September 16, 2024

VIA EMAIL

Mr. Brian Granahan
Director
Illinois Power Agency
105 West Madison Street
Suite 1401
Chicago, Illinois 60602

RE: Commonwealth Edison Company's Comments on the Illinois Power Agency's Draft 2025 Electricity Procurement Plan Issued on August 15, 2024

I. Introduction

Pursuant to Section 16-111.5(d)(2) of the Public Utilities Act ("PUA"), Commonwealth Edison Company ("ComEd") submits these comments on the Illinois Power Agency's ("IPA" or "Agency") 2025 Draft Electricity Procurement Plan ("2025 Draft Plan") that was issued for public comment on August 15, 2024.[1]

ComEd submits these Comments to address two subjects: (1) the use of Carbon Mitigation Credits ("CMCs") as a hedging strategy for ComEd Eligible Retail Load, and (2) whether the IPA should consider hedging capacity for ComEd considering recent price volatility in the PJM Interconnection, LLC ("PJM") capacity auction.

II. Comments on the 2025 Draft Plan

A. The Use of Carbon Mitigation Credits as a Hedging Strategy for ComEd Eligible Retail Load

Since the approval by the Illinois Commerce Commission ("ICC" or "the Commission") of the IPA's 2023 Electricity Procurement Plan[2] CMCs have helped to offset the impact of higher wholesale prices on retail customers in the ComEd service territory. The IPA's block energy

[1] ComEd's silence at this time regarding any particular issue should not be interpreted as agreement with all statements, approaches, calculations, or recommendations made in the 2025 Draft Plan pertaining to that issue.
[2] Final Order, ICC Docket No. 22-0590.

procurements have been reduced to hedge only 50% of ComEd's eligible customer load. The portion of the energy requirements not covered under the block energy procurements are purchased in PJM's day-ahead energy market in the relevant delivery month with price fluctuations offset by ComEd's CMC contract. The results of that hedging strategy have yielded significant savings to ComEd retail customers - $211M for the period June 2023 through May 2024.[3] Citing the demonstrably lower costs to ComEd's eligible retail customers achieved by utilizing the price offsets created by CMCs in combination with the hedging of ComEd load has, the IPA does not propose any changes to the hedging strategy for ComEd eligible retail customers for the 2025-2026 and 2026- 2027 Delivery Years.[4] However, ComEd respectfully suggests the strategy employed by the IPA to manage price risk for ComEd retail customers could be maximized by a modest decrease in the amount of electricity supply procured for the non-summer months of October through May in the forward procurement events remaining while the CMCs are in effect.[5]

In response to the IPA's 2023 Draft Electricity Procurement Plan and the Commission proceeding approving the IPA's Final 2023 Electricity Procurement Plan, ComEd argued that the volume of CMCs purchased by ComEd could serve to provide offsetting price benefits for up to 60-65% of the eligible customer energy requirements if the IPA limited the amount of energy procured under fixed-price contracts to 35-40% of the projected load, thus ensuring the hedge provided by the CMCs effectively provides price protection to ComEd's default supply

[3] 2025 Draft Plan, at 85.
[4] *Id.*, at 85.
[5] Once approved by the ICC, the 2025 Electricity Procurement Plan will cover procurement events for the upcoming three delivery years (2025-2026, 2026-2027, and 2027-2028), while the existing 50% hedging target will be effective for the former two delivery years. The purchasing of the CMCs under the 5-year term will end May of 2027, thus absent any legislative changes to extend the purchase of CMCs the prior 100% hedging strategy will return in the beginning of the 2027-2028 delivery year.

customers.[6] That position remains unchanged. To maximize the CMC hedge, the volume of forward block products to be procured should be reduced by an amount equal to the load covered by the CMCs so that the amount of forward electricity products procured plus the total CMCs equal 100% of the load requirements of ComEd retail customers. The remaining, or "open," amount of energy not secured through fixed-price contracts are then purchased in the PJM day-ahead energy market at the same prices that are used to set the CMC payments. The efficacy of this approach is not mere speculation. The IPA's own analysis of the revised hedging strategy demonstrates the increasing benefits to customers of an incrementally higher open position over the same 2023/2024 Delivery Year.[7]

While the IPA's current 50% procurement strategy works adequately in the summer months when ComEd customers are using more energy to cool their homes, there is an opportunity to optimize the hedge for ComEd default supply customers by lowering the amount of power procured through the procurement process for the non-summer months of October through May. The amount of generation available from the nuclear plants in ComEd's service territory and volumes to be procured through CMC contracts do not significantly change during these months. Accordingly, to maximize the CMC hedge during the non-summer months of October to May, when ComEd deliveries are the lowest, the percentage of open load should increase from 50% in the IPA's current 2025 Draft Plan to 70%. Without this adjustment, ComEd retail customers will be over-hedged, especially in December, January, and February when procured blocks tend to be the most expensive and have the largest variances against realized day-ahead prices, which in turn provides the biggest opportunity to maximize the CMC hedge value.

