



September 14, 2017

Mr. Mario Borhorquez - Planning and Procurement Bureau Chief
Illinois Power Agency
Via Email – mario.borhorquez@illinois.gov

Ameren Illinois' Comments to the Illinois Power Agency's Draft Procurement Plan

Dear Mr. Bohorquez:

Pursuant to Section 16-111.5(d)(2) of the Public Utilities Act, Ameren Illinois Company (Ameren Illinois) respectfully submits comments to the Draft Procurement Plan (Draft Plan), which the Illinois Power Agency (IPA) released for public review and comment on August 15, 2017. More formal legal comments may be provided in the docketed proceeding once the revised Plan (Filed Plan) is submitted to the Illinois Commerce Commission (ICC).

Ameren Illinois first would like to compliment the IPA regarding its past successes and wish them continued success going forward. Furthermore, specifically in reference to the Draft Plan for the period June 2018 through May 2023, Ameren Illinois appreciates the considerable effort the IPA put forth in developing the Draft Plan. While Ameren Illinois agrees with the majority of the positions taken by the IPA, we respectfully offer the following comments and recommendations in an attempt to strengthen the Draft Plan and prepare it for implementation. Ameren Illinois reserves the right to make further edits, comments or proposals in subsequent filings, as well as present additional or different positions in light of the Filed Plan and other parties' positions.

Highlights of Ameren Illinois' comments and recommendations are provided below:

Energy Procurements

The IPA recommends two procurements, one in Spring 2018 and the second in Fall 2018. The procurements would result in the following hedge plan:

Prompt Year (2018/2019)

- Spring 2018 event which procures the summer period at 100% hedge (except July/August peak at 106%) and the non-summer period at 75% hedge.
- Fall 2018 event which procures the remainder of the non-summer period so as to achieve 100% hedge.

Prompt Year + 1 (2019/2020)

- Spring 2018 event which procures half of the quantity necessary to achieve 50% hedging by the end of the Fall 2018 procurement.
- Fall 2018 event which procures the remaining quantity so as to achieve a 50% hedge.

Prompt Year + 2 (2020/2021)

- Spring 2018 event which procures half of the quantity necessary to achieve 25% hedging by the end of the Fall 2018 procurement.
- Fall 2018 event which procures the remaining quantity so as to achieve 25% hedging.

Final quantities for the Spring 2018 procurement would be based on an updated forecast in March 2018 subject to consensus by the IPA, ICC Staff and Procurement Monitor, while final quantities for the Fall 2018 procurement would be based on an updated forecast in July 2018, also subject to consensus by the IPA, ICC Staff and Procurement Monitor.

Ameren Illinois supports the IPA hedge plan for energy as proposed.

Capacity Procurements

The IPA proposes that starting in the 2019-2020 delivery year, all capacity for Ameren Illinois eligible retail customers be entirely procured through MISO's Planning Resource Auction (PRA). The Draft Plan then reviews the capacity procurement prices for 2016-2017, 2017-2018 and the partial 2018-2019 results that were available at the time the Draft Plan was released. The IPA graphically illustrates the average procurement prices for 2016-2017 and 2017-2018 compared to the MISO PRA prices and suggests the PRA prices outperform when compared to the price of IPA administered procurements. The IPA notes that a "significant decline in MISO PRA prices and a positive market outlook based on fundamentals and reduced regulatory risk, suggest that a change in procurement strategy is prudent and would result in the lowest total cost over time, taking into account any benefits of price stability" (Draft Plan at page 53). Finally, the IPA states that it will update the Filed Plan so as to include the additional procurement results for 2018-2019 and any comments from parties regarding the Draft Plan.

Ameren Illinois understands the difficult position the volatility of MISO PRA prices has on the IPA planning process and we echo the IPA's desire to achieve low and stable prices for eligible retail customers. However, Ameren Illinois is of the opinion that the discussion in the Draft Plan is insufficient to properly characterize the issue of MISO capacity and whether the IPA should procure in advance of the MISO PRA. We therefore recommend the IPA expand its discussion in the Filed Plan so as to allow parties the opportunity to comment on a broader range of topics and so the ICC will have all the pertinent information for its Order. Later in this letter, we suggest alternative capacity procurement proposals for the IPA's consideration in the Filed Plan.

But first, Ameren Illinois below summarizes the IPA's capacity procurement history, provides insight into the IPA procured price for each year compared to the MISO PRA price and provides reasons the IPA should consider alternative proposals in its Filed Plan.

IPA Capacity Procurement History for Eligible Retail Customers

2009 Plan

The IPA procured 100% of the forecasted capacity for 2009-2010, 50% for 2010-2011 and 35% for 2011-2012.

