

**INITIAL COMMENTS
ON THE SUMMER 2015 THROUGH SPRING 2016
ELECTRIC PROCUREMENT EVENTS
PURSUANT TO SECTION 16-111.5(o) OF THE ILLINOIS PUBLIC UTILITIES ACT**

PRESENTED TO

THE ILLINOIS COMMERCE COMMISSION

By

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I. INTRODUCTION AND SUMMARY OF TOPICS

Boston Pacific Company, Inc. (“Boston Pacific”) appreciates the opportunity to submit these comments in response to the Illinois Commerce Commission’s (the “Commission’s”) May 23, 2016 “Public Notice of Information Hearing (Request for Comments) Concerning Electric Procurement Events Which Were Held on Behalf of Ameren, ComEd, and MidAmerican between Summer 2015 and Spring 2016” (“Request for Comments”). Boston Pacific served the Commission as its Procurement Monitor for all thirteen electric procurement events,¹ as we have since 2006.²

Mostly, the Illinois procurement process for electricity products is working well and to the benefit of Illinois ratepayers. In these comments, we discuss certain aspects of the process, both those that are working particularly well and others that could be improved.

First, we provide a summary of the results of the procurement events held between summer 2015 and spring 2016 (Section II). Second, we compare and contrast the participation in and results of the distributed generation and distributed solar (“SPV”) procurements, and provide recommendations to help boost participation in future distributed generation procurements (Section III). Third, we explain and quantify the impact of the legislative preference for in-state and adjoining state renewable energy resources (Section IV). Fourth, we discuss the risk of bidder error, which is inherent in the procurement process, and why we do not recommend any major changes to address that risk (Section V). Fifth, and finally, we conclude with a preview of the procurements likely to occur in 2017 (Section VI).

¹ We include a discussion of the two SPV RFPs held during this time frame. We have done so because we use the SPV RFPs as a point of comparison for the distributed generation RFPs in Section III.

² In addition to Illinois, Boston Pacific has served or is serving as monitor for (a) New Jersey’s 2007 through 2016 Basic Generation Service (BGS) Auctions, (b) the 2004-2005 through 2015-2016 Standard Offer Service (SOS) Request for Proposals (RFPs) for the District of Columbia, (c) Delaware’s 2007 through 2010 SOS RFPs, (d) Maryland’s SOS RFPs in 2004 through 2006 and 2010 through 2016 for all four utilities, (e) Allegheny (now West Penn) Power’s 2009 RFP for full requirements supply in Pennsylvania, (f) First Energy Ohio’s 2009 through 2016 Auctions for its Ohio Standard Service Offer (SSO) load, (g) Duke Ohio’s 2011 through 2016 Auctions for its SSO load, (h) Dayton Power & Light’s 2013 to 2015 Auctions for its SSO load and (i) AEP Ohio’s 2014 through 2016 Auctions for its SSO load.

II. SUMMARY OF RFP RESULTS

We begin with a brief summary of the results of the procurement events held between summer 2015 and spring 2016.³ There were thirteen procurement events held between summer 2015 and spring 2016 as shown below in Figure 1.⁴ Each procurement was held in accordance with Commission Orders. Below, we provide brief summaries of each procurement.

Figure 1
Electric Procurement Events Held Between Summer 2015 and Spring 2016

Date	Buyer	Product
Fall 2015	Ameren	Capacity
Fall 2015	Ameren	Energy
Fall 2015	ComEd	Energy
Fall 2015	ComEd	Distributed Generation
Fall 2015	Ameren	Distributed Generation
Fall 2015	IPA	SPV
Spring 2016	IPA	SPV
Spring 2016	Ameren	Energy
Spring 2016	ComEd	Energy
Spring 2016	MidAmerican	Energy
Spring 2016	Ameren	RECs
Spring 2016	ComEd	RECs
Spring 2016	MidAmerican	RECs

A. Fall 2015 Capacity RFP

In September 2015, Ameren procured 50 percent of its forecasted capacity need for the period beginning June 1, 2016 through May 31, 2017. Specifically, Ameren solicited “zonal resource credits” (“ZRCs”), where one ZRC equals one MW of unforced capacity. The RFP

³ The information in this section is publically available. For each of these procurements, we provided the Commission with a detailed, confidential report summarizing the results and our analysis of the competitiveness of the procurements.

⁴ The schedule of electric procurements is determined in advance by the Illinois Power Agency (“IPA”) and approved by the Commission. The IPA Plan for 2015 was accepted by the Commission in an Order dated December 17, 2014 issued in Docket No. 14-0588 (“December 2014 Order”); the IPA Plan for 2016 was accepted by the Commission in an Order dated December 16, 2015 issued in Docket No. 15-0541 (“December 2015 Order”). The Supplemental Photovoltaic Procurement Plan was approved by the Commission on January 21, 2015, issued in Docket No. 14-0651.

successfully procured all of the ZRCs solicited. The average winning price was \$138.12/MW-day, and the total value of the contracts signed as a result of the RFP was roughly \$52 million. As required, all winning bids were priced below the calculated benchmark values. The Commission approved the results of the RFPs on September 16, 2015.⁵

B. Fall 2015 Energy RFPs

The Ameren and ComEd fall 2015 RFPs solicited energy to meet all or part of each utility's remaining forecasted need for the three service years from November 1, 2015 through May 31, 2018. Energy contracts were procured in 25 MW blocks for each month in peak and off-peak segments. The energy is to be physically delivered to the utilities' respective load zones. The RFPs successfully procured 100 percent of the utilities' solicited amounts.

The overall load-weighted average winning price for Ameren energy was \$31.89/MWh; for ComEd it was \$33.03/MWh.⁶ The total value of the contracts signed as a result of the RFPs was about \$83 million for Ameren and \$336 million for ComEd. As required, all winning bids were priced below calculated benchmark values. The Commission approved the results of the RFPs on September 16, 2015.⁷

C. Fall 2015 Distributed Generation REC RFPs

In October, Ameren and ComEd solicited RECs from distributed generation resources to meet their required targets for the June 2015 through May 2016 period. Specifically, Ameren and ComEd solicited RECs from generating devices from a variety of technologies located on the customer side of the meter and interconnected at the distribution system level. These were for five year contracts from systems located in Illinois.

