Ameren ILLINOIS

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Mr. Anthony Star
Illinois Power Agency
Michael A. Bilandic Building, Suite C-504
160 North LaSalle Street
Chicago, IL 60601
Via Email

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

Pursuant to Section 16-111.5(d) (2) of the Public Utilities Act, Ameren Illinois Company (Ameren Illinois) respectfully submits comments to the proposed Procurement Plan (Plan) submitted for public review and comment on August 15, 2013. Ameren Illinois first would like to compliment the Illinois Power Agency (IPA) regarding its past successes and wish them continued success going forward. Furthermore, specifically in reference to the Plan for the period June 2014 through May 2019, Ameren Illinois appreciates the considerable effort the IPA put forth in developing the Plan. While Ameren Illinois generally supports the concepts imbedded in the Plan as proposed by the IPA, we respectfully offer the following comments and recommendations in an attempt to strengthen the proposal and prepare it for implementation.

Ameren Illinois' recommendations are also enclosed in a redline version of the Plan. While our substantive comments are referenced and included in this letter, certain suggested modifications or clarifications may be unique to the redline version of the Plan.

Highlights of our comments are provided below:

Energy

The IPA recommends that the forward hedging strategy be changed to 106% prompt year, 50% prompt year + 1 and 25% prompt year + 2. In several areas of the Plan, the IPA references last year's hedging strategy of 75% prompt year, 50% prompt year + 1 and 25% prompt year + 2. While it is true that the IPA described this hedging strategy in its 2013/2014 Plan, the IPA also stated that "since no energy procurement is warranted…next year's Procurement Plan will allow for additional analysis of this revised hedging strategy on volatility and expected cost" (2013/2014 Plan at 3). Upon reviewing last year's Plan and ICC Order, it appears the IPA did not seek formal approval of this hedging strategy and therefore none was provided. Therefore, the last *approved* hedging strategy remains 100% prompt year, 70% prompt year + 1 and 50% prompt year +2. So in order to avoid confusion during the docketed proceeding and during implementation of the Plan, Ameren Illinois recommends that the IPA change all references to the 75%/50%/25% hedging strategy as something that was discussed in the 2013/2014 Plan, but not approved by the ICC. Furthermore, the IPA should seek an order from the ICC that the

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hedging strategy for this Plan be changed from 100% prompt year, 70% prompt year + 1 and 35% prompt year + 2 to 106% prompt year, 50% prompt year +1 and 25% prompt year + 2.

Regarding the proposal itself to change the hedge strategy, Ameren Illinois is of the opinion that the change for the prompt year is likely to be inconsequential (100% vs. 106%) and therefore Ameren Illinois remains neutral. Regarding the proposed change in hedging strategy for prompt year + 1 and prompt year + 2, Ameren Illinois generally supports the proposed reduction in forward hedging quantities, especially in light of the uncertainty of eligible retail load across the planning horizon. Continuing with the theme of uncertainty, Ameren Illinois notes the possibility that switching may continue to increase and could approach 95% to 100% as characterized by the high switching scenario included in the low forecast. Furthermore, given a scenario of higher than expected switching coincident with hedges that are in excess of requirements and at a price that is out of the market, the dwindling pool of eligible retail customers could in a worst case scenario incur exponentially increasing costs absent some future remedy. While the IPA successfully articulated its opinion that the primary risk is being under hedged in a scenario where customers return to eligible retail load, less discussion occurred in regards to the risks of over hedging in a scenario where load continues to migrate from the eligible retail portfolio and these hedges become out of the market. Ameren Illinois encourages the IPA to discuss this "tail" risk as part of its Plan.

Regarding the IPA proposal to procure energy in 25 MW increments as opposed to 50 MW increments, Ameren Illinois supports this proposal, especially in light of the reduction in the size of the eligible retail load portfolio over the last couple of years.

Ameren Illinois also supports the IPA proposal that excess energy hedges settle through the MISO market as opposed to a reverse RFP via the bilateral market. This proposal represents a continuation of past practice in that it is consistent with the 2013/2014 Plan and the Final Order from the ICC.