2010 Plan

The IPA procured an *incremental* quantity of capacity to cumulatively reach the following: 100% of forecasted capacity for 2010-2011, 70% for 2011-2012 and 35% for 2012-2013.

2011 Plan

The IPA procured an *incremental* quantity of capacity to cumulatively achieve 100% of forecasted capacity for 2011-2012, but due to anticipated changes in the MISO capacity auction, (i.e., moving from a monthly construct to a yearly construct), the IPA made no additional procurements for 2012-2013 and beyond (*but note 35% was previously procured for 2012-2013*).

2012 Plan

The IPA procured an *incremental* quantity of capacity to cumulatively achieve: 100% of forecasted capacity for 2012-2013 (monthly settlement), 50% of forecasted capacity for 2013-2014 and 35% of forecasted capacity for 2014-2015 (both 2013-2014 and 2014-2015 were yearly settlement). The change in settlement from monthly to yearly was due to anticipated FERC approval of proposed changes to the MISO capacity auction. FERC approval subsequently did occur.

2013 Plan

Due to a significant loss of eligible retail load from municipal aggregation and uncertain load forecasts in the future, the IPA made no incremental procurement of capacity such that the balance of 2013-2014 capacity requirements was procured through the MISO PRA. However, because of the significant loss of eligible retail load, the prior IPA capacity procurements met the vast majority of the 2013-2014 capacity requirement.

2014 Plan

The IPA procured no incremental quantity of capacity. However, procurements were previously made for 2014-2015 and due to switching, those procurements accounted for the majority of the capacity requirement.

2015 Plan

The IPA procured no capacity for 2015-2016 and given that no prior procurements existed, 100% of the capacity requirements for Ameren Illinois eligible retail load were met through the MISO PRA. For 2016-2017 and 2017-2018, the IPA procured 50% and 25% respectively of the forecasted capacity.

2016 Plan

The IPA procured no incremental capacity for 2016-2017 but 50% was procured in the prior year. In addition, 75% was procured for 2017-2018 and 25% was procured for 2018-2019.

2017 Plan

The IPA did not procure any incremental capacity for 2017-2018 (but 75% was previously procured). For 2018-2019, the IPA sought incremental capacity procurements of 50% and since 25% was previously procured, the cumulative target was 75%. Actual procurement quantities were not made public since only two suppliers were awarded contracts (the price of \$23.26/MW-Day was made public). Since the quantity awarded in the 2017 procurement is not public, the weighted average price of the 2016 and 2017 procurements is also not public. The balance of capacity will be procured in the 2018 MISO PRA. Finally, the decision regarding whether to procure in 2019-2020 was deferred until 2018.