The RFPs procured just 14.7 percent of the annual solicited distributed generation RECs and saw only one winner.⁸ The average price per REC was \$116.65. As required, all winning

⁵ Illinois Commerce Commission, "Public Notice of Successful Bidders and Average Prices, Illinois Power Agency, September 2015 Procurement of MISO Zonal Resource Credits," September 16, 2015.

⁶ Because Ameren sought proportionally more blocks in some months than ComEd, and vice versa, it is difficult to draw direct comparisons between these prices. Additionally, these numbers are derived from public information and rounded.

⁷ Illinois Commerce Commission, "Public Notice of Successful Bidders and Average Prices, Illinois Power Agency September 2015 Procurement of Standard Energy Blocks," September 16, 2015.

⁸ The 14.7 percent was calculated by taking the DG RECs already procured in Ameren and ComEd's load forecast filed in April 2016 divided by the total number solicited in the fall 2015 DG RFP.

bids were priced below the calculated benchmark values. The Commission approved the results of the RFPs on October 14, 2015.⁹

D. Fall 2015 SPV RFP

In November, the IPA held a procurement pursuant to its Supplemental Photovoltaic (“SPV”) plan. The procurement sought solar RECs from new solar distributed generation resources no larger than 2 MW. Contract terms were five years in length.

Eleven bidders won the right to supply in total 70,096 solar RECs, with 36 percent of those solar RECs coming from solar distributed generation resources between 500 kW and 2 MW in size, 41 percent coming from resources between 25 kW and 500 kW, and 23 percent coming from resources smaller than 25kW. The average winning price for all solar RECs was \$142.66 and the total expenditure on the procurement was \$10 million, the maximum allowed to be spent on this RFP. As required, all winning bids were priced below the calculated benchmark values. The Commission approved the results of the RFPs on November 18, 2015.¹⁰

E. Spring 2016 SPV RFP

The IPA held another SPV procurement in March 2016. Again, the procurement sought solar RECs from new solar generation resources no larger than 2 MW. Contract terms were five years in length.

Eight bidders won the right to supply in total 91,770 solar RECs, with 46 percent of those solar RECs coming from solar generation resources between 500 kW and 2 MW in size, six percent coming from resources between 25 kW and 500 kW, and 48 percent coming from resources smaller than 25 kW. The average winning price for all solar RECs was \$163.45 and the total expenditure on the procurement was \$15 million, again hitting the budget cap. As required, all winning bids were priced below calculated benchmark values. The Commission approved the results of the RFPs on April 4, 2016.¹¹

⁹ Illinois Commerce Commission, “Public Notice of Successful Bidders and Average Prices, Illinois Power Agency October 2015 Procurement of Renewable Energy Credits Derived from Distributed Renewable Energy Generation Devices,” October 14, 2015.

¹⁰ Illinois Commerce Commission, “Public Notice of Successful Bidders and Average Prices, Illinois Power Agency Supplemental Photovoltaic Procurement Plan November 2015 Procurement of Solar Renewable Energy Credits,” November 18, 2015.

¹¹ Illinois Commerce Commission, “Public Notice of Successful Bidders and Average Prices, Illinois Power Agency Supplemental Photovoltaic Procurement Plan March 2016 Procurement of Solar Renewable Energy Credits,” April 4, 2016.

F. Spring 2016 Energy RFPs

The spring 2016 RFPs solicited energy to meet all or part of Ameren's and ComEd's remaining forecasted need for the three service years from June 1, 2016 through May 31, 2019. For MidAmerican, standard energy blocks were solicited to meet all or part of its remaining need for the one-year period from June 2016 through May 2017. Energy contracts were procured in 25 MW blocks for each month in peak and off-peak segments. The energy is to be physically delivered to the utilities' respective load zones. The RFPs successfully procured all of Ameren's and ComEd's stated energy need.¹²

The overall load-weighted average winning energy prices were \$29.23/MWh for Ameren and \$29.83/MWh¹³ for ComEd. The total value of the contracts signed as a result of the RFPs was about \$106 million for Ameren and \$383 million for ComEd. As required, all winning bids were priced below calculated benchmark values. The Commission approved the results of the RFPs on April 29, 2016.¹⁴

While MidAmerican's winning bids were below the benchmark and approved by the Commission, the amount of load procured for MidAmerican is not public because there were only two winners. Winning prices ranged from a low of \$9.67/MWh for the September 2016 off-peak product up to \$36.70/MWh for the August 2016 on-peak product.

G. Spring 2016 REC RFPs

In May, three RFPs were held to procure RECs on behalf of Ameren, ComEd, and MidAmerican for the June 2016 to May 2017 delivery year. Ameren and ComEd solicited solar RECs only; MidAmerican solicited RECs from solar, wind, and other qualifying renewable generation.

Ameren successfully procured its targeted 33,271 solar RECs and ComEd successfully procured its targeted 67,952 solar RECs. As required, no winning bid was higher than the approved benchmark, and the impacts of the total REC purchases on rates for each utility were

¹² It is not public how much of MidAmerican's solicited need was actually filled.

¹³ Because Ameren sought proportionally more blocks in some months than ComEd, and vice versa, it is difficult to draw direct comparisons between these prices.

¹⁴ Illinois Commerce Commission, "Public Notice of Successful Bidders and Average Prices, Illinois Power Agency Spring 2016 Procurement of Standard Energy Blocks," April 29, 2016.

below a pre-determined threshold set by law. The total value of the RECs purchased was \$1,037,944 for Ameren and \$2,304,903 for ComEd.¹⁵

For Ameren, the average winning price per solar REC was \$31.20, and 23.6 percent of winning bids were from Illinois or Adjoining States. For ComEd, the average winning price was \$33.92 per solar REC, with about 29.2 percent of winning bids coming from Illinois or Adjoining States. For MidAmerican, the average winning price for wind RECs was \$3.16, while for solar RECs it was \$27.61. All of MidAmerican's wind RECs came from Illinois or Adjoining States, while all the solar RECs came from other states. The Commission approved the results of the RFPs on May 10, 2016.¹⁶

H. Boston Pacific's Reports and Recommendations on All Thirteen Procurements

Following each of the thirteen procurements held between summer 2015 and spring 2016, Boston Pacific provided a confidential report to the Commission that presented the procurement results and assessed bidder behavior and compliance with the rules. In each case, we recommended the Commission approve the results. We did so for several reasons, including: (a) the RFP processes were open, fair, and transparent, (b) the procurement events were run in accordance with the requirements of the Acts and Commission-approved rules, (c) the benchmarks were properly calculated and applied to the bids, and (d) we did not identify concerns with the actions of any affiliates of Ameren, ComEd, or MidAmerican.

