

**Ameren Illinois Company's Comments in Response to the IPA's Request for  
Stakeholder Comments on Electricity and Capacity Procurement for Eligible  
Retail Customers**  
**July 8, 2022**

Ameren Illinois Company d/b/a Ameren Illinois (Ameren Illinois or the Company) respectfully submits these comments in response to the request from the Illinois Power Agency (IPA) for comments on the electricity and capacity procurement for eligible retail customers. Ameren Illinois appreciates the opportunity to submit its comments.

**IPA Procurement Process and Products**

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?

A: Ameren Illinois has no suggestions at this time but may comment if additional products are proposed in the draft procurement plan.

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?

A: Generally, Ameren Illinois would support a market analysis process that would review market conditions in order to identify potential challenges to the procurement process. However, Ameren Illinois would like to work with the IPA and other stakeholders to gain a better understanding of what this market analysis process might entail in order to ensure that it provides customers with the most benefit.

3. How will current market conditions impact the near- and longer-term eligible retail customer switching patterns?

A: Ameren Illinois cannot predict how the current market conditions will impact retail customer switching patterns because of the many unknown factors involved in this analysis. However, Ameren Illinois can illustrate why this analysis is complicated. Currently, approximately 20% of the entire Ameren Illinois residential load has municipal aggregation contracts expiring in January 2023 and Ameren Illinois has no insight into those contracts or the prices that the ARES are currently negotiating or if negotiations are even occurring. Additionally, Ameren Illinois

cannot predict what prices the September Energy Procurement event will bring and in turn, what the default supply tariff price will be starting on October 1<sup>st</sup>. Moreover, this is not an all or nothing scenario when it comes to municipal aggregation. There could be a split of communities that stay with ARESs and communities that come back to Ameren Illinois' default supply. Finally, if municipalities decide to renew with an ARES there could be a variety of different terms that each municipality agrees to. Therefore, the future for municipal aggregation contracts is uncertain and although the impact could be great, it is largely unknown.

Complications can also arise due to the three-year hedging plan put in place by the IPA. We would expect customers to switch away from AIC supply during times of decreasing wholesale energy prices and for customers to return to utility supply during times of rising wholesale energy prices. The utility's portfolio will always lag the market and have a price that averages over the three-year period while ARES are mostly operating in a shorter-term market.

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.

A: The question proposed here is an extremely complicated scenario that requires an incredible amount of analysis. A thorough examination of all the costs and benefits would be required. Another question to explore is what administrative and cost barriers exist that prohibits flowing PJM energy and capacity into the MISO footprint? And is that a study that would reap more benefits than a potentially costly and cumbersome switch of RTOs? As for a single state RTO, Ameren Illinois would advise to look at some of the challenges that this has presented across the country.

Ameren Illinois would also recommend the State develop an Integrated Resource Adequacy Plan to identify generation resources needed to ensure resource adequacy. Since Illinois moved to retail choice, it has relied on markets to ensure sufficient resources are available to serve load. However, the landscape has changed and it may be time for stakeholders to take a different approach to analyzing how available generation can meet the State's load requirements.

#### IPA Hedging Strategy

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?

A: Ameren Illinois would support exploring a modest increase in the hedging quantities but cautions that major changes could have significant consequences. Retail choice continues to create a great deal of uncertainty as to the volumes of energy and capacity that will be required to serve the load that is on utility supply. Over hedging has the potential to lead to increased customer costs under scenarios where wholesale market prices decrease to levels below the utility portfolio price and customers then switch to retail energy suppliers to take advantage of the lower wholesale market prices. The excess "out of the money" hedges would then need to be sold back to the market at a loss, with that loss flowing back to utility supply customers.

6. Should the frequency and timing of energy procurements be modified?

A: Ameren Illinois has no issues with the frequency and timing of the procurements.

7. Should the IPA consider procuring energy in block sizes other than 25 MW or in different sized blocks within the same procurement?