2018 Draft Plan

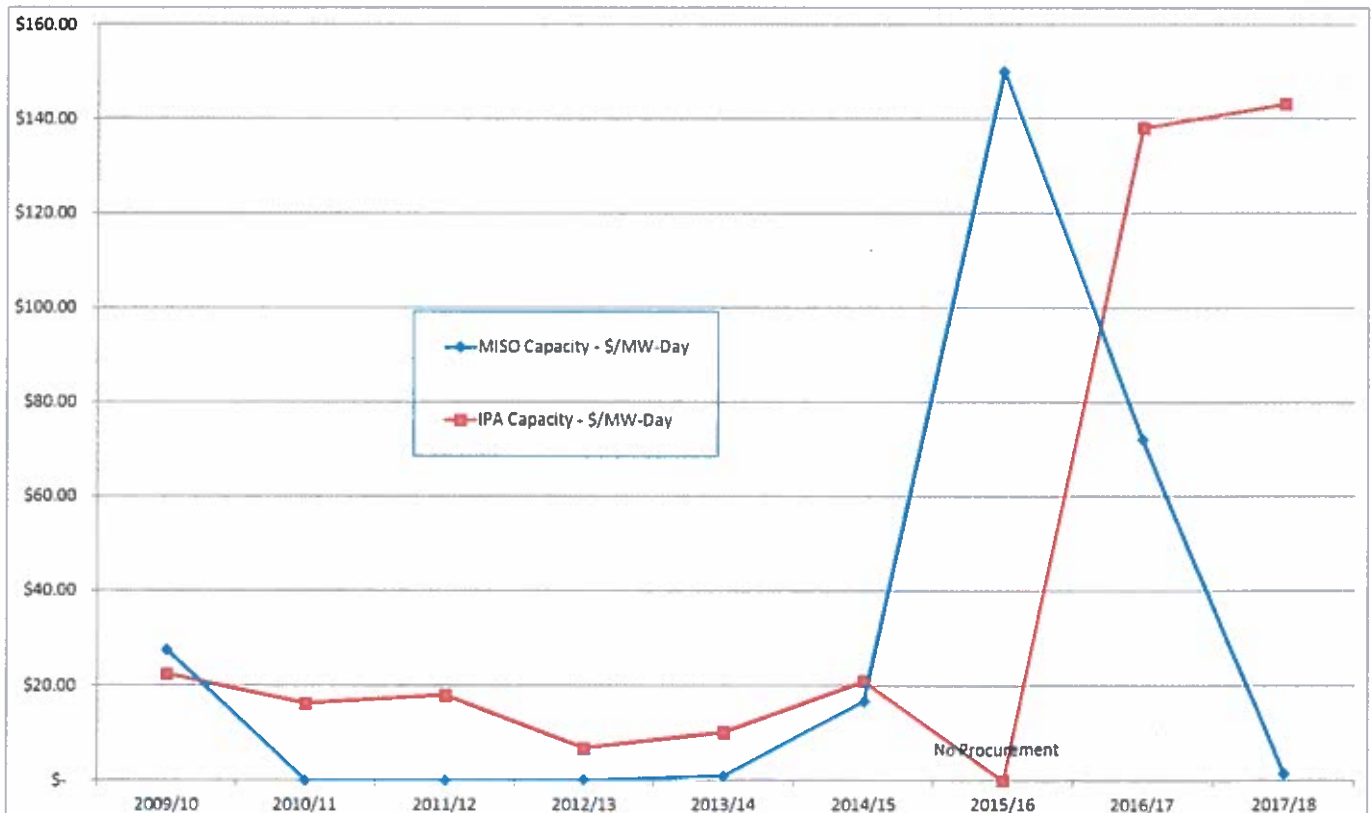
The IPA proposes no procurement of capacity for 2019-2020 and beyond.

Ameren Illinois Capacity - IPA Procurement Prices Compared to MISO PRA Prices

A comparison is provided below in both tabular and graphical formats.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
MISO Capacity - \$/MW-Day	\$ 27.59	\$ 0.09	\$ 0.01	\$ 0.17	\$ 1.05	\$ 16.75	\$ 150.00	\$ 72.00	\$ 1.50
IPA Capacity - \$/MW-Day	\$ 22.46	\$ 16.21	\$ 18.00	\$ 6.79	\$ 10.14	\$ 20.93	NA	\$ 138.12	\$ 143.20

Note: 2018/2019 MISO Capacity Price is yet to be determined and 2018/2019 weighted average IPA Capacity Price is not public.



Discussion of Prior Period Results

Discussion of 2009/2010 through 2014/2015

Over the six year period, the IPA procurements averaged \$15.76/MW-Day and the MISO auction averaged \$7.61/MW-Day based on a straight average calculation. Assuming a 45% load factor for eligible retail residential load, the price premium paid by the IPA would add less than \$1/MWh to residential eligible retail customer costs. This is less than 1% of the total costs assuming, for illustrative purposes only, a bundled supply and delivery cost of \$100/MWh. The data suggests that this price premium provided affordable insurance against a potential price spike, which assuming a Cost of New Entry (CONE) price of \$250/MW-Day, could have added about \$23/MWh to residential eligible retail customer costs or about 23% of the bundled cost.