¹⁵ MidAmerican's total contract value was not provided publically because there was only one winning supplier.

¹⁶ Illinois Commerce Commission, "Public Notice of Successful Bidders and Average Prices, Illinois Power Agency Spring 2016 Procurement of Renewable Energy Credits for Ameren Illinois Company, Commonwealth Edison Company and MidAmerican Energy Company," May 10, 2016.

III. ANALYSIS OF DISTRIBUTED GENERATION, SPV RFPs

In the past year, the IPA and the Illinois utilities each held procurements to purchase RECs from distributed generation resources. The Supplemental Photovoltaic, or SPV RFPs seemed to attract significantly more interest among potential bidders than the Distributed Generation, or DG RFP. In this section we review the public results of the RFPs and discuss possible reasons for the disparity. We then suggest some changes to the DG RFP which we believe could increase participation.

A. RFP Results

The first SPV RFP was held in June of 2015. Subsequent SPV procurements were held in November 2015 and March 2016. The first DG RFP was held in October 2015.¹⁷ These procurements all sought commitments to supply RECs from distributed generation resources over a five-year period. A distributed generation resource is defined as a resource that is located on the customer side of the meter, installed by qualified persons and interconnected at the distribution level of an electric utility, an alternative retail electric supplier, a municipal utility or a rural electric cooperative in Illinois. The SPV RFP was open only to solar PV resources, whereas the DG RFP was open to several other technology types as well.

While much of the data on these procurements remains confidential, there are a few metrics we can cite to illustrate the disparity in participation between the two RFPs. The first metric is the number of winning bidders. The three SPV RFPs saw between seven and eleven winning bidders each, while the DG RFP had just one winning bidder.

Another metric is the quantity of RECs acquired. The three SPV RFPs procured roughly 55,000 to 91,000 RECs each, or about 11,000 to 18,000 RECs per year over the five-year contract period. It's also worth noting that each of the three SPV RFPs exhausted their procurement budgets (which ranged from \$5 to \$15 million) meaning that more RECs may have been offered.

In contrast, the DG RFP had a procurement target of 19,172 RECs per year for both ComEd and Ameren. The total DG RECs procured were not publically announced when the RFP concluded, but ComEd's recent load forecast filing, conducted after the DG RFP, shows a total of 1,936 DG RECs being supplied annually for the next four years. Ameren's recent load forecast filing did not separate out DG RECs but a comparison with past filings shows an

¹⁷ A second DG RFP was held June 23, 2016. Given the close proximity of this date with the filing date of our comments here, we have limited our discussion to the October 2015 DG RFP.

increase of just 954 RECs per year in the same time period.¹⁸ Combined, this implies a total procurement of just 2,890 RECs per year despite the fact that the DG RFP had a budget of about \$13 million.

B. Possible Drivers of Participation

In searching for reasons why the DG RFP failed to attract more bidders we turn our observations to existing differences between the RFPs. The first major difference was the minimum quantities that a bidder had to provide. In the SPV RFP the minimum offer was 500 RECs. In contrast the DG RFP had a much higher minimum offer. Bidders had to offer at least 1 MW of generating capacity. Assuming all systems offered were solar PV, which carried a capacity factor of 14.38 percent, this works out to a total offer of 6,298 RECs, over ten times the minimum offer in the SPV RFP.¹⁹ All else equal, this would tend to encourage smaller suppliers to offer in the SPV RFP.

A second difference was that the SPV RFP allowed bidders to offer a speculative “forecast” of RECs for supply from smaller (i.e., 25 kW or less) systems. In other words, a bidder could pledge that they would deliver a certain quantity of RECs without identifying the systems from which the RECs would come. Bidders had six months to then identify the systems that would deliver the RECs. This, again, was helpful for smaller suppliers. Across the three SPV RFPs, about 79,000 RECs were acquired from systems smaller than 25 kW and about 63,000 of those RECs were “forecast” RECs.

A third difference between the two RFPs had to do with the timeframes for REC delivery. There are two points worth noting. First, SPV RFP bidders had 12 months to construct and energize identified systems. For “forecast” RECs, bidders had an additional six months to identify the system that would provide RECs. For the DG RFP, bidders had to deliver at least one REC from each system by June 2016, meaning the system had to be generating power prior to that time. Recall that the DG RFP occurred in October 2015.²⁰ Second, the SPV contract had a flexible five-year delivery period which started whenever the system began delivering RECs, whereas the DG contract had a fixed delivery period of June 2015 to May 2020 – meaning that the developer might only get four full years of cost certainty from the contract if they did not come online until the end of May of 2016.

¹⁸ Specifically, we can compare Ameren’s load forecast filing with the annual count of previously acquired RECs in the ICC’s December 2014 Order approving the IPA Procurement plan.

¹⁹ $1 \text{ MW} * 8760 \text{ Hr/Yr} * 5 \text{ Yrs} * 0.1438 = 6,298 \text{ RECs}$

²⁰ The June 2016 RFP relaxed this requirement by requiring that only power had to start flowing prior to June 2017. Additionally, the June 2016 RFP was a few months earlier in the year, allowing bidders a few more months to get their systems online.

A fourth difference had to do with the default provisions in each contract and the contract structure. Each SPV contract was system-specific, so a failure to deliver from a specific system was a default on that contract, which would result in the forfeiture of performance assurance or a payment of no more than \$8 per REC times the total number of RECs to be provided under the contract. The DG RFP contract was for delivery from a portfolio of resources. While this allowed the DG suppliers some flexibility – providing additional RECs from a working system to make up for another system’s failure, for example – the DG REC contract also specified that total deliveries of less than 80 percent of the promised annual quantity would be a default of the contract. In other words, if enough systems did not produce as promised the bidder would lose the entire contract and be subject to damage claims. Moreover, the DG RFP contract required the calculation of a termination settlement amount in a “commercially reasonable manner” which, depending on market conditions, could end up being far more expensive than the \$8/REC charged under the SPV RFP.