Regarding the IPA proposal that energy be procured via two procurement events for the 2014/2015 plan year (one in April that hedges June through October at 106% and November through May at 75% and a second in September which hedges the remainder of November through May to achieve 106%), Ameren Illinois agrees with the IPA that it is unlikely a second procurement would occur specific to Ameren Illinois given that existing hedges for November 2014 through May 2015 are in excess of 106%. But Ameren Illinois is concerned that if this strategy were to be pursued in future Plans, it would add administrative cost borne by eligible retail customers and these costs may outweigh any incremental hedging benefit of the second procurement event. Furthermore, the parameters by which the IPA would decide whether to have a second procurement are not articulated. For example, would the IPA pursue the procurement of one 25 MW monthly block if the forecast indicated the need? While Ameren Illinois is not taking a firm position against this proposal at this time, Ameren Illinois recommends the IPA delay any decision regarding the second procurement event specific to Ameren Illinois until future Plans. This will allow the IPA more time to gage switching trends and price movements in the market. If the IPA disagrees, Ameren Illinois recommends the IPA describe in more detail the process by which it will decide whether to pursue a second procurement.

Regarding the IPA proposal that Ameren Illinois provide an updated forecast to the IPA in March 2014 and the quantities of energy to be procured be based on this forecast update, Ameren Illinois supports this proposal. However, Ameren Illinois recommends that the IPA be specific in how this March 2014 forecast will be approved. Ameren Illinois believes the methodology approved in past Plans should be continued; namely that Ameren Illinois will update the forecast in March 2014 and provide the forecast to the IPA, ICC Staff, Procurement Administrator and Procurement Monitor. The ICC will pre-approve this forecast in this Plan if consensus is reached in March 2014 among the aforementioned parties. Assuming consensus is reached, the IPA will update the quantities of energy to be procured and determine the quantities of curtailment associated with the long term renewable contracts. Otherwise, the quantities to be procured and quantities of curtailment will be based off the Ameren Illinois forecast from July 2013. The IPA also requests an update of the low and high forecast scenarios in March 2014. Ameren Illinois does not object to this proposal, but notes it deviates from prior Plans and further, if the IPA has identified a specific purpose for the update of the low and high forecast scenarios in March 2014, Ameren Illinois encourages the IPA to discuss this purpose in the Plan filed with the ICC.

The IPA also proposes that the July 2014 forecast required of Ameren Illinois in the *next* Plan (which will cover the period June 2015 through May 2020) should include an update of the period November 2014 through May 2015, which represents a portion of the prompt year associated with *this* Plan. Ameren Illinois interprets that the IPA desires to use the updated forecast for November 2014 through May 2015 in determining whether a September 2014 energy procurement (second procurement for the prompt year) should be pursued and for determining the associated quantities, if any. Ameren Illinois remains neutral regarding the IPA proposal to provide an update for November 2014 through May 2015, but recommends the intent of this updated forecast be more clearly defined in the Plan. Specifically, Ameren Illinois recommends that the Plan should seek ICC pre-approval of the updated November 2014 through May 2015 forecast in *this* Plan (via consensus of the aforementioned parties in July 2014) and furthermore, the IPA should state the sole purpose of the November 2014 through May 2015 update is to determine if a September 2014 energy procurement event is necessary and if so, the associated quantities. It should be clearly stated that the November 2014 through May 2015 forecast update would have no bearing on the curtailment quantities under the long term renewable contracts. Ameren Illinois also recommends that the November 2014 through May 2015 update be provided at the same time as the July 2014 forecast, but the forecasts be provided as separate files to the IPA. Finally, Ameren Illinois recommends that this provision be removed from the Plan if the IPA decides to delay any decision regarding the fall procurement for Ameren Illinois until future Plans (pursuant to our previous discussion above).

Regarding the quantity of energy to be procured as listed in the tables in Chapter 7, Ameren Illinois notes the quantities of existing hedges assume no proportional curtailment of the long term renewable contracts. Since lowering the quantity of existing hedges would also modify the residual quantity remaining to be procured, Ameren Illinois recommends these tables be revised to reflect the proportional curtailment later described in Chapter 8. As an alternative, the IPA could leave the tables in Chapter 7 unchanged, but provide a footnote that if the ICC approves a proportional curtailment of the long term renewable contracts, the existing hedges and residual quantities to be procured will be modified coincident with the March 2014 forecast update (assuming consensus is reached among the aforementioned parties) and prior to the April 2014 energy procurement event.

Capacity

The IPA states that Ameren Illinois has the majority of its 2014/2015 capacity requirement already hedged via prior IPA procurements from the bilateral market. The IPA proposes that Ameren Illinois procure any remaining capacity requirement for 2014/2015 from the MISO capacity auction. Ameren Illinois supports this proposal.