Discussion of 2015/2016

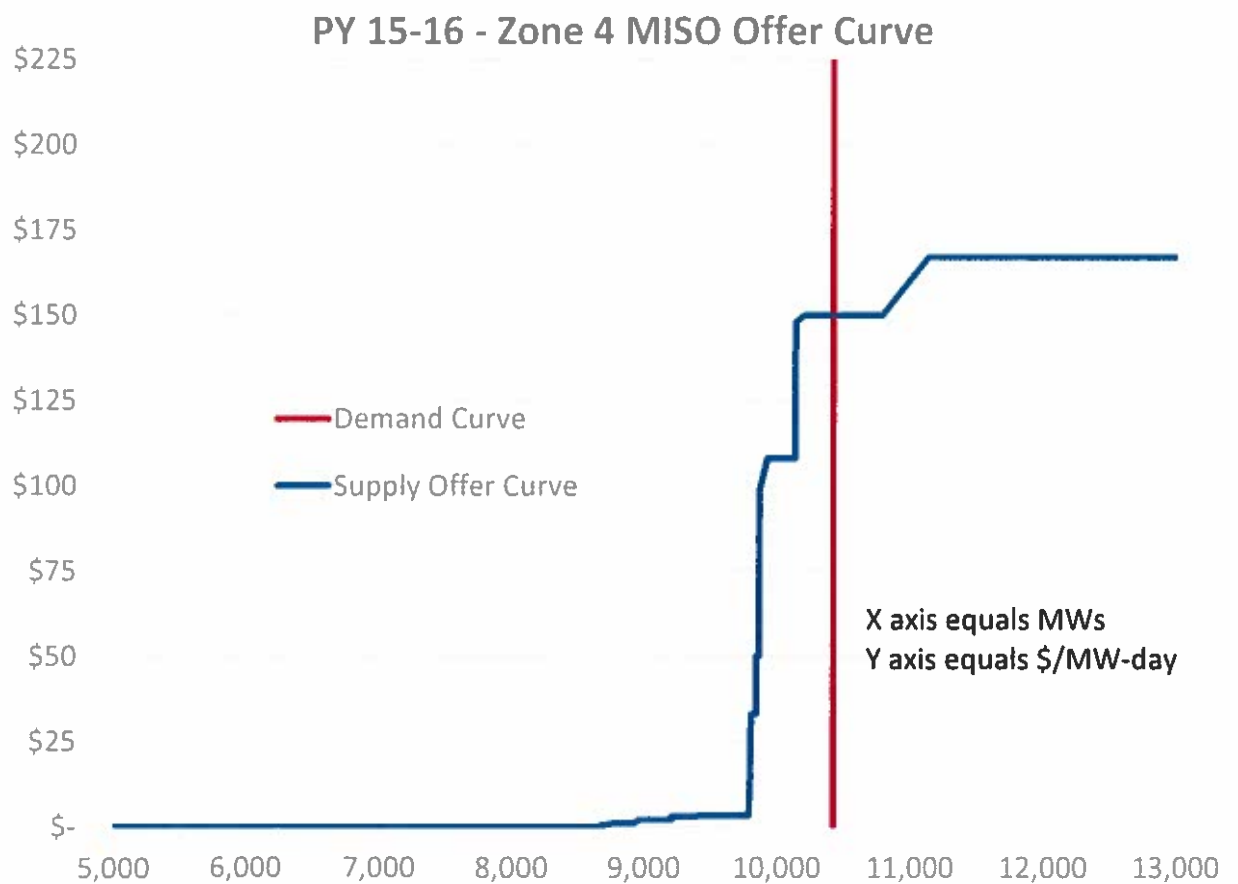
No forward procurements were made and therefore all of the capacity associated with eligible retail load was procured through the MISO PRA. The resulting price was \$150/MW-Day which was offset by a Zonal Deliverability Benefit (ZDB) of \$23.47/MW-Day for a net price of \$126.53/MW-Day. Relative to the prior year, this result increased the bundled cost for residential eligible retail customers by approximately 11%. The MISO PRA result was challenged by several parties at FERC and MISO was subsequently ordered by FERC to make several modifications to *future* capacity auctions.

The vast majority of MISO capacity is satisfied by vertically integrated utilities who self-supply (or fixed resource adequacy plan) to meet the resource adequacy requirements of their load. All load is reflected by MISO as a vertical demand curve. Any capacity resources that are not used for self-supply (or bilateral sales to third parties) can be offered to MISO at supplier specified prices ("supply offer curve"). The supply offer curve for the 2015/2016 MISO PRA pertaining to Illinois Zone 4 is illustrated in the file "PRA Details and Graphs for IPA.xls". The data show 6,538 MW offered at a price of \$0/MW-Day (i.e., price taker plus fixed resource adequacy plan), plus 1,568 MW of additional imports into Zone 4. An additional quantity of 2,314 MW was offered at various prices ranging from \$0.01/MW-Day to \$150/MW-Day. But only 625 MW was offered at a price higher than \$15/MW-Day and only 283 MW was offered at \$150/MW-Day (which was the clearing price). The point is, that if capacity been procured in advance of the MISO PRA similar to prior year procurements, it is likely the Illinois auction price would have been much lower. Of course, we can't say this 100% certainty, because if procurements had occurred, it is not entirely clear if the supply offer curve would have maintained the same shape. But this admission does not change the steepness of the supply auction curve in the actual MISO auction results, nor does it change the likelihood that procurements would have likely lowered the MISO auction price.

