



Electricity and Capacity Procurement for Eligible Retail Customers Request for Stakeholder Comments

June 27, 2022

The Illinois Power Agency (“IPA” or “Agency”) develops and implements annual electricity procurement plans to serve the energy needs of eligible retail customers of Ameren Illinois, ComEd, and MidAmerican. Eligible retail customers are the residential and small commercial customers who have not switched to an alternative supplier or to real-time pricing, and represent about 20% of the total load of retail customers.

The Agency releases a draft electricity procurement plan every August 15 for public comment prior to filing it with the ICC for approval in late September. The Agency’s Procurement Plans, and the results of subsequent procurement events all require approval by the Illinois Commerce Commission (“ICC”).

This Request for Stakeholder Comments is intended to provide stakeholders with an additional opportunity to provide feedback to the Agency prior to the release of that draft plan. Feedback from stakeholders is solicited in light of recent extreme energy market volatility that has had an impact on the results of the Agency’s procurement and the resulting prices available to eligible retail customers.

Comments are due on Friday, July 8, 2022 and should be sent to:
IPA.Contactus@illinois.gov.

Please note that in general responses received through this stakeholder feedback process will be made public and will be published on the Agency’s website. However, should a commenter seek to designate any portion of its response as confidential, that commenter should provide both public and redacted versions. Independent of that designation, if the IPA determines that a response contains confidential information that should not be disclosed in connection with a competitive procurement event, it reserves the right to provide its own redactions.

Specific questions on which feedback is sought are found below, but commenters need not respond to every question (some may not be applicable) and should not feel limited by these questions in providing feedback.

Additionally, a **stakeholder workshop is planned for Wednesday, July 13, 2022 at 1:00 PM (CPT)** to provide an additional opportunity for stakeholder to provide feedback on these topics.

Eligible Retail Customer Electricity and Capacity Procurement Workshop

Date: July 13, 2022

Time: 1:00 PM-2:30 PM (CPT)

[REGISTER HERE](#)

If a commentor would like to present a summary of their comments at the workshop, please indicate that request when submitting written comments.

IPA Procurement Process and Products

The procurement approach the Agency has implemented with refinements over time, includes multiple procurements events held over a three-year horizon for standard wholesale energy and capacity products to serve the needs of eligible retail customers. The ICC held in Docket No. 14-0588 approving the Agency's 2015 Plan, that "standard wholesale products" are products that are traded on a liquid wholesale market, are well understood, and have transparent pricing such that products bid into the IPA's procurement events can be judged and compared solely on price. Furthermore, the Public Utilities Act defines standard wholesale products to include monthly 5 x 16 on-peak block energy, monthly off-peak wrap energy, monthly 7 x 24 energy, annual on-peak 5 x 16 energy, annual off-peak wrap energy, annual 7 x 24 energy, monthly capacity, annual capacity, and peak load capacity obligations and through recent changes from Public Act 102-0662, to also include energy from high voltage direct current ("HVDC") transmission lines. In 2013, the ICC also determined that wholesale load following products such as full-requirements contracts can be considered standard wholesale products (while at the same time not approving objections to the Agency's procurement plan that would have had the Agency procure full requirements products).

In the current energy procurement process the IPA procures 25 MW blocks which are competitively bid and are be compared to a confidential benchmark developed by the Agency's Procurement Administrator and approved by the ICC.

The IPA is soliciting comments regarding its procurement process and products based on the following primary questions:

1. What additional products beyond the block energy products that are currently procured should the IPA consider for inclusion in the procurement plans that would help mitigate the impacts of high and volatile electricity prices on eligible retail customers which would meet the product definitions set by statutory requirements and the ICC?

2. Should the IPA establish a market analysis process outside of the annual electricity procurement plan that would formally review market conditions in order to identify potential challenges that changing market conditions could pose to the procurement process?
3. How will current market conditions impact the near- and longer-term eligible retail customer switching patterns?
4. Given the mix of competitive wholesale markets and traditional regulated markets in MISO that creates disconnects with the Illinois market structure, would having Ameren Illinois and the Illinois portions of MidAmerican either join PJM, or join ComEd in the establishment of a single state RTO for Illinois be beneficial to serving eligible retail customers, provide benefits to the competitive market, and/or provide better options for resource adequacy? While the IPA cannot make such a change through its procurement plans, consideration of these options could help inform future policy decisions for the State.

IPA Hedging Strategy

The IPA's current hedging strategy involves the procurement of blocks of electricity that serve as hedges to meet a portion of the anticipated eligible retail customer energy supply requirements laddered over a three-year horizon. Two block energy procurement events are held each year, one in the Spring and one in the Fall. The Agency also holds two annual capacity procurement events with the target of procuring up to 50% of the capacity needed to supply Ameren Illinois' eligible retail customers with the remainder of the capacity requirements obtained through the MISO Planning Resource Auction ("PRA"). For each procurement event and product, the IPA's Procurement Administrator develops a confidential benchmark which is approved by the ICC prior to the procurement event and is used in the bid evaluation to screen out high-priced bids.

The IPA's strategy has generally proven to be effective at mitigating the impacts of volatile prices. By spreading prices out over several procurements scheduled during a three-year period, which tends to smooth the impact of short-term price spikes.

The IPA's hedging strategy has been challenged recently by procurement risks driven by a combination of global fuel market developments, geopolitical considerations, greater than expected electricity demand growth coming out of the worst of the pandemic, ongoing generation retirements, and uncertainties involving the MISO PRA and the Resource Adequacy Construct.

