

**COMMENTS OF EXELON GENERATION COMPANY, LLC
ON THE ILLINOIS POWER AGENCY’S DRAFT 2014 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 Illinois Power Agency (“IPA”) draft procurement plan (“Draft Plan”) for the generation supply to eligible retail customers of Commonwealth Edison Company (“ComEd”) and Ameren Illinois (“Ameren”) for the period of June 2014 through May 2019.

I. Background

Exelon Generation Company, LLC (“Exelon Generation”) 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. Exelon Generation 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.

Exelon Generation, 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. Exelon Generation 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.

As described in the Draft Plan, the changes in the Illinois retail electric market and in particular the uncertainties regarding the amount of load that could return to bundled utility service provides very clear evidence of the importance of taking a thoughtful, measured approach to future procurements to protect competition, at the wholesale and retail level, to protect consumers, and to avoid the creation of stranded costs. Based upon its experiences in procurement events in Illinois and elsewhere, and its experience serving industrial, commercial, and residential customers, Exelon has a number of recommendations to improve the IPA's draft procurement plan.

II. RECOMMENDATIONS

Based on its expertise over the years in procurement events in Illinois and other jurisdictions, its experiences in Illinois as an ARES, Exelon makes the following observations and proposes the following recommendations for improvements to the draft procurement plan to be overseen by the IPA:

- The IPA should begin to utilize the use of fixed-price, full requirements contracts as part of the procurement plan;

- The IPA properly notes the problems associated with the procurement of long-term renewable energy resources; and
- The IPA should make various generic process improvements to improve the overall procurement process for potential bidders, customers, and competitive suppliers.

A. Use of Fixed-Price, Full Requirements Products

Exelon 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, the IPA has failed to include such products in its procurement approach.

In the Draft Plan, the IPA does include an assessment of such an approach and compares such an approach with its proposed continued use of a block-and-spot approach. However, the discussion in the Draft Plan fails to properly recognize the additional costs, risks, and flaws inherent in its proposed procurement approach.

Exelon supports the recommendation contained in the Comments of the Illinois Competitive Energy Association (ICEA) that recommend a supply approach based on the procurement of fixed-price, full requirements products as a superior approach based upon the current market conditions and to better protect customers from risks. Given the comprehensive analysis that is part of ICEA’s Comments on the benefits of fixed-price, full requirements products and the fact that these benefits are widely recognized in other restructured jurisdictions, such products should be included in the IPA Plan.

B. Procurement of Renewable Resources

The Draft Plan once again clearly demonstrates some of the complexities associated with mandating long-term contracts, for any resource. In 2010, in accordance with a previous IPA Plan and following a competitive procurement, utilities executed 20-year contracts for bundled renewable energy and renewable energy credits. Since that time, there has been a dramatic shift in competition for residential and small commercial customers, resulting in significant load migration away from the utilities, and with the added migration due to the number of communities that have implement municipal aggregation for electric load.

Given the amount of load migrating to ARES as a result of this robust competition, the Draft Plan again concludes that there is likely an insufficient number of bundled ComEd customers to support the commitments made to renewable energy resources through competitive procurements in previous years within the statutory price cap. Consequently, due to the costs exceeding the cost cap, ComEd's ability to accept the full amount of contracted renewable energy resources under the long term contract lies in question. The Draft Plan proposes to use the ACP payments that have been collected by ComEd from their hourly-priced service customers to be used as necessary to supplement payment to the suppliers to the extent such payment would exceed the individual utility renewable resource budget caps in a given year.

Without admitting or denying the IPA's legal authority to use the Renewable Energy Resource Fund as proposed in this year's Draft Plan, Exelon does not oppose the

proposal in recognition of the fact that the IPA has inherited a difficult situation in that commitments were made under long term renewable procurements that are not necessarily sustainable by utility bundled customers within the statutory rate cap. However, lack of opposition to use of those funds for this year's Draft Plan should not be interpreted as agreement with this proposal as it relates to monies collected from ARES, nor shall it be construed as the appropriateness of such a proposal for future years. Additionally, the statute's directive that ACP payments are to be used to "purchase renewable energy credits" (220 ILCS 5/16-115D)(d)(4)) may limit how those funds may be used and notwithstanding Exelon's position in this filing, it fully reserves the right to challenge the IPA's use of these funds in the future.

