Comments of the Illinois Competitive Energy Association
On the 2014 IPA Draft Procurement Plan of August 15, 2013
Presented to the Illinois Power Agency

I. Introduction

The Illinois Competitive Energy Association ("ICEA") is a ten-member, Illinois-based trade association of many of the largest and most active alternative retail electric suppliers ("ARES") seeking to preserve and enhance opportunities for customer choice and competition in the Illinois retail electric market.[1] Our members serve residential, commercial, industrial and public sector customers, ranging from Main Street to the Fortune 500, including the manufacturing industry; retail businesses; the State of Illinois and local units of governments; cultural, sporting and educational institutions; as well as hospitals, hotels and restaurants. Our members also provide service to virtually all of the municipalities that have enacted Governmental Aggregation Programs in the Ameren Illinois Company ("Ameren") and Commonwealth Edison Company ("ComEd") utility service territories. As noted by the Office of Retail Market Development ("ORMD") at the Illinois Commerce Commission ("ICC" or "Commission") in its 2013 Retail Electric Competition Report[2], ARES provide nearly 80% of the electricity consumed in Illinois. As such, ICEA has a direct interest in the Illinois Power Agency's ("IPA") Draft Power Procurement Plan ("Draft Plan") because the IPA's structure for procuring electricity for eligible customers impacts those customers' ability to benefit from retail competition and a choice in their electric supplier. Therefore, ICEA appreciates the opportunity

[1] ICEA members include Champion Energy, LLC; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Homefield Energy; Integrys Energy Services, LLC; MC Squared Energy Services, LLC; FirstEnergy Solutions Corp.; Nordic Energy Services, LLC; NRG Retail; and Verde Energy USA-Illinois.

[2] Office of Retail Market Development, Illinois Commerce Commission, 2013 Annual Report, Submitted Pursuant to Section 20-110 of the Illinois Public Utilities Act, June 2013.

to provide comments for the IPA's consideration regarding its Draft Plan and for its Revised Procurement Plan which the IPA will file with the Commission.

As will be discussed in detail below, ICEA recommends that the Draft Plan be revised to require the IPA to incorporate the use of fixed-price, full requirements ("FPFR") into the current supply portfolio. Specifically, ICEA proposes that the IPA Plan be refined so that 30% of the bundled service load of ComEd's eligible retail customers will be supplied through FPFR products during the June 2014 – May 2015 period, leaving the possibility for further FPFR product procurements to be included in future IPA Plans.

II. Due to the Success of Retail Competition, The IPA's Role Is Evolving

The Illinois competitive electric retail market has been flourishing, when measured by the number of electric products customers have to choose, the large number of ARES who have entered the Illinois retail marketplace to provide new product offerings to residential and small business customers, and the very high percentage of residential and small business customers commercial who have actually "chosen" or "switched" from their traditional utility service provider to an ARES.[3]

Despite these positive developments, establishing an electric retail marketplace with customer choice and switching, the IPA's recommended electric supply procurement strategy called "block-and-spot," does not allow Illinois retail customers, particularly those either on "default service"[4] or those choosing to go back to it, to see the true and transparent price for

[3] See ORMD Annual Report at 14-21 and 27-31.

[4] "Default service" is a general term that is applicable to the supply service provided to "eligible retail customers" or "bundled service customers" in Illinois.

electricity which they will ultimately pay due to the unforeseen costs captured in the Purchased Electricity Adjustment ("PEA") mechanism while they are on default service. The very fact that a customer is returning to or leaving default service will likely change the price they receive, an effect that would not take place under FPFR. The inability of the block-and-spot procurement approach to match and follow load on a daily basis causes additional transactions for buying or selling electric supply in the day-ahead market in order to "match the actual (as opposed to forecasted) load demand" for the default service customers. Any costs incurred through these supplemental transactions are settled in the PEA, which default service customers are obligated to pay monthly through a separate charge on their electric bill. ARES customers, however, because they take their supply service from an alternative electricity provider are not subject to nor required to pay for any of these additional transactions. Therefore, default service customers pay not only the Price-To-Compare ("PTC") tariff rate for their supply, but also any additional "transactional costs" needed to match load on a daily basis under the IPA's block-and-spot procurement approach. The transactional costs which customers must pay monthly through the PEA "distorts" the price comparison between ARES competitive pricing and the PTC tariff rate for electricity supply due to the block-and-spot procurement strategy.