The IPA also notes that Ameren Illinois has no forward capacity hedging for the balance of the planning horizon and the IPA does not recommend such hedging. Instead, the IPA references that MISO liquidity should be sufficient to meet the future requirements of Ameren Illinois. While this is likely true and Ameren Illinois is neutral regarding the proposal that no bilateral capacity be procured in this Plan, Ameren Illinois suggests the IPA expand its discussion of the capacity issue in order to more fully address its complexity.

Of particular importance when discussing this issue is the recognition that the annual PJM capacity market is three years forward, whereas the MISO capacity market is only one year forward. Under a scenario where both ComEd and Ameren Illinois rely entirely on RTO auctions for capacity procurement, the result would be that ComEd eligible retail customers would have capacity 100% hedged for prompt year, prompt year + 1 and prompt year + 2, whereas Ameren Illinois eligible retail customers would have capacity hedged at 100% for prompt year but 0% for prompt year + 1 and also 0% for prompt year + 2. So given a scenario where the MISO supply surplus is depleted in years 2 and 3 in the prior example, scarcity pricing could occur and with no forward hedges in place, the full impact of this scarcity pricing would be borne by Ameren Illinois eligible retail customers. A counter argument against forward hedging of capacity is that doing so incurs price premiums as suppliers also understand the potential for scarcity pricing and therefore build price premiums into capacity offers. The result is that price premiums would be incurred by eligible retail customers as protection against a scarcity pricing event. Another point of discussion is the inconsistency in hedging strategy between energy and capacity. Whereas the IPA is proposing a three year laddered hedging approach for energy, the proposal for capacity would result in purchases of 100% of the capacity for the prompt year at spot (MISO auction) with no purchases for years 2 and 3. Ameren Illinois recommends the reasons for this difference be articulated in greater detail.

In conclusion, Ameren Illinois reiterates that it supports the proposal that any remaining capacity for 2014/2015 be procured via the MISO auction. Ameren Illinois is neutral regarding the IPA proposal that no bilateral procurement of capacity be pursued in this Plan. However, Ameren Illinois recommends that the IPA add additional discussion in the Plan which illustrates the differences between the PJM and MISO market and how this impacts ComEd and Ameren Illinois eligible retail customers. Finally, Ameren Illinois recommends the IPA reconsider in future Plans whether bilateral capacity procurement as it pertains to Ameren Illinois eligible retail customers should be pursued.

Renewable Resources

The IPA recommends that no renewable procurement occur in this Plan since the forecast indicates that total targets have been met and the budgets have been exceeded. The IPA also recommends that the long term renewable contracts for Ameren Illinois should be proportionally curtailed and the quantities of curtailment be based on the March 2014 forecast update. Finally, the IPA recommends the use of Alternative Compliance Payments (ACP) funds collected from hourly priced customers be used as payment to long term renewable suppliers to partially offset the impact of the curtailment.

Ameren Illinois supports the proposal that no renewable procurement occur in this Plan and the quantities curtailed should be based on the March 2014 forecast update. However, Ameren Illinois reiterates its belief that the process by which the March 2014 forecast update is approved should be clearly identified in the Plan and pre-approved by the Commission. Ameren Illinois previously outlined its recommendation in this regard (which is consistent with prior Plans) in the Energy section of this letter and considering we believe this process would be applicable to both Energy and Renewable Resources, it will not be duplicated within this section of our comments.

Ameren Illinois also recommends that the Plan clearly state that the sole basis for determining the curtailment quantities under the long term renewable contracts will be the March 2014 forecast update, or the July 2013 forecast if consensus is not reached among the aforementioned parties to use the March 2014 forecast. Doing so will allow Ameren Illinois and the long term renewable suppliers the benefit of knowing the quantity of curtailment in advance of the prompt planning year, which will also allow the identification of the amount of hourly priced ACP funds for which the IPA desires to use as partial compensation to curtailed suppliers. The IPA should make clear that the November 2014 through May 2015 forecast update requested of Ameren Illinois in July 2014 will have no bearing on the curtailment quantities associated with the long term renewable contracts. Instead, the sole use of the November 2014 through May 2015 forecast update will be to determine whether a September 2014 energy procurement is required and the associated quantities, if any.

Ameren Illinois also recommends that the IPA describe in the Plan that the targets have been *exceeded* as opposed to current language which describes the targets as *met*. Our reasoning is that the Plan should be clear that RECs have been procured in excess of the target across the planning horizon. Furthermore, we recommend the Plan clearly state that a reverse RFP of RECs in excess of the target is not being pursued by the IPA and that Ameren Illinois should retire excess RECs on behalf of eligible retail customers. But if the ICC desires for such a reverse RFP to occur, Ameren Illinois cannot administer such an event and it must be pursued by the IPA. This concept is consistent with prior Plans.

