argued that the electric grid, while stressed, did not actually fail during the polar vortex and that the approach may be misguided and flawed, potentially ballooning costs by several billions dollars over the next few years without stabilizing the electricity available to consumers in severe weather.

Indeed, electricity generators and others in Chicago's regional grid system, which stretches from northern Illinois to the Atlantic Ocean, pulled in an additional \$3.4 billion this year over last, according to the PJM Interconnection, which manages the grid.

Driving prices even higher in the Commonwealth Edison region was a reduction in energy supply caused by limitations on imports, as well as Exelon's Quad Cities nuclear plant failing to be picked in the auction for the second year in a row.

The Citizens Utility Board on Friday labeled the results as "one more red flag" that the auction has simply become a way for generators to make windfall profits.

"(Consumers) face significantly higher electric bills because of a flawed power-pricing system," the group said in a statement. "Illinois' electricity market is not working well for consumers."

But Stu Bresler, PJM's senior vice president of market services, said that the auction worked as anticipated and should provide generators with the right incentives to increase reliability in severe weather, ultimately benefiting electricity customers by warding against the disruption and cost that a sudden drop in energy supply might cause.

"We believe it's going to be extremely important for the reliability of these resources going forward and it's going to go a long way toward mitigating costs," Bresler said.

The polar vortex, which brought one of the worst winters in decades to cities across the U.S., rendered nearly a quarter of PJM power producers inoperable on a particularly brutal January day that saw temperatures plummet to negative 12 degrees in the Chicago area.

At the time, some coal plants that had promised to provide electricity stopped working because their conveyor belts froze, while some natural gas plants could not obtain enough fuel because of increased demand for heating.

The new rules specifically apply to PJM's capacity market. Capacity is an industry term that generally refers to a power producer's ability to provide electricity to the grid. Power producers make money through capacity markets by committing to supply a certain amount of electricity to consumers three years in advance if needed.

Traditionally, the capacity market was designed to make sure PJM had enough electricity to meet demand during the peak summer hours, but the new rules create an additional focus on severe winter weather.

Power generators bid capacity into the auction at a certain price that is supposed to reflect their cost of operation, and PJM chooses the lowest bids that will meet the demand for electricity it expects in the future. The highest of those low bids sets the price for everyone. Plants that are not chosen, like Quad Cities, essentially bid too high to be selected.

This year's so-called clearing price for 2018-19 was \$200 to \$215 per megawatt-day for the ComEd region, compared with \$120 last year for 2017-18. Customers, including those who use alternative suppliers, will see those cost increases in the capacity charges embedded in their electricity bills. But whether customers ultimately pay more will also depend on other factors, such as the cost of electricity in 2018-19.

PJM does not release the identities of generators whose bids were selected in the auction.

Under the new rules, power generators were able to bid higher, but will also face greater fines for not providing their electricity to the system if they are called upon. The thinking, according to PJM, is that the possibility of fines will encourage power plant operators to make investments to prevent weather-related shutdowns.

The biggest beneficiaries of the new rules are likely to be generators like Chicago-based Exelon, whose nuclear plants continued running during the polar vortex. Nuclear plants have fuel on hand and equipment that doesn't need to be weatherized to operate, so they're unlikely to suffer weather-related outages.

Exelon, which owns six nuclear plants in Illinois, lobbied hard for the new rules. The company has been threatening to close some plants, including Quad Cities, because of increased competition from wind- and natural gas-generated power.

Earlier this year, state legislators shelved an energy bill that was expected to generate hundreds of millions of dollars for Exelon's nuclear plants, in part to see what type of revenue the company would see in the auction.

Industry experts estimated that the higher prices in the ComEd region may bring Exelon roughly \$400 million in additional revenue from its northern Illinois nuclear plants over last year's auction, despite Quad Cities not being selected. They also pointed out that Exelon could stand to pull in even more in two smaller auctions in the coming weeks.

But Exelon executive Joseph Dominguez, who confirmed that Quad Cities did not get picked in the auction, said in an interview Friday that the additional revenue does not create a lifeline for Quad Cities or other struggling plants, and that the legislation is "absolutely critical" to those continuing to run in the long run.

He said the extra money will be used to fortify plants that were selected in the auction but that it will be offset by losses the company expects from declining wholesale electricity markets. Byron, one of Exelon's other struggling nuclear plants, did get picked in the auction, unlike last year, Dominguez said.

Quad Cities has lost roughly \$300 million over the last six years, and Exelon predicts it will continue to lose about \$50 million annually, according to Dominguez.

"It's really just a marginal improvement of the economics (of) the situation we were in a year ago," Dominguez said. "What we got today is important, but it's one year's worth of revenue. We have to see a sustainable path forward."

Exelon will make a decision on whether to begin the notification process for closing Quad Cities in the coming weeks, Dominguez said.

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