June 22, 2011

COMMENTS ON THE 2011 PROCUREMENT PROCESS PURSUANT TO SECTION 16-11.5(0) OF THE PUBLIC UTILITIES ACT

NERA

Economic Consulting

NERA Economic Consulting
1255 23rd Street NW
Washington, DC 20037
Tel: +1 202 466 3510
Fax: +1 202 466 3605
www.nera.com

Contents

I. Introduction

NERA Economic Consulting ("NERA") appreciates the opportunity to submit these comments in response to the Public Notice of Informal Hearings published by the Illinois Commerce Commission (the "Commission") with respect to the Spring 2011 electric procurement events held by the Illinois Power Agency ("IPA") on behalf of Commonwealth Edison Company ("ComEd") and Ameren Illinois Company ("Ameren").

NERA served as the Procurement Administrator for the IPA's ComEd Standard Products and renewable energy RFPs and as such offers comments only with respect to the IPA's ComEd RFPs. NERA's comments will be in general limited as NERA believes that the IPA's ComEd procurement events were conducted as specified in the Act and produced results that were approved by the Commission. Our comments outline several suggestions that could result in enhancements to the implementation of future procurement events.

II. Potential Enhancements

We offer four suggestions as to potential enhancements. These are as follows.

Standard Product RFP: Around the Clock ("ATC") products

We believe that consideration could be given to allowing bidders to submit bids on ATC products and combinations in the standard products RFP. NERA responded to a bidder question on this issue. The question implied that if it had been possible, the bidder would have bid on an ATC product rather than on on-peak and off-peak products separately.

In previous procurement events, NERA has worked with the Procurement Monitor to implement combination bidding so that bidders would have the option of bidding, for either on-peak or off-peak, on commonly traded combinations of months as well as individual months. It is not uncommon for bids on combinations to be part of the least cost portfolio of bids. It is possible that if ATC bidding is provided for, it will also prove useful as bidders will find ATC products more attractive and ATC products will work their way in the least cost portfolio and reduce costs for customers. NERA would recommend that ATC bids be permitted on the products and combinations that have been used in the RFPs to date. While the evaluation will be more complex with ATC bids, we would expect that it still could be conducted within the specified timeframe.

Standard Product RFP: Not Seeking Unsecured Credit

In the Master Agreement, a supplier chooses either to rely on its own financial standing or on that of a Guarantor. The supplier or the Guarantor is then eligible for unsecured credit under the terms of the Master Agreement and ComEd can request financial statements from that entity during the term of the Master Agreement.

There is no specific option that would allow the supplier not to apply for an unsecured line of credit (either on its own behalf or on behalf of a Guarantor). Suppliers that intend to use cash or a letter of credit for all security requirements under the Master Agreement and that do not maintain audited financial statements on a stand-alone basis cannot straightforwardly make such an election. Instead, such suppliers formally elect to rely on the financial standing of a Guarantor but then provide a Guaranty in the amount of zero. The supplier does not elect to rely on its own financial standing because ComEd could then request financial statements that it does not want to or cannot provide. The supplier names a Guarantor so that the Guarantor can provide such financial statements if requested. However, during the term of the Master Agreement, the Guaranty is not used to meet security requirements, which are met entirely through cash or a letter of credit. As cash or a letter of credit is acceptable security, ComEd has cooperated to enable these bidders to qualify by submitting financials from a Guarantor but not use the Guarantor during the term of the Master Agreement.

Nevertheless, this can cause confusion, creates a burden for bidders and consumes resources at critical times in the qualification process since an unsecured credit line is determined for all Guarantors, Guarantys that are not needed must be prepared, executed by Guarantors, and submitted by bidders. This would be avoided by permitting a third option (Option C in section 8.2b) allowing a supplier not to seek an unsecured line of credit. At the qualification stage, financial statements would not be required from such bidders as the sole purpose of the financial statements is to determine the amount of the line of credit. This would maintain and possibly increase bidder interest and simplify the processing of applications. While this issue is an implementation issue that would not necessarily be addressed in the IPA's Plan or Commission Order, it is discussed here in the context of the informal hearing to inform parties of our recommendation.

Both RFPs: Continuation of Single Application Process

In response to the Commission's Order in Docket No. 10-0563, NERA provided for a single application process for both the standard products and renewable energy RFPs, with bids submitted and evaluated during the same week. The process worked well and allowed bidders common to both processes not to provide duplicate information. NERA would recommend that the consolidation of the standard product and renewable energy qualification processes be continued as this was efficient and appeared to be appreciated by bidders.

REC RFP: Reconsideration of Providing Unsecured Credit

In the 2011 procurement NERA set forth a REC Master Agreement that provided unsecured credit to REC suppliers. Given the structure of the unsecured credit and the REC prices from winning bids, the unsecured credit line will not be utilized in practice. As the REC prices have declined to roughly $1/REC and the credit requirement has been reduced to 10% of the outstanding contract value, the aggregate amount of REC security required by ComEd from all bidders is just over $200,000. Providing for the possibility of unsecured credit to be granted to REC bidders or their Guarantors complicates the application process for bidders. NERA would recommend that consideration be given to removing unsecured credit from the REC Master Agreement if the amount of security required does not justify the complication.

NERA Economic Consulting
1255 23rd Street NW
Washington, DC 20037
Tel: +1 202 466 3510
Fax: +1 202 466 3605
www.nera.com