MISO appears to agree with this assessment since they made similar statements after the 2015/2016 auction by indicating that the capacity price increase in Illinois was driven by more capacity being procured through the auction instead of through the use of owned resources or contracts. Specifically, 45% of capacity requirements were satisfied through the MISO PRA in

2015/2016 compared to 35% in the prior year. Further, MISO stated that since more load participated in the auction in 2015/2016, it moved the price further up the supply curve. (Source: MISO FAQ on 2015/2016 PRA results provided in the file "FAQ_ILZone4_PRA2015-2016_FINAL.pdf" and Energy Wire article summarizing MISO's appearance before an Illinois Senate committee located at <http://midwestenergynews.com/2015/04/22/illinois-lawmakers-question-miso-about-capacity-auction>).

The graph below depicts actual MISO supply offers and the vertical demand curve for Illinois Zone 4 (which was separated from the rest of the MISO zones). The intersection reflects the MISO PRA clearing price for Zone 4 which was \$150/MW-Day. One can see that if forward procurements had continued similar to prior years, the supply offer curve would likely have moved to the right, which would have lowered the MISO PRA price considerably since the intersection of supply and demand would have moved down a steep part of the supply offer curve.

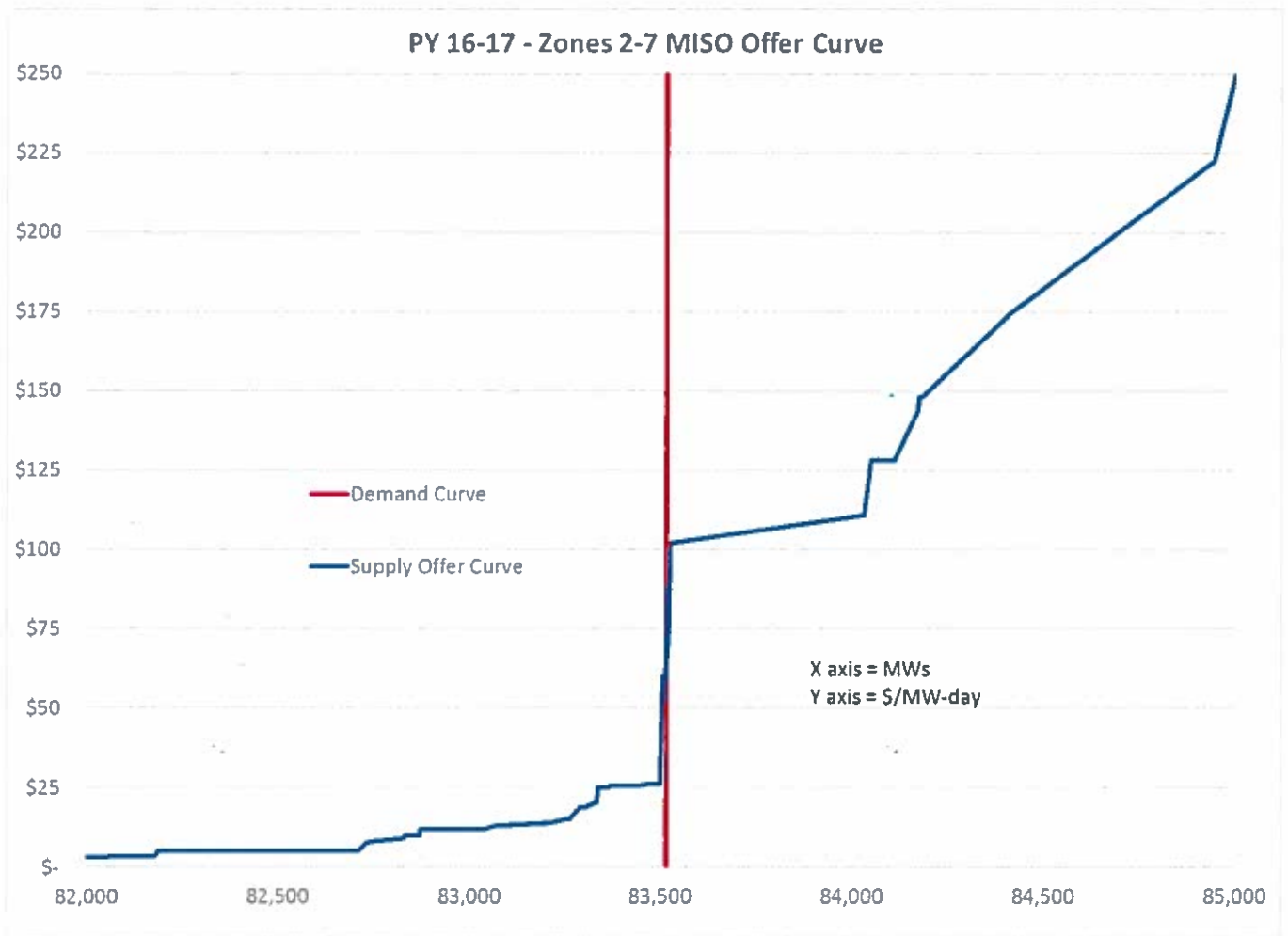


Discussion of 2016/2017

Approximately 50% of the forecasted capacity was procured for eligible retail customers at an average price of \$138.12/MW-Day, whereas the MISO PRA cleared at a price of \$72/MW-Day which was offset by a ZDB of \$1.11/MW-Day for a net price of \$70.89/MW-Day. On the

