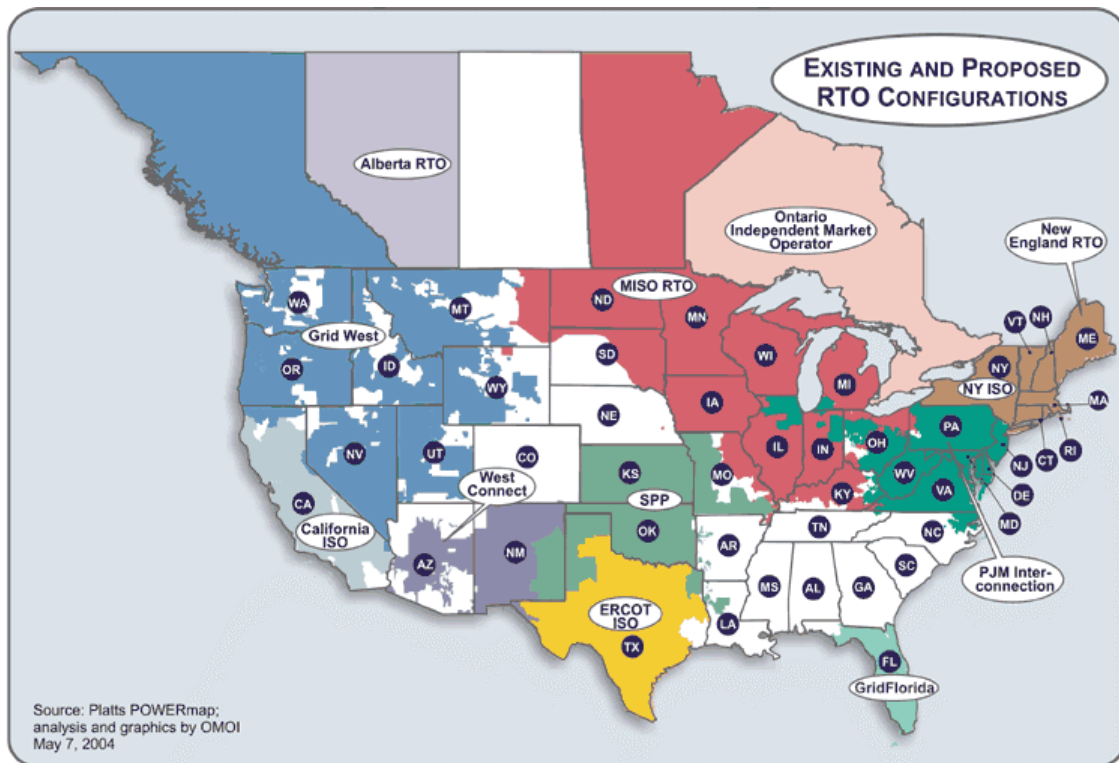


Overview of the Electric Power Industry

1. Evolution of the Electric Power Industry

The electric utility industry initially developed as a loosely-connected network of individual monopoly utility companies, each building power plants and distribution and transmission lines to serve a franchised service territory. Over the past 25 years, the industry has undergone many changes with more changes expected in the near future.

Over time, the individual transmission systems were integrated with others to improve reliability and facilitate trade across companies. Illinois is part of the Mid-America Interconnected Network (MAIN) in the Eastern Interconnect. Regional Transmission Organizations were also created in order to facilitate cooperation between utilities. Illinois utilities are members of two different RTOs. ComEd is in the PJM Interconnection and the remainder of the state is in the Midwest Independent System Operator (MISO) territory.



The federal and state governments regulate wholesale and retail electricity pricing respectively. The Federal Energy Regulatory Commission (FERC), among other responsibilities, oversees the transmission and wholesale sales of electricity in interstate commerce. The Illinois Commerce Commission (ICC) regulates the retail aspect of the business. This bifurcated regulatory structure has been the source of controversy in planning the future of the electric utility system.

The chart below outlines the responsibilities of the FERC and state regulatory commissions, including the Illinois Commerce Commission.

The Federal Energy Regulatory Commission	State Commissions
<ul style="list-style-type: none"> - Wholesale transactions (sales of energy for resale) - Interstate transmission (transfers of power across state lines) - Natural gas pipeline certification 	<ul style="list-style-type: none"> - Retail sales (sales of energy to users) - Approve planning and certification for new electric generation and transmission facilities - Develop retail franchise areas - Enforce service and quality standards - Set retail rates

Source: Federal Energy Regulatory Commission Web site www.ferc.gov (visited April 1, 2004)

An adequate supply of reliable electric power is essential to a modern economy. Achieving that goal requires strong oversight by regulatory authorities, a renewed attention to the basic transmission and distribution systems, and comprehensive long-range planning to incorporate new sources of energy and energy conservation.

