

The City of Chicago (“City”) appreciates the opportunity to comment on the Illinois Power Agency’s (“IPA”) Draft Electricity Procurement Plan for the period June 2014 through May 2019 (“Draft Plan”). The City’s comments fall under two broader categories: (1) Full Requirements Supply and (2) Energy Efficiency. The City’s lack of comment on any issue does not indicate a position on that issue and does not preclude the City from commenting on that issue in the future.

Full Requirements Supply

Customers taking default electricity supply from the utilities pay a fixed-rate, represented by the Price to Compare, with a variable-rate adjustment to account for customer migration away from or back to the default supply portfolio. The IPA correctly characterizes this Purchased Electricity Adjustment (“PEA”) as a financial balancing mechanism that is “quite volatile,” despite ComEd’s voluntary limit of the PEA to 0.5 cents/kWh. Draft Plan at 59. As noted by the IPA, the “utilities’ supply customers absorb the residual risk resulting from the utilities’ portfolio design” under the current procurement design. *Id.* at 69. The IPA correctly observes that in a market with healthy competition, whether from individually negotiated fixed-price arrangements with Alternative Retail Electric Suppliers (“ARES”) or from municipally aggregated transactions, and with a goal of providing a transparent and accurate comparison product, “a full requirements supply may be a reasonable alternative.” *Id.* The City does not believe that it is certain that customers would pay a price premium for a full requirements supply portfolio when compared to the current hedged/spot-purchased portfolio. Nevertheless, concerns about the magnitude of the price premium aside, the IPA is correct insofar as the relevant question is whether “the price premium [if any] is comparable to the value that consumers would perceive they obtain by eliminating the uncertainty around the price.” *Id.* at 70.

The City believes that the value that consumers gain from a full requirements supply product comes from more transparent and accurate pricing comparisons with competing offers. In the context of municipal aggregation, the City believes that the operation of the PEA has made it difficult for City residents to determine the magnitude of savings between the municipally aggregated product that the City negotiated and the default supply product offered by ComEd. With a full requirements supply product, however, the City’s residents could accurately and transparently determine whether and to what extent the municipally aggregated offer could save those residents money on their electricity bills. Any fixed-price ARES offer, whether provided individually or through municipal aggregation, must include the risks that the PEA otherwise masks from customers attempting to make “apples to apples” comparisons. Therefore, under the current procurement design, customers must guess, and therefore take on the risk that their guess will be incorrect, as to whether and by how much the PEA will fluctuate over the term of the competing offer.

Instead, the City believes that the IPA should move to a full requirements supply portfolio because the Price to Compare should be an accurate “price” against which consumers may “compare” their competing offers. In order for those consumers to make

rational decisions regarding which offer they will fare better under, it is necessary for those offers to be truly comparable. The current default portfolio, which essentially amounts to a variable rate with an artificial maximum and minimum, sends an inaccurate signal to market participants and thus impedes a truly competitive marketplace. Moreover, exposing those market participants to spot-market purchases that are conducted beyond the oversight of the ICC fails to deliver the safeguards of a regulated procurement process that is presumably the chosen alternative when a customer rejects marketplace offers. As is recounted by the IPA, New Jersey's full requirements purchases "are well established and appear successful." Draft Plan at 70. The IPA also recounts the experiences of utilities in several other jurisdictions and concludes that they "have successfully used full requirements contracts to meet retail load." *Id.* at 72. The City agrees with the IPA's assessments of these other jurisdictions. The IPA estimated the premium paid by a full requirements supply customer, and in the case of the 2014-2015 delivery year for ComEd, found that a full requirements energy contract "does reduce ratepayer risk." *Id.* at 76.

Confirming the analysis, the IPA notes that the "greatest impact of forward price uncertainty will be seen in an 'all-spot' portfolio, that is, a portfolio with no forward hedges at all." *Id.* at 62. Under the current non-full requirements supply construct, a portion of that spot market portfolio is what customers supplied by the default portfolio are exposed to when the utility makes spot-purchase transactions to respond to volume uncertainty. That is, without full requirements supply, the utilities' customers are subjected to an unregulated transaction in a portion of the market that the IPA has found has the "greatest impact of forward price uncertainty." Therefore, the City recommends editing the Draft Plan to effectuate a full requirements product. The following Sections of the Draft Plan require the following edits (with deletions in strikethrough and additions in underline):

Section 1.1

This Procurement Plan proposes to ~~continue using the procurement strategy that the IPA has historically utilized (hedging load by procuring on and off-peak blocks of forward energy in a three-year laddered approach). While the IPA investigated alternative strategies such as~~ use full requirements contracts or use of options, ~~the IPA believes the continuation of the IPA's past strategy at this time to be the most prudent and~~ as they are the most likely to produce it's the IPA's statutorily mandated 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."

