

**EXELON GENERATION COMPANY, LLC'S COMMENTS ON  
THE ILLINOIS POWER AGENCY'S 2017 PROCUREMENT PLAN**

Now comes Exelon Generation Company, LLC (“Exelon” or “ExGen”), pursuant to Section 16-111.5 of the Public Utilities Act (220 ILCS 5/16-111.5) (the “Act”), submits these comments to the draft Illinois Power Agency (“IPA”) procurement plan (the “Draft Plan”) for the energy and capacity supply to eligible retail customers of Commonwealth Edison Company (“ComEd”), Ameren Illinois (“Ameren”), and MidAmerican Energy Company (“MidAm”) for the period of June 2017 through May 2020.

**I. Background**

*Exelon Generation Company, LLC* (“ExGen”) owns approximately 35,000 megawatts (“MW”) of generation, including nuclear, fossil, hydroelectric, solar, landfill gas, and wind generation assets. It is the nation’s largest nuclear operator with 17 reactors located in Illinois, Pennsylvania and New Jersey and has a growing renewable energy business. It is the nation’s ninth largest wind energy generator. In addition, Exelon Generation operates the nation’s largest urban solar power plant, Exelon City Solar, a 10 MW solar installation located on a 41-acre brownfield in Chicago, and two of the largest hydroelectric facilities in the Eastern United States, Conowingo Hydroelectric Generating Station and Muddy Run Pumped Storage Facility totaling nearly 1,600 MWs of capacity. ExGen markets wholesale energy and capacity products to municipal, cooperative, and investor-owned utilities, retail suppliers, retail energy aggregators, merchant participants, power marketers, and major commodity trading houses.

ExGen, individually or through its subsidiaries, has participated in the competitive procurement processes under which contracts for the electricity needs of Ameren and

ComEd have been awarded since the end of the transition period at the end of 2006. ExGen has been an active participant in all of the Commission and IPA proceedings and workshops related to the adoption and development of procurement plans for ComEd and Ameren and has been a successful participant in many of these procurement events over the past few years.

Based upon its experiences in procurement events in Illinois and elsewhere, and its experience serving industrial, commercial, and residential customers, ExGen has several recommendations to improve the Draft Plan.

## **II. RECOMMENDATIONS**

Based on its expertise over the years in procurement events in Illinois and other jurisdictions, ExGen makes the following observations and proposes the following recommendations for improvements to the Draft Plan:

- Fixed-price, full requirements contracts should be included as part of the procurement plan;
- The Final Plan Should Recognize Potential Changes To The MISO PRA; and
- Potentially winning bidders should be notified the same day as the auction.

### **A. Use of Fixed-Price, Full Requirements Products**

ExGen has long advocated that the IPA transition from total reliance upon a wholesale “block-and-spot” procurement approach to one that relies upon the use of fixed-price, full requirements contracts. However, to date, full requirements products have not been used in Illinois.

The IPA Act was created at a time in which there was little, if any, activity within the residential and small commercial classes. That is no longer the case, due in large measure to the number of communities participating in municipal aggregation. Although a block-and-spot procurement strategy may have worked in the past, there could be potentially dramatic shifts in utility-supplied load as aggregation programs end, and communities decide how best to meet the needs of the municipality and its residents and businesses going forward. ExGen recognizes that the Draft Plan includes a second (Fall) energy procurement, which is designed to hedge for some movement. However a full requirements product is the best means of meeting customers' needs because it hedges against the risks associated with potential large, and sudden, swings that may occur in utility supply obligations.

**i. Use Full Requirements Products To Minimize Customer Risks**

In order to procure supply required to meet the needs of “eligible retail customers”, as defined within the Act, the Draft Plan should be modified to use full requirements, load following (“full requirements”) products. The IPA is given discretion to procure products individually, or in combination.<sup>1</sup> Customers bear greater risk with separate block products, because the shape and quantity of the load is not known, and should modify the Plan accordingly by using full requirements contracts. The benefits offered by a full requirements approach for the upcoming procurement cycle are increased by the possibility that the number of utilities' bundled customers and underlying load will materially change during that time.

