



Understanding Power Procurement for Residential and Small Commercial Customers of Illinois Electric Utilities

July 29, 2022

Agenda

- 1. Housekeeping and Introductions**
- 2. IPA Power Procurement: Who, What, and Why?**
- 3. Development of the IPA Electricity Procurement Plan**
- 4. Statutory Deadlines & Plan Approval Litigation**
- 5. Competitive Procurements: Who, What, and Why?**
- 6. Q&A**

- **Introduction and Scope**
- **Power Hour is a series of educational and informative presentations on a wide range of clean energy topics and emerging issues**
- **Today's Power Hour:**
 - **During this webinar, the speakers will:**
 - provide an overview and background on the IPA power procurement for eligible retail customers of Illinois electric utilities
 - discuss the development of the annual Electricity Procurement Plan, including statutory deadlines and plan approval litigation
 - provide an overview of the competitive procurement process, its goals, and role of the Procurement Administrator to design the procurement process in accordance with the IPA Act
 - **This webinar is intended for general education only.**
- **Future IPA Power Hour Webinars will cover other topics related to the clean energy economy in Illinois**

Upcoming Webinars

IPA Power Hour 7: The Role of Regional Transmission Organizations in the Development of Renewables

Date: August 26, 2022

Time: 12-1pm CST

[**REGISTER HERE**](#)

IPA Power Hour 8: CEJA Turns One: Key Highlights from the IPA

Date: September 30, 2022

Time: 12-1pm CST

[**REGISTER HERE**](#)

IPA Power Hour 9: The Role of Energy Storage for Accelerating the Transition to a Decarbonized, Clean Energy Future in Illinois

Date: October 28, 2022

Time: 12-1pm CST

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- **Independent State Agency created in 2007**
- **Agency duties include**
 - **Development and implementation of procurement plans for electricity supply for utility customers**
 - **Development and implementation of other renewable energy programs**
 - **Implementation of the Renewable Portfolio Standard**
 - Development of Long-Term Renewable Resources Procurement Plan
 - Conduct competitive procurements for utility-scale projects
 - Manage programs for community solar and solar for homes and businesses

IPA Power Procurement – Who, What, and Why?

Background: What is the IPA?



- Created under Illinois law in 2007, sister agency to Illinois Commerce Commission (“ICC”; state PUC)
 - Illinois market deregulated in 1997
 - IPA Act (20 ILCS 3855) enacted via P.A. 95-0481 in 2007
- Established to prepare procurement plans and conduct procurement events to meet supply requirements of “eligible retail customers” (default supply customer load)
- Procurement events are designed to procure “standard wholesale products”
- Counterparty to resulting contracts are state’s investor-owned electric utilities to meet default supply needs
- ICC approval over procurement plans and procurement event results – checks and balances
- IPA also tasked with implementing state’s renewable energy portfolio standard, nuclear plant support, numerous other energy policy/market initiatives

“Eligible Retail Customers” (220 ILCS 5/16-111.5(a))

Distribution service from participating utility

- No muni, co-ops, etc. customers
- Ameren, ComEd...MidAmerican

Supply service from participating utility

- Not ARES customers
- Must be classes not declared competitive

Fixed-price supply service

- Not hourly pricing customers

How much of the market?

- It varies...half of a half? Third of a half?
- Municipal aggregation major driver

“Standard Wholesale Products”

- “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...annual off-peak wrap energy, annual 7 x 24 energy, monthly capacity, annual capacity, peak load capacity obligations, capacity purchase plan, and ancillary services” – direct from statute
- 5-year window: “over a 5-year period with the first planning year beginning on June 1 of the year following the year in which the plan is filed”
- Additional guidance from ICC Docket No. 14-0588 (Final Order at 156)
 - “the phrase ‘standard wholesale products’ cannot be static and it depends on the products that may be traded in wholesale markets at a given time”
 - “must be an examination of the attributes of the product and whether those are consistent with other commonly traded products in the wholesale market”
 - “must be routinely traded in a liquid market and have transparent prices that allow participants a degree of assurance that they are receiving fair market prices

Who are the Players?

