

## New Image for Utility Doesn't Stop Questions

Written by Rich Miller

Tuesday, 04 November 2003 18:00

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Commonwealth Edison has come a long way from the bad old days when it was constantly trying to find underhanded, sneaky ways to bill consumers for its overpriced, and then-unfinished, nuclear-power plants. ComEd's service territory was infamous for having the highest electric rates in the Midwest, and the third highest rates in the country.

But new leadership finally emerged. John Rowe took over as chairperson and CEO and he seemed intent on improving the company's image. He also spent real money to upgrade ComEd's long-neglected infrastructure. Rowe negotiated what appeared to be a reasonable deregulation bill a few years back that even the Citizens Utility Board supported.

Unlike telephone behemoth SBC, Rowe has accommodated his upstart competitors, winning high praise from business groups. A merger with a Pennsylvania power company created Exelon, the new parent entity, with Rowe as chairperson, and Rowe insisted the company remain headquartered in Chicago.

The goodwill might be paying off. The *Chicago Tribune's* editorial page recently endorsed the company's new legislation to both speed up the approval by the Illinois Commerce Commission (ICC) of Exelon's planned purchase of Illinois Power, a Downstate electric company based in Decatur, and then rule on a rate increase soon afterward. Several influential state legislators are also looking kindly on the proposal.

Even so, quite a few rank-and-file legislators grilled the company during a Springfield hearing last week, with many comparing Exelon's legislative push to SBC's widely derided lobbying offensive earlier this year. The general consensus seemed to be that one controversial utility bill in one year is more than enough.

So far, most of the attention has focused on the company's request to expedite the ICC's review of its Illinois Power purchase.

But that's only part of the issue, and a small part at that. Exelon also wants to loosen the ICC's ratemaking rules. Under Exelon's proposal, the Commerce Commission would be forced to consider "rate certainty," and "assist the utilities in managing risk," and set rates that would help

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them raise “necessary capital on reasonable terms.”

In the past – before the deregulation bill froze electric rates for seven years – the ICC was supposed to set rates that were “just and reasonable.” The concept was sufficiently vague that courts routinely overturned ComEd’s rate hikes. Exelon’s original proposal eliminated the “just and reasonable” mandate, but after loud complaints the company reinserted the language at the end of the list of new ratemaking requirements, although in a somewhat confusing way.

So, what’s really going on here? Exelon claims the Illinois Power purchase is risky because the company is saddled with \$2 billion in debt, and its infrastructure is in dire need of upgrading. Exelon says it must make sure the purchase won’t unduly hurt its balance sheet before it can proceed, so it needs to know what sort of rate hike it can expect.

But what else is going on? The highly respected Kiplinger newsletter claims the purchase is “aimed less at profiting from today’s electricity markets than at influencing the power-regulation landscape in Illinois.”

In other words, to put it bluntly, when Exelon buys IP it is also “buying” legislators, labor unions, business leaders and other influential locals who reside in IP’s distribution area. Exelon, according to Kiplinger, desperately needs to change the way rates are set in the “highly political world of [Illinois] utility regulation” because it stands to lose \$200 million a year starting in 2007.

Kiplinger had another interesting point. One possible problem with the purchase, the newsletter reported, is the state law that caps utilities’ profit margins: “There is some question as to whether a deal would lift the earnings of either ComEd or Illinois Power over the state-mandated limit, which would force the utilities to issue customer refunds.”

So, is this about a rate hike? Or is it about allowing Exelon to keep more of its profits? Or both?

In Springfield, everything boils down to politics. And the big question on everyone’s mind right now is where the governor will land on this thing.

Governor Rod Blagojevich played it coy with the SBC bill, then signed the bill before the ink was dry. He has reportedly told some people that he will veto the Exelon legislation, but he has assured others that he has an open mind. Legislators probably won’t stick their necks out for another utility if they think the governor will just use the opportunity to publicly behead them.

*Rich Miller also publishes Capitol Fax, a daily political newsletter. He can be reached at (<http://www.capitolfax.com>).*