

# Sears Tower inks energy agreement

Pact is coup for Peoples  
unit, but a loss for ComEd

By STEVE DANIELS

The Sears Tower's frustrating five-year battle to find an alternative to Commonwealth Edison Co.'s high rates ended last week with the signing of an electricity supply deal with an affiliate of Chicago gas utility Peoples Energy Corp.

The contract gives Peoples Energy Services, the unregulated subsidiary of Peoples Energy, the kind of trophy customer that others in the market have been snapping up in recent weeks.

Peoples started slowly in the Chicago market immediately after Oct. 1, when the first business customers were allowed to select power providers other than ComEd. But it has picked up the pace since then, energy consultants say.

The deal also effectively marks the end of an expensive legal struggle that pitted Chicago utility ComEd against two separate



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**Power play:** "I was expecting Unicom to be more aggressive," says Sears Tower's Stephen E. Budorick. The selection of Peoples ends a five-year legal struggle.

owners of the city's best-known and tallest office building and cost the tower's owners and their partners an estimated \$250,000 in legal fees.

The conflict made the Sears Tower a symbol for ComEd's un-  
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happy business customers, who've chafed at the utility's high rates and reliability challenges.

"It's sort of the poster child of electricity deregulation," says Michael Rumman, president of Peoples Energy Services.

## 'Strictly business'

Still, business is business, and Unicom Energy, the retail marketing unit of ComEd parent Unicom Corp., was vying for the tower's contract.

"For us, it's strictly a business decision," says Stephen E. Budorick, senior vice-president of TrizecHahn Office Properties Inc., managing agent for the Sears Tower's owners. "I was expecting Unicom to be more aggressive in their pursuit of this opportunity, and was fully prepared to select them if they had the best offer."

The contract with Peoples runs for 16 months and will give the tower roughly a 7%-to-10% break on its electricity rates. Peoples will buy electricity from outside generators—potentially including ComEd—and bill the building's owners.

Peoples' coup follows recent deals struck by competitors with other prominent Chicago business customers.

Unicom Energy recently snared an electricity contract with the commercial portion of the John Hancock Center, at reputed savings of 8% to 10% off ComEd's rates. Unicom also has signed deals with all area Jewel and Dominick's supermarkets.

NewEnergy Midwest LLC, a unit of Virginia-based AES Corp., recently won contracts with the renamed Aon Building (formerly the Amoco Building) and the nearby Prudential Building. NewEnergy also struck a deal last month with 15 downtown office buildings controlled by real estate mogul Sam Zell's Equity Office Properties Trust.

Interestingly, few of these high-profile customers are getting price breaks much bigger than those enjoyed by more obscure businesses that have opted to play the market, consultants say.

"Clearly, (providers) are trying to give better pricing to get those deals," says Craig Sieben, president of Sieben Energy Associates LLC in Chicago. "But they're not willing to lose a lot of money just to say, 'I got the Merchandise Mart.'"

Adds Peoples' Mr. Rumman, "The sophisticated customers like Sears are not

saving an enormous amount of money. But they understand there is potential for larger savings (later) and feel they have an obligation to try to make deregulation work."

A key factor is the hefty "transition charge" imposed by ComEd on customers that turn to other power generators. The state's 1997 electricity deregulation law allows for these charges as a way to help ComEd recoup its enormous uneconomic past investments in nuclear power.

For the Sears Tower, the transition charge is \$2 million over the contract's 16 months, "making it difficult to get massive,

massive savings," says Patrick N. Giordano, the attorney who negotiated the deal with Peoples for Sears Tower owner TrizecHahn Corp.

In addition, like other business customers that turn to alternative suppliers, the Sears Tower won't achieve its goal of reducing its expo-

sure to potential problems in ComEd's troubled transmission and distribution system. The power will continue to be delivered via ComEd's grid, which suffered several well-publicized, disruptive breakdowns last summer.

Increased reliability was part of the tower's aim five years ago, when it negotiated a deal with a subsidiary of Downstate electric utility Cilcorp Inc. to build a natural gas-fired on-site generating system. In addition to lowering the tower's costs, the system was designed to reduce the building's exposure to ComEd outages.

The trouble was that, like many downtown buildings, the Sears Tower's inside wires were owned by ComEd. And ComEd's refusal to sell those wires to the tower blocked its deal with the Cilcorp unit.

## The first step

The standoff led Sears Tower owners in 1997 to appeal to the Illinois Commerce Commission, which dismissed the case more than a year later, saying it didn't have the authority to order ComEd to sell the lines. The Sears Tower then filed an appeal with the Illinois Appellate Court, but withdrew it last year, reasoning that it soon would be able to choose an alternative power provider anyway.

Now, it's finally done that, but TrizecHahn's Mr. Budorick says this is just the first step. "Someday, the transition charges will go away," he says, "and the market will develop further."

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