C. The IPA Should Make a Number of Improvements to the Overall Procurement Process

Based on Exelon Generation's experiences in the recent procurement events, as well as its expertise over the years in other procurement events in Illinois and other jurisdictions, ExGen proposes the following recommendations for improvements to the future procurement processes to be overseen by the IPA, focusing on improvements to the procurement calendar:

- Hold Procurements Earlier in the Week;
- Notify Potentially Winning Bidders Same Day; and
- Hold REC Procurement Events Earlier.

Continued refinements and improvements to IPA plans over the years will no doubt become increasingly important due to the evolving retail market. At the time of the first IPA plan, residential customers were being served almost exclusively by utility bundled service products. Those numbers have changed dramatically in the intervening

years as is well-documented in the Draft Plan. With that in mind, the IPA should explore, and be open to, modifications to future procurement cycles to best meet the new reality.

Hold Procurements Earlier In the Week

The Commission and the IPA have made great strides over the years to refine the procurement process, and can and should continue to improve the process in order to minimize the effects of market volatility, to the extent possible. Specifically, procurements should be scheduled for the early part of the week – preferably Monday, although Tuesday is acceptable. Gas storage numbers come out every Thursday, which makes the energy market more volatile for a period of time prior to and after those numbers come out. Compounding this volatility would be to conduct procurement events on Fridays as bidders will have to hold bids open over the weekend. The longer that bids must remain open, and be subject to the possibility that bids will be rejected, the greater the likelihood that consumers will ultimately be economically harmed. These risks are particularly important in procurement events involving Block Energy Products, given the natural volatility that is inherent in the energy market. Potential suppliers have to incorporate such risks in their bids, which necessarily translates into bid prices to the detriment of consumers. That risk can be easily removed from the procurement process by scheduling procurement events for the beginning of the week.

Notify Potentially Winning Bidders 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.¹

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 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 inure to the benefit of ratepayers.

Ideally, bids would be submitted in the morning with results as to likely winning bidders provided by 2 PM that day or bids would be submitted at the end of day with results as to the likely winning bidders provided that evening. The review of bids for

¹ 220 ILCS 5/16-111.5(d)(3) (emphasis added).

standard Block Energy Products should be relatively straightforward, and should not require additional time.

Hold REC Procurement Events Earlier²

The timing of the REC procurements could likewise benefit from further refinement with regard to timing. Previous years' REC procurements were held weeks later than the energy and capacity procurements, which is unnecessary and detrimental to the retail market.

Holding REC procurements closer in time to the energy and capacity procurements will aid retail suppliers and customers. Upon completion of the procurements, utilities must run the numbers through their respective rate translation mechanisms to arrive at a particular price per kWh for bundled service customers. The utilities obviously cannot calculate new rates, and the Commission cannot publish the new "Price to Compare" until after the Commission has approved the REC procurements, which are historically the last piece of the supply puzzle. Holding procurements so close in time to June 1st necessarily backs up the timeline of when those new rates can effectively be published. It is difficult for Retail Electric Suppliers to go to market with offers that were attractive to customers, given that changes to utility bundled rates were imminent, but without knowledge as to those revised rates and tariffs. Delays in release of the tariffs and charges causes substantial confusion and potential competitive harm in the retail market.

² ExGen notes that the Draft Plan does not call for any additional REC procurements as a result of the current oversupply of RECs. However, the same arguments hold true that it would be beneficial for the retail rates to be published as soon as possible so that customers, suppliers, municipalities, and others can make electric supply decisions as soon as possible.

While a time lag of several weeks may have been beneficial in the early years of the current construct, the IPA, the utilities, and the procurement administrators are by now very familiar with the process, and can manage the procurements smoothly without the need for a great deal of time in between procurement events. Consequently, any potential need for REC procurements to be so far attenuated from energy and capacity procurements no longer exists. Rather, Exelon proposes that the REC procurements be conducted within days of the energy and capacity procurements.

IV. CONCLUSION

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

Respectfully Submitted,

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