A fifth difference was the amount of collateral required in each RFP to participate. For the SPV RFP, bidders had to provide credit in the amount of \$4/REC for identified systems and \$8/REC for forecast quantities. If a bidder won the right to provide RECs, those amounts would double. For the DG RFP, bidders had two credit requirements. They had to provide \$8/REC in pre-bid credit (twice what the SPV RFP required for identified systems) to the IPA and, if their offer was accepted, also provide 10 percent of the contract value to the Illinois utilities. In addition, bidders had to provide a \$500 participation fee as well as a supplier fee of \$9 per REC paid by winning bidders around the time they sign their contracts.

To sum up, the terms of participation and contract for the SPV RFP were more bidder-friendly, enabling bidders to offer smaller groups of systems and even supply from systems yet to be identified. Moreover, the credit provisions and default and damage requirements of the SPV contract appear to be more favorable to bidders. Given these differences, it’s not surprising that the DG RFP saw lower levels of competition.

C. Changes for Consideration

In order to improve participation in the DG RFP it might make sense to change some provisions to more closely mirror the SPV RFP. While some requirements for the DG RFP are set by law – the 1 MW minimum bid, for example – there are other changes that potentially can be made.

We recommend consideration of the following:

- **Allow bidders to offer speculative RECs.** This, coupled with a grant of additional time to identify the source of the RECs (e.g., 6 months), could help to spur greater participation from smaller systems. As noted above, about 80 percent of the winning RECs from small system offered in the SPV RFP came from unidentified systems.
- **Reduce credit requirements and supplier fees.** Bidders have demonstrated that they are willing to abide by the credit terms of the SPV RFP, thus, we recommend altering the credit provisions in the DG contract to match the SPV RFP contract. We note that this will require some collaboration between the utilities and the IPA since both parties collect credit from DG bidders. To be clear, we would suggest that the overall credit burden on bidders match the SPV RFP. We would also recommend consideration of ways to reduce the cost of participation in DG RFPs. For example, winning DG bidders pay “supplier fees” for each REC they will supply. These supplier fees help cover the cost of the Procurement Administrator and are paid upfront; that is, seven business days after the results of the DG RFP are approved by the Commission. Rather than requiring winning bidders to pay that fee, perhaps the utilities could pay the fees directly to the IPA from their DG REC budget. This would reduce costs for bidders and should not impact the overall costs of the DG RFP.
- **Switch to unit-specific contracts.** We would recommend the use of unit-specific contracts as in the SPV RFP, if this does not conflict with the IPA Act. This would allow bidders to avoid a situation where an underperformance of the portfolio exposes them to a termination and a large damage payment and also price systems in an individual manner (as opposed to creating a blended price for the portfolio). Alternately, lower the performance threshold at which a default occurs and place a ceiling on damage payments similar to that used in the SPV RFP.
- **Ensure sufficient lead time for bidders to develop systems.** Consideration should be given to ensure sufficient time for bidders to develop systems, either by having the DG RFP earlier in the year (assuming a delivery start the following June) or by providing ways for bidders to extend the delivery start date.

In addition to these suggested actions, potential bidders should also be consulted to see what other changes could be made to the DG RFP to make it more appealing.

IV. REC RFPs: COST OF LOCATIONAL PREFERENCE

The Illinois Power Agency Act requires an evaluation process that prioritizes RECs generated in Illinois or Adjoining States²¹ over RECs generated in other states. That means if a higher-priced REC from Illinois or an Adjoining State is available, it is selected over a lower-priced REC from another state as long as (a) the higher-priced REC is below the benchmark price and (b) the substitution will not exceed the utility's remaining REC budget.²² Figure 2 below shows a map of Illinois and all Adjoining States.

Figure 2
Map of Illinois and Adjoining States



The Act's preference for Illinois and Adjoining State RECs impacts the results of the REC RFPs in two ways. First, the total amount spent on RECs by Illinois ratepayers was higher than it otherwise would have been without the Illinois and Adjoining State preference. This can be seen by looking at the results of the spring 2016 REC RFPs. For Ameren, the average winning price for Illinois and Adjoining State solar RECs was \$54.31, which was about 126 percent higher than the average winning price for Other State solar RECs (\$24.07/solar REC). For ComEd, the average winning price for Illinois and Adjoining State solar RECs was \$58.95, or 150 percent higher than the average winning price for Other State solar RECs (\$23.61/solar REC). In other words, Ameren and ComEd ratepayers paid a premium of \$30.24/solar REC and \$35.34/solar REC, respectively, for the Act's preference for Illinois and Adjoining State RECs. The locational preference had a similar impact in last year's REC procurements.²³

²¹ Adjoining states include Wisconsin, Iowa, Missouri, Kentucky, Indiana, and Michigan.

²² The budget is calculated by first taking the 2006-07 cost of energy times 2.015 percent to get a per-MWh allowed rate impact limit specified in the Illinois Power Agency Act. This number is then multiplied by the amount of energy used in the last fully completed service year (thus for 2016-17 it is based on the 2014-15 service year) to determine the budget.

²³ Craig R. Roach, Ph.D., Katherine Gottshall, Vincent Musco, "Initial Comments on the 2015 Electric Procurement Events Pursuant to Section 16-111.5(o) of the Illinois Public Utilities Act," Presented to the Illinois Commerce Commission by Boston Pacific Company, Inc., June 29, 2015.

Second, the preference could also provide bidders with the incentive to bid higher than they otherwise would if competition among Illinois and Adjoining States resources is not sufficiently robust. This is because the Illinois and Adjoining States preference limits competition by preventing Other State REC suppliers from competing with Illinois and Adjoining States REC suppliers.

Going forward, we note that the preference for Illinois and Adjoining State resources could continue to raise overall REC costs for Illinois ratepayers through these two forces.

V. MANAGING BIDDER ERRORS, BID COMPLEXITY IN ENERGY RFPs

In any procurement, there is always a possibility that a bidder will submit a bid that is incomplete or has an error, such as an incorrectly specified price or quantity. This risk is inherent in any procurement that requires bidders to submit a bid by a deadline. The Illinois procurements are no exception, and over the past few years we have seen occasional – albeit infrequent – bidder errors, especially in the energy RFPs. Our purpose in this section is to raise this issue for the Commission’s knowledge. However, we do not provide any recommended changes to the process to account for bidder error. Instead, we explain why some potential remedies to address bidder error are not advisable given the nature of bidder error and the specifics of the energy RFPs.