In theory, the "additional transactional costs" incurred through block-and-spot for either the purchase or sale of electric supply can be either "positive or negative" for default customers depending upon whether the electric supply previously purchased is "short" or "long" to actual daily demand and load. In addition, where the IPA has also incorporated a three-year laddered hedging strategy to augment the block-and-spot approach, more often than not, additional electric supply purchases must be made to match the daily load demand for default service customers who have selected the PTC over ARES competitive pricing for electric supply. As

will be discussed below, recent history demonstrates that the additional costs for purchasing electricity have far outweighed any revenues collected for selling power back into the market through the block-and-spot strategy.

Therefore, a procurement approach that is continuously reflective of current wholesale prices provides the best environment for sustainable, robust retail competition. The IPA's Draft Plan should be revised so that it recognizes that continued progress toward a robust competitive retail and wholesale electric market with transparent default pricing best helps consumers balance price risk and budget certainty.

III. The IPA's Draft Plan Makes Two Significant Changes To Reflect The Current Market Conditions But Creates Unknown Supply Costs That Lead to Market Distortions

As an initial matter, ICEA commends the IPA for recognizing the ever changing nature of the Illinois retail electric market in the development of its comprehensive procurement plan. ICEA supports the IPA's recommendations to decrease the size of procurement blocks from 50MW to 25MW and including two procurements -- the first in April 2014 and the second conditionally in September 2014.

ICEA believes that the IPA's decision to go beyond a single, annual procurement event as its procurement strategy in the 2014-15 delivery year is consistent with its past statement in its 2009 Draft Plan that "a single annual procurement event increases portfolio risk by relying on market timing . . . . (2009 Draft Plan, at 3.) and with the Commission's Order approving the 2011 Procurement Plan in which the Commission noted that "the IPA believes eligible retail customers may benefit from more frequent procurements, and future plans may move towards a multiple or continuous procurement process." (Final Order, Docket No. 10-0563, at 102.) In short, the IPA

is putting its words into action. ICEA believes the IPA's bifurcated procurement decision is a very positive and sound outcome for eligible retail customers and for the retail electric market given potential market uncertainty and migration risk. However, in order to allow customers and the market time to react to any price changes and make appropriate decisions, competitive suppliers should be provided prices at least, but no longer than, two weeks before the prices take effect.

Moreover, ICEA applauds the IPA's conclusion "'that standard products may include wholesale load-following products (including full requirements or partial requirements) as long as the procurement is standardized such that bids may be judged solely on price." (Draft Plan, at 17.) ICEA strongly supports the IPA's conclusion that the IPA Act "provides examples of 'standard products' that are neither an exhaustive list nor a rigorous definition." (Draft Plan, at 17.) ICEA has asserted in past procurement plan comments and Commission proceedings that the standard product procurement in the IPA Act was meant to be illustrative and not exhaustive. By combining various products identified in the statute, one can achieve a full requirements product, and the IPA has the discretion to procure those products in combination. Again, the IPA has taken a significant step toward providing clarity in this matter.

However, the introduction of a potential second, conditional procurement event alone will not address the unknown supply costs and market imperfections noted above.

IV. The IPA's Draft Plan Includes an Incomplete and Inaccurate Assessment of the Use of a Full Requirements Procurement Approach

The Draft Plan contains an assessment of the possibility of including FPFR products in the supply portfolio for eligible retail customers. (Draft Plan at 69-77, 89-90.) The FPFR

approach was a contested issue in the 2012 IPA Plan during the Commission's proceeding in ICC Docket No. 11-0660.[5] In that Docket, Constellation NewEnergy, an ICEA member company, recommended that the Plan be modified to use FPFR products. Moreover, ICEA asserted that FPFR is consistent with the Public Utilities Act ("PUA"). In that Docket, the IPA stated that it was willing to discuss the use of full requirements products in future procurement plans; however, the IPA continues to believe that its current approach continues to be preferable to full requirements contracts. (Final Order, ICC Docket No. 11-0660, at 171.)

