Full Requirements Products
Request for Comments

Issued: June 17, 2014
Due: July 2, 2014

On June 5, 2014 the Illinois Power Agency held a workshop on Full Requirements Products.[1] In response to the discussion held at that workshop the IPA now requests interested parties to provide written responses to the questions below. Please email responses to Anthony Star (Anthony.star@illinois.gov) by July 2, 2014. All responses will be posted on the IPA's website.[2]

The solicitation of comments is intended for the IPA to receive ideas, information, and feedback from stakeholders. Decisions regarding inclusion in the IPA's proposed 2015 Procurement Plan[3] are at the sole discretion of the IPA, and the final Plan is subject to the approval of the Illinois Commerce Commission.

Questions

1. At the June 5th workshop some participants suggested that an analysis of a potential full requirements procurement should be for a product that includes capacity, ancillary services, etc., not just a load following energy product (as the IPA had analyzed in the 2014 Procurement Plan). Please comment on the advantages and disadvantages of this product definition, and explain which ancillary services should, or should not, be included (e.g., active power reserves but not voltage support).

2. A participant at the workshop indicated that suppliers of fixed-price full requirements products assume price risks associated with capacity, ancillary services, etc. How would one quantify the anticipated costs of including the non-load following energy components (capacity, ancillary services, etc.) in the product described in question 1?

3. Bids for full requirements contracts include compensation for various costs and risks borne by the product supplier (i.e., "residual compensation" as described in the ICEA presentation).

[1] See: http://www2.illinois.gov/ipa/Pages/Plans_Under_Development.aspx for more information on the Workshop.
[2] Any stakeholder wishing to provide the IPA with information it deems confidential and/or proprietary may submit both "public" and "confidential" versions of its written responses, with only the "public" version posted on the IPA website. Consistent with its duties under 20 ILCS 3855/1-120, the IPA will institute controls to protect against the disclosure of any confidential and/or proprietary information furnished by any stakeholder in this process.
[3] Per Section 16-111.5(d), the IPA will issue a draft plan on August 15, 2014 and receive comments on it for 30 days. An updated draft plan will be filed with the Illinois Commerce Commission at the end of September, 2014 for approval by the end of 2014.

Please comment on what factors influence the level of this cost and how it should be estimated. Other discussions of full requirements procurement (e.g., the IPA's 2014 Procurement Plan) discuss the concept of a "risk premium." Please also comment on the differences in definition between "residual compensation" and "risk premium" and how the two concepts should be differently understood.

4. For the purposes of modeling the full requirements approach, there was discussion at the June 5th workshop about modeling for the 2015/16 delivery year an implementation of full requirements that would account for the existing block contracts as well as separately modeling (for the 2015/16 delivery year or future implementation years) an approach consisting entirely of full requirements contracts. Please discuss any limitations or adjustments to those two models, and how the existing contracts should be treated in the first model.

5. Please suggest models for how full requirements procurement could be phased into the existing ComEd and Ameren portfolios previously procured by the IPA.

6. The analysis conducted by PA Consulting for the IPA as part of the 2014 Procurement Plan included assumptions that suppliers bidding in a full requirements procurement would hedge their price exposure with forward contracts. Please provide input on what models suppliers use for estimating the costs and risks (including, but not limited to, price and load risk) that they bear as a full requirements product supplier and what inputs the IPA should consider when modeling supplier bidding behavior in a full requirements procurement.

7. To what degree, and how, could the potential benefits of procuring full requirements products (as compared to a block procurement approach) be quantified rather than qualitatively described? What are some of the relevant risk metrics that should be included in such an analysis, and how should they be compared to known procurement costs? Additionally, what are some of the inputs and variables that must be appropriately captured in order to quantitatively assess potential benefits? Are there benefits of the block procurement approach (as compared to a full requirements approach) that could also be assessed and quantified?

8. The IPA's traditional procurement approach hedges in the forward market a percentage of expected load taking into account market conditions. In the 2014 Procurement Plan, the IPA hedged 106% of average load for the summer months to mitigate shaping risk, and for the first time, the IPA is planning a fall procurement for ComEd to adjust the balance of the current delivery year supply to balance an updated summer load forecast. The goal of this second procurement is to reduce load risk. Given the legislative mandate of the Agency to "develop electricity procurement plans to ensure adequate, reliable, affordable, efficient, and

environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability," are there strategies other than full requirements procurement and the IPA's current approach that the IPA could consider for managing risks?

9. During the workshop the idea was raised that there may be ways to achieve rate stability other than utilizing a full requirements supply strategy. How could the utilities provide firm prices for a defined period through a tariff mechanism? Could the utilities adjust the PEA on an annual basis, as opposed to a monthly basis? Would a "rate stabilization account" approach add unnecessary costs? Are there ways to achieve additional utility price/rate certainty while utilizing the IPA's current competitively-bid block procurement strategy?

10. Please provide examples of studies or other evidence that assesses or quantifies the interest of Illinois residential (and/or small commercial) customers in firm rates. To the extent available, please correlate those examples to evidence of customer choice and switching. Please also provide examples from other retail markets.