Section 7.22

The analysis in Chapter 6 indicates that full requirements products eliminate much of the uncertainty in customer costs. ~~do not have a great cost or risk advantage over a block-based strategy, when the current hedge portfolios are~~

~~taken into account. Full requirements products appear less desirable than the use of standard block hedges in the short term, as they either significantly increase expected cost without an offsetting reduction in the high cost excursions (Figure 6-11) or significantly increase price variability and do not reduce—in fact slightly increase—expected cost (Figure 6-12). The analysis in Section 6.7 depends on a theoretical or conceptual model of how suppliers would price full requirements products. Prices may be less than the model implies, but on the other hand ~~it~~they may be ~~much~~ greater given the current load uncertainty discussed above. The IPA is ~~not~~ prepared to recommend the use of full requirements products. Accounting for the volumes of already contracted forward hedges, the risk of each full requirements tranche will be increased. The full requirements contracts would only cover residual load (relative to the existing hedges) but would bear all the load risk. This creates a great deal of uncertainty in the determination of the reasonableness of their pricing. The history of full requirements procurement (the “reverse auction”) indicates an aversion to that risk. The IPA, in the preparation of this Procurement Plan, also considered a pilot program, involving only a fraction of the utilities’ load, but decided that the overhead cost of designing a price benchmark and a procurement mechanism for such a different product is not justified given that hedging using standard block products represent a less complicated and cheaper alternative. A successful pilot program must also provide meaningful results that can be assessed and provide input into future decisions. It was not clear to the IPA how such a pilot program in this plan could provide those types of results in time for meaningful decisions that could inform future procurement plans.~~

Energy Efficiency

As only the second IPA plan to consider incremental energy efficiency programs pursuant to Section 16-111.5B of the Public Utilities Act, the IPA correctly observes the existence of several outstanding policy questions, each addressed below:

i. Programs that must be proposed to the ICC

The IPA has solicited feedback regarding whether it may point out, to the ICC, that certain programs may be undercapitalized or understaffed to an extent such that the ICC should consider rejecting the affected program, even when the program passes the Total Resource Cost Test (“TRC”). Draft Plan at 20. The City believes that the requirement that the IPA “shall include in the procurement plan ... programs and measures it determines are cost-effective” precludes the IPA from effectively excluding those programs through and ad-hoc review of their staffing or capitalization levels. *See* 220 ILCS 5/16-111.5B(a)(4). The City believes that the reference in 220 ILCS 5/16-111.5B(a)(5) to a Commission determination that the programs “fully capture the potential for all achievable cost-effective savings, to the extent practicable” simply refers to the Potential Studies and their identified program gaps, not substantive tests that programs must pass in addition to the sole explicit test required by statute, the TRC test.

The City believes that whatever findings are required by 220 ILCS 5/16-111.5(d)(4) require no additional screening for programs that are found cost-effective by the IPA.

ii. Feedback mechanisms between utility potential study and programs proposed

The IPA believes that stakeholders should recommend changes to the third-party bidding process to allow for more flexibility in the bidding procedure in order to identify more cost-effective and economically feasible programs. Draft Plan at 81. Although not requiring any changes to the IPA's Draft Plan, the City believes that ComEd's bidding process can be improved to become more transparent and predictable, thus allowing more programs to be cost-effectively bid in. In furtherance of this goal, ComEd's process should include, at least, the following changes:

- The actual spreadsheet used to evaluate whether the proposed program passes the total resource cost test should be available to bidders before bids are due.
- ComEd should notify any bidders whose programs are rejected with the reasons for rejection prior to ComEd's submittal of the bids to the IPA. Those rejected bidders should also have the option of meeting with ComEd after they are notified of rejection.

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