ICEA appreciates that the IPA included an assessment of FPFR products as compared to the IPA's proposed block-and-spot approach in its 2014 Draft Plan. With that said, ICEA believes that the IPA's findings and conclusion regarding FPFR products are incomplete and inaccurate because the analysis is significantly flawed, and because other evidence and analysis demonstrates the potential benefits of including FPFR products in the supply mix. To support this assertion, ICEA submits, inclusive in its Comments as Appendix A, a Report entitled, "*Merits of Incorporating Fixed-Price Full Requirements Products in the Illinois Power Agency Plan,"* prepared by Mr. Scott Fisher of the NorthBridge Group ("NorthBridge" or "NorthBridge Report") for the IPA's consideration as it prepares its Revised Plan for filing with the Commission.

A. Overview of the NorthBridge Report

The NorthBridge Report addresses both the FPFR product approach and the block-and-spot approach, which are the two types of supply procurement approaches that generally have been employed for residential and small non-residential default service customers in restructured

[5] Full Requirement Products were a contested issue in the IPA 2010 Plan in ICC Docket No. 09-0373.

jurisdictions, and which are the two basic types of supply approaches that are under consideration. In these Comments, ICEA will highlight the salient conclusions of the NorthBridge Report, but ICEA's Comments, alone, are not meant to be a substitute for the NorthBridge Report and its thorough analysis.

As the NorthBridge Report explains, the FPFR product approach involves procuring FPFR products on a competitive basis to satisfy the default service supply needs, with each FPFR product obligating the seller of the product to satisfy a specified percentage of all of the default service customers' supply requirements in every hour of the delivery period, regardless of the default service customers' instantaneous changes in energy consumption, regardless of how frequently customers switch to or from default service, and regardless of how the seller's cost to satisfy its supply obligation may change. The seller is paid a predetermined price per megawatt-hour for this service. In addition, the FPFR approach ensures that customers who leave default service are not avoiding costs they created and customers who return to default service are not paying for the costs created by a customer who left service.

The block-and-spot approach involves managing an energy supply portfolio for default service customers consisting of fixed-quantity, fixed-price block energy products supplemented with spot market transactions to cover the mismatch between the fixed quantities of fixed-price supply purchased and actual load requirements. The block-and-spot approach avoids the customer payment of some embedded "premiums" in product prices because the products underlying the block-and-spot approach do not require suppliers to provide insurance against a host of adverse market and regulatory risks. However, at the same time, the block-and-spot approach can result in significant unintended adverse consequences for customers if actual market outcomes differ materially from expectations, such as through unexpected swings in load

and/or market prices.

The NorthBridge Report notes that most restructured jurisdictions have concluded that the risks of unanticipated market prices and loads, which are borne by customers under the block-and-spot approach, are large enough to be concerned about and have chosen to rely predominantly on FPFR products for their default service supply for smaller customers. These jurisdictions believe that the added price protection that FPFR products offer justify the compensation required by FPFR product suppliers to bear the risks of unanticipated market prices and loads to the benefit of customers. For the forgoing reasons, the FPFR product approach has become by far the most prevalent form of default service supply procurement for smaller customers in restructured jurisdictions[6], and there are many sellers willing to compete on the basis of lowest price to provide FPFR products.

Furthermore, NorthBridge conducted an analysis that shows that customers in Illinois have indeed been subject to costs and unnecessary adverse financial risks under the block-and-spot approach. For example, the additional energy supply cost embedded in the June 2012 – May 2013 ComEd PEA supply charges, due to the fact that the supply products under the block-and-spot approach could not "follow the load" like FPFR products do, was approximately $9/MWH. Furthermore, the PEA, which is an additional supply charge that bundled service customers incur to cover additional unanticipated supply costs, was on average almost $3/MWH during this time. Also, the significant monthly variations in the PEA that are necessitated by the supply/load mismatches under the block-and-spot approach distorted the bundled service rates against which ARES competed. Recent ComEd data also indicates that, in a period spanning

[6] Examples include Connecticut; Delaware; Maine; Maryland; Massachusetts; New Jersey; Ohio; Pennsylvania; Rhode Island and Washington, D.C. ICEA understands that numerous state public utility commissions have explicitly recognized the comparative benefits of the FPFR product approach.

only three months, the block-and-spot approach caused almost $100 million in additional costs that must be deferred for recovery from customers in future periods.