---

<sup>1</sup> 220 ILCS 5/16-111.5(b)(3)(iii).

ii. **The Full Requirements Approach Best Fulfills the IPA's Statutory Mandate**

A full requirements approach will best meet the requirements of Illinois law. It is important to keep in mind that “costs” to customers may include not only the prices paid by customers for IPA-procured supply, but the risks and lost opportunities they may face under a particular IPA plan. A full requirements approach will limit risks to customers by shifting them to wholesale suppliers, while promoting opportunities for customers by providing well-defined, competitively-procured default service supply that provides appropriate benchmarks for comparisons to product offerings of retail electric suppliers (“RESs”). As risks and costs to utilities appropriately are passed on to their customers, it follows that the full requirements approach limits the risk to utilities’ customers by shifting them largely to full requirements product suppliers.

An IPA plan relying on full requirements products provides a proper balance by obtaining the most competitive prices for consumers, while appropriately placing risks such as volume risk on wholesale suppliers. Support for this notion comes from an important study on Pennsylvania’s energy future by Dr. Susan F. Tierney, a nationally recognized energy policy expert, former Assistant Secretary for Policy at the U.S. Department of Energy, and former Commissioner at the Massachusetts Department of Public Utilities.<sup>2</sup> Dr. Tierney documents that, through competitive full requirements procurements, wholesale suppliers bring many benefits because of their abilities and skills.<sup>3</sup>

---

<sup>2</sup> See *Pennsylvania’s Electric Power Future: Trends and Guiding Principles*, Susan F. Tierney, Ph.D., Analysis Group (January 2008) (“2008 PA Market Study”).

<sup>3</sup> See 2008 PA Market Study at p.11 (stating that full requirements service “taps into the abilities and skills” of different wholesale market participants).

**iii. Bidders Possess Superior Expertise In Managing Portfolios**

A diverse pool of wholesale full requirements product suppliers provide the most cost-effective method of management for eligible retail customers. Under full requirements product procurements, utilities provide to potential bidders prior to procurements, and to winning bidders on an ongoing basis afterwards, all of the load data for their individual customer classes. Wholesale suppliers are specialists in the area of portfolio management, and have greater resources, expertise and ability to appropriately utilize this data to manage portfolios of supply at the least possible cost, by allocating the costs for their operations over much larger load obligations throughout the country. Moreover, such suppliers are able to draw from their substantial experience throughout PJM, MISO and in other jurisdictions to develop proprietary models of customer behavior and switching patterns, to refine these models, and to better analyze the local data provided by utilities. These wholesale suppliers pass on the efficiencies they achieve due to their sophisticated risk management skills and experience in the form of more competitive bids for full requirements products in competitive procurements. Wholesale suppliers have already invested in, and continue to make significant investment in acquiring, experts in each specific type of market which makes up full requirements supply.

A wholesale supplier's greater expertise in daily, active portfolio management activities represents a valuable asset in evaluating and engaging in transactions not only for complex hedges and other energy products, but for more common products in a portfolio such as block and spot market purchases. Increased levels of expertise and the ability to take on and manage a large portfolio's risks and responsibilities enable a wholesale supplier such as ExGen to provide significant competitive benefits over a

smaller, less sophisticated market participant. Moreover, a wholesale supplier has the added expertise necessary to enter into more complex transactions which can provide additional appropriate management and hedging tools to further drive down costs.

**B. The Final Plan Should Recognize Potential Changes To The MISO PRA**

For the 2018-2019 planning year, the Draft Plan recommends procurement of 25% of Ameren’s capacity needs for eligible retail customers through a RFP in September 2016, 50% through a RFP Fall 2017, and 25% through the MISO Planning Resource Auction (“PRA”). For the 2019-2020 planning year and beyond, the Draft Plan recommends purchasing 100% of capacity for Ameren eligible retail customers through the MISO PRA.