Regarding the use of ACP funds collected from hourly priced customers as payment to curtailed suppliers under the long term renewable contracts, Ameren Illinois is neutral regarding this proposal. But Ameren Illinois notes that several parties to the Plan last year offered concern that the proposal may be contrary to the statute and could be viewed as a supplier subsidy. While the ICC approved the proposal in the Plan last year, the IPA may wish to expand its discussion in this Plan to reiterate the basis for its recommendation.

In reference to the IPA strawman that outlines a renewable resource procurement strategy in the event existing legislation is changed between now and the Final Order, Ameren Illinois is concerned that that the inclusion of this strawman will bring forth considerable debate in the docket for something that may or may not happen within the compressed time frame of the docketed proceeding and for which the debate cannot be clearly defined since parties would be required to speculate on the contents of any legislation change. Ameren Illinois suggests the IPA omit this proposal and state that should the legislation change between now and the Final Order, time permitting, the IPA will file a supplemental Plan as part of the written hearing process associated with the Plan. If time does not allow, the IPA will consider the matter in future Plans.

Supply Contracts

The IPA recommends that prior contracts be used in this and future Plans given that parties have had considerable input in prior language and the process by which input is solicited is time consuming and expensive. The IPA also states the amount of comments has declined significantly relative to earlier procurements and therefore the review process has reached a point of diminishing returns.

Ameren Illinois would oppose a proposal that contracts from prior procurement events are automatically used in future procurement events. Our reasoning is that markets are too dynamic and therefore require an annual review of terms and conditions to ensure the parties are properly protected. Furthermore, certain parties could interpret that the statute requires an annual review of contract terms. But specific to this Plan, the only procurement proposed is for energy and Ameren Illinois concedes the energy contract used in the last procurement event (rate stability procurements in 2012) will likely require limited changes. Ameren Illinois recommends that Ameren Illinois, IPA, ICC Staff, Procurement Administrator, and Procurement Monitor undertake a joint review of this contract in order to identify what terms, if any, need to be modified. Assuming consensus can be reached among these parties, the supplier comment process would be avoided for this Plan. If consensus cannot be reached, then supplier comments would be pursued only as it relates to any changes made to the 2012 contracts. Ameren Illinois recommends this proposal be stipulated within the Plan and approved by the ICC.

Technical Issues

Tables 1-2 and 7-13 appear to contain incorrect capacity quantities. Ameren Illinois has provided what it believes are corrections in the redline version of the Plan. These quantities were rounded up to the nearest 10 MW consistent with prior Plans, but if the IPA desires the exact values they can be found in the capacity forecast spreadsheet provided in July.

Tables 7-4 through 7-7 as previously mentioned contain procurement quantities of energy that do not consider the forecasted partial curtailment of long term renewable contracts.

Energy Efficiency

With respect to the energy efficiency portions of the proposed Plan, Ameren Illinois notes that certain policy items have been raised by the IPA for either comment or resolution by the ICC. As a general matter, Ameren Illinois supports the IPA's efforts to get clarity on the policy aspects of Section 16-111.5B, but suggests that items not requiring resolution in this docket be left out of the Plan so that parties can discuss these items as part of subsequent workshops (conducted in a manner similar to those workshops held in accordance with the Final Order in Docket No. 12-0544). Ameren Illinois commends the ICC and the IPA for the workshops conducted to date and would look forward to participating in future workshops as well.

In addition to that general statement, Ameren Illinois offers the following comments and reiterates that there are modifications to language set forth in the redline version of the Plan that may not specifically be identified below.

Ameren Illinois provided all bids that it received in its submission package to the IPA, regardless of whether they were included in their savings goal estimate. Clarity on this point is important in light of the many policy items raised by the IPA, and Ameren Illinois has proposed modifications in an attempt to provide that clarity.

With respect to the workshops conducted by the ICC in accordance with ICC Docket No. 12-0544, Ameren Illinois suggests eliminating reference to Section 8-103 of the PUA. Ameren Illinois presently has a separate plan approval docket open pursuant to Section 8-103 and does not want there to be any confusion that certain issues relating to the standards set forth in 8-103 will be addressed in that docket. Ameren Illinois notes that this distinction is consistent with those made in other parts of the Plan (for example, p. 81).