These "deferred balances" are the accumulation of the portion of the "transaction costs" incurred through the block-and-spot procurement approach, which exceed the "5% cap" for charge customers monthly through the PEA. To avoid potential "rate shock" to default service customers, the maximum amount for "energy supply costs" which can be charged monthly is capped at 5%. Any costs not charged to default service customers in that month which "exceed the cap" are not eliminated, but deferred for payment in the future through the "deferred balances" where such unpaid costs are captured. These deferred balance charges are clearly unknown to all residential customers who are trying to choose between either the default service provider or an ARES. Since neither the "electricity costs" incurred through "spot transactions" incurred via the block-and-spot approach nor the "deferred costs" held in the deferred balances are included in the PTC, default service customers are unable to properly evaluate the comparison in price offerings between the ARES and the utility default service price.

However, the NorthBridge Report has a solution to address this issue, as well as other problems associated with the IPA's sole reliance on the block-and-spot approach. The Northbridge Report finds that FPFR products easily can be integrated in a portfolio that already includes block energy products, like the Illinois utilities' supply portfolios, to help protect customers from the significant adverse financial risks and rate instability associated with a portfolio based entirely on the block-and-spot approach.

NorthBridge also has conducted a detailed review of the IPA's analysis about the relative merits of the FPFR product approach as compared to the IPA's proposed block-and-spot approach. The NorthBridge Report concludes that the IPA's analysis of the two approaches

contains significant shortcomings that invalidate the IPA's conclusions. Significant shortcomings of the IPA's analysis include the following:

- The IPA's analysis is based on an unsupported and untested assumption about FPFR product pricing. Instead of relying on any actual FPFR product price data, the IPA assumes that the price required by FPFR product suppliers will be enough to cover their expected unit costs across a spectrum of simulated scenarios, plus an arbitrarily determined additional amount. In fact, the IPA recognizes that its analysis may not reflect actual FPFR product pricing. Given these facts and the arbitrary nature of the IPA's assumption regarding FPFR product pricing, the IPA's analysis cannot be relied upon to provide reasonable estimates of the pricing of FPFR products in Illinois.

- The IPA's analysis omits or underestimates various drivers of costs and risks that are directly borne by customers under the block-and-spot approach, but from which the FPFR product approach provides protection for customers. As a result, in its analysis and comparison of the two approaches, the IPA underestimates the risks to customers under the block-and-spot approach. Such omissions or underestimations include:

  - The IPA's analysis under-represents bundled service load uncertainty.
  - The IPA's analysis does not capture the reality that the forecast of load for a given delivery period may be higher at one point in time leading up to the delivery period, lower at another point in time leading up to the delivery period, etc. This artificially limits the spectrum of possible scenarios and financial risks to customers under the block-and-spot approach which are included in the IPA's analysis.
  - The IPA has made an unsupported key assumption about the relationship between market price movements and bundled service load levels, which is an important driver of the costs and risks that customers directly bear under the block-and-spot approach.
  - The IPA's analysis ignores the cost and risk resulting from uncertainty with respect to hourly load and spot price patterns during the intra-month on-peak and off-peak periods.
  - The IPA's analysis appears to omit the risk that the costs of any of the non-energy supply components vary from expectations.

- The IPA's analysis of the FPFR product approach involves a melding of various simulations, in which distributions of various outcomes under different simulations are somehow combined, as opposed to performing a straightforward simulation of the FPFR product approach. Therefore, it is very possible that problems exist in the IPA's results, as the results appear counterintuitive at times.

- The IPA's analysis of the FPFR product approach relative to the block-and-spot approach does not address all of the aspects of costs and risks that are of concern with respect to a given bundled service supply approach.

- The IPA does not appear to consider the most likely way that FPFR products would be defined and integrated into the existing supply portfolio. Specifically, the IPA's rejection of the concept of integrating FPFR products into the supply portfolio is at least in part based on an assumption that the FPFR products would be defined in such a way that the FPFR product suppliers would be required to serve only the residual load requirements (above the volumes of the supply products already purchased). Because this approach would require the FPFR product suppliers to bear the entire load risk while only serving the residual load, the IPA concludes that the FPFR product prices could be high and that it would be difficult to assess their reasonableness. However, this conceptualization of how the FPFR products would be defined and integrated entirely overlooks the arguably more manageable way to define the FPFR products and integrate them into the supply portfolio.