- **Illinois Power Agency**
- **Illinois Commerce Commission**
 - Approves procurement plans (16-111.5(d)(4)), approves procurement results (16-111.5(f)), approves contract forms and benchmarks (16-111.5(e)), publishes procurement results (16-111.5(h))
- **Procurement Planning Consultant**
 - 20 ILCS 3855/1-75(a)(1): “expert consulting firm” hired by IPA “to develop the procurement plans”
- **Procurement Administrator**
 - 20 ILCS 3855/1-75(a)(2): “expert consulting firm” hired by IPA “to conduct the competitive procurement processes”
 - 220 ILCS 5/16-111.5(c)(1), (e)(2): laundry list of responsibilities
- **Procurement Monitor**
 - 220 ILCS 5/16-111.5(c)(2): ICC consultant provides “independent confidential report regarding the results of the procurement event”
- **Illinois Electric Utilities**
 - Buyers under contracts, wholesale market spot procurements, tariff sheets reflecting changes in charges, Purchased Electricity Adjustment settlement
- **Standard Wholesale Product Bidders/Suppliers**

What are the objectives?

220 ILCS 5/16-111.5(d)(4) – Procurement Plan approval: “The Commission shall approve the procurement plan, including expressly the forecast used in the procurement plan, if the Commission determines that it will 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.”

220 ILCS 5/16-111.5(e)(4) – Bid selection in procurement events: “The procurement administrator shall design and issue a request for proposals to supply electricity in accordance with each utility's procurement plan, as approved by the Commission. The request for proposals shall set forth a procedure for sealed, binding commitment bidding with pay-as-bid settlement, and provision for selection of bids on the basis of price.”

An Introduction to the Annual Electricity Procurement Planning Process

By Mario Bohorquez
Consultant, Levitan & Associates
Former IPA Planning and Procurement Bureau Chief

Electricity Procurement Planning

- What** Develop risk management strategies and a tactical implementation plan to mitigate electricity supply risks
Electricity Procurement Plan
- Why** Meet policy objective to “[d]evelop 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.”
- When** Annually (on-going)
- Who** Professional experts in the field
- IPA Bureau of Planning and Procurement
 - Planning Consultant
- How** **Planning Process**
- Gather information
 - Analyze risk drivers
 - Seek input from stakeholders and the public
 - Propose hedging strategies and tactical implementation
 - Obtain approval

What

Electricity Procurement Plan

Main Components of the Plan - Chapters:

1. Executive Summary
2. Legislative/Regulatory Requirements
3. Load Forecasts – Main Factor for Consideration
4. Existing Resource Portfolio and Supply Gap
5. Resource Adequacy Outlook and Uncertainty
6. Managing Supply Risk – Technical Risk Management (see 2014 Plan for detailed technical discussion)
7. Resource Choices – Tactical Implementation
8. Procurement Process Design

How

The Electricity Procurement Planning Process

Timeline

On-going – Monitor and Analyze

Results of IPA procurement events (liquidity, participation, prices, volumes, trends, etc.)
Changes at the Regional Transmission Organizations (RTOs), and FERC/DOE
Legislative activity (State and Federal)
Energy markets and energy delivery systems (fuels, renewables, transmission, etc.)
Load patterns (i.e. load shifts during COVID, economic activity, etc.)

Spring

Summer

Fall

Analyze market and reliability risks
Refresh strategies
Make initial updates to Draft Plan

Gather and analyze load forecast information
Analyze load related risks
Analyze supply portfolio
Seek Stakeholder input as necessary
→ Refresh strategies
Update tactical implementation
Finalize Draft Plan
Post Draft Plan for comments
Seek comments
Hold public hearings
Revise Plan as needed
Submit Plan for approval

Participate in Plan approval process
Revise Plan in accordance to ICC Order
Post approved Plan

How

The Electricity Procurement Planning Process

Gather information

- Utility forecast of electricity use (load forecast)
- Assumptions in load forecast
 - Economic growth/decline
 - Weather
 - Energy efficiency improvements
 - Self-supply (i.e. Distributed Generation)
 - Switching to/from alternative retail suppliers (ARES - competitive retail market)
 - Switching to/from municipal aggregation programs
 - Wholesale generation supply position (MidAmerican power generation)
- Electricity supply portfolio (previously procured electricity and capacity)
- Available power generation and bulk power transmission at the RTO level

