

City of Chicago Club Speech

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Part 1: Acknowledgements

Good afternoon. It is my great honor to be here today. I have been coming to the city club for many years, but have never been on this side of the podium before – I like the view.

Thank you, Jay, for the kind introduction. Thanks also for the good work you and the City Club do to advance the public conversation. We are all fortunate to have the City Club as a forum for **thoughtful public discourse on the significant issues that face us.**

I want to thank Sister Rosemary who was generous enough to deliver the invocation and bring with her some of our friends from Misericordia and some samples of their tasty work. Let's recognize our friends.

I also want to acknowledge my ComEd colleagues here today. To borrow a phrase -- "It takes a village." The 6,000 men and women of ComEd do extraordinary work to keep the lights on for our 3.8 million customers. I am continually humbled by the strength, tenacity, and commitment of our employees and the bond within our ComEd village.

To that point, our CEO, Frank Clark, will retire in early 2012. He has served ComEd for 46 years and the impact of his amazing career is felt everywhere. One of his important legacies is the scope and make-up of our village. Our company reflects the diversity of the community we serve, thanks to his commitment. The ComEd village and the best of its characteristics are the gift of Frank Clark.

Part 2: Introduction

So, you may have wondered what's in store for you today. **Last week**, you heard from ICC Chairman Doug Scott, on the views of the ICC regarding grid legislation pending in Springfield. I have great respect for our Chairman and the other members of the ICC.

We ***“work hard to work well”*** with the ICC – this is the body that regulates us. And on this legislation, we have many areas of agreement. But today you will hear about this legislation from a different vantage point.

Twenty years ago the essence of the job at ComEd was managing assets and restoring service in the event of outages. But today's world requires something different – managing the status quo just will not do.

We see sweeping changes in our economy, in the ways we conduct commerce, in our day-to-day lives. A sea change even in how we communicate and relate to one another.

Most, if not all, of this involves changes in how we use electricity.

So at ComEd, we have a mission as well as a job and that mission is to work with our customers, our policy makers, and our regulators to oversee the evolution of the electric grid from a relic of the 20th century to critical infrastructure that will **support the new lives we lead and act as an economic engine for the Chicago region in the 21st Century.**

And I believe to get this right, it is important to view the question of grid modernization through the **lens of the future rather than through the worn and cloudy lens of the past.**

This is not always easy. Imagining the future and embracing change is complex and uncertain and we just don't naturally gravitate to the unknown.

In 1878, Oxford University Professor Erasmus Wilson commented on the electric light demonstration at the Paris Exhibition. And I quote: **“When the Exhibition closes, electric light will close with it and no more will be heard of it.”**

Just two years earlier, a Western Union executive memo suggested that the emerging telephone has, and I quote, **“too many shortcomings to be seriously considered as a means of communications.”**

Both of these supposedly “doomed” technologies not only shaped the 20th Century; they figure even more importantly in the 21st.

Part 3: The Case For Change

I manage a business whose legal and regulatory foundations are 100 years old, whose operating model is 100 years old, and whose fundamental technology, until recently, hadn’t changed significantly in 100 years.

If Alexander Graham Bell – who invented the telephone – stepped out of the 19th century and into the 21st, he would not find his telephone anywhere and would not recognize the technology that has evolved to substitute for it.

I could not say the same about the electric power industry. If Thomas Edison and Sam Insull – the innovators of the original grid – took a tour in 2011 of any system in the United States, they wouldn’t bat an eye. They would see essentially the same technology they deployed 100 years ago, operating in much the same way.

100 years ago the legal framework for the grid required a “least cost” design standard to serve an economic sector that had no global competition and far less need for high quality power.

100 years ago, our electric system was designed around plentiful and inexpensive power resources that do not serve today's green ethos.

100 years ago, our grid was designed to serve up a one-size-fits-all product with virtually no transparency to price and no real choice for consumers.

But while the grid and our policy around the grid has not changed much in 100 years, our world has changed dramatically.

- In our daily lives, on-line transactions have turned the traditional retail model on its head, 50 percent of our banking transactions are electronic, we are in the middle of a five year period in which internet traffic is expected to quadruple. We Tweet one billion times per week.
- In commerce, we see the proliferation of new growth industries such as data centers whose entire business model depends on high quality power services 24/7.
- Even in the traditional sector of manufacturing, today's industrial processes are run by microprocessors highly sensitive to electric grid disturbances.

In fact, we live our lives on the grid. We bank online, shop online, conduct friendships online – even *date* online.

But you know all this. And you tell me this in many ways.

A few days after the blizzard of February 2011, a customer told me about his family's blizzard preparation efforts. Hours before the blizzard hit, he called his wife and three children together and directed them to plug in and charge – charge their I-phones, I-pads, and Blackberrys – preparations in the event they lost power.

Gone are the days when the only preparation was a candle, a flashlight and canned beans.

We are also a region and state that stands for a greener future with targets for renewables such as solar and wind. And we envision a future where electric vehicles have a place on our roads.