  Specifically, the FPFR products could be designed like those in almost every other jurisdiction, in which the FPFR product suppliers must serve a cross-section (pro-rata) of the entire actual load requirement. The remaining cross-section would be supplied through the block-and-spot approach (i.e., the residual load requirements, above the supply product quantities, would be satisfied through purchases and sales in the spot market, as they are now). This method of integrating FPFR products, which apparently was overlooked by the IPA, effectively separates the load into two portions: one that is entirely supplied by FPFR products and one that is entirely supplied by the block-and-spot approach. This method has several benefits relative to the method suggested by the IPA. First, it should be fairly simple to implement. The portion of the load to be supplied by FPFR products would be a fixed percentage share of the entire actual hourly load requirement and therefore it would allow for FPFR products that are structurally similar to those solicited elsewhere. Meanwhile, the portion of the load to be supplied by the block-and-spot approach could operate exactly like that proposed by the IPA, but the overall supply quantities would be scaled down to accommodate the portion of the load that is supplied by FPFR products. Second, by not requiring FPFR product suppliers to bear the entire load risk while only serving a "residual" load ("above" or "on top of" block products), the prices of the FPFR products would be reduced. Third, because the FPFR products would supply a cross-section of the load, their prices could more easily be compared to expectations about the market costs of various components of the FPFR supply obligation as of the times of the FPFR product solicitations.

In sharp contrast to the IPA's analysis, NorthBridge presents a robust quantitative analysis based on actual market data from a region in which the block-and-spot approach and the FPFR product approach simultaneously had been implemented. This analysis indicates that

the compensation that FPFR product suppliers require to directly bear costs and risks to the benefit of customers is reasonable. Specifically, the analysis indicates that, in comparison to the FPFR product approach, the increases in risk borne by residential customers under the block-and-spot approach are not balanced by a proportionate decrease in the expected default service rate level.

The NorthBridge Report concludes that, given these facts, the prospect of continuing with a full block-and-spot procurement approach is particularly troubling, especially in light of the Illinois General Assembly's finding that Illinois citizens should be provided "adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability."[7] Therefore, NorthBridge recommends that FPFR products be included in the IPA Plan. To the extent that these products are included, NorthBridge argues that they will protect customers from the proven adverse risks of the block-and-spot approach, and more information will be gained about their pricing in the context of the Illinois electricity markets.

V. The IPA Draft Plan Should Be Revised To Integrate FPFR Products

Based upon the NorthBridge Report, ICEA makes the following specific proposal for the IPA's consideration. ICEA proposes that the IPA Plan be refined to include an initial amount of FPFR products in the supply portfolio to serve ComEd's eligible retail customers. Specifically, ICEA proposes that the IPA Plan be refined so that 30% of the bundled service load of ComEd's eligible retail customers will be supplied through FPFR products during the June 2014 – May 2015 period, leaving the possibility for further FPFR product procurements to be included in

