SEDAC NEWS

Update: Illinois electricity rates on the rise

As reported in the January newsletter (Vol. 2, No. 1), electric rates in Illinois will likely increase in the near future. A nine-year rate freeze will end on December 31, 2006. On September 5, Illinois is slated to become the second state in the nation to allow its major electric utilities to use a “reverse auction” process to meet customer electricity demand. In a reverse auction the electric providers compete for the right to provide electricity at the lowest price.

Wholesale electric rates in New Jersey increased by more than 10 percent following the implementation of a similar auction. During their second auction, electrical energy prices increased by 55 percent, but this was moderated by the mix of old and new energy rates. As a result, the New Jersey Board of Public Utilities is currently reviewing the auction process in their state.

The Citizens Utility Board (CUB) and the Illinois Attorney General’s office have expressed concern that the auction process, unanimously approved by the Illinois Commerce Commission (ICC) in January 2006, may not require electric utilities to ensure that rates charged in Illinois are “just and reasonable”—as is called for in state law.

The fear is that the auction process may force consumers to pay unlimited rate hikes. To help protect against volatile energy prices, the ICC has begun to develop rules to manage the auction process. The maximum opening fixed price for the auction has been set at $104 per megawatt hour—approximately double what some Illinois customers currently pay. In the reverse auction process, prices will decrease from the original opening price. CUB and government officials have appealed the ICC decision because they remain concerned that the closing price may still be as much as 40 percent higher than current rates.

In the meantime, the ICC has opened rulemakings to encourage the use of more low-cost renewable energy sources, along with increased demand response and energy efficiency programs. These rulemakings will implement the Governor’s Sustainable Energy Plan, which proposes targets for energy efficiency and renewable energy. The ICC also continues to express confidence that the auction process will provide consumers with “the lowest cost electricity available at this time” and it has committed to an annual formal review of the process to ensure that it continues to meet this goal. For more information, please visit: http://www.illinois-auction.com

On June 1, 2006, the ICC initiated the Illinois Energy Solutions forum to discuss the upcoming changes to the Illinois retail electric market and how best to prepare...
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consumers for this change. The ICC intends to examine energy price increases and to determine how best to ensure appropriate consumer education and protection measures in light of those increases, both for the short-term and long-term. The forum is located at: http://www.icc.illinois.gov/en/ecSolutions.aspx

In addition to the possibility of higher electrical energy costs due to the reverse auction process, the U.S. Department of Energy’s latest fuel cost projections also suggest higher energy bills in the future. Costs for natural gas are expected to remain about the same as 2005 for 2006, but increase by about a dollar per million Btu in 2007. Petroleum prices are projected to remain high, but stable. This may not be a valid projection as current spot prices for crude oil are about $12 per barrel higher than last year. Coal prices are expected to increase at about twice the inflation rate.

This fuel cost data is an integral part of how all energy companies determine their rates, whether they use an auction process or more traditional rate determination processes. Therefore, the free services offered by SEDAC may be invaluable to small business owners that are struggling to hold energy costs down—now and in the future. If you are interested in using SEDAC architects and engineers to review your energy usage, simulate your building, and recommend new building design or existing building retrofit options that will reduce your business’s energy consumption, please visit us at: www.SEDAC.org.

IRS issues procedure to help owners claim energy efficiency deduction

On June 2, the Internal Revenue Service issued Notice 2006-52, a process that explains how commercial building owners or leaseholders can certify that they have installed energy-efficient property into their buildings in order to qualify for a tax deduction by making their building(s) more energy efficient. Enacted as part of the Energy Policy Act of 2005, the deduction may be as much as $1.80 per square foot of building floor area for buildings that achieve 50 percent energy cost savings. For buildings below the 50 percent energy cost savings threshold, a deduction of up to 60 cents per square foot is available if a minimum of 16 2/3 percent energy cost savings is achieved due to changes in one of the major subsystems of the building.

To claim a deduction, the building owner or leaseholder must be able to certify that the required energy cost savings has been or will be achieved. To qualify, the energy efficient property must be installed in a building that meets the ASHRAE Standard 90.1-2001 (energy standard adopted as part of ICC Energy Code) and must be part of:

- Interior lighting systems,
- Heating, ventilating and cooling systems and domestic hot water systems, OR
- Building envelope.

Also, for lighting systems only, pro-rated deductions are available for lighting power density reductions between 25 and 50 percent. In order to claim the deduction, taxpayers must have the building’s performance certified by a qualified professional. The Notice details the content of the performance rating method certification and the professionals’ qualifications that must be met by certifiers. In addition, the Notice declares that the U.S. Department of Energy will develop a public list of software that must be used to calculate energy cost savings for purposes of providing the certification.

To pursue this tax deduction, please contact SEDAC at: (800) 214-7954.