September 16, 2024
VIA EMAIL

Mr. Anthony M. Star
Illinois Power Agency
105 West Madison Street, Suite 1401
Chicago, Illinois 60602

Re: Ameren Illinois Company's Comments on the Illinois Power Agency's Draft 2025 Electricity Procurement Plan

I. Introduction

Pursuant to Section 16-111.5(d)(2) of the Public Utilities Act ("PUA"), Ameren Illinois Company ("AIC") respectfully submits these comments on the Illinois Power Agency's ("IPA" or "Agency") 2025 Draft Electricity Procurement Plan ("Draft Plan"). In creating the IPA, the General Assembly found that "the health, welfare, and prosperity of all Illinois residents require the provision of adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability."[1] As a result, the IPA must develop procurement plans that are designed to ensure "adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability."[2] This includes an obligation to "continue to review its policies and practices to determine how best to meet its mission of providing the lowest cost power to the greatest number of people, at any given point in time, in accordance with applicable law." 20 ILCS 3855/1.5(F).

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[1] 20 ILCS 3855/1-5(1).
[2] 20 ILCS 3855/1.5(A).

II. Comments on the Draft Plan

In furtherance of its obligations, the IPA is seeking feedback regarding the hedging strategy proposed by AIC in the IPA's initial request for feedback from stakeholders in June of 2024. AIC has proposed that, in the event the IPA does not meet the capacity targets for those delivery year customers, the Agency would conduct a procurement event in January or early February of 2025 during which it would procure a financial product that would serve to make up the difference between the amount of capacity procured compared to its capacity hedging goals for the year. The financial product proposed by AIC would be a swap contract where the price paid under the contract is settled against the resulting seasonal MISO PRA price.

Specifically with respect to the hedging strategy proposed by AIC, the IPA is seeking responses to five questions and will use this feedback to inform the approach that will be included in the Plan filed for ICC approval on September 30, 2024. AIC appreciates the consideration given to its proposal and in furtherance thereof AIC offers the following responses to the IPAs questions:

1. Do stakeholders agree with the IPA's analysis that this type of swap contract would be permissible under the provisions of the IPA Act and the PUA given the requirement to procure "standard wholesale products" as interpreted by the ICC in prior dockets approving IPA Procurement Plans?

Answer: AIC believes that swap contracts meet the requirements to be considered a standard product but will defer to the ICC for the final legal determination.

2. Are there other types of financial products other than this structure of a swap contract that the IPA should consider? If so, what would be the advantages of those products compared to a swap contract or the traditional procurement of ZRCs?

Answer: AIC believes there are other financial products that could be considered. At this point however, AIC does not think it would be incrementally more beneficial to consider other financial products as part of this initial procurement event.

3. Are there likely to be sellers who would be interested in bidding on a financial product who would not participate in a procurement for ZRCs? Would the procurement of a financial product increase participation in IPA administered capacity procurements?

Answer: AIC believes this proposal would create opportunities to sellers without physical assets that are interested in participating in the IPA procurement process. AIC appreciates the consideration being given by the IPA to this proposal and welcomes feedback from other stakeholders on this proposed opportunity.

4. With this Plan scheduled to be approved by the ICC in mid-December 2024, is it realistic to conduct a procurement in January or February of 2025, or should the IPA continue to develop this new procurement category, including contract development and outreach to potential bidders, for planned implementation in early 2026 (subject to approval in the 2026 Procurement Plan)?

Answer: AIC recognizes and appreciates the timing concerns but believes a January or February 2025 procurement event is certainly achievable. For example, in September of 2022 the IPA cancelled the regularly scheduled capacity procurement in consideration of MISO's newly approved seasonal capacity construct. The new construct required AIC to unbundle its current capacity contracts and restructure them from an annual product to a seasonal product. In addition, AIC worked with NERA and the IPA in late 2022 to develop a new capacity contract that incorporated the new seasonal construct. Lastly, a replacement procurement event was scheduled by NERA and the IPA for the same time-period that is in question now. Given that AIC, NERA and the IPA were able to seamlessly put all of the forementioned together in late 2022 leads AIC to believe that the same type of approach could also be deployed to develop a financial swap contract and facilitate a January or February procurement event for the 2025 Electric Plan.

5. Would the procurement of a financial product structured as a swap contract trigger any concerns related to the Sarbanes-Oxley Act, the Dodd-Frank Act, or any additional statutory or regulatory reporting, tracking, or disclosure requirements? If so, on whom would those requirements fall and what additional burdens may be imposed by these requirements?

Answer: AIC believes the reporting requirements for transacting with a financial swap contract is something that should be determined on a case by case basis by each party that participates in the procurement event and is not something that should preclude the IPA from considering this proposal.

III. Conclusion

Again, AIC appreciates the opportunity to provide feedback to the IPA regarding its proposed hedging strategy and looks forward to the thoughts and comments provided by other stakeholders with respect to this proposal. It is worth noting that since the implementation of MISO's new seasonal capacity construct, there has only been a small number of capacity sellers participating in the procurement events leading to a significant shortfall of hedges being procured. According to the 2024 Electric Plan, at this time AIC targeted to have its capacity obligation hedged at 50% for all four seasons. But instead, AIC has 0% hedged for Summer, 0% hedged for Winter, and about 2-3% of our capacity needs hedged for Fall and Spring. Moreover, notwithstanding the efforts of the IPA, AIC is not confident the market has materially improved to a level that will yield sufficient hedges in the upcoming physical capacity procurement events. This leaves AIC with incredibly high exposure to the increasingly volatile MISO capacity auction. And with the increasing number of generation assets being retired resulting in a tightening of supply, AIC is not confident that its ability to clear capacity at reasonable prices through the MISO auction will be improving. In fact, the newly approved sloped demand curve (also known as the Reliability-Based Demand Curve by MISO) being implemented for June 2025 will most likely exacerbate this problem. As a result, AIC strongly encourages the IPA to consider our proposal.

Respectfully submitted by,

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