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AN EXELON COMPANY

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VIA E-MAIL

Illinois Power Agency
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Re: Illinois Power Agency's June 27, 2022 Request for Stakeholder Comments regarding Electricity and Capacity Procurement for Eligible Retail Customers

Commonwealth Edison Company ("ComEd") submits this response ("Response") to the Illinois Power Agency's ("IPA") June 27, 2022, Request for Stakeholder Comments regarding Electricity and Capacity Procurement for Eligible Retail Customers ("Request"). As indicated in the Request, the IPA is taking the unusual step of soliciting stakeholder feedback on specific questions prior to issuance of the 2023 draft electricity procurement plan "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." Request at 1.

ComEd shares the IPA's concerns regarding the current instability of energy prices, and below offers comments on two topics set forth in the Request: IPA Hedging Strategy, and Carbon Mitigation Credits ("CMCs").¹ Consistent with other IPA procurement processes, ComEd has no financial stake in the outcome of the electricity procurement because ComEd recovers the cost of the energy procured – without markup – from eligible retail customers. However, ComEd is interested in how the results of the IPA procurement processes impact its bundled-service customers. ComEd brings to these comments decades of real world experience as well as learnings gleaned from cross-cutting participation in the numerous and varied Illinois Commerce Commission ("Commission") proceedings addressing IPA procurement plans and processes for energy, capacity, renewable energy resources and credits, and other tradeable clean energy credits.

IPA Hedging Strategy

Question 9 of this section of its Request asks: "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?" Request at 4 (Question 9). The 2022 Electricity Procurement Plan further describes the

¹ Notwithstanding the scope of ComEd's Response, ComEd reserves the right to comment on all issues reflected in the Request during the comment period that commences following issuance of the 2023 draft electricity procurement plan and in the Commission docket subsequently initiated to approve the filed plan.

existing approach as follows: “[t]he current IPA energy procurement strategy involves procurement of hedges to meet a portion of the hedging requirement over a three year period and includes two procurement events in which the July and August peak requirements will be hedged at 106%, while the remaining peak and off-peak requirements will be hedged at 100%.”² As a result, 106% of the July and August expected peak is targeted for procurement in the immediately preceding Spring procurement event.³

ComEd questions the value of having the 106% hedging target during the July and August peak hours because it does not appear to serve as an effective planning or procurement tool. The target delivery months of July and August are so close in time to the Spring procurement that a 100% hedging target appears sufficient, and any additional energy requirements, if needed, can be procured in the spot market. “Over-hedging” can actually create greater price risk.

Carbon Mitigation Credits

The Request poses a number of questions related to the CMC procurement’s potential to serve as a “viable hedging approach” in conjunction with the IPA’s energy hedging strategy. Below ComEd addresses the CMC procurement’s consumer protection mechanism and how it can serve as a hedge in the context of electricity procurement planning.

As the Request acknowledges, the CMC procurement includes a consumer protection mechanism associated with the monthly calculation of CMC prices: “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.” Request at 4. More specifically, through the CMC contracts executed by ComEd and the supplier, customers pledge to purchase CMCs to preserve clean nuclear generation when the combination of energy and capacity prices are low. Conversely, the nuclear generators are obligated to pay the customers when capacity and energy prices are high. As a result, CMCs materially impact the amounts that customers pay for electric service overall. Analyzing and accounting for the extent to which CMCs require payment either from or to customers is accordingly critical to assessing the impacts of energy prices on customers and the risks they bear.

However, the effectiveness of the CMCs’ ability to serve as a viable hedge to energy price risk requires that a portion of the load remain “open” for procurement in the day-ahead energy market (and thus not covered by a fixed-price contract). Under this approach, the remaining amount of energy is purchased in the PJM day-ahead energy market at the same prices that are used to set the CMC payments. If the market price for energy goes up, the CMC payments to customers also increase, offsetting the movement in the cost of the “open” portion. Likewise, if the energy price goes down, the CMC payment will decrease, and there will also be an offset. Importantly, because the size of the CMC payments is tied to the market price, spikes in energy prices will trigger a corresponding CMC payment to customers that will serve to offset the risks of energy price volatility to the cost of the total basket of energy supplying

² 2022 Electricity Procurement Plan at 41 (Feb. 7, 2022).

³ *Id.*

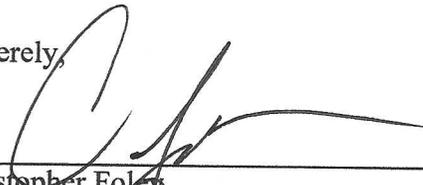
eligible retail customers. Absent an “open” portion, customers are exposed to changes in the CMC payments, which will have no corresponding offset.

To preserve the value of the hedge provided by the CMC construct, it is therefore critical that a material portion of the load remain open for day-ahead energy market procurement and uncovered by fixed-price contracts, the latter of which set a firm contract price and necessarily break the linkage to the day-ahead markets on which CMCs are priced. Indeed, if increased amounts are procured under these fixed-price contracts, customers’ price risk actually increases and could result in customers paying more than they need to pay. For example, this could occur in a highly volatile market where a fixed-price energy contract is executed when energy prices are high but then energy prices abruptly drop such that the CMC does not provide payments to customers to offset the high prices under the contract.

Because approximately 60-65% of the load is directly hedged by CMC contracts, it is important that the IPA limit the amount of energy procured under fixed-price contracts to 40-50% of the projected load, which ensures that the hedge provided by the CMC contracts can be fully utilized. As explained above, exceeding this 50% limit would *undo* the balance struck between the CMC contract hedge and fixed-price energy, which would subject customers to added risk – *i.e.*, requiring them to be liable to pay more for fixed price energy than they would otherwise have to pay.

In sum, ComEd recommends that the IPA and its electricity procurement plan consider the impact of the CMC contract – and the value of the hedge customers have already procured and paid through the CMCs – when deciding the amount of fixed-price energy to procurement.

Sincerely,



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