How

The Electricity Procurement Planning Process

Analyze risk drivers - Load forecast risk

Risk Driver	Term	Impact
Economic growth/decline	Long-term	Medium
Weather variations Climate change	Weather, near term Climate change, long term	High near term High long term
Energy efficiency	Long term	Low
Self-supply	Mid to long term	Low to medium
Switching to/from ARES	Short to mid term	Medium to high
Switching to/from municipal aggregation	Short to mid term	Medium to high
Wholesale supply changes	Mid to long term	Medium to high

How

The Electricity Procurement Planning Process

Analyze risk drivers – Price and Reliability Risks

Risk Driver	Term	Impact
Fuel Price	Short term	High ←
Power generation capability	Medium to long term	High
Bulk power transmission capacity	Long term	High
Regulatory change	Mid to long term	Medium to high
Weather	Short term	High

How

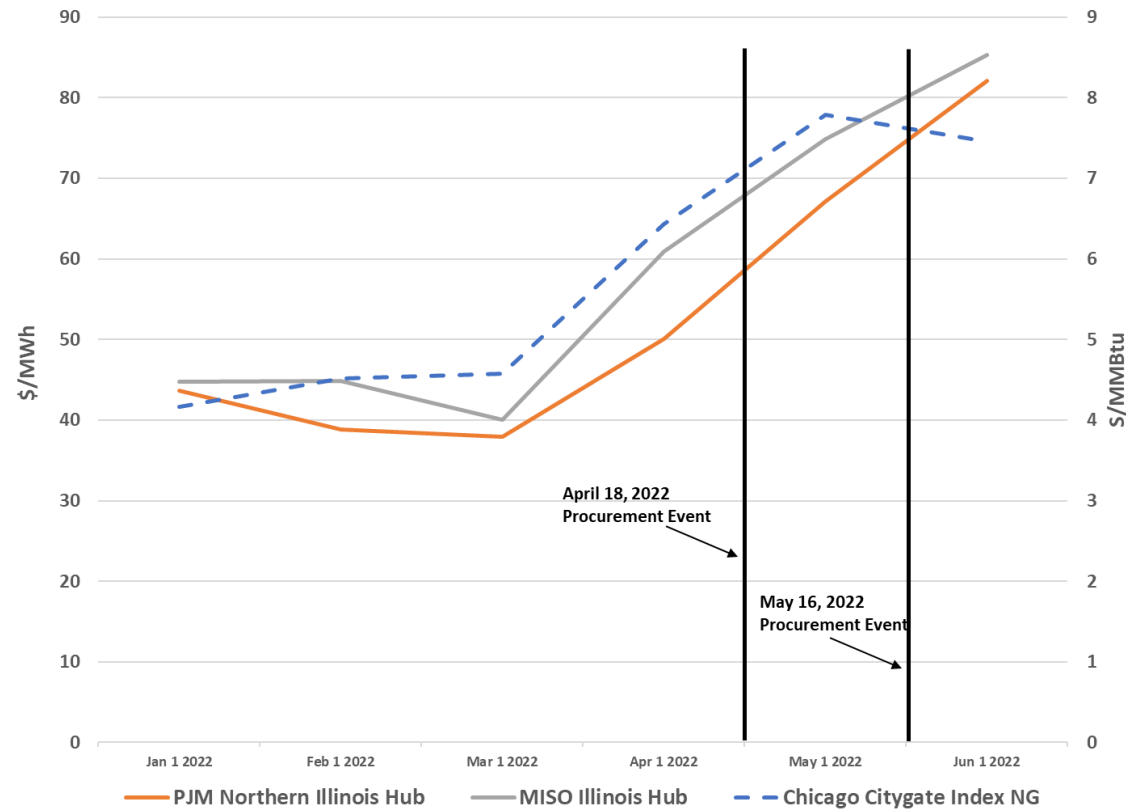
The Electricity Procurement Planning Process

Propose hedging strategy and tactical implementation

- Hedging strategy examples
 - Maintain a “balanced” portfolio over time
 - Procure supply during periods of low price volatility
 - Balance load shape and flat-block products (on-peak periods of July and August)
- Tactical implementation examples
 - Procure hedges in discrete tradeable 25MW blocks
 - Procure hedges in the spring and fall (avoid periods of high price volatility) ←
 - Procure physical power delivered to the load zone
 - Procure 106% of the July and August on-peak supply requirement