Further, stakeholders participated in the workshop process in a good faith effort to reach consensus on certain policy items, but such participation was not meant to (and should not) prevent stakeholders from presenting formal comments in this docket. Energy efficiency remains an ever-changing market and stakeholders must be able to respond to those changes appropriately, particularly if there is a change in policy or information. Ameren Illinois proposes to make clear that the workshop process, while helpful (1) did not result in formal positions of the parties and (2) was conducted based on then-current policy and information. Such clarification in the Plan makes clear that the stakeholders will provide their formal positions in this docket with comfort that they can freely participate in future workshops.

In reference to Section 2.7, and specifically the "procedural matter" set forth on pages 21-22, it is unclear (1) how the IPA would like to receive comment/input on the matter identified, and (2) what recommendations the IPA may provide to the ICC in its filed Plan. Ameren Illinois has set forth in the attached redline modifications to the Plan with respect to the items identified, but to the extent the IPA seeks additional comments, it should so indicate in the filed Plan.

With respect to Section 7.1.3.1, Ameren Illinois notes an additional concern: the timing of how to acquire bids, provide IPA submissions, acquire docket approval and start implementation. At this time, the utilities must issue bids in January/February (1.5 years prior to implementation) in order to provide adequate time for bid submission, assessment and IPA submission by July 15 each year. If it is determined that the process needs to include a feedback mechanism, the Commission should also address the long lag period between bid issuance, submission, assessment, and approval. As it is, bidders already have difficulty adhering to their initial bids that were submitted 1.5 years earlier, and if the time prior to implementation took longer, further complications could arise.

In reference to Section 7.1.3.2, Ameren Illinois suggests making revisions to specify how the utility should handle the submission of incremental programs during the "transition year," when the utility has not yet received approval for its energy efficiency plan under Section 8-103. Ameren Illinois has modified this section to reflect how the utilities addressed the situation this year.

With respect to Section 7.1.3.3, Ameren Illinois suggests that the IPA consider including the DCEO submission as an Appendix so that the parties can review when preparing their comments to the Plan.

In reference to Section 7.1.3.4, Ameren Illinois suggests modifications to address additional issues that are presented by the inclusion of programs that are duplicative of programs that have already been approved by the ICC. These modifications provide detail on issues that Ameren Illinois understands the IPA is seeking guidance on, and should assist the ICC and the parties with addressing these items.

With respect to Section 7.1.4, Ameren Illinois recommends that the IPA specify that Ameren Illinois' proposal contains programs and measures that were "expanded" from the Section 8-103 programs by virtue of being removed from the 8-103 portfolio and moved to and expanded in its IPA submission. This distinction would provide clarity to the ICC and the parties as to those programs that were a part of Ameren Illinois' savings estimate. Ameren Illinois also proposes certain modifications to the identification and explanation of Ameren Illinois' proposed programs, including clarification of who is the entity bidding certain programs. Additionally, as referenced in regards to the proposed Small Business Direct Install Program, Ameren Illinois notes that even though there are no statutory penalties for incremental programs, there remains considerable risk associated with management assessment during the ICC's review of the reconciliation of costs and revenues under the applicable cost-recovery mechanism. Ameren Illinois believes that, based on the reasons explained in Ameren Illinois' submission and reiterated in the Plan, the IPA (and the ICC) should adopt the base level of savings proposed by Ameren Illinois and not the increased level.

Finally, in reference to Section 7.1.6 and the IPA's preliminary proposal regarding "negawatt" procurement, Ameren Illinois recommends that the IPA leave out this discussion given it is in a preliminary stage. Instead, the IPA should convene workshops to seek the input it needs to include any recommendations in future procurement plans.

Conclusion

Ameren Illinois again compliments the IPA regarding the considerable effort associated with Plan development and appreciates the identification of numerous complex issues and subsequent proposals that are associated with the Plan. Ameren Illinois looks forward to working with the

IPA to finalize the development and implementation of the Plan. If you have any questions or would like to discuss any of the comments pertaining to power supply, please feel free to contact me at 314-613-9181 or rmccartney@ameren.com. Questions or comments pertaining to energy efficiency should be addressed to Keith Martin at 309-677-5562 or kmartin@ameren.com. Questions pertaining to legal should be addressed to Matt Tomc at 314-554-4673 or mtomc@ameren.com.

Sincerely,

Richard L. McCartney

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

Cc: Mario Bohorquez, Michael Strong - IPA
J.Blessing, M.Tomc, K.Martin, K.Goerss - Ameren Illinois
Richard Zuraski, Tom Kennedy, Jim Zolnierek - Illinois Commerce Commission