To address the risks associated with volatility in forward energy prices, the IPA has periodically reviewed its approach to hedging and investigated the merits of alternative procurement strategies. The primary goal of these reviews has been to evaluate the potential for further minimizing the volatility and cost of the portfolios of supply contracts procured for each delivery month. An objective of the procurement strategy is to maximize stability of the resulting rates for service to eligible retail customers, while minimizing cost. In response

to the current high and volatile prices the IPA is again reviewing its hedging strategy in preparation for the 2023 Procurement Plan. As part of the current review the Agency is seeking stakeholder comment regarding the following hedging strategy questions and issues:

5. What changes should the IPA consider making to the energy hedging strategy that would be consistent with the Illinois Power Agency Act, Public Utilities Act, and relevant orders issued by the ICC which would improve the ability to deal with extremely volatile energy prices?
6. Should the frequency and timing of energy procurements be modified?
7. Should the IPA consider procuring energy in block sizes other than 25 MW or in different sized blocks within the same procurement?
8. Is it reasonable to consider modifications to the hedging strategy, if the recent high and volatile energy prices may be a short-lived phenomenon?
9. Should the current approach to summer hedging percentage targets and target procurement volumes for the months of June, July and August be changed to increase or decrease these targets and to reduce the volumes procured in the Spring procurement event that is held immediately prior to these delivery months?

Carbon Mitigation Credits

In accord with Public Act 102-0662 (the Climate and Equitable Jobs Act), the IPA developed and filed with the ICC a Carbon Mitigation Credits Procurement Plan which was approved by the ICC in the Final Order in Docket No. 21-0718. On November 23, 2021 the IPA held a Carbon Mitigation Credit (“CMC”) procurement event for approximately 54,500,000 CMCs to be delivered annually to ComEd over the period of June 1, 2022 through May 31, 2027. The CMC price is indexed to the PJM busbar price of the nuclear units providing the CMCs. As a consumer protection, CMC prices are calculated monthly, and if the calculation results in a net positive value ComEd will pay the CMC supplier and if the calculation results in a net negative value, the supplier pays ComEd.

10. What are the implications for the IPA’s hedging strategy for ComEd eligible retail customers given that the procurement of CMCs includes the consumer protection methodology?
11. Do CMCs represent a viable hedging approach over the five-year horizon of the CMC program that can be matched with the energy hedging strategy?
12. Should the hedging benefits of CMCs, if any, be considered in the IPA’s hedging strategy for energy?
13. Will timing differences in the adjustment of the level of payments or credits for CMCs versus the month-to-month changes in the Purchased Electricity Adjustment that are

driven in part by the results of the hedging for energy conducted by the IPA, negate any of these benefits?

Capacity Procurement Issues

The IPA obtains a portion of the Ameren Illinois capacity requirements for eligible retail customers through the competitive procurement of bilateral contracts, and the balance of the capacity requirements is provided through the MISO PRA. The results of the annual PRA can have a significant influence on the prices bid in the IPA capacity procurement events. Over the last eight years the PRA capacity clearing prices for Zone 4 have been very volatile ranging from a low of \$1.50/MW-Day for 2017-2018 to the most recent high of \$236.66/MW-Day for 2022-2023. MISO has also filed with FERC a proposal to change the current annual Resource Adequacy Construct to a seasonal Resource Adequacy Construct based on four seasons, and individual planning reserve margins for each season. The changes will have an impact on the PRA as well as the IPA's capacity procurements.

14. Are there changes to the capacity procurement approach for Ameren Illinois eligible retail customers that could improve the ability to mitigate volatile capacity prices?
15. With the PRA clearing at the cost of new entry for Zone 4 due to a regional shortage of capacity for Zones 1-7, what changes should the IPA make to the current hedging strategy in order to protect Illinois customers from the volatility of the PRA?
16. Should the IPA consider procuring up to 100 percent of the capacity needs of Ameren Illinois eligible retail customers through the bilateral capacity procurements (rather than 50%), and treat the MISO PRA only as the source of last resort for capacity that is not obtained through the IPA procurements?
17. While the IPA does not exert any control over the design of MISO's Resource Adequacy Construct or the structure of the PRA, the Agency is interested in hearing comments from stakeholders regarding capacity market issues that would be important from the IPA's perspective in terms of the procurement and hedging of capacity products including:
 - a. Are there structural changes that could be made to the PRA to lower the volatility in capacity prices?
 - b. Are there any structural deficiencies in the current construct of the PRA that go beyond volatility in capacity prices?
 - c. What alternatives to the PRA, if any, should the IPA encourage MISO to consider?
18. If FERC approves the proposed Seasonal Resource Adequacy Construct, what changes should the IPA make to the current bilateral procurement approach to accommodate that change?

19. MISO's Independent Market Monitor has voiced several criticisms regarding the performance of the MISO PRA, and specifically has recommended that a sloped demand curve should be implemented. If a sloped demand curve is implemented, what impact would it have on PRA prices, and how would this affect the IPA's capacity procurement approach?
20. Given that the ICC, not the IPA represents Illinois in wholesale market matters, how can the IPA better engage in an ongoing dialog with the RTOs (PJM and MISO) and their respective Independent Market Monitors that would provide information regarding the performance of their respective capacity markets and the potential modifications to these markets that are being debated or contemplated?