A: Ameren Illinois has no issue with the current block size for energy procurements.

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?

A: Ameren Illinois cannot predict whether the high and volatile prices are a short-term phenomenon or not. The current plan to enter the prompt year at 50% hedged in the spring procurement could be considered for a change. Ameren Illinois cautions though that additional hedging brings its own set of risks. As mentioned above, the risks that come with being over hedged can be as great as the risks of being under hedged. Ameren Illinois advises that any changes be well thought out in order to protect the retail electric customers.

Ameren also notes that the IPA could utilize a market analysis process, as suggested in question 2 above, in determining the appropriate hedging strategy in each year's procurement plan. Wholesale market conditions have and will continue to change from year to year. An annual review of those market conditions would be undertaken by the IPA and the results should be incorporate into the draft procurement plan the IPA releases each year.

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?

A: Please see the Company's response to #8.

#### Carbon Mitigation Credits

10. No comment
11. No comment
12. No comment
13. No comment

#### Capacity Procurement Issues

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?

A: Ameren Illinois could support exploring a modest increase in procurement quantities if the IPA determines that is the best approach 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?

A: In light of a much smaller rollout of renewable energy than originally targeted (~5% or total load vs ~21%), AIC would like to point out, per the law, that the IPA may pursue the development of renewable generation assets on their own.

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?

A: Ameren Illinois would caution the IPA on this approach considering the uncertainty of load due to municipal aggregation. As previously mentioned, the risks of over hedging can be as great as the risks of under hedging. For example, if the IPA were to hedge at 100% in the fall and then Ameren Illinois were to lose a large portion of load prior to the next planning year, the results could be catastrophic. For example, if an excess of capacity is purchased and load comes in lower than forecasted, then the entire cost of the capacity must be absorbed by a smaller pool of customers

Ameren Illinois would also suggest that the IPA continue to monitor current market conditions during every planning year moving forward. They may want to consider

adjusting the hedge percentages based on the municipal aggregation outlook along with any information the ORMD and utilities can help provide. During planning years where municipal aggregation contract expiration dates suggest the risk of a significant amount of load leaving Ameren Illinois is minimal, then it may be appropriate to raise the hedge percentages some. Conversely, in planning years when the risk of losing load is higher, it may behoove the IPA to be more conservative with the amount they hedge in order to minimize the risk of over-hedging.

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?

A: Ameren Illinois is on record at FERC supporting a sloped demand curve. Ameren Illinois also encourages the IPA to monitor developments in the MISO wholesale markets and participate in dockets and discussions to ensure that their procurement strategy and portfolio are the most protective and beneficial for customers.

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?

A: The IPA would need to modify the procurement process to align with the construct's proposed seasons. Under a sub-annual construct, the Planning Resource Auction (PRA) offer window will remain as the last four business days of March and clear all four seasons at that time.

The IPA should also consider the impact of the proposed Minimum Capacity Obligation (MCO). The MCO would require each market participant and their affiliates with load serving obligation to cover at least 50 percent of their obligation (less a 50 MW de minimis threshold) with Zonal Resource Credits (ZRCs) procured prior to the PRA. Initially, the MCO proposal would allow ZRCs from anywhere in MISO; however, the proposal would require Ameren Illinois to have capacity from only MISO North (Zones 1-7) in a few years.

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?

A: Ameren Illinois believes that a sloped demand curve, in theory, would generally raise prices but lower volatility. The use of a sloped demand curve would send better price signals to market participants to consider when making construction and retirement decisions regarding generation units.

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?

A: Please see the Company's response to # 17.

Ameren Illinois appreciates this opportunity to provide these comments and is looking forward to working with the IPA and other stakeholders in a manner that moves Illinois closer to achieving a solution to the current market issues. The Company's comments represent its preliminary thoughts on certain issues and these may be subject to change as more information becomes available throughout the process. By not responding to an issue at this time, the Company does not waive its right to comment at a later date.