MISO has acknowledged that the current PRA structure does not necessarily meet the needs of states with restructured competitive markets, such as Illinois, to “incent future investments and ensuring a reliable electricity supply at the most efficient price”.<sup>4</sup> Earlier this year, MISO developed a proposal to address resource adequacy needs of Competitive Retail Areas (such as Ameren) which included significant changes to its PRA to initiate a three-year forward capacity auction as early as the 2017-2018 planning year.<sup>5</sup> The proposal is subject to on-going debate and MISO has not even filed the proposal at FERC, much less received FERC approval. Consequently, there is a great deal of uncertainty at this time as to what the PRA will look like for future planning years. The final IPA Plan ultimately filed with the Commission should recognize this

---

<sup>4</sup> “Resource Adequacy in Restructured Competitive Retail Markets Issue Statement”, October 2015, [https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/SAWG/2015/20151029/20151029%20SAWG%20Item%2007%20Draft%20Issues%20Statement\\_RA%20in%20Restructured%20Markets.pdf](https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/SAWG/2015/20151029/20151029%20SAWG%20Item%2007%20Draft%20Issues%20Statement_RA%20in%20Restructured%20Markets.pdf)

<sup>5</sup> “Competitive Retail Solution”, MISO Staff Proposal, March 18, 2016, <https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/CRSTT/Draft%20CR%20FCA%20Proposal%20CoreDesign.pdf>.

uncertainty, and provide for flexibility regarding the optimal means of procuring capacity for eligible retail customers in the Ameren service territory based on future changes in the MISO PRA.

**C. The IPA Should Notify Potentially Winning Bidders The Same Day**

The time period between the submission of bids and the timing that potentially winning suppliers are notified should be shortened, to the greatest extent possible. Both the IPA and the Commission are to be commended for reducing the time period between submission of bids and contract execution over the years. The IPA Plan resulted in submission of potentially winning bids in a shorter time frame than the outside limits established under the law, and the Commission likewise expeditiously evaluated and approved the results of the procurement events during this most recent procurement cycle. However, further improvements can be made in shortening the time period for “informal” notification to potentially winning bidders.

Decreasing the length of time between submission of the bid and notification of likely bid award decreases the risk that suppliers bear, which would likely lead to lower overall bid prices. Such a result is consistent with the legislative mandate that:

The Commission shall approve 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.<sup>6</sup>

Given that the Block Energy Products are standard wholesale energy products, the review of these bids should be relatively straightforward, and should not require additional review time. ExGen appreciates the efforts by the procurement administrators to convey

---

<sup>6</sup> 220 ILCS 5/16-111.5(d)(3) (emphasis added).

their recommendations to the Commission expeditiously, and the Commission's prompt action in reviewing those recommendations. However, any time that can be further reduced off of the current process is of benefit to suppliers, and therefore ultimately will benefit ratepayers.

Ideally, bids would be submitted in the morning with results as to likely winning bidders provided by that day. Same-day notification to prospective winning bidders is provided in utility-scale procurements in Maryland, Pennsylvania, New Jersey, Ohio, Massachusetts, Delaware, and Washington, D.C. ExGen is not aware of any barrier that would prevent Illinois from joining that list.

### **III. CONCLUSION**

ExGen recommends that the IPA's Final Plan be modified in order to reflect these improvements to the procurement process.

- The IPA should begin to utilize the use of fixed-price, full requirements contracts as part of the procurement Plan;
- The Final Plan Should Recognize Potential Changes To The MISO PRA; and
- The IPA Should Notify Potentially Winning Bidders The Same Day

ExGen is confident that its recommendations will promote continued development of Illinois' competitive markets, for the ultimate benefit of Illinois consumers. ExGen further recommends that the IPA and the Commission continue to explore other, additional refinements that are designed to meet the needs of the changing retail market.



A handwritten signature in cursive script, reading "David I. Fein", is positioned at the top center of the page. The signature is written in dark ink and is underlined.

David I. Fein  
Vice President, State Government Affairs - East  
Exelon Corporation  
10 S. Dearborn Street  
47th Floor  
Chicago, Illinois 60603  
Phone: 312-394-2116

Cynthia F. Brady  
Assistant General Counsel  
Exelon Business Services Corporation  
4300 Winfield Road  
Warrenville, IL 60555  
Phone: 630-657-4449