surface, it appears the procurements resulted in higher costs for residential eligible retail customers. But a review of the supply offer curve suggests that the IPA procurements likely lowered the MISO PRA price and more importantly, if the IPA had not hedged, it appears likely that the MISO PRA price could have been *much* higher than the IPA procured price. Unlike 2015/2016, Illinois Zone 4 did not separate from the rest of the MISO Zones and therefore the discussion below pertains to the combined MISO Zones 2 through 7. The supply offer curve for the 2016/2017 MISO PRA is illustrated in the file "PRA Details and Graphs for IPA.xls". The data shows 79,166 MW offered at a price of \$0/MW-Day (i.e., price taker plus fixed resource adequacy plan), plus 1,467 MW of additional imports into Zones 2-7. An additional quantity of 4,352 MW cleared at various prices ranging from \$0.01/MW-Day to \$72/MW-Day. A total of 1,033 MW was procured in advance of the MISO PRA for eligible retail customers, but had these procurements not occurred, these MWs would have cleared in the MISO PRA. And a review of the Zones 2-7 supply offer curve suggests the 1,033 MW likely would have cleared at a price of approximately \$223/MW-Day, which would have *added* cost to eligible retail customers. Similar to our admission regarding 2015/2016, we cannot say this with 100% certainty, because the shape of the supply offer curve under a scenario without a procurement is not entirely clear. But this admission does not change the steepness of the supply auction curve in the actual MISO auction results, nor does it change the likelihood that a scenario of no procurement would have likely raised the MISO PRA price considerably and therefore resulting in eligible retail customer costs being higher.

The graph below depicts actual MISO supply offers and the vertical demand curve for Zones 2-7. The intersection reflects the MISO PRA price for Zones 2-7 which was \$72/MW-Day. If the 1,033 MW had not been procured in advance of the auction, the supply offer curve would likely have moved to the left, which would have increased the MISO PRA price considerably.