Not All Plans Work as Planned – Spring 2022 Volatility is an example

→ Procure hedges in the spring and fall (avoid periods of high price volatility)



The IPA issued a Request for Stakeholder Comments and conducted a workshop on July 13 for additional comments

How

The Electricity Procurement Planning Process

Seek input from Stakeholders and the Public

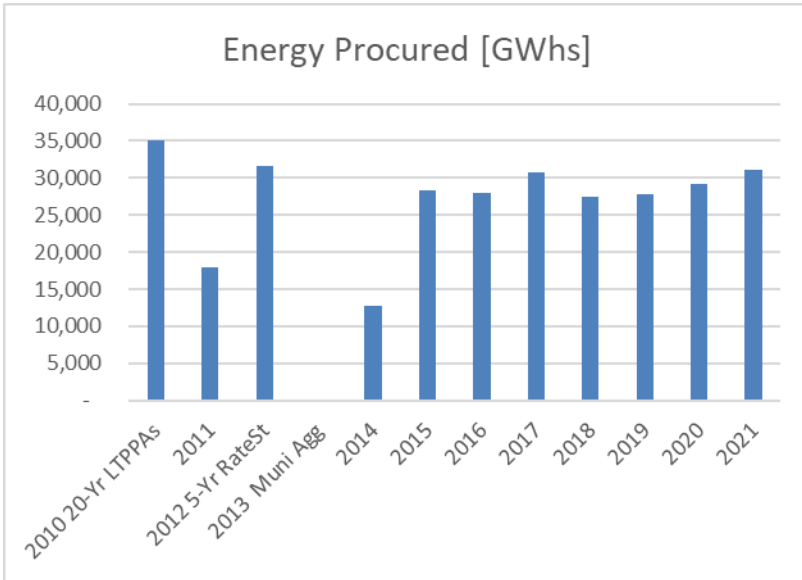
- Hold workshop(s) - as in July 2022
- Post Draft Plan for a 30-day comment period
- Hold public hearings (three, one for each utility)
- Revise Plan as needed

Obtain ICC Approval

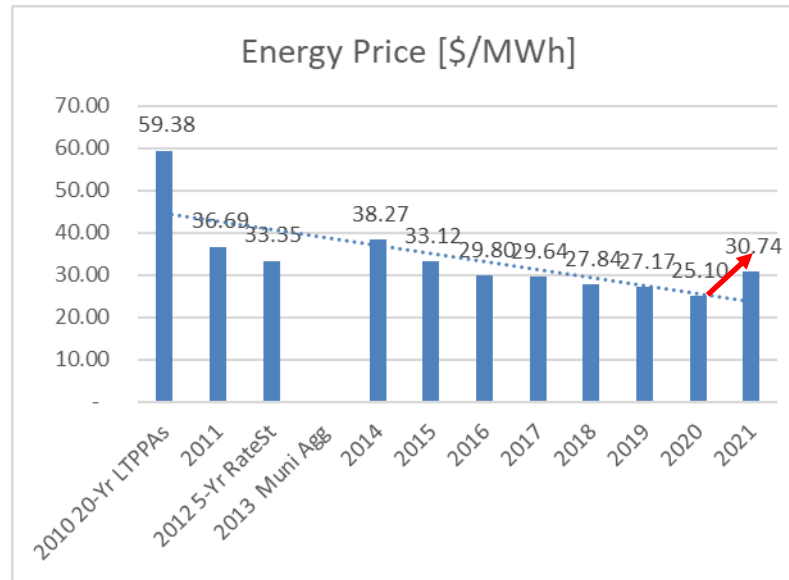
- Submit Plan for approval
- Participate in the approval process
- Revise and submit/post Plan as approved