Since we began our work as the Commission’s Procurement Monitor in 2006, we have observed instances whereby bidders have failed to properly fill out bid sheets or have submitted bid sheets containing errors. This is particularly true in the energy RFPs, which use the most complex bid sheets. Procedurally, NERA calls bidders after receiving their bid to verify receipt and confirm the first and last number on each bid sheet, as well as confirming the letter of credit is sufficient and that their bid is conforming. It tends to be in this process that errors are found whether by NERA or by the bidder when reexamining their own bid sheet. If an error is found, as long as the deadline for submitting a bid has not passed, the bidder can resubmit its bid, correcting the error or omission. However, not all errors can be fixed in time, especially when a bidder submits its bid at or close to the deadline.

When bidder errors occur, there can be suboptimal results for both the bidder and the utility. A bidder that submits an incomplete bid sheet may be disqualified from the procurement, which reduces overall participation. If the bidder makes an error – say, by specifying the wrong price – the bidder may be harmed (e.g., if its bid price was erroneously lower than the bidder had meant to specify, meaning the bidder will have to supply the utility at a loss or forfeit pre-bid collateral if opting to not sign the contract) or the utility may be harmed (e.g., if the price was too high, meaning fewer economic bids from which to choose).

These negative consequences of bidder errors may deem it worthwhile to consider possible ameliorative remedies. One such remedy, for example, is to make the bid sheets less complex. This is particularly the case in the energy procurements, which have the most complex bid sheets and the most bidder errors. A second remedy is to introduce a “cure” period, which is a period of time that begins at the bid deadline and ends after some period of time (e.g., 30 minutes) whereby the Procurement Administrator may contact each bidder and confirm the specifics of the bids.

Unfortunately, both of these remedies have their limits and neither can eliminate the inherent risk of bidder error in any procurement. The energy procurement bid sheets are complex, but necessarily so, as bidders have the option of bidding on dozens of product combinations, including peak and off-peak products, as well as different month, season, and year combinations. To execute an energy procurement that maximizes efficiency and ratepayer savings, the bid sheets must retain their current functionality.²⁴

Regarding the introduction of a cure period to the energy procurements, that option is also of limited benefit and would introduce new risks. The volume of price-quantity data in the energy bid sheets is high, meaning a cure period to confirm all of the information in each bidder's bid sheets will take a considerable amount of time. It would also introduce risk onto the utilities and Procurement Administrator in the event that a bidder error is not discovered during the cure period, potentially allowing the bidder to challenge the results of the procurement.

It should be noted that the distributed generation procurements do offer a cure period for bidders. This does create a lack of consistency across the procurements, and a case could be made for standardizing the rules across all procurements. However, the distributed generation and energy procurements differ in key ways that make a cure period more appropriate in the case of the former. First, the distributed generation bidders are less experienced in the process than energy bidders, who in most cases have been participating for years in Illinois procurements and in many other states. Second, the distributed generation procurements are not impacted by short-term fluctuations in power and energy prices, and thus are not as time-sensitive as energy bids, which can be impacted by volatility in spot market pricing. Consequently, in an energy procurement, a bidder could use the cure period to abandon or revise its bids due to abrupt and significant changes in spot prices, while a distributed generation bidder would not have such an incentive.

For the reasons explained above, we do not recommend any changes to the procurement process to account for bidder errors in the energy RFPs.

²⁴ That said, we have developed some suggested improvements to the bid sheets themselves which may make the bidding process easier for bidders and thereby reduce the likelihood of bidder error in future RFPs. We do not make any specific suggested changes in our comments here. Instead, we will make our specific suggestions during future RFP proceedings. (The RFP process provides the Commission's Independent Monitor with an opportunity to provide comments on the RFP documents, including the bid sheets, in each RFP.)

VI. REMAINING 2016 PROCUREMENTS AND EXPECTATIONS FOR 2017 PROCUREMENTS

The number and type of procurements for electricity products in any one year can and has varied significantly. This variation is driven, in part, by the extent to which Ameren and ComEd have already procured electricity products relative to their forecasted needs and the addition of MidAmerican and SPV RFPs. Given this uncertainty, we thought it would be helpful to provide a look ahead at the remaining procurements to be held in 2016 and a preview of the number and type of RFPs we would expect in the next IPA Plan, a draft of which is expected to be issued in August and which will cover 2017.

A. Remaining 2016 Procurements

There are four remaining RFPs still to be held in 2016. They are: (1) Ameren fall energy RFP; (2) ComEd fall energy RFP; (3) MidAmerican fall energy RFP; and (4) Ameren capacity RFP. Unless there is a major decrease in load forecasts, which would reduce remaining needs, we do not expect a change in the number of RFPs in 2016.

B. Expectations for 2017 Procurements

This section looks at the number and type of RFPs we expect in the IPA's Plan for 2017. In total, we expect up to thirteen RFPs. We break down the expected procurements into five categories: (a) energy, (b) capacity, (c) RECs, (d) DG RECs, and (e) clean coal.²⁵

1. Energy

Assuming the IPA and Commission agree to maintain their recent approach to hold both spring and fall RFPs for energy for each utility, we would expect to see six total RFPs in 2017 for energy. They include: (1) Ameren spring, (2) ComEd spring, (3) MidAmerican spring, (4) Ameren fall, (5) ComEd fall, and (6) MidAmerican fall.

As shown in Figures 3 and 4 by the blue and orange bars, Ameren will have procured 50 percent of its forecasted energy need for 2017-2018 and 25 percent of its need for 2018-2019, prior to the 2017 energy RFPs. Assuming the IPA's 2017 Procurement Plan maintains a hedging strategy similar to the 2016 plan, we would expect to see Ameren procure all of its remaining

²⁵ There was a "backup" SPV procurement scheduled for 2017 if the \$30 million allocated to SPV procurements was not spent. However, given the full \$30 million was spent over the first three SPV procurements, we do not anticipate a fourth.

forecasted need for the 2017-2018 delivery year, enough to have contracts for half of its total forecasted need for the 2018-2019 deliver year, and enough to have contracts for one quarter of its total forecasted need for the 2019-2020 delivery year procured between the spring and fall 2017 RFPs. The portion of energy need expected to be procured across these two 2017 energy procurements for Ameren is shown by the white bars in Figures 3 and 4.