- But solar and wind and electric vehicles require a smarter grid than the one we have today.

And our expectations as consumers have changed over the last 100 years -- we expect more choice, more information and more control.

- Yet our electric system serves up a one-size-fits-all product with little or no information. Electricity is the only thing you buy where you don't know how much you used – and at what price – until you receive a bill at the end of the month and it's too late to do anything about it.

So, it's time for Illinois to build a grid to meet these changes -- a grid that provides the platform for our future.

44 other states are already underway building this new platform.

But to build this new grid we need a roadmap to get us there. Fortunately, there *IS* one.

Part 4: The Road Map

That roadmap is The Energy Infrastructure Modernization Act – Senate bill 1652. As you know, it passed both houses of the General Assembly in May, but was vetoed by the Governor last month.

I want to describe this roadmap in the context of the three policy objectives that I have covered and which I believe justify the investment embodied in the roadmap.

First, we all can agree that at the center of the grid modernization discussion is the consumer. It is you.

You, as a consumer, expect quality, choice and value for your dollar.

As you know, the weather we experienced this summer wreaked havoc on our grid and left **too many customers out of power for too long.**

While we have established a task force to examine ways to improve our response with the tools we have now – you should know that we believe a significant number of interruptions -- well over 100,000 -- in the July 11th storm could have been avoided with the tools that we don't yet have but which are provided in Senate Bill 1652. We are told by other utilities that the tools can also help us restore faster.

This legislation delivers greater reliability. It requires ComEd to reduce outages by twenty percent over the course of the investment. And improve restoration times by 15 percent. This will come about through a combination of refurbishing the grid we have – through underground cable repair and pole replacement projects -- and adding the tools of a modern grid – adding technology we don't yet have beyond test pilots.

This legislation delivers choice and control. It installs a smart meter in every home opening a world of consumer information and pricing options that provide opportunities for customers to save money. The legislation requires ComEd to offer a rebate pricing program to customers that receive a smart meter – this program offers a rebate to customers who reduce usage during the peak hours of the summer.

This legislation delivers better and more efficient customer service.

- We'll be able to reduce estimated bills by 90 percent and costs associated with meter reading and billing.
- And once our smart meter system is in place, we are looking toward a future where you don't need to call us to tell us that your power is out.
 - As my colleague John Hooker likes to say "OnStar can turn your car on from 50 miles away, but unless you call ComEd, we don't know you are out of power 2 blocks away." With Smart Meters, we'll know.

In a new day of 'value consumerism', Senate bill 1652 is the road map to better serving customers.

But let's go beyond the direct benefits to consumers. Most of us would agree that a core policy objective moving forward is to create greener, more sustainable future.

- The power industry generates about 40 percent of the CO2 emissions in our country and transportation accounts for 33 percent. You tackle these industries and we have gone a long way to green.
- It increases the energy efficiency dollars available to our customers. The programs in place today save our residential customers \$95M annually. The legislation increases those programs by at least another 10 percent.
- It facilitates solar and wind distributed generation and makes electric vehicle charging systems possible.

Senate Bill 1652 is a road map for a greener future.

Lastly, everyone agrees that our state's most pressing public priority is job creation and an infusion of private capital investment into our economy. We need it now. And we need it badly.

This legislation offers exactly that. This is \$2.6 billion investment of private capital that ComEd is willing to invest. It will give an immediate shot in the arm for northern Illinois.

- The investment program will generate 2,000 jobs at its peak.
- It will mean immediate and significant growth opportunities for Illinois companies that support the electric industry. Companies like S&C Electric, Primera Engineering, General Cable, Intren, Meade, and Trice Construction. There are dozens of Illinois companies capable of supporting grid modernization in some way. When they get more business, they hire more workers.
- And as the Sierra Club stated in their recent op-ed, Senate Bill 1652's environmental provisions will add jobs around solar projects and new energy efficiency programs as well.
- But beyond the jobs related to modernizing the grid and energy efficiency, Senate Bill 1652 will be a catalyst for future economic growth and more jobs. This legislation will infuse money and energy into the burgeoning energy-tech cluster.
 - You've heard of Silicon Valley and the North Carolina Research Triangle. We can create such a thing here for the smart grid revolution that's coming. We have dozens of energy tech start-ups coming out of our esteemed universities.

- This legislation includes the creation of a utility-paid-for \$20 million fund for tech start ups to get them rolling and a R&D test bed on the ComEd grid for testing the developing new energy technology these start-ups produce.

Senate Bill 1652 is the road map to a stronger, more resilient Illinois economy.

Part 5: Why the Controversy

Here we have a bill that injects \$2.6 billion into the economy – puts people to work – improves reliability – and puts in place a modern grid that will help make Illinois competitive. So why is this controversial?

The debate revolves around consumer protections – an area that was heavily negotiated during the General Assembly’s spring session resulting in over 40 changes, 30 of them substantive -- to the original bill.

Let’s look at the three areas where critics have focused.

First, is the price tag.