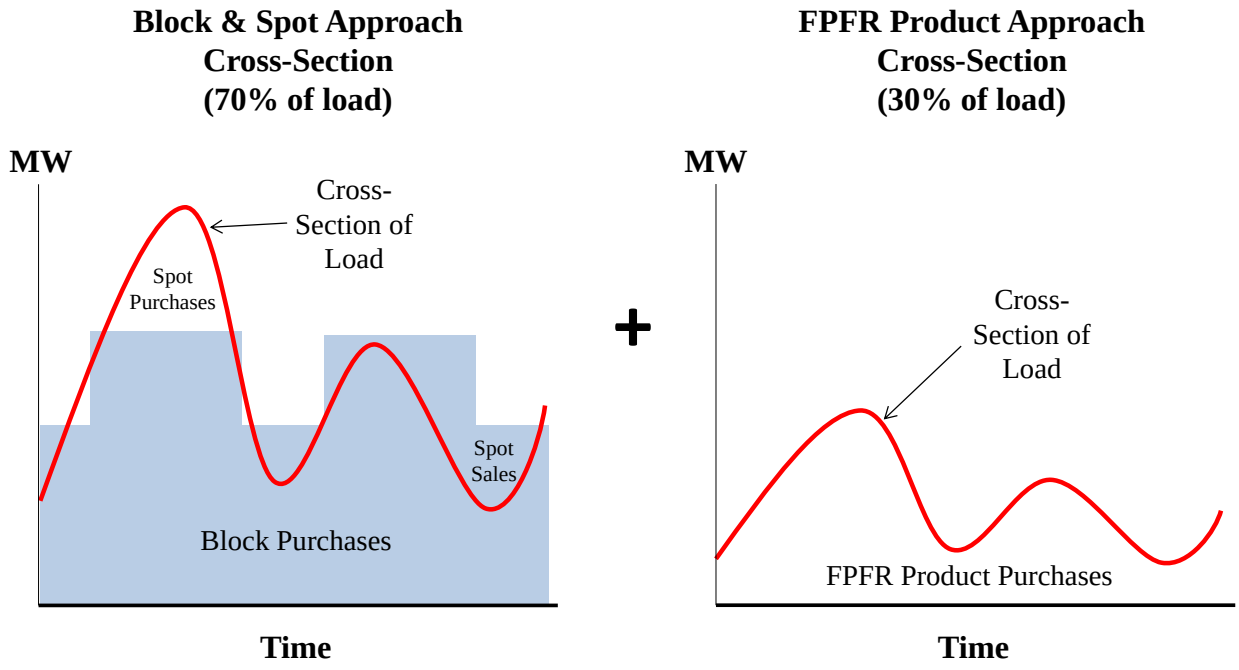
[7] 20 ILCS 3855/1-5(1).

future IPA Plans. All of the June 2014-May 2015 FPFR products will have a 12-month delivery period covering the entire June 2014-May 2015 period. The products will be competitively procured in an RFP process that will run concurrently with the mid-April 2014 block energy RFP that is already included in the IPA Plan. Twenty "tranches" of this product will be solicited, with each tranche supplying 1.5% of the bundled service load. Bidders will submit fixed-price $/MWH bids to supply the FPFR product. FPFR product tranches will be awarded on the basis of lowest price. The IPA's proposed procurements for deliveries after May 2015 will not change under ICEA's proposal.

Under ICEA's proposal, each FPFR product tranche will supply a fixed percentage of the entire bundled service load requirement (for eligible retail customers) in every hour.[8] The 70% cross-section of the load not supplied through the FPFR products will be supplied through the block-and-spot approach (i.e., in this cross-section, the residual load requirements above the block product quantities will be satisfied through purchases and sales in the spot market, as they are now). As shown below, this approach effectively separates the June 2014 – May 2015 bundled service load into two portions: one that is entirely supplied by the block-and-spot approach, and one that is entirely supplied by FPFR products.

[8] The FPFR products, like the block energy products, could exclude the associated renewable energy credits since these already have been purchased separately by ComEd.

ICEA Proposal for ComEd Supply
June 2014 – May 2015



The block-and-spot approach used to supply the 70% cross-section will operate exactly like the approach currently proposed by the IPA in its Draft Plan (with a procurement goal for a mid-April 2014 RFP to hedge 106% of the forecasted load for June 2014 – October 2014 and 75% for November 2014 – May 2015, and a mid-September 2014 RFP to hedge 106% of the forecasted load for November 2014 – May 2015). Of course, the overall block energy supply quantities on a megawatt basis will be lower than they would be if the 30% FPFR product cross-section did not exist, because the block product targets will be based on 70% of the overall forecasted load as opposed to 100% of the forecasted load. The following tables show specifically how the supply procurements compare in ICEA's proposal versus in the IPA's proposal in its Draft IPA Plan, given the Draft IPA Plan's bundled service load forecast.

The IPA's proposal is as follows: (Draft Plan, at 93.)

