Comments of Constellation Energy Generation, LLC
Electricity and Capacity Procurement for Eligible Retail Customers

On June 27, 2022, the IPA solicited comments regarding its procurement process and products based on several questions. Constellation Energy Generation, LLC ("Constellation") appreciates the opportunity to provide feedback. Constellation is the largest carbon-free energy producer in the U.S., with more than 34,000 MW of capacity and annual output that is 90% carbon-free. Constellation is a power marketer authorized by the Federal Energy Regulatory Commission to sell energy and capacity and certain ancillary services at market-based rates. Constellation serves the needs of distribution utilities, co-ops and municipalities that competitively source their load requirements throughout the country, and has participated in competitive procurements for Illinois distribution utilities itself or through its predecessor company since the inception of the IPA.

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?

- The current process for laddering and staggering is beneficial, as procurements are occurring over the course of several years and are procurements are not occurring at a single point in time. This strategy naturally ensures that the entire amount to be procured is not subject to ill-timed market volatility.

  There are additional ways of further mitigating price volatility. One option is to distribute volumes more uniformly, removing volumes for the beginning of the summer that currently are procured in the spring and procuring some of those volumes in an earlier procurement. A second, alternative means of mitigating price volatility is to use full requirements contracts for some portion of the procurement. There is certainly a trade-off between price certainty and price itself. The cost of a full requirements contract is necessarily higher because of the risks that a supplier is fully taking, and one would expect those premiums would be larger now based on recent market volatility. The question is how much risk eligible customers are willing to take themselves.

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?

   Under the current process, the Auction Monitor is essentially providing a review of market conditions with its benchmark analysis; if not already occurring, a review of recent trades on ICE could be added to that analysis.

While a laudable sentiment, a market analysis process outside of the annual electricity procurement plan that would formally review market conditions could prove to be unwieldy with a number of stakeholders and competing experts and theories. Additionally, it would be extremely difficult to predict a "black swan" situation. This was the most volatile year for energy prices with the highest prices in PJM; the entire IPA strategy should not be re-formulated to account specifically for results of this year, which was due to a confluence of events, both domestic and international.

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.

Illinois should not consider becoming a single-state RTO, for a variety of reasons. First, both Ameren and ComEd would need to pay exit fees to their respective RTOs to cover allocated transmission development costs. Second, and more importantly, over time, Illinois would need to develop transmission without the benefits of scale. Transmission operations would likely be congested as a consequence of west to east and north to south flows. Transmission development to address congestion would be solely borne by state customers rather than being allocated to beneficiaries in other states. Illinois also would be solely responsible for assuring that it maintains sufficient reserves without the benefit of interregional sharing. This would make it more expensive and difficult to manage the state's achievement of 100% clean energy as mandated in the Clean Energy Jobs Act. The ability to balance variability of renewable generator output across state boundaries is a critical benefit of integrating grid operations within a regional market, as evidenced by expansion of CAISO's Western Energy Imbalance Market and formation of SPP's Western Energy Imbalance Service and Southern Company's Southeast Energy Exchange Market.

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?

Please see the response to Question 1. In addition, effort should be taken to shorten the time between bids and notification to winning bidders. While there has always been a risk associated with keeping a price open, the in current environment the price hold risk is high, and as a consequence the price hold premium is a non-trivial portion of the bid. Bidders are getting notification late in the day after the auction concludes, after the ability to trade that day is effectively foreclosed, or sometimes not even getting notice until the next day. If

Auction Manager can shorten window to provide notice to winning bidders substantially before COB on the day the auction closes, that would help so that winning bidders can trade that day. Auctions for different planning years could be held on consecutive days, if needed, but ensuring notice on the day of the auction, in sufficient time to allow trading, would not only benefit bidders but would reduce price hold premiums that are ultimately born by eligible retail customers.

6. Should the frequency and timing of energy procurements be modified?
Please see the response to Question 1. Constellation would caution against adding procurements throughout the year, or materially modifying the timing of the procurements. Prospective bidders participate in a number of procurements throughout the country, each of which requires bidder applications as well as internal analysis about what bids to present and the bids themselves, which together requires time, effort, and credit. Additional procurements may put resource and financial strain on prospective bidders which may result in fewer participants, particularly if there are utility procurements in different jurisdictions occurring in the same time frame.

7. Should the IPA consider procuring energy in block sizes other than 25 MW or in different sized blocks within the same procurement?
The IPA may want to consider 50 MW blocks, which is the standard trading unit on ICE.

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?
The target procurement volumes for the months of June, July, and August should be reduced in the Spring procurement.

Carbon Mitigation Credits

10. What are the implications for the IPA's hedging strategy for ComEd eligible retail customers given that the procurement of CMCs includes the consumer protection methodology?

11. Do CMCs represent a viable hedging approach over the five-year horizon of the CMC program that can be matched with the energy hedging strategy?

12. Should the hedging benefits of CMCs, if any, be considered in the IPA's hedging strategy for energy?

13. Will timing differences in the adjustment of the level of payments or credits for CMCs versus the month-to-month changes in the Purchased Electricity Adjustment that are driven in part by the results of the hedging for energy conducted by the IPA, negate any of these benefits?

Questions 10-13

- The CMCs are designed to preserve the nuclear power plants, recognizing the critical role that nuclear power plants play in providing clean, resilient, and reliable energy, while keeping electricity affordable for customers. The CMC payment itself can vary significantly from a cost to a credit within the contract term, and that variability may make it difficult to include the CMC as an IPA hedging strategy. Additionally, the CMC contracts were limited to 5 years, which means that the benefit of the contracts will soon be unavailable for IPA Procurement Plan periods.

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?

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?

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?

Questions 14-16

The IPA could consider procuring a higher percentage of capacity for Ameren Illinois. The last procurement only procured 50% of capacity, and the resulting volatility is a function of the results of the PRA that cleared in Zone 4 at the maximum: the Cost of New Entry (CONE). Procuring a higher percentage of capacity in advance of the PRA provides greater price certainty to eligible Ameren Illinois customers. The trade-off, of course, is not knowing whether the PRA will ultimately clear higher or lower than the procured capacity.

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?

The lack of a forward price signal in the PRA is a particular challenge. A forward auction is one way to provide a better signal to which the market could react, as planned retirements and new

entrants would be reflected in forward pricing, thus potentially mitigating some of the high prices. The MISO IMM has provided constructive suggestions for MISO to consider in its State of the Market Reports, notably a sloped demand curve, discussed below in question 19.

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?

    If approved, a seasonal resource adequacy construct would impose different load requirements for generators, in order to match the PRA. However, a seasonal construct does not affect what IPA needs to procure, and the IPA should not try to match a seasonal construct by adding more or different procurements.

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 sloped demand curve provides a forward price signal, which should decrease volatility from year to year. Implementation of a sloped demand curve may increase prices in the first year because of sending that price signal, if there is a capacity shortage. However, over time, a sloped demand curve would reduce volatility, retaining prices within a narrower band above or below the desired percentage reserve margin.

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?

    Regardless of the ICC's official representation of Illinois in wholesale market matters, the IPA may independently gain information and knowledge. There are a number of ways that the IPA can engage in dialog with the RTOs and their respective IMMs. The IPA can register as a state regulatory agency and subscribe to mailing lists to be informed of potential modifications, can attend RTO public meetings, may contact PJM's State Government Affairs team, and can call the IMMs directly.