



## **Vote Solar Response to Request for Stakeholder Comments 2023 Electricity and Capacity Procurement for Eligible Retail Customers**

July 8, 2022

Vote Solar appreciates the opportunity to respond to the questions posed by the Illinois Power Agency's (IPA) June 27, 2022 "Request for Stakeholder Comments" in advance of the filing of the 2023 Electricity and Capacity Procurement Plan for Eligible Retail Customers. The Agency identifies a number of important issues and poses significant questions about the current energy and capacity procurement process.

Much has changed in electricity markets since the IPA filed its first electricity procurement plan in 2008, and it is appropriate for the State to consider adaptive changes from time to time in order to ensure the safe, reliable, clean, and affordable electricity is available to serve the needs of Illinois eligible retail load customers. Technology advancement, economics, regional market structures, and state policy have evolved rapidly in the past several years. As a result, procurement approaches that served Illinois well for over a decade may need to evolve further in light a combination of recent events that have driven both energy and capacity market prices to new highs.

In this "Request for Stakeholder Feedback," the IPA poses a series of questions related to electricity procurement products, hedging strategies, carbon mitigation credits, and capacity procurement. In response to several questions, Vote Solar urges the IPA and the Commission consider changes to the procurement process in the 2023 draft plan that will leverage existing opportunities to procure energy and capacity from renewable energy (separate from the REC and Indexed REC procurements under the Long-Term Renewable Resources Procurement Plan). In addition, we urge the IPA and the Commission to seek input from stakeholders on a number of other significant issues that the IPA identified, as discussed below.

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## IPA PROCUREMENT PROCESS & 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?*

Section 16-111.5 of the Public Utilities Act sets forth the requirements for the Illinois Power Agency's procurement process. Section 16-111.5(b)(3)(iv) further describes "standard wholesale products" that the Commission may procure:

"(iv) the proposed mix and selection of standard wholesale products for which contracts will be executed during the next year, separately or in combination, to meet that portion of its load requirements not met through pre-existing contracts, **including but not limited to** monthly 5 x 16 peak period block energy, monthly off-peak wrap energy, monthly 7 x 24 energy, annual 5 x 16 energy, other standardized energy or capacity products designed to provide eligible retail customer benefits from commercially deployed advanced technologies including but not limited to high voltage direct current converter stations, as such term is defined in Section 1-10 of the Illinois Power Agency Act, whether or not such product is currently available in wholesale markets, annual off-peak wrap energy, annual 7 x 24 energy, monthly capacity, annual capacity, peak load capacity obligations, capacity purchase plan, and ancillary services; (220 ILCS 5/16-111.5(b)(3)(iv))

Thus, the IPA has the statutory authority to acquire other types of standard wholesale products to build a portfolio to serve these customers.

Vote Solar recommends that the IPA consider taking advantage of the availability of renewable resources by procuring long-term power purchase agreements for energy and capacity from renewable resources for some portion of the 2023 Electricity & Capacity Procurement for eligible retail customers. As envisioned, this procurement would be independent of the renewable energy procurements in the Long-Term Renewable Resources Procurement Plan.

Recent all-source Requests for Proposals in nearby states with similar solar potential are yielding PPA offers at extremely attractive rates. As an example, Duke Energy Indiana (DEI), whose service territory is adjacent to Illinois, conducted an RFI as part of its Integrated Resource Plan that was submitted December 15, 2021. In an April 21, 2021 stakeholder meeting, DEI presented the results of the RFI that included this table.<sup>1</sup>

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<sup>1</sup> Source: Duke Energy Indiana Presentation "2021 Integrated Resource Plan Stakeholder Workshop #3," Slide 8, <https://www.duke-energy.com/home/products/in-2021-irp-stakeholder>.

Solar Only PPAs				
	Term	DEI (\$/MWh)	MISO Z6 (\$/MWh)	OOS (\$/MWh)
Solar Only	15	\$ 34.45	\$ 46.25	N/A
Solar Only	20	\$ 39.35	\$ 41.89	N/A
Solar Only	25	\$ 36.57	\$ 38.38	N/A
Solar Only	30	\$ 36.02	\$ 37.65	N/A

Figure 1: Solar PPA Prices from 2021 Duke Energy Indiana RFP

There are many details that would have to be worked out including:

- The percentage of the portfolio that would be procured through long-term energy & capacity PPA.
- The term of the PPAs. We are aware of corporate PPAs for as little as 5 years, but more standard terms are 10-, 15-, and 20 year PPAs.