2. Legislative Background

In December, 1997, the Illinois General Assembly passed and Governor Jim Edgar signed into law an electric market restructuring law, providing competition for residential customers starting in May, 2002.⁸

Key provisions of the new law include a phase-in of retail choice for electricity suppliers, a rate freeze for small customers, and other provisions to help the utilities, customers and new market entrants transition to a competitive environment. Non-residential customers were first given the opportunity to choose their electricity supplier, followed by residential customers.

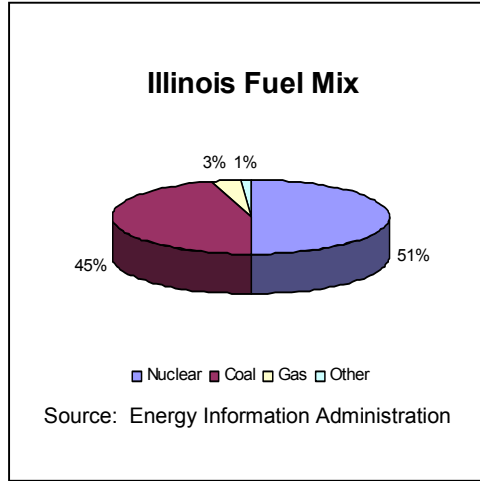
As a part of this restructuring, residential customers received a series of rate reductions approaching 20 percent in some instances. These rates will remain in place through December 31, 2006, which is the end of the transition period. Rates will then be “unfrozen” and electric utilities may seek permission from the Illinois Commerce Commission to change their rates as early as January 1, 2007.

The ICC has convened the “Post-2006 Initiative” to address Illinois’ transition towards “unfrozen” rates to avoid problems encountered by other states during their transitions to a competitive electric market. The ICC’s Post-2006 Initiative is bringing together the state’s various energy stakeholders-- industry, consumer advocates, and all branches of government--to identify the problems presented by the transition of Illinois to a competitive energy market. The initiative is divided into five working groups: Procurement, Rates, Competition, Utility Service Obligations, and Energy Assistance. A final report from each working group is due in September, 2004.

⁸ Article XVI of the Public Utilities Act, known as the *Electric Service Customer Choice and Rate Relief Law of 1997*

3. Illinois' Electric Power Industry

Illinois customers obtain their electricity from investor-owned utilities, municipal systems, electric cooperatives and energy service providers.⁹ Illinois had at least 44,000 megawatts of electric generating capability in 2002. Net generation was 188,054,449 megawatt hours, which placed the state fourth in the nation.¹⁰ Illinois is highly dependent upon nuclear and coal.¹¹ While there is some reported generation from hydroelectric power and renewables, such as solar and wind power, the amount is negligible.



According to North American Electric Reliability Council, the Mid-America Interconnected Network, which includes Illinois, has capacity margin forecasts between 20-25% for the next decade. Energy experts generally assume that margins in excess of 18% are healthy.

In summary, the Illinois electric markets are heavily dependent on generation using coal and nuclear fuels. Although fuel supply appears adequate for coal and nuclear for the time being, little new generation is planned and the nuclear industry faces issues related to aging plants and nuclear waste disposal. To ensure a reliable long-term energy supply, Illinois should broaden its fuel sources.

Electric Utility Retail Sales Statistics for Illinois, 2002

	Investor Owned Utilities	Municipally Owned Utilities	Electric Cooperatives	Energy Service Providers ¹²	Total
Number of Entities	9	41	26	10	86
Number of Retail Customers	4,792,092	346,388	255,106	10,655	5,404,241
Retail Sales (Thousand MWhs)	108,511	8,769	4,600	15,786	137,666
Percentage of Retail Sales	78.82%	6.37%	3.34%	11.47%	100%
Revenue from Retail Sales (\$Million)	7,924	552	406	715	9,597
Percentage of Revenue	82.57%	5.75%	4.23%	7.45%	100%
Revenue per KWh (in cents)	7.30	6.29	8.82	N/A	6.97

Source: Energy Information Administration/State Electricity Profiles 2002¹³

⁹ For a list of Illinois electric utilities and providers see Appendix 4.

¹⁰ Information provided by the Energy Information Administration/State Electricity Profiles 2002: Table 1

¹¹ EIA/DOE, *Electric Power Industry Generation of Electricity by Energy Source, 1999*

¹² Energy service providers buy and sell power and are considered deregulated power brokers.

¹³ Chart obtained from the Energy Information Administration/State Electricity Profiles 2002: Table 9