- This investment will require about a \$3 per month increase on the average customer’s bill.
- But, the rate increase carries with it a value proposition – that the cost will be more than offset by benefits of the bill in real and quantifiable ways. This is a program that ultimately more than pays for itself.
- The benefits of grid modernization for consumers are three-fold.
 - First, when ComEd becomes more efficient in its operations thanks to modernization, the savings are by law passed on to consumers.
 - Second, consumers reap tangible savings with fewer outages.

- Finally, when consumers have smart meters they can better manage their usage and reduce their energy budget.
- Now, if you just take that first category – “savings as a result of ComEd operating more efficiently” *that* benefit *alone* will deliver value equal to \$3 per month.
 - The reliability benefits will deliver an additional one dollar per month benefit.
 - Additionally, taking advantage of several of the energy efficiency programs available can more than offset the increase.
 - And the energy savings potential from better information and energy management tools is up to you.

Now, you may ask, how do I know these benefits will be delivered? Because the bill requires utilities to meet performance standards that generate these benefits. If the utility fails, it faces financial penalties – a reduction in profits.

That is a value proposition for consumers that doesn't exist today and that is what Senate Bill 1652 requires.

Second is the claim by some that the bill undercuts existing regulatory processes that protect consumers.

But let's look at what the legislation actually calls for.

- It calls for annual reviews by the ICC of the utilities **plans, performance, and costs.**
- In these annual proceedings, the ICC retains the **authority to lower rates.**
- In these annual proceedings, consumer advocates retain the right to protest our filings.
- It holds utilities accountable to strict performance standards on reliability and customer service and reduces the utility's profit levels if it fails to meet the standards .

- It requires 2 review or check in points with the General Assembly.
 - First, in 2014, and again in 2017 when the entire program terminates and the utility must reapply to the General Assembly to restart the program.

If we step away from the rhetoric surrounding this legislation and wipe off the cloudy lens of the past, we will see what several impartial regulatory experts have seen. They tell us that this legislation incorporates one of the most progressive accountability-based regulatory models in the country, protecting consumers in ways the current system does not. Former ICC Commissioner Ray Romero puts it this way in his op-ed published this weekend in the Rockford Register Star:

“It occurs to me that everyone in these conversations wants the same thing: more accountability from ComEd, a more robust and reliable electric grid, consumer protections, job growth and economic development. The fact is SB1652 delivers all these benefits.” That the “regulatory provisions will actually deliver the very things the [opponents] are calling for.”

The increased regularity and scope of regulatory oversight and accountability for utilities under this model doesn't exist today and that is what Senate Bill 1652 requires.

Finally, the third objection is that the legislation allegedly guarantees high profits to the utilities.

But again, here are the facts that surround the legislation .

Under this Act, and under today's conditions, ComEd's profit levels would be lower than the national average for utilities over the last 10 years. It would be the second-lowest profit level the ICC has given ComEd in the last 30 years. In fact, it would be lower than the profit ComEd just received from the ICC in its last rate case decided in May.

And there's nothing guaranteed about the profit level. If we don't hit the performance targets, our profits are lowered. If the ICC rejects a cost item we submit, our profits are lowered.

The performance standards and the dependency of utility profits on achieving them does not exist anywhere today and that is what Senate Bill 1652 requires.

One last point before I conclude. The ICC has proposed a different model to try to cut through the regulatory red tape that makes this endeavor so difficult. We very much appreciate the spirit in which this was offered, but that model has several challenges.

- *First, the proposal covers only 50 percent of our costs – it covers our capital investment but leaves our expenses such as most of our labor costs subject to the vagaries of the current unstable system. In essence, it would allow us to buy the poles, but whether we could pay for the labor to set the new pole would be uncertain.*
- *Second, an Illinois court decision came down last week on a variation of this model People's energy piloted. The court overturned the model. Now, the legislature can trump that, but with that kind of precedent, the legislation could be subject to challenge in the courts leading to years of litigation before we get anything done.*

Part 6: Conclusion

So I will just finish with a couple of thoughts.

First, let me say there is a wide variety of support for this legislation -- business groups, labor unions and environmentalists.

Why? Because they are looking through the lens of the future.

- Because Senate Bill 1652 is a driver of **economic growth**.
- Because it will put **thousands back to work**.
- Because it will provide the platform for a **smarter and greener way to use energy**.

What happens if we *don't* do this?

Nothing. Nothing will happen.

And that's the problem.

We will remain without the energy infrastructure to support a stronger economy, more reliable delivery of electricity and options that will allow consumers to better manage their energy bills.

We will remain without a modern grid that allows us to compete in attracting high-tech economic growth.

Our future won't be as green.

We have a choice: A choice between maintaining the status quo – which really amounts to falling behind -- or taking action to build a brighter and more prosperous future.

Others are not waiting. Forty-four other states are out there taking significant action to modernize their electric grids. They are placing their bets on the likes of Thomas Edison rather than the skeptical Professor Erasmus Wilson who turned out to be so terribly wrong about the future of electric light.

It is time to make a choice.

Thank you very much.