In addition to adding a renewable PPA product, Vote Solar understands that other parties will be proposing the IPA consider including bundled distributed energy resources (DERs) and demand response as products. Such proposals have considerable merit, and Vote Solar would look forward to working with the IPA and stakeholders to develop the concept fully.

*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?*

No comment at this time.

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

The recent increases in the utility rates for eligible retail customers have been dramatic. However, prices for competitive electric supply offers posted on the “Compare Offers Now” page of the Commission’s Plug In Illinois website ([Link](#)) show that Retail Electric Suppliers (RESs) appear to be rising similarly. It is possible that the market disruptions will cause a change in market behavior, but it seems to be too early to tell as the spikes in the Price to Compare for Ameren and ComEd only took effect in June.

*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.*

The alternatives that the IPA offers in this question bring to light a broader policy question that we believe the ICC and the legislature must address in the near future, specifically who is responsible for ensuring long term resource adequacy for the state. In an era of historically low fuel prices (particularly natural gas, which is frequently the marginal fuel setting prices in PJM and MISO) and abundant capacity, competitive retail electric markets delivered low electricity supply prices over the past decade. However, the 2022/2023 MISO Planning Resource Auction dramatically illustrated the vulnerability of the current market structure to ensuring long term resource adequacy.

Unlike our regional neighbors in vertically integrated utility markets where the utilities have the responsibility to ensure resource adequacy for their customers, and utility commissions have (to varying degrees) the ability to enforce resource adequacy requirements, in Illinois there is no obligation on load serving entities to ensure capacity will be available to serve load more than two or three years into the future. This applies to both the IPAs actions in procuring energy and capacity for eligible retail customers as well as to the practices of RESs to secure long-term capacity through bilateral agreements with merchant generators. Our current policy is to assume that the market will deliver capacity when it is procured one-, two-, or three-years into the future: this may or may not be a reasonable assumption, but we believe strongly that it is a policy discussion that Illinois should undertake promptly. We applaud the IPA for raising the issue and urge the Commission to lead in engaging stakeholders in solutions.

## **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?*

Under the current Commission-approved hedging strategy, the IPA procures a portion of future years' energy for expected eligible customer load using a laddered approach. This has been a prudent approach under normal market conditions but has left eligible retail customers somewhat exposed to the extraordinary volatility of the last year. Whether this turns out to be a fundamental change in the market or a result of volatile natural gas prices, from a practical standpoint, there is very little that we can do to affect an increasingly global (and historically volatile) natural gas market. As such, the IPA should focus on building a diverse portfolio of generating resources that

leverages the hedging value of low/zero marginal cost renewable energy resources to manage energy price risk. The renewable energy & capacity procurement recommended in the response to Question 1 above would provide this hedging benefit for energy as well as capacity.

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

No comment at this time.

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

No comment at this time.

*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?*

Yes, as observed above, while it remains to be seen whether the current energy and capacity price spikes are transient or fundamental, volatility has been a feature of the natural gas market for decades. As the market globalizes (as the US continues to develop liquified natural gas export capacity), our exposure to global volatility of natural gas markets will only increase unless we take action to hedge fuel price exposure with new renewables.

*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?*

No comment at this time.

## **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?*

No comment at this time.

*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?*

No comment at this time.

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

No comment at this time.

*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?*

No comment at this time.

## **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?*

See response to Question 1.

*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?*

Zone 4 is the only part of MISO in which most customers are in a deregulated market. As discussed above, the rest of MISO consists of vertically integrated utilities in which nearly all of the resource adequacy requirements of customers are met by each utility's own capacity resources. The PRA is utilized to sell capacity owned by the utility in excess of its own requirements or to meet short-term requirements that arise due to resource timing issues, but typically not for more than a small percentage of a utility's requirements for a short term. While the IPA has reduced the exposure of the eligible retail customers in Zone 4 through its laddered capacity procurement approach, the PRA is a residual auction and was not designed to be a broad, general capacity procurement mechanism.

As discussed in response to Question 4, we believe a statewide discussion of a policy to ensure long-term resource adequacy is appropriate and urge the IPA and ICC to undertake such an examination.

*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?*

Perhaps. This would be one approach that should be considered through the broad policy discussion that we suggest.

*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?*

See response to Question 15.

*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?*

No comment at this time.

*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?*

See response to Question 15.

*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?*

No comment at this time.