

**REPLY COMMENTS ON THE 2011 PROCUREMENT PROCESS  
PURSUANT TO SECTION 16-111.5(o) OF THE PUBLIC UTILITIES ACT**

**PRESENTED TO**

**THE ILLINOIS COMMERCE COMMISSION**

**by**

**BOSTON PACIFIC COMPANY, INC.**

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## I. INTRODUCTION

Boston Pacific Company, Inc. (“Boston Pacific”) appreciates the opportunity to submit these reply comments in response to the Illinois Commerce Commission’s (the “Commission’s”) request for comments concerning the Spring 2011 Electric Procurement Events.<sup>1</sup> We focus our reply comments on a select subset of the initial comments that we believe deserve to be highlighted, discussed or in some cases clarified.

## II. COMMENTS ABOUT THE ENERGY RFPs

**Allow Around the Clock (“ATC”) products in energy RFPs:** NERA recommends that ATC bids be permitted on the products and combinations that have been used in the RFPs to date. We agree that this option should be explored in the spirit of providing additional flexibility to bidders. However, allowing ATC bids will increase the complexity of bid evaluation. The complexity with allowing bidders to bid on monthly, combination and annual ATC products in addition to monthly, combination and annual on and off peak products is that having more products significantly increases the number of permutations that could form part of the least cost solution. The evaluation models would need to be sophisticated enough to be able to run through these permutations in a matter of hours. Prior to implementing this change, we need to ensure that the evaluation can be completed in such a time that the procurement administrator and procurement monitor’s reports to the Commission can still be submitted within one day of receiving bids, as has become expected. We note that an annual ATC product was solicited in the 2008 Ameren energy RFP. In addition to the ATC product, that RFP solicited 5 combinations of monthly peak products. Evaluating bids in that RFP was simple because all that had to be done was to select the lowest priced bids from each of the six products.

## III. COMMENTS ABOUT THE REC RFPs

**Unsecured credit for REC RFPs:** NERA recommends that consideration be given to removing unsecured credit from the REC Master Agreement. This is based on the observation that the unsecured credit line will not be utilized by ComEd winners this year; yet providing for the possibility of unsecured credit complicates the application process. The reason that unsecured credit will not be utilized this year is that ComEd requires that a winner post the first \$500,000 of collateral in either cash or letter of credit. The unsecured credit line covers collateral requirements that are greater than \$500,000 and up to \$2.5 million for those winners with a credit

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<sup>1</sup> *Public Notice of Informal Hearing (Request for Comments) Concerning the Spring 2011 Electric Procurement Events Which Were Held On Behalf of Commonwealth Edison Company and Ameren Illinois Company*, Issued 6/1/2011.

rating of BBB- and above. The resulting REC prices this year averaged \$0.95/MWh for ComEd and meant that the collateral requirements for bidders were significantly less than the \$500,000 threshold. In fact, even if the value of all winning contracts is aggregated, the collateral requirement would be below the \$500,000 threshold. That is, the total contract value for ComEd was about \$2,000,000, which results in a collateral requirement of about \$200,000 (defined as 10% of the contract value).

While we agree with NERA that this year's low REC prices meant that the unsecured credit will not be utilized for ComEd's winners, we recommend that it be kept for future procurements. The main reason is that starting next year the REC priorities and preferences defined in the Act will change significantly with the introduction of a solar target. We expect solar RECs to be priced significantly higher than wind RECs, and thus, make the unsecured credit line applicable in the upcoming years. For background, legislation<sup>2</sup> was passed last year that specifies a solar renewable energy target of 6% for 2015, and further instructs that there be a "ramp up" period between 2012 and 2015, beginning with a target of 0.5% in 2012. The solar target was first applied in last year's RFPs for long-term renewable energy. We also recommend keeping the unsecured credit provisions because the contract values may increase in the future given that the Act requires that greater quantities of RECs be purchased each successive year and that there is no guarantee that REC prices will remain as low as they were this year.

Further, we note that while both utilities provide unsecured credit, they differ in the structure in which it is offered. Ameren does not ask winners to post an initial collateral requirement of \$500,000. Instead, it offered \$2 million of unsecured credit to bidders with credit ratings of BB+, and \$5 million to bidders with credit ratings of BBB- and above. Consideration should be given to further harmonizing the structure of unsecured credit between both utilities for future procurement events.

**Single REC procurement:** Constellation comments that given the nature of the product, there should be a single REC RFP procurement process for both utilities. This was addressed at great length in the 2010 procurement process. At the time, there was a difference of interpretation of the Commission's requirements in the Order to either a) conduct the REC procurements as two separate RFPs held on the same day, or b) conduct a single combined REC RFP in which bidders bid RECs that could be selected in either utility's winning pool. In the end, the IPA chose to implement the former. We see the following benefits in holding a single combined REC RFP: a) single application process for REC bidders, b) the need for a single pre-bid letter of credit to participate in the RFP (this year a separate letter of credit was required for each REC RFP), c) further harmonization on standard contracts, and d) bidders would not have

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<sup>2</sup> Illinois House Bill 6202, signed into law on August 17, 2010, Amending Public Act 096-1437

to decide the quantities of RECs to be bid with each utility--the optimal allocation of bids would be automatically determined. There are two main challenges to having a single REC RFP: a) the process by which RECs are allocated between Ameren and ComEd may be complex, although our expectation is that all parties can agree to a process that can be implemented within the required timeframe, b) any remaining differences in the REC contracts between Ameren and ComEd would need to be harmonized to ensure that bidders are indifferent if their RECs are selected in either utility's winning pool.