---

[6] Commonwealth Edison Company's Comments on the Illinois Power Agency's Draft 2023 Electricity Procurement Plan (September 14, 2022); Commonwealth Edison Company's Verified Objections to the Illinois Power Agency's 2023 Electricity Procurement Plan, ICC Docket No. 22-0590.
[7] Fig. 6-13, 2025 Draft Plan, at 85.

B. Whether the IPA Should Consider Hedging Capacity for ComEd Considering Recent PJM Capacity Price Volatility

On July 30, 2024, PJM announced the results of the Base Residual Auction ("BRA") capacity procurement event covering the 2025/2026 Delivery Year. The results were significantly above the prior auction, with a clearing price of $269.92/MW-day (vs. $28.92/MW-day previously). The increase in capacity prices is attributed to economic factors, including generator retirements, a lack of new generation coming online, increased electricity demand, and the implementation of FERC-approved market reforms. PJM remains on schedule to hold the next two BRAs, for the 2026/2027 and 2027/2028 Delivery Years, in December 2024 and June 2025, respectively.

For the 2025 Draft Plan, the IPA proposes that ComEd continue to obtain its capacity needs from the PJM-administered capacity market.[8] Accordingly, the 2025 Draft Plan proposes that ComEd will continue to meet all of its capacity obligations through the PJM-administered capacity market in which capacity is typically purchased in a three-year ahead forward market through mandatory capacity rules.[9] However, The Agency also requests stakeholder feedback on capacity hedging for ComEd, and the advantages and disadvantages of the Agency beginning to procure capacity for ComEd eligible retail customers to mitigate risks created by price volatility and to increase stability of rates.[10] The Agency requests feedback on several specific questions related to the ability to procure capacity on behalf of ComEd's eligible retail customers, the structure and percentage amounts of such capacity procurement, contrasts with MISO capacity procurements, and predictions as to future PJM BRA results.[11]

---

[8] 2025 Draft Plan, at 102.
[9] As a result of FERC proceedings, the 2025/2026 BRA was conducted under a compressed schedule where the auction occurred ~10 months prior to the start of the Delivery Year. A typical BRA is held more than three years before the start of the Delivery Year. The prior BRA, 2024/2025 Delivery Year, was conducted under the same compressed schedule.
[10] *Id.*, at 54.
[11] *Id*.

ComEd appreciates the IPA's consideration of alternatives that may blunt the effects of increased capacity prices on ComEd retail customers, particularly those ComEd residential and small commercial customers who pay a disproportionate share of capacity costs because their load profiles are more susceptible to variable peak demands than other customer classes. ComEd looks forward to discussing specific alternatives to the current capacity construct contemplated by the Agency and articulated in subsequent iterations of the 2025 Draft Plan, including any proposals for capacity hedging, and the structure and percentage amounts of such capacity procurements. As the Agency and stakeholders undoubtedly recognize, existing alternatives to the current PJM BRA construct are limited, and thus the vast majority of Load Serving Entities ("LSEs") in PJM procure the capacity resources they need through PJM's competitive capacity market.

With respect to expectations for the results in the 2026-2027 BRA scheduled for December 2024, and the sufficiency of current and expected price signals to spur new market entrants, ComEd notes that it is unlikely that any new natural gas facilities would enter in ComEd's zone because of the Climate and Equitable Jobs Act's ("CEJA") requirement to effectively reduce electric generating sector emissions in Illinois to zero by 2045.[12] Given the December 2024 and June 2025 dates of the upcoming BRAs for the 2026/2027 and 2027/2028 Deliver Years, there is likely insufficient time for Commission consideration and action on potential alternatives that would alleviate ComEd's obligations related to PJM capacity purchases through May 2028. Given PJM's acknowledged backlog in the interconnection queue, load growth projections, and expected fossil-fuel generation retirements, the supply and demand gap will continue to narrow, resulting in continued higher capacity prices. In addition to any hedging solutions provided through this comment process, the IPA should also explore long-term

[12] 20 ILCS 3855/1-5(1.5)

solutions to ensure resource adequacy, price stability, and affordability as Illinois transitions to a cleaner energy future.

III. Conclusion

ComEd respectfully requests that the 2025 Draft Plan be revised to reflect the comments articulated herein.

Respectfully submitted,

Christopher M. Foley
Director, Energy Acquisition
Commonwealth Edison Company
1919 Swift Drive
Oak Brook, Illinois 60523
christopher.foley@comed.com