August 15 IPA Draft Procurement Plan for ComEd

All values are in average MW

Mid-April 2014 Procurement

	(1)		(2) = (1) x [106% or 75%]		(3)		(4) = (2) - (3), if positive, and rounded to 25 MW	
	Expected Load		106% Jun-Oct 75% Nov-May of Expected Load		Previously Contracted Blocks*		Required Block Purchases	
	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak
Jun-14	1,573	1,241	1,668	1,315	676	535	1,000	775
Jul-14	1,857	1,446	1,968	1,533	797	617	1,175	925
Aug-14	1,738	1,366	1,842	1,448	703	581	1,150	875
Sep-14	1,371	1,079	1,453	1,144	520	534	925	600
Oct-14	1,195	954	1,266	1,011	571	595	700	425
Nov-14	1,295	1,081	971	811	608	601	375	200
Dec-14	1,490	1,261	1,118	946	669	572	450	375
Jan-15	1,488	1,272	1,116	954	688	589	425	375
Feb-15	1,391	1,184	1,043	888	622	584	425	300
Mar-15	1,243	1,048	932	786	583	612	350	175
Apr-15	1,119	922	839	692	601	615	250	75
May-15	1,151	941	863	706	616	575	250	125

* Includes long-term renewable generation contracts

Mid-September 2014 Procurement

	(1)		(2) = (1) x 106%		(3)		(4) = (2) - (3), if positive, and rounded to 25 MW	
	Expected Load		106% of Expected Load		Previously Contracted Blocks*		Required Block Purchases	
	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak
Nov-14	1,295	1,081	1,372	1,146	983	801	400	350
Dec-14	1,490	1,261	1,579	1,337	1,119	947	450	400
Jan-15	1,488	1,272	1,577	1,348	1,113	964	475	375
Feb-15	1,391	1,184	1,474	1,255	1,047	884	425	375
Mar-15	1,243	1,048	1,318	1,111	933	787	375	325
Apr-15	1,119	922	1,186	977	851	690	325	300
May-15	1,151	941	1,220	998	866	700	350	300

* Includes long-term renewable generation contracts

The table below presents the calculation of ComEd's procurement quantities under ICEA's procurement proposal:

ICEA's Proposed Procurement Plan for ComEd
All values are in average MW

Mid-April 2014 Procurement

	(1)		(2) x 30%		(3) = (1) - (2)		(4) = (3) x [106% or 75%]		(5)		(6) = (4) - (5), if positive, and rounded to 25 MW	
	Expected Load		Required FPFR Purchases:** 30% of (Actual) Load		Expected Load Less FPFR		106% Jun-Oct 75% Nov-May of Exp Ld Less FPFR		Previously Contracted Blocks*		Required Block Purchases	
	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak
Jun-14	1,573	1,241	472	372	1,101	869	1,167	921	676	535	500	375
Jul-14	1,857	1,446	557	434	1,300	1,012	1,378	1,073	797	617	575	450
Aug-14	1,738	1,366	521	410	1,217	956	1,290	1,014	703	581	575	425
Sep-14	1,371	1,079	411	324	960	755	1,017	801	520	534	500	275
Oct-14	1,195	954	359	286	837	668	887	708	571	595	325	125
Nov-14	1,295	1,081	389	324	907	757	680	568	608	601	75	0
Dec-14	1,490	1,261	447	378	1,043	883	782	662	669	572	125	100
Jan-15	1,488	1,272	446	382	1,042	890	781	668	688	589	100	75
Feb-15	1,391	1,184	417	355	974	829	730	622	622	584	100	50
Mar-15	1,243	1,048	373	314	870	734	653	550	583	612	75	0
Apr-15	1,119	922	336	277	783	645	587	484	601	615	0	0
May-15	1,151	941	345	282	806	659	604	494	616	575	0	0

* Includes long-term renewable generation contracts
** These FPFR quantities would be purchased in the form of a 12-month (June 2014 - May 2015) product, and would be equal to 30% of the load regardless of the actual load level

Mid-September 2014 Procurement

		(3) = (3) from above		(4) = (3) x 106%		(5)		(6) = (4) - (5), if positive, and rounded to 25 MW	
		Expected Load Less FPFR		106% of Exp Ld Less FPFR		Previously Contracted Blocks*		Required Block Purchases	
		On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak
Nov-14		907	757	961	802	683	601	275	200
Dec-14		1,043	883	1,106	936	794	672	300	275
Jan-15		1,042	890	1,104	944	788	664	325	275
Feb-15		974	829	1,032	879	722	634	300	250
Mar-15		870	734	922	778	658	612	275	175
Apr-15		783	645	830	684	601	615	225	75
May-15		806	659	854	698	616	575	250	125