#### **IV. COMMENTS ABOUT APPLICATION PROCESS AND CONTRACTS**

**Simplification of bidder application process:** There were several comments made on ways to simplify the bidder application process. We found these to be constructive, and highlight the following three that should be considered for next year's process:

First, NERA recommends that consideration be given to continuing with a single application process for both the ComEd energy and REC RFPs, as was done this year. NERA indicates that this avoided the need for bidders common to both RFPs to submit duplicative materials, as was required in the past. We agree with the concept of having a single application process. In addition to conducting a single application process, this year NERA set a common schedule for issuance of draft and final RFP documents for both RFPs. We would also agree to have a common schedule next year, but strongly suggest that the schedule provide more time than was given this year for bidders to review these documents and provide their comments. More time should also be given to the procurement administrator, staff, utilities and the procurement monitor for the review of contracts, RFPs, and bidder comments to the contracts. This can be done if, as we suggested in our initial comments, the procurement process starts in the January or February timeframe.

Second, if bid days are to be held in close proximity to each other, as they were this year, the application process could be further simplified by giving bidders an option to submit a single pre-bid letter of credit that can be used for several RFPs. We suggested this in our initial comments.

Third, additional flexibility can be provided by adopting Constellation's suggestion to allow a secondary signatory for ComEd's procurements. Constellation asks for this flexibility given the number of forms to be signed at different times throughout the procurement process. Constellation indicates that this is already allowed under Ameren's rules.

**Use one agreement across multiple products and multiple years:** Constellation comments that there should only be one master agreement, containing separate confirmations for each product. We believe that this concept could be easier to implement for Ameren's energy and capacity contracts, since both are based on the Edison Electric Institute (EEI) Master Purchase and Sale Agreement. However, combining the REC and energy agreements is more difficult since they are based on different standard contracts. The REC RFPs use the Master Renewable Energy Certificate Purchase and Sale Agreement, which includes many terms and definitions that are only applicable to the purchase of RECs. Furthermore, having a single combined contract would make the contracts more complex for those bidders who do not participate in RFPs for more than one product.

Constellation also comments that the master agreement should be used for procurements in multiple years, updating as necessary through the amendments during the annual comment process. The difficulty that we see with this suggestion is that a contract holder from a previous year may find it unfair if the contract terms are changed because of changes made during a future procurement process. This is because at the time they bid, they did so based on an assessment of the contract terms they had at hand.

## **V. OTHER COMMENTS**

**Full requirements vs. block products:** Constellation comments that the IPA should conduct future procurement events that rely upon the use of full requirements products. Constellation indicates that full requirement procurements would result in lower risk to consumers than the purchase of separate block products. Boston Pacific agrees with the general concept being presented by Constellation that one of the benefits of full requirement procurements is that risks are shifted from ratepayers onto the full requirements providers. We have commented before on the importance of understanding the full costs of providing full requirements service to Ameren and ComEd customers. Quantifying these costs will provide a sense of the magnitude of the additional costs that consumers have historically incurred in addition to the costs that have resulted from the RFP purchases. This data can be used as an input to assess the merits of full requirements vs. block products procurements. For example, if the added cost to provide full requirements service in real time on top of block products, has been historically high, it may be worthwhile to consider the implementation of a full-requirements procurement process in which those risks and costs are assumed by suppliers. An analysis could be performed in which benchmarks for full requirements are created for the 2008 through 2011 procurement periods. These benchmarks would then be compared to the actual costs incurred by the utilities for those years. In developing the benchmarks, a risk premium would be estimated for the risk that suppliers bear when providing full-requirements products.

Calculating the full costs of providing full requirements service to Ameren and ComEd customers would include the costs currently incurred to purchase spot energy supplies due to deviations of load from forecasts and load shaping. As background, one of the major cost differences between full requirements supply and block energy is the cost of matching up supply with actual load, a process called load-shaping. Winning prices in RFPs for block energy products tend to be below what the utilities actually end up paying for energy, while that is not the case for the full-requirements products. Energy demand fluctuates day-to-day and within days, so a block of energy at a constant number of MW will need to be supplemented with market purchases and sales to match output with demand. These market interactions will tend to raise the price of electricity. This follows from a simple line of reasoning about matching supply to demand. The block energy solicited in these RFPs is an estimate of average demand for a month. When demand is higher than this average, as it will be at some point in a month, and the utility must go to the market to purchase additional energy, prices will tend to be high because less efficient units will have to be switched on to meet this higher demand. When demand is lower than this average, and the utility must sell energy in the market, prices will tend to be low because only the more efficient units will be needed to meet this lower level of demand. Thus, load-shaping block energy products tends to cause utilities to buy high and sell low, increasing costs above the price of block energy.

Understanding the full costs in Illinois would also make possible comparisons between Illinois and other jurisdictions. We note that many other states have chosen to implement full requirements procurements. That is the case of the District of Columbia, Maryland, New Jersey, Ohio, and Allegheny Power in Pennsylvania. Boston Pacific is the procurement monitor for the annual full requirements auctions held in these states.