

ComEd's proposal to state: \$500 million for profit guarantee

Gov. Quinn ponders power company's offer to cash-strapped state, even as critics point out that customers will end up paying more for electricity

By Rick Pearson and Ray Long, Tribune Reporters

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With Illinois in an unprecedented financial crisis, Commonwealth Edison Co. has come to the table with an extraordinary offer: \$500 million upfront to the state, but only if the power company gets to lock in its electric rates and profits.

Lawmakers, however, are calling it an indecent proposal, questioning whether ComEd thinks they're so desperate they'll take cash to keep consumer electric bills artificially high.

"I think whenever the state finds itself in a situation where a private interest can put a price tag on favorable treatment, it's a bad way to conduct business," said Rep. John Fritchey, D-Chicago, who added that the proposal "raises a lot of red flags." Some lawmakers said privately that the Democratic leaders of the legislature had ruled out the offer.

The idea is a last-minute addition as lawmakers look for an easy way to get free money to help close a massive budget deficit and escape Springfield by Friday to begin their re-election campaigns. To some leading lawmakers, ComEd's proposal is as politically unpalatable as voting for an income tax increase because it would lead to Chicago-area customers paying more for electricity.

ComEd and its parent company, Exelon, made the pitch to Gov. Pat Quinn's office, seeking a four-year freeze on residential and small-business electrical rates. While the utility called it a plan to "stabilize" rates, consumer advocates noted that electrical demand has declined in recent years and that a rate freeze could mean electrical customers paying higher-than-market rates.

After the four-year rate freeze, ComEd then seeks an automatic annual 10.3 percent profit margin, bypassing state regulators. That means consumers would pay higher rates if profit levels fell.

In addition to the \$500 million upfront, ComEd is promising to commit \$1 billion over 10 years to develop a more efficient "smart grid" for electrical transmission and other projects that would create 2,000 "green" jobs lasting between two and 10 years.

In documents obtained by the Tribune, ComEd called the plan a "public-private partnership" that would help ease "the brunt of the recession" on Illinois residents facing "the state's low level of economic development, high unemployment and difficult budgetary challenges."

But the proposal also would largely render moot the work of the state's utility-rate-setting Illinois Commerce Commission by guaranteeing the firm a rate of return.

Quinn did not rule it out Tuesday, saying he needs to see the "fine print" but is concerned about whether ComEd is hedging against future rate uncertainty.

"I just haven't seen the bill, and we'll take a very close look at it. We want to make sure things are proper," Quinn said.

The proposal is rife with political irony for Quinn. During his decades outside government, Quinn portrayed himself as a taxpayer and consumer advocate whose activism led to the creation of the Consumer Utility Board. That's the panel charged with challenging utility rate increases before the ICC. Now Quinn is running a state with a \$13 billion deficit and a \$5 billion backlog of bills and looking at a plan to help close the budget gap in exchange for a utility rate increase.

The executive director of CUB, David Kolata, said the trade-off is bad for consumers.

"You're talking about locking in higher rates than we would normally pay," Kolata said, adding that the changes in utility rate policy overturn decades of precedent. "This is a big shift when you're guaranteeing profit rates for a utility and making it a floor, not just a ceiling."

In a statement, ComEd spokeswoman said talks on the plan have been held between legislators and ComEd and Exelon officials "over the last few weeks."

"We have shared this proposal for a public-private partnership with the elected leaders in Springfield and believe it to be mutually beneficially," ComEd spokeswoman Tabrina Davis said in a statement. "The decision to proceed or not lies — as it should — with the elected officials who represent the people of Illinois."

But the plan clearly surprised many rank-and-file lawmakers.

"It's shocking that we would take a large chunk of private dollars to solve our budget problems and give someone a legislative fix in return," said Rep. Elaine Nekritz, D-Northbrook.

Rep. Roger Eddy, R-Hutsonville, said, "When someone starts throwing around that kind of money, people are going to sit up and pay attention because people are desperate."

Some Democratic senators said privately that the offer was quickly ruled out.

Senate Democrats last year supported an income tax increase even larger than the 33 percent personal income tax rate increase that Quinn has unsuccessfully sought /this year. They questioned why they would vote during an election year to increase electric rates on Chicago-area ComEd customers to help a utility when they were unwilling to vote directly on higher taxes this year for all residents.

Tribune reporters Monique Garcia, Julie Wernau and John Byrne contributed to this report.

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