

TO: Mayor and City Council

FROM: Gary Holm

DATE: June 18, 2021

RE: State of Illinois Energy Legislation Impacts
Long-Term Electric Revenue Strategy to Mitigate Future Substantial Rate Increase (PU)

On Tuesday June 15th, the Governor's office released its latest draft energy legislation. That legislation calls for the closure of Prairie State in 2035. As you know, Batavia's responsibility for payment of Prairie State bonds runs until 2042. If legislation passes as it is currently proposed, there will be a seven-year period during which Batavia will be responsible for paying principal and interest bond payments and also will need to purchase replacement energy and capacity to serve the needs of its electric customers. During that same seven-year timeframe Batavia will also incur Prairie State decommissioning costs. Batavia will be forced to raise its electric rates in order to have sufficient revenues to cover the concurrent expenses. **Staff estimates that more than a 20% increase over today's electric rates will be needed to provide sufficient revenues in the future.**

Batavia last raised its electric rates in May, 2015. Since that time Batavia's purchase power costs, via our Power Sales Agreement with NIMPA, have steadily decreased. The decrease in power costs has helped to offset increases in operating expenses that have occurred since 2015. Prior to the current energy legislation issue, it was anticipated that a 2-3% rate increase would be required in 2022, primarily for operating expenses. It was anticipated that the 2022 increase would be sufficient for at least a few more years assuming continued power cost decreases.

The proposed Illinois energy legislation, with its 2035 Prairie State closure date, will completely change the electric utility's requirement for future revenues. Staff is very concerned about the need for a substantial future rate increase. Such an increase would have immediate and devastating impact on our local economy. In an effort to help mitigate that impact, Staff is recommending that City Council adopt a long-term electric revenue strategy. **Staff recommends a strategy that calls for an increase to the City's electric rates of two percent (2%) annually from 2022 until 2030.** Staff requests Council's consideration of the following points:

- Delaying the first increase until 2022 will allow time for the legislative draft to be finalized and the impacts to Batavia determined.
- A slow, incremental increase in rates over several years will better enable residents and businesses to adjust.
- A long-term codified strategy will provide a greater sense of security and better enable residents and businesses to perform long-term planning.
- Adopting a long-term plan will help mitigate the negative impacts that could result if Batavia were to be in the news each year proposing additional rate increases, or proposing one large and sudden future increase.

- A slow, incremental increase in rates over several years will result in a gradual increase in electric reserve funds. The funds accumulated in reserves can then be utilized to help stabilize rates during the transition period after Prairie State is forced to close.
- Adoption of a long-term revenue strategy will be viewed positively by bond rating agencies. A long-term strategy will demonstrate the City's commitment towards meeting its bond obligations.

Staff requests that City Council keep the following additional information in mind when contemplating the need for a long-term revenue strategy:

- Electric utility operational expenses will continue to increase during the period from 2022 to 2030. This means that not all of the annual rate increases will be used to mitigate the impacts of closing Prairie State in 2035. **It is very likely that additional rate increases will be required beyond 2030.**
- By the year 2030 the City will be in a position to better estimate the cost of replacement energy that it will need to purchase when Prairie State closes.
- The City is located in the PJM transmission territory. PJM establishes capacity pricing, via an auction process, three years in advance of when capacity is purchased. By the year 2030 the City will be able to better estimate what capacity auction prices will be in 2032 for the 2035 capacity year.
- If the current draft legislation passes, and if Prairie State is forced to close in 2035, then by 2030 Staff would anticipate that decommissioning costs would be quantified.
- Prairie State bond principal and interest costs for the period from 2035 to 2042 are already known.

All of the above information can be utilized by the City in 2030 to re-evaluate its financial position and to develop another long-term strategy for the remaining years leading up to Prairie State's closure.

Staff recognizes that the prospect of needing to increase electric rates by a large percentage is not desirable to City Council, our residents or our business community. Unfortunately, if the energy legislation passes as proposed, and Prairie State is forced to close before our bonds are satisfied, then our hand will be forced and we will have no other option. Staff feels that it is vitally important for the City to adopt a long-term approach towards the future. Staff feels that delaying the inevitable in hopes of securing some sort of miracle funding from the State or Federal Government is not a viable strategy. Staff feels that the sooner we can begin taking small, incremental steps towards the future, the better off we will be in the long run. Once again, **Staff recommends a long-term revenue strategy that calls for an increase to the City's electric rates of two percent (2%) annually from 2022 until 2030.**