COMMENTS BY THE STAFF OF THE ILLINOIS COMMERCE COMMISSION ON THE ILLINOIS POWER AGENCY'S 2023 DRAFT ELECTRICITY PROCUREMENT PLAN RELEASED AUGUST 15, 2022

September 14, 2022

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On August 15, 2022, pursuant to Section 16-111.5(d) of the Illinois Public Utilities Act ("PUA"), the Illinois Power Agency ("IPA") made available to the public a "2023 Electricity Procurement Plan" ("Draft Plan") and invited affected utilities and other interested parties to submit comments on the Draft Plan by September 14, 2022. In response, the Staff of the Illinois Commerce Commission ("Staff") hereby submits these comments to the IPA. The outline of these comments follows the outline of the Draft Plan.

COMMENTS

Section 6.9 Stakeholder Feedback on Procurement and Hedging Issues

The Draft Plan states in part the following regarding Carbon Mitigation Credits ("CMC"):

> The IPA considered comments related to the use of CMCs as a hedge for ComEd's eligible retail load; and for this draft 2023 Electricity Procurement Plan, the IPA is not proposing adjustments to the hedging strategy for ComEd eligible retail customers in light of the presence of CMC contracts for the next five years. The IPA is not yet convinced that the benefits (or costs) of CMCs for eligible retail customers is sufficiently different from that of customers served by ARES, such that CMCs should be used to leave such a large a portion of eligible retail customers' supplied load unhedged. Furthermore, the IPA is concerned with potential unintended consequences to volatility in spot markets that would result from such large open positions. The timing between the monthly variation of the Purchased Electricity Adjustment that would reflect those spot market purchases and the adjustment to the level of the CMC charge/credit could also create arbitrage issues for customers who switch between default service and ARES offers. The Agency plans to monitor the impact on ComEd's customers of the implementation of the CMC Procurement Plan before determining whether this potential hedge would be appropriate for inclusion in a future Plan. The Agency also welcomes additional stakeholder comments on this draft Plan that make the case for or against adjusting ComEd eligible retail customer procurement volumes.

Staff recommends that the IPA be given the flexibility under the Plan to adjust the amount of energy it procures on behalf of ComEd, Ameren, or MidAmerican eligible retail customers to account for any financial hedges that result from other of the IPA procurement programs. In particular, because of the manner in which CMC are contracted for, they provide a financial hedge on some or all of ComEd's open market positions. That is, when the market prices paid by ComEd for energy increase, the carbon mitigation payments ComEd makes to nuclear facilities will decrease (or payments from the nuclear facilities to ComEd increase). Conversely, when the market prices paid by ComEd for energy decrease, the carbon mitigation payments ComEd makes to nuclear facilities will increase (or payments from the nuclear facilities to ComEd decrease). In this manner, CMCs serve as a financial hedge on some or all of ComEd's open market positions. In contrast, when the IPA procures energy in advance rather than relying on open positions, then it fixes energy prices, eliminates the natural offset between open market energy prices and CMC costs, and creates more volatility in the combined energy and CMC costs incurred by ComEd on behalf of its eligible retail customers. For this reason, the IPA should be given the flexibility to, but not be required to, offset the hedging it would otherwise do through advance procurement of energy with the CMC financial hedges. Notably, similar to CMCs, the indexed RECs procured through the IPA's procurement programs, to the extent they decrease and increase with market prices, may serve as similar financial hedges on the energy prices for ComEd, Ameren, and MidAmerican. Therefore, IPA should be given similar flexibility to take advantage of the financial hedges indexed RECs represent and adjust its procurement of advanced energy purchases accordingly.

Proposed Changes

(Draft Plan, 82)

The IPA considered comments related to the use of CMCs as a hedge for ComEd's eligible retail load. The IPA finds merit in Staff's proposal made in its comments on the Draft Plan, that the IPA be given the flexibility to, but not be required to, offset the hedging it would otherwise do through advance procurement of energy with the CMC financial hedges. As Staff pointed out because of the manner in which CMC are contracted for, they provide a financial hedge on some or all of ComEd's open market positions. That is, when the market prices paid by ComEd for energy increase, the carbon mitigation payments ComEd makes to nuclear facilities will decrease (or payments from the nuclear facilities to ComEd increase). Conversely, when the market prices paid by ComEd for energy decrease, the carbon mitigation payments ComEd makes to nuclear facilities will increase (or payments from the nuclear facilities to ComEd decrease). In this manner, CMCs serve as a financial hedge on some or all of ComEd's open market positions. In contrast, when the IPA procures energy in advance rather than relying on open positions, then it fixes energy prices, eliminates the natural offset between open market energy prices and CMC costs, and creates more volatility in the combined energy and CMC costs incurred by ComEd on behalf of its eligible retail customers. Also, similar to CMCs, the indexed RECs procured through the IPA's procurement programs, to the extent they decrease and increase with market prices, may serve as similar financial hedges on the energy prices for ComEd, Ameren, and MidAmerican. ~~; and for this draft 2023 Electricity Procurement Plan, the IPA is not proposing adjustments to the hedging strategy for ComEd eligible retail customers in light of the presence of CMC contracts for the next five years. The IPA is not yet convinced that the benefits (or costs) of CMCs for eligible retail customers is sufficiently different from that of customers served by ARES, such that CMCs should be used to leave such a large a portion of eligible retail customers' supplied load unhedged. Furthermore, the IPA is concerned with potential unintended consequences to volatility in spot markets that would result from such large open positions. The timing between the monthly variation of the Purchased Electricity Adjustment that would reflect those spot market purchases and the adjustment to the level of the CMC charge/credit could also create arbitrage issues for customers who switch between default service and ARES offers. The Agency plans to monitor the impact on ComEd's customers of the implementation of the CMC Procurement Plan~~

> ~~before determining whether this potential hedge would be appropriate for inclusion in a future Plan. The Agency also welcomes additional stakeholder comments on this draft Plan that make the case for or against adjusting ComEd eligible retail customer procurement volumes.~~

CONCLUSION

Staff respectfully requests that the Illinois Power Agency revise its Draft Plan consistent with Staff's Comments herein.

Respectfully submitted,

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