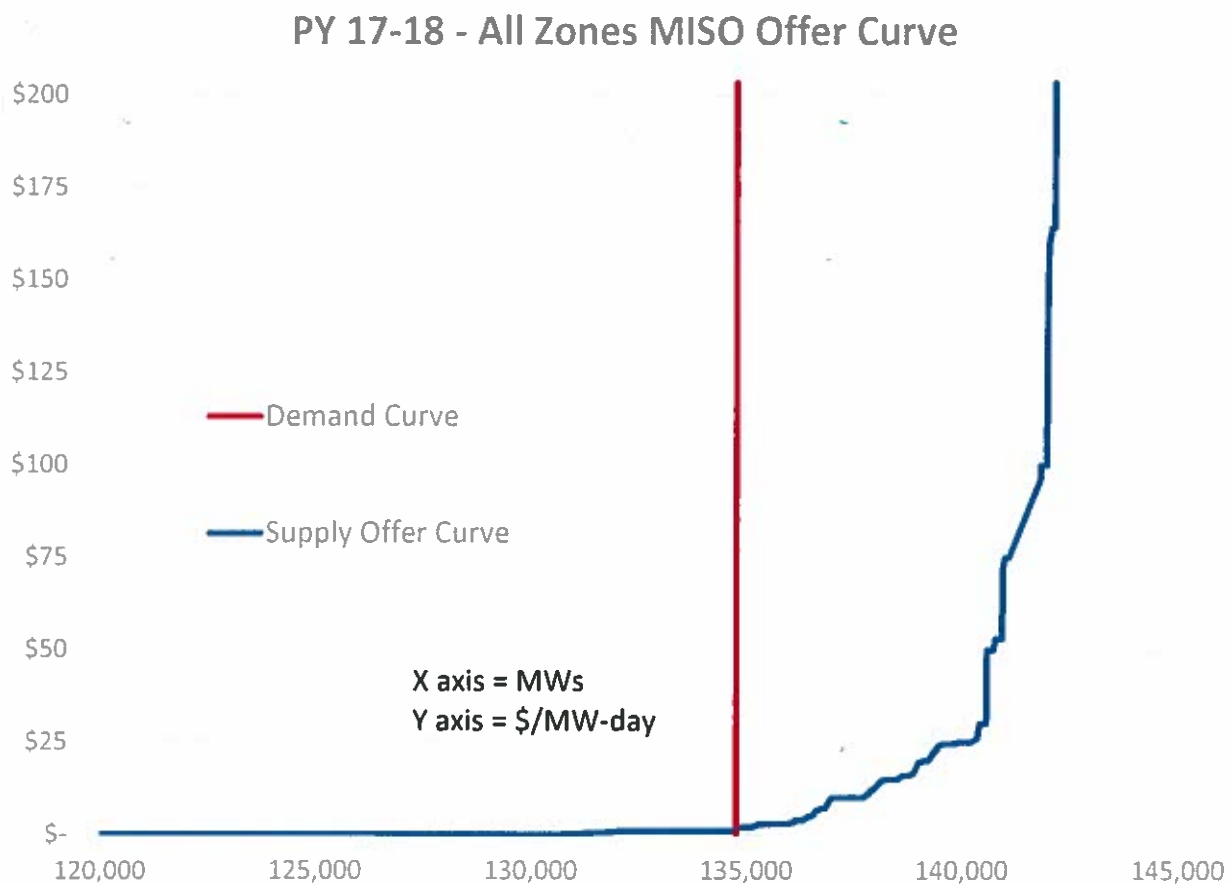
Discussion of 2017/2018

In 2016, 75% of the capacity forecast was procured at a price of \$143.20/MW-Day, whereas the MISO PRA accounted for the other 25% at a price of \$1.50/MW-Day. The graph below depicts actual MISO supply offers and the vertical demand curve for Zones 1-10 (no separation of Zones occurred in this year). The intersection reflects the MISO PRA price for Zones 1-10 which was \$1.50/MW-Day. The difference between the vertical demand curve and the steep part of the supply offer curve shows about 5,000 MW of excess resources, which at first glance appears to be sizeable. But given the uncertainty surrounding coal plant retirements and the fact that the 5,000 MW of excess represents only about 4% of the total resources cleared in the PRA, the "headroom" of resources may not be as sizeable as initial perception might suggest.

In this case, the supply offer curve suggested an abundance of supply and therefore at first glance the Draft Plan is correct in its statement that the procurement underperformed the MISO PRA; for illustrative purposes the procurements appear to have added approximately 10% to the bundled cost for residential eligible retail customers.

However, multiple changes occurred between the time the IPA procured capacity in the Fall of 2016 and the MISO PRA. Therefore, a comparison of the price procured by the IPA relative to the MISO PRA price is like comparing apples to oranges. The specific changes that occurred after the IPA procurement of capacity include the following:

- Passage of the Future Energy Jobs Act (FEJA) which provided assurances that two sizeable MISO Illinois nuclear plants would continue to generate. Prior to passage of FEJA, the plants were in jeopardy of retirement.
- Several hundred MWs of demand response were registered in MISO Illinois which were previously not in the market.
- Load Serving Entities updated their forecasts which trended lower.



Discussion of 2018/2019

In 2016, about 25% of the capacity forecast was procured at a price of \$137.24/MW-Day and in 2017, the quantity of capacity procured was not made public since only two suppliers were awarded contracts (the price of \$23.26/MW-Day was made public). Since the quantity awarded in the 2017 procurement is not public, the weighted average price of the 2016 and 2017

procurements is also not public. The remainder of capacity will be satisfied through the MISO PRA and the price will not be available until the second quarter of 2018.

Summary – Forward Procurement Prices Compared to MISO Auction Prices

- Capacity procurements during the period 2009/2010 through 2014/2015 added insignificant costs to eligible retail customers, but provided customers with protections against a significant increase in costs should the MISO PRA price increase dramatically.
- The dramatic increase in the MISO PRA price came in 2015/2016 at a time when the eligible retail customers had no existing capacity procurements and therefore eligible retail customers felt the full impact of the cost increase.
- MISO PRA prices have remained volatile since 2015/2016.
- The Draft Plan uses the results of the last two years to justify 100% capacity procurement through the MISO PRA starting in 2019/2020. But the Draft Plan does not acknowledge that if capacity procurements had occurred in 2015/2016, the MISO PRA price likely would have been much lower.
- The Draft Plan also does not acknowledge that the capacity procurements in 2016/2017 likely lowered prices in the MISO PRA and the MISO price likely would have been higher had the IPA not procured. In other words, the procurements likely saved eligible retail customers costs (even though initial impressions may suggest the procurements added costs to eligible retail customers).
- Ameren Illinois recommends the Filed Plan be expanded to include some or all of the data included in our informal comments as well as the inclusion of a discussion regarding the uncertainty caused by the data. Ameren Illinois recommends the Filed Plan acknowledge that a comparison of the MISO PRA price relative to the IPA procurement price cannot be done accurately without reviewing the specifics of the supply offer curve and understanding the impact the procurements (or lack of procurements) may have on the resulting MISO PRA price.