* Includes long-term renewable generation contracts

Consistent with the Draft Plan, actual block energy product quantities to be procured will be based on updated load forecasts. However, as shown above, even with the carve-out of

30% of the bundled service load for the FPFR products, the pre-existing quantities of block energy supply are unlikely to exceed the hedge targets; in fact, additional block energy product procurements are still likely to be required to meet the targets (for the 70% block-and-spot cross-section of the load) in 2014. This is not the case for Ameren, which already is oversubscribed in terms of supply products procured in relation to its forecasted load in most months of the June 2014 – May 2015 period. Consequently, unless the Commission is willing to liquidate some of Ameren's pre-existing supply products, ICEA's proposal does not involve carving out a cross-section of the Ameren load for FPFR products at this time.

There are several benefits to ICEA's proposed approach to integrate the FPFR products into ComEd's bundled service supply mix. First, the approach should be fairly simple to implement. The portion of the load to be supplied by FPFR products will be a fixed percentage share of the entire actual hourly load requirement and therefore it will include FPFR products that are structurally similar to those solicited elsewhere, in which each FPFR product tranche will supply a fixed percentage of the entire bundled service load requirement (for eligible retail customers) in every hour. Meanwhile, the IPA's proposed percentage hedge targets for the block energy products will be preserved (but they will be applied to the 70% block-and-spot cross-section as opposed to the entire forecasted load). Furthermore, ICEA's proposed approach does not involve the concerns associated with the alternative integration approach which the IPA considered and rejected. Specifically, the IPA considered an approach in which the load would not be split into two cross-sections as proposed by ICEA, and instead the FPFR products would only cover the residual load (the difference between the load quantities and the existing block product quantities) but they would require the FPFR suppliers to bear all of the load risk, which the IPA cautioned would create a great deal of uncertainty in the determination

of the reasonableness of the FPFR product pricing. (Draft Plan, at 89.) By splitting the load as proposed by ICEA, FPFR product suppliers will not be required to bear the entire load risk while only serving the "residual load," the prices of the FPFR products will be reduced, and the prices more easily can be compared to expectations about the market costs of various components of the FPFR supply obligation as of the times of the FPFR product solicitations.

ICEA's proposal should not be difficult to implement. Much of the incremental implementation work, such as the publicity, bidder qualification, bidder information dissemination, and RFP administration, will be minimized because the same tasks will be performed in the context of the mid-April block energy product RFP. Furthermore, the development of a supplier contract for the FPFR product should be relatively straightforward, because there already are many existing supplier contracts for FPFR products that could be refined as necessary for the development of a contract for ComEd's FPFR product.

The use of FPFR products in the IPA's Draft Plan would provide the IPA and the Commission with an opportunity to better assess the transparency and reduced distortions created by the FPFR approach. Rather than subjecting customers to a variable rate, this approach allows a pro-rata share of the costs associated with spot purchases to pass through to the respective FPFR suppliers. ICEA encourages the IPA to include the use of FPFR products into its Final Procurement Plan to gauge how this approach will work and potentially expand the use of FPFR products in future procurements.

VI. Conclusion

The NorthBridge Report explains and supports with evidence from recent Illinois supply costs that the IPA's proposed block-and-spot approach can result in additional costs, risks, instability and perverse outcomes for customers. As a result, ICEA recommends that the IPA's Draft Plan be revised to incorporate the use of FPFR products in the Final Procurement Plan in order to provide greater transparency and to better protect customers from these risks.

ICEA proposes that Illinois should follow the lead of the vast majority of jurisdictions that rely upon FPFR products in competitive wholesale procurement for default service. ICEA has presented a straightforward, easy to implement, and limited proposal to allow the Commission and other stakeholders to assess the merits of partial reliance upon FPFR products. Accordingly, the IPA's Draft Plan should be revised as outlined in detail above to include an electric supply procurement strategy that meets a portion of the supply needs projected by the IPA via the use of FPFR products.

Respectfully submitted,
Kevin Wright, President
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