Figure 3
Portion of Projected Energy Need to be Procured for Ameren’s Peak in the 2017 RFPs

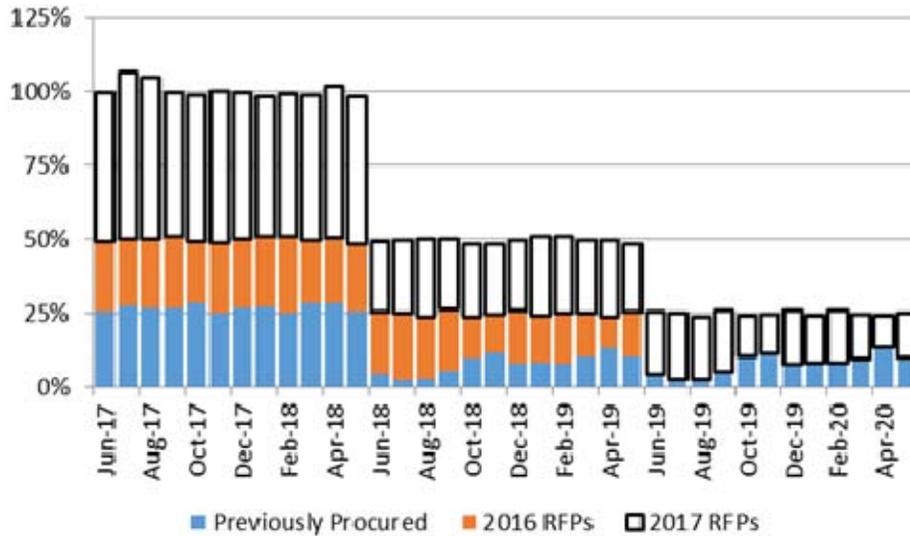
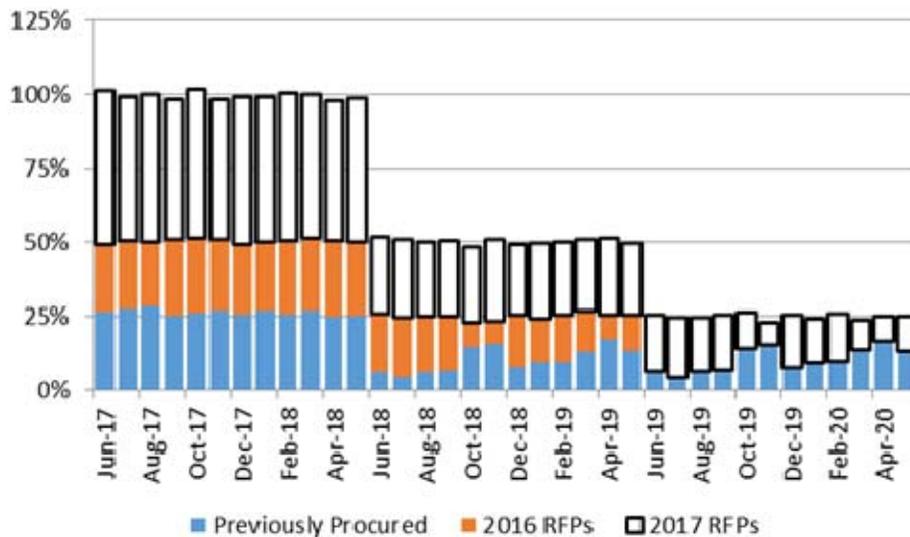


Figure 4
Portion of Projected Energy Need to be Procured for Ameren’s Off-Peak in the 2017 RFPs



We would expect to see a similar approach for ComEd, as shown in Figures 5 and 6. Again, the white bars in Figures 5 and 6 show the portion of the expected energy need to be procured in the 2017 energy procurements.

Figure 5
Portion of Projected Energy Need to be Procured for ComEd’s Peak in the 2017 RFPs

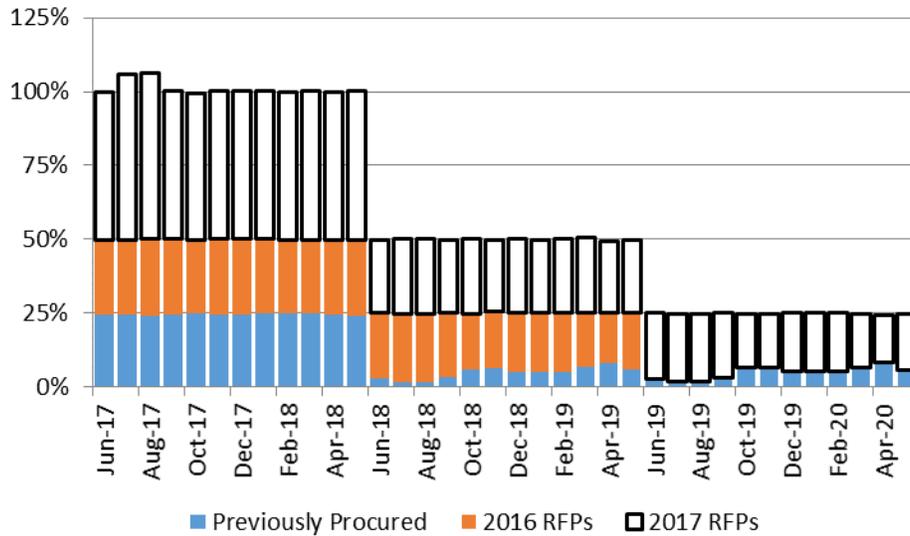
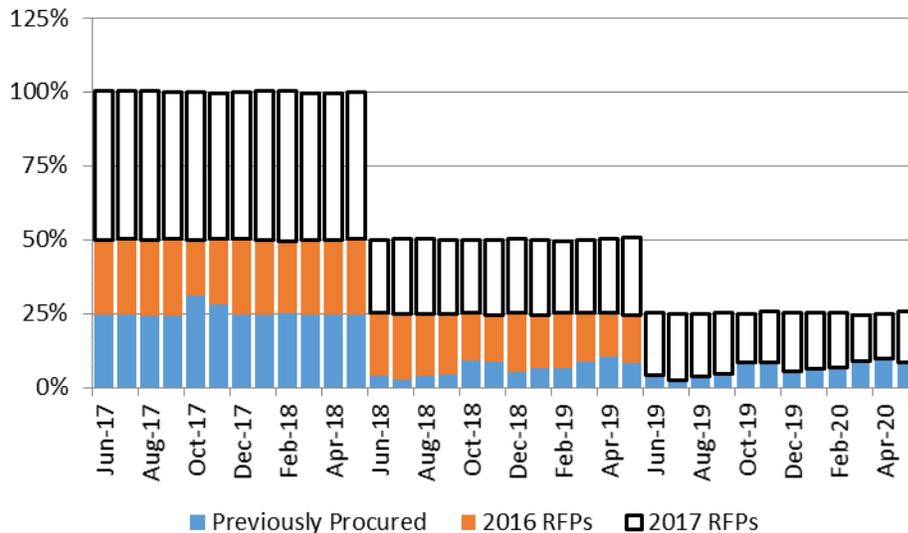