Statistics from Procurement Events Resulting from Procurement Plans

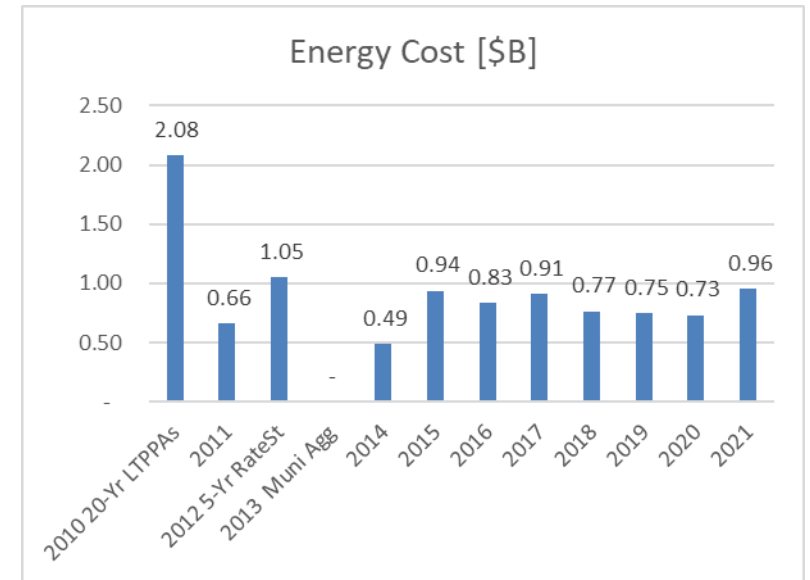
Energy Procured [GWhs]



Energy Price [\$/MWh]

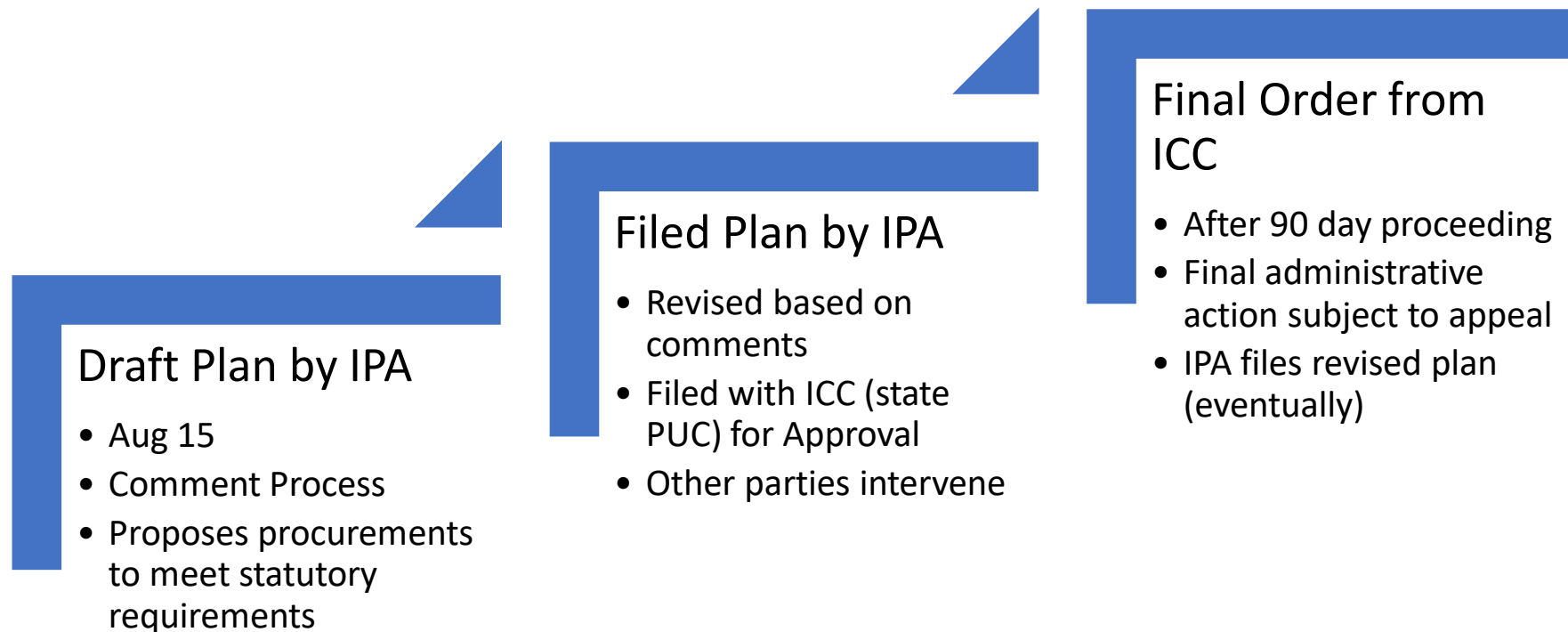


Energy Cost [\$B]



Statutory Deadlines & Plan Approval Litigation

Load forecasts received from utilities July 15 ...