Uncertain Illinois Coal Resources

The Draft Plan does not mention the substantial coal resources that reside in MISO, the uncertain future of some coal resources within Illinois and the potential impact on the MISO PRA. Nor does the Draft Plan acknowledge that although those resources remain online for now, the situation appears to be dynamic. Further, while MISO will incorporate the best available information in its annual Office of MISO States (OMS) survey, any significant decline in these resources and in particular, Illinois resources, could increase volatility in the MISO PRA.

Ameren Illinois recommends the Filed Plan be expanded to include a discussion of the uncertainty of coal resources and their potential impact on the volatility of future MISO PRA prices.

Summary of Ameren Illinois Concerns

Ameren Illinois is concerned with the Draft Plan's proposal to eliminate capacity procurements starting in 2019-2020. Our primary concern is that the MISO PRA price may remain volatile over the long term and the proposal to not procure in advance of the PRA could exacerbate the issue. Our concern is amplified given the historical steepness of the supply offer curve and the fact that for 2015-2016 and 2016-2017, the MISO PRA price cleared at a very steep part of the supply offer curve, and therefore the decision to procure in advance or not procure in advance likely influenced the MISO PRA clearing price.

Earlier in our comments, we provided an illustrative estimate that should MISO PRA prices reach CONE, it could increase the bundled residential eligible retail customer costs by approximately 23%. We must ask ourselves if this would be an acceptable potential outcome in the future, especially for those eligible retail customers that expect the supply product to be fixed price with only a modest amount of volatility.

Alternatives for the IPA to Consider in Filed Plan

- Reduce the Quantity Procured and/or the Term of Forward Procurements

Each Fall, the IPA could choose to procure two planning years forward with the goal of hedging 25% approximately 18 months in advance of the MISO PRA and another 25% approximately 6 months in advance of the MISO PRA. This would result in a total procurement of 50% of the forecasted requirement in advance of the MISO PRA.

- Aggressive Price Benchmarks

Should the IPA be concerned that the price premiums for any particular procurement year may be excessive, the IPA could seek a lower confidential price benchmark and if that benchmark is not satisfied by supplier offers, the procurement quantity would be reduced accordingly. Note that Ameren Illinois is not a party to the confidential price benchmarking process and we recommend that practice should continue.

- Tiered Procurement

The IPA could seek ICC pre-approval in its Filed Plan to procure "up to" a certain percentage of capacity. Then during the price benchmark process, the IPA could seek ICC approval to procure a certain quantity up to one block price, an incremental quantity at a higher block price and so forth so long as the "up to" quantity pre-approved in the Filed Plan is not exceeded.

Technical Corrections

On page 75 of the Draft Plan, it states that "Ameren Illinois offers a Peak Time Rewards program (Rider PTR). The program currently has over 40,000 customers and Ameren Illinois sold 2.3 MW of capacity in the MISO PRA for the 2017-2018 Delivery Year". Ameren Illinois requests that the Filed Plan clarify that the program has *approximately* 40,000 customers and Ameren Illinois sold 7.5 MW of capacity in the MISO PRA for the 2017-2018 Delivery Year.

In Tables E-4, E-5 and E-6 of Appendix E, the Total MWh columns are correct, but the Net MWh columns are reduced by Qualified Facilities (QF), whereas the Total MWh columns already includes a reduction for QF. Therefore, the Net MWh columns as illustrated in the Draft Plan reduce QF twice.

Conclusion

Ameren Illinois again compliments the IPA regarding the considerable effort associated with Draft Plan development and appreciates the identification of numerous complex issues and proposals. We look forward to working with the IPA on these issues once the Filed Plan is approved by the ICC. If you have any questions or would like to discuss any of the comments pertaining to power supply issues, please feel free to contact me at 314-613-9181 or rmccartney@ameren.com. Questions pertaining to legal issues should be addressed to Jermaine Grubbs at 314-554-2041 or jgrubbs@ameren.com.

Sincerely,



Richard L. McCartney
Director, Power Supply Acquisition
Ameren Illinois Company

Copy:

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