Figure 6
Portion of Projected Energy Need to be Procured for ComEd’s Off-Peak in the 2017 RFPs



For MidAmerican, we expect a similar approach to hedging; however, MidAmerican has already covered a substantial portion of its needs for the 2017-2020 period, making it less in

need of energy than Ameren or ComEd. For example, MidAmerican has already met least 50 percent of its forecasted need for the 2018-2019 service year and 25 percent of its forecasted need in 2019-2020. This obviates the need for energy procurements for those time periods. Thus, we expect MidAmerican to procure supply for only the 2017-2018 service year. Figures 7 and 8 illustrate the portion of supply already covered for the 2017-2020 period as well as what is anticipated to be procured in 2017-2018, indicated by the white bars.

Figure 7
Portion of Projected Energy Need to be Procured
for MidAmerican’s Peak in the 2017 RFPs

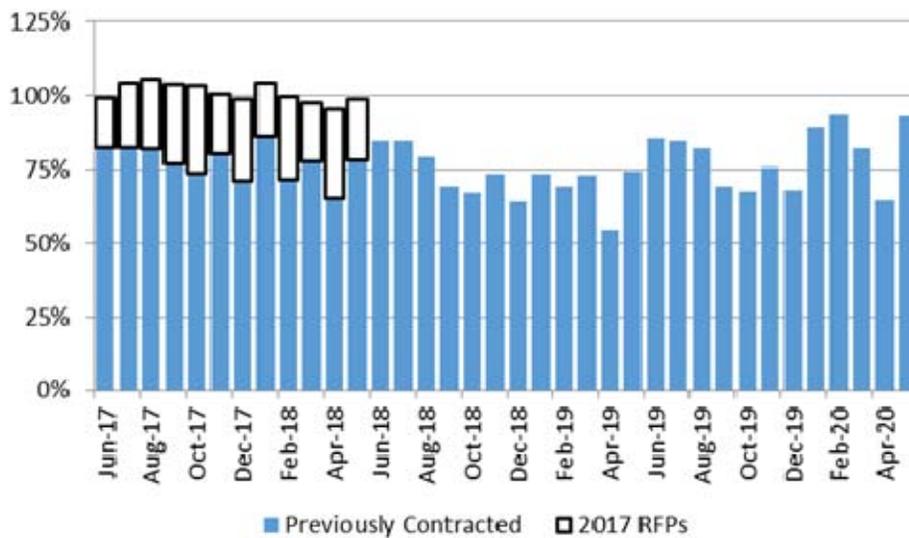
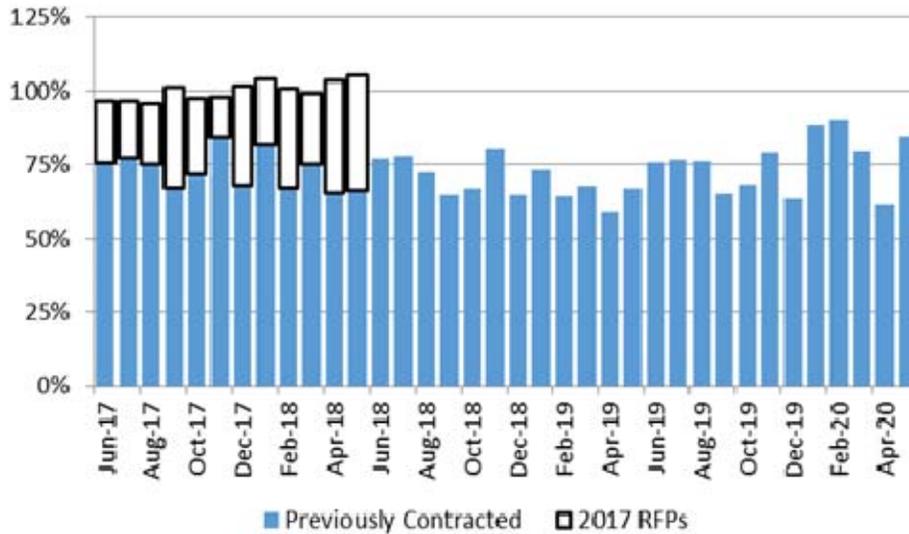


Figure 8
Portion of Projected Energy Need to be Procured
for MidAmerican’s Off-Peak in the 2017 RFPs



2. Capacity

Ameren and ComEd historically have taken different approaches to procuring capacity because they are in different RTOs. ComEd, as a PJM member, has procured 100 percent of its capacity through the Reliability Pricing Mechanism auction, which procures capacity three years in advance. This approach has successfully procured sufficient capacity for ComEd. To the extent that the IPA, the Commission, and ComEd are satisfied with this historical approach, we would expect ComEd to rely on PJM’s capacity market again, meaning ComEd would not require an RFP to procure its capacity.

The method for procuring Ameren’s capacity has changed from year to year. It has ranged from relying on a capacity RFP for 100 percent of its capacity needs to purchasing some or all of its capacity in the MISO capacity market, the Planning Resource Auction (“PRA”). One of the reasons for the changing approach to Ameren’s capacity needs is that the MISO capacity market, in particular the Ameren Zone, has seen significant price volatility over the last four years. This volatility is illustrated in Figure 9 below. Further, there has been uncertainty around the rules of the MISO PRA and whether they will change in a material way for future PRA auctions, especially for Ameren’s Zone. All of these factors make it difficult to provide credible expectations for the IPA Plan for Ameren’s capacity needs.