Statutory Changes Over Time

- **Various clean coal provisions in late 2000s/early 2010s**
 - **FutureGen sourcing agreements in ICC Docket No. 12-0544**
- **Introduction of Energy Efficiency through P.A. XX-XXXX**
 - **Formerly in 220 ILCS 5/16-111.5B**
- **Removal of Energy Efficiency through P.A. 99-0906**
 - **Coincided with expansion of Energy Efficiency Portfolio Standard**
- **Separate Planning Processes for Renewables Enacted through P.A. 99-0906**
 - **220 ILCS 5/16-111.5(b)(5)**
 - **Separate 120 day Plan approval proceeding for Long-Term Renewable Energy Resources Procurement Plan**
- **New HVDC provisions through P.A. 102-0662**

How does what's happening externally impact potential contested issues in Plan approval?

- **Municipal aggregation/load shifting**
 - Major issue across 2012-2014
 - *Relative* stability since
- **Capacity price changes**
 - MISO Zone 4 breakout in 2015
 - MISO Zones 1-7 breakout in 2022
- **Energy market volatility**
- **Carbon Mitigation Credits?**
 - Not a change to Section 16-111.5, but raises questions about hedging strategies
- **Broader resource adequacy concerns?**
 - Can default supply procurement facilitate development of new generation?

How have Annual Plan approval proceedings changed over time?

- **2022 Procurement Plan – ICC Docket No. 21-0717**
 - Zero contested issues, November 4 approval, 5 page order
- **2017 Procurement Plan – ICC Docket No. 16-0453**
 - 17 contested issues, December 13 approval, 106 page order
 - Primarily energy efficiency, some renewables issues
- **2015 Procurement Plan – ICC Docket No. 14-0588**
 - 9 contested issues, December 17 approval, 319 page order
 - Clean Coal, Energy Efficiency, Full Requirements Contracts, Capacity Procurement, Renewable Resources, Demand Response



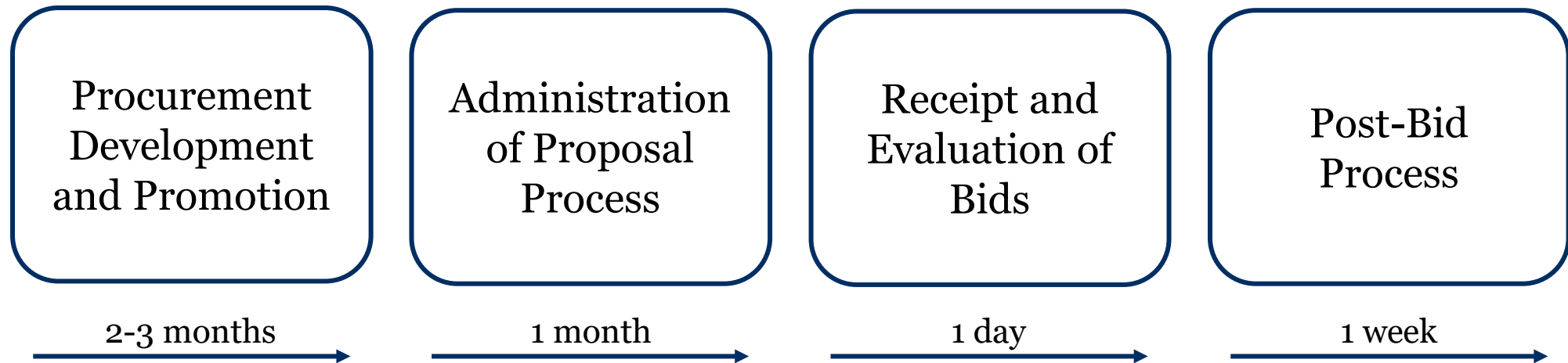
COMPETITIVE PROCUREMENTS

July 29, 2022

Katie Orlandi
Associate Director, NERA Economic Consulting

Overview of the Competitive Procurement Process

- The request for proposals (“RFP”) competitive procurement process and the role of the Procurement Administrator are provided in the IPA Act
- The procurement process consists of several phases and typically takes place over a 3-4 month period:



Procurement Development and Promotion

- **Develop detailed RFP rules including qualification requirements, bidding processes, bid evaluation procedures and protocols**
- **Develop standard contract forms for the supplier contracts that meet generally accepted industry practices**
- **Hold comment process with suppliers and other stakeholders on the RFP rules and supplier contract**
- **Disseminate information and promote the procurement event**
 - **Manage a website to house necessary documentation (ipa-energyrfp.com)**
 - **Promotion activities include holding a bidder webcast, placing ads, managing a registrant list, and sending announcements about the procurement event**

Procurement
Development and
Promotion

Administration of
Proposal Process

Receipt and
Evaluation of Bids

Post-Bid Process

Administration of the Proposal Process

- **The Proposal process proceeds in two steps:**
 - **Suppliers submit the Part 1 Proposal to become qualified bidders**
 - Qualification requirements geared towards ensuring the prospective supplier can perform under the standard contract form and will comply with the RFP rules
 - All bidders must agree to the terms of the standard contract form
 - **Only qualified bidders may submit the Part 2 Proposal**
 - Additional certifications regarding bids being binding; posting bid assurance collateral



Receipt and Evaluation of Bids

- **Only bidders with complete Part 1 and Part 2 Proposals may submit bids to the Procurement Administrator**
 - A training session is held with bidders to ensure their familiarity with the bidding procedures and protocols
 - Bids are received during a short timeframe on the bid date
 - Bids are evaluated on a price-only basis
- **The evaluation only considers bids that meet or beat a market-based price benchmark that is developed using a confidential methodology and approved by the Commission prior to the date that bids are received**



Post-Bid Process

- **Within 2 days of receipt of bids, the Procurement Administrator and Procurement Monitor each submits a report to the Commission**
 - Procurement Administrator report includes the results and a recommendation for acceptance or rejection of bids based on the price benchmark criteria and other factors observed in the procurement process
 - Procurement Monitor report includes an assessment of bidder behavior as well as an assessment of the Procurement Administrator's compliance with the procurement process and rules
- **Within 2 days of receipt of the report, the Commission renders a decision on the results and if approved, contracts are executed within 3 days of approval.**
- **Names of successful bidders and the load weighted average of the winning bid prices for each contract type and contract term are made public**



Goals of the Procurement Process

The procurement seeks market-reflective prices on the basis of robust competition

- **Many elements of the procurement design are provided in the Act**
 - Sealed-bid format, pay-as-bid settlement, price only evaluation, contingency plan
- **Other guiding principles for successful procurement design include:**
 - fair and transparent process to encourage and promote participation and competition
 - open and non-discriminatory qualification requirements
 - transparent bid evaluation procedures

Role of the Procurement Administrator

- **Design the procurement process in accordance with the IPA Act following Commission approval of the plan**
- **Serve as the interface between the electric utility and suppliers**
- **Ensure bidder qualifications are evaluated equitably and fairly in accordance with the RFP rules**
- **Develop market-based benchmarks to be used to evaluate bids**
- **Receive bids and evaluate bids on a price-only basis**
- **Present the results of the procurement event to the Commission**
- **Provide the results to the electric utilities so they may proceed with contract execution with winning suppliers**
- **Maintain confidentiality of supplier and bidding information in a manner consistent with all applicable laws, rules, regulations, and tariffs**

Overview of 2022 Spring and Fall Energy and Capacity Procurements for ComEd, Ameren, and MidAmerican

- **Procurements for each company with available targets (as determined in the procurement plan and on the basis of the utility forecasts) are held simultaneously in Spring and Fall**
- **The product in the energy procurements is block energy for a company, in a given month or for combinations of months, and during either on-peak or off-peak hours**
- **The product in the capacity procurement for Ameren is Zonal Resource Credits to satisfy a portion of the company's resource adequacy requirements for the upcoming two planning years**
- **The evaluation considers only bids that meet or beat the respective benchmarks**
 - Energy evaluation identifies the least cost package of bids to meet the targets for each Company and in each delivery year
 - Capacity evaluation selects the lowest-price bids to fill the target for a planning year
- **Retail supply charges are developed by each company reflecting the costs associated with the procurement and in accordance with the tariffs filed and approved by the Commission**



Q&A

Contact Us!



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Thank you for your participation!

For more information, visit the IPA Website
ipa.illinois.gov