Figure 9
Recent MISO Capacity Market Results for Ameren Illinois Utilities

Capacity Market Auction Year	Ameren (MISO-Zone 4) Prices (\$/MW-day)
2013	\$1.05
2014	\$16.75
2015	\$150.00
2016	\$72.00

That said, for 2017, we note that the Commission’s December 2015 Order anticipates that 50 percent of Ameren’s capacity needs for the June 2018 - May 2019 period will be procured in a fall 2017 procurement. That is our best evidence that the IPA Plan will include a capacity procurement for Ameren. Moreover, if the IPA uses the same approach as it did in 2016, the fall 2017 Ameren capacity procurement will also procure 25 percent of the June 2019 to May 2020 capacity need.

Regardless of what the IPA Plan contains, **we recommend** that the IPA Plan include an Ameren capacity RFP to be held in the fall of 2017 which should solicit 50 percent of Ameren’s 2018-2019 need and 25 percent of its 2019-2020 need. However, our recommendation is conditioned on the inclusion of language that states that the IPA, ICC Staff, Procurement Monitor, Procurement Administrator, and Ameren collectively have the ability to cancel the procurement if the party believes it is in the best interest of the ratepayer.²⁶ The reason for our recommendation is that it allows the option of holding a capacity procurement in the fall of 2017 if it is in the ratepayers’ best interest, while allowing the flexibility to recognize the uncertainty and volatility of the MISO PRA. We think it is prudent to make the final decision on whether to hold the capacity RFP closer to the time of the RFP itself.

For MidAmerican, which held procurements for the first time in 2016, we would expect it to procure its capacity in MISO’s PRA, and, like ComEd, not have an RFP in 2017 for capacity. Our expectation is based on (a) the fact that this was the approach taken for MidAmerican in 2016 and (b) this is the approach anticipated by the Commission in its 2015 Order.²⁷

²⁶ The inclusion of such an option is not new in Illinois; the Commission approved a similar provision in its December 17, 2014 Order, pages 293-295.

²⁷ December 2015 Order, page 5.

3. RECs

We expect three RFPs for RECs held next year, one for each utility. This expectation is based on (a) the historical approach of procuring RECs one year in advance, (b) Ameren's need for mostly solar RECs in the 2017-2018 service year, (c) ComEd's need for all types of RECs in the 2017-2018 service year, (d) MidAmerican's need for all types of RECs in the 2017-2018 service year, and (e) the remaining budget from which the utilities may spend to meet their additional REC needs.

For Ameren specifically, its most recent load forecast filed in April 2016 shows that it needs 51,819 RECs for the 2017-2018 delivery year and 47,436 solar RECs.²⁸ Also according to its most recent forecast, \$2.5 million remains in its REC budget. Given Ameren's need for RECs, particularly solar RECs, plus the remaining budget, we would expect Ameren to have one RFP in 2017. We expect that this RFP will seek solar RECs and may seek up to 4,383 non-solar RECs, assuming the total RECs needed does not change.

ComEd, according to its load forecast filed in April 2016, needs 789,683 RECs in total and 109,688 solar RECs in 2017-2018.²⁹ ComEd also has money remaining in its REC budget – approximately \$18 million. Thus, we would anticipate a ComEd RFP for RECs, which would seek both solar and non-solar RECs.

We also anticipate a MidAmerican REC RFP. For MidAmerican, the number of RECs needed in the 2016-17 period was based on the number of MWh that MidAmerican anticipated procuring. Our understanding is that it is the same reference year that will be used to determine the 2017-18 REC procurement. Thus, if it is based on the same number of MWh, the number of RECs procured will increase about 13 percent as the renewable resources requirements increase from 11.5 percent of the MWh to 13 percent. Thus, we would anticipate roughly 73,600 RECs needed in total, with at least 55,200 RECs from wind and about 4,400 RECs from solar.³⁰

4. Distributed Generation

The Illinois RPS requires that Ameren, ComEd, and MidAmerican procure RECs from Distributed Generation resources, or DG-RECs, in an amount that totals at least one percent of its total REC requirement. As of now, Ameren, ComEd, and MidAmerican are forecasted to

²⁸ Ameren's shortfall targets do not include any DG-RECs procured in the June 23, 2016 RFP.

²⁹ We note that these numbers do not take into any DG-RECs procured in the June 23, 2016 RFP.

³⁰ MidAmerican's revised load forecast was not published. Thus, we used MidAmerican's current solicitation numbers and increased it from the 11.5 percent of RECs needed in 2016-17 to 13 percent in 2017-18.

have a shortfall of DG-RECs for 2017-18. Specifically, Ameren needs roughly 8,000 DG-RECs, ComEd needs roughly 21,000 DG-RECs, and MidAmerican needs roughly 740 DG RECs.³¹ Thus, we would expect each utility to have a DG RFP in 2017, and we recommend that those RFPs incorporate our suggested changes to the DG RFP process detailed in Section III above.

5. Clean Coal

The IPA Act contains a goal that cost-effective clean coal resources will account for 25 percent of the electricity used in Illinois by January 1, 2025.³² To date, Illinois has made significant efforts to promote clean coal within the state, including those related to the Taylorville Energy Center and FutureGen 2.0 projects; ultimately, neither of these projects was developed. Most recently, the IPA declined to adopt a proposal by Sargas, Inc. (“Sargas”) in the 2015 IPA Plan to conduct a competitive procurement for clean coal. Sargas had announced plans to develop a coal-fired power plant in Mattoon, Illinois, designed to burn coal with 90 percent post-combustion carbon capture, with captured carbon used for local enhanced oil recovery.³³ The Commission agreed with the IPA and rejected Sargas’ proposal to hold a competitive procurement for clean coal, stating that it “was not convinced that a proposal of the type presented by Sargas was contemplated by the Illinois General Assembly or is in the public interest.”³⁴

At this point, we are unaware of other Illinois clean coal proposals and, thus, we do not expect that the IPA Plan for 2017 will include a clean coal procurement.

³¹ This does not include the results of the June 23, 2016 DG RFP.

³² 20 ILCS 3855/1-75(d).

³³ December 2015 Order, 49 to 50.

³⁴ *Ibid.*, 50.