COMMENTS OF THE RETAIL ENERGY SUPPLY ASSOCIATION ON THE
ILLINOIS POWER AGENCY'S DRAFT 2012 POWER PROCUREMENT PLAN

I. INTRODUCTION

The Retail Energy Supply Association ("RESA") is a broad and diverse group of retail energy suppliers who share the common vision that competitive retail energy markets deliver a more efficient, customer-oriented outcome than a regulated utility structure. RESA is devoted to working with all stakeholders to promote vibrant and sustainable competitive retail energy markets for residential, commercial and industrial consumers. RESA was an active participant in Ill. C. C. Docket 10-0563, in which the Illinois Commerce Commission ("Commission") entered its order approving, with modifications, the 2011 procurement plan of the Illinois Power Agency ("IPA").[1] RESA appreciates the opportunity to file comments on the IPA's Draft 2010 Power Procurement Plan, dated August 15, 2011.

In these Comments, RESA will address the following three issues: 1) the IPA's continued use of a three-year laddered approach for the procurement of energy supply, as opposed to multiple procurement events, 2) the procurement plan for renewable resources, and 3) the timing of the procurement process.

[1] RESA's members include Champion Energy Services, LLC; ConEdison *Solutions*; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Energetix, Inc.; Energy Plus Holdings, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC); PPL EnergyPlus, LLC; Reliant; and TriEagle Energy, L.P.. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

II. MULTIPLE PROCUREMENT EVENTS

The IPA has apparently abandoned its own recommendation made in its initial procurement plan (filed in Ill. C. C. Docket 08-0519) that a move toward multiple procurement events would mitigate risks inherent in a single annual procurement event. The IPA, in its Initial Plan, stated:

> Another method to achieve lowest total cost and price stability is to increase the frequency of procurement events. The IPA believes that a single annual procurement event increases portfolio risk by relying on market timing and by increasing the potential for bidders to exercise market power. To mitigate these risks, the IPA recommends more frequent and smaller volume entries into the market by transitioning to multiple procurement cycles and, eventually to a continuous procurement cycle. (Initial Plan, p. ii).

The IPA reiterated this position later in its initial plan:

> A single annual procurement increases risk to the Portfolio because price risk is minimized by more frequent and smaller volume entries into the market. Additionally, single annual procurements increase the potential for bidders to exercise some level of market power depending on market conditions.
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> To mitigate these risks, the IPA recommends that procurement events occur more frequently than once per year. A likely method for managing such a schedule would be to migrate to multiple overlapping quarterly procurement cycles and eventually to implement a continuous procurement cycle. (*Id.*, p. 15)

However, despite that recommendation, the IPA's Initial Plan utilized a three-year laddered procurement approach with 35% of the projected energy needs procured two years in advance of the year of delivery, 35% of the projected energy needs procured one year in advance of delivery, and 30% of the projected energy needs procured in the year of delivery.

The 2012 Draft Plan again proposes the same three-year laddered approach utilized in its first three procurement plans. (2012 Draft Plan, pp. 22, 25) Moreover, the 2012 Draft Plan does not even mention, let alone recommend, multiple procurement events as a means to mitigate the risks inherent in its one-time procurement event approach, despite the fact that this was an issue in Ill. C. C. Docket 10-0563, the proceeding considering the adoption of the previous IPA procurement plan. [2] RESA believes that this is a serious shortcoming of the 2012 Draft Plan which should be remedied when the IPA submits its final Plan to the Illinois Commerce Commission on September 28, 2011.

There are many methods that can be used to implement a multiple procurement structure, including having the current once-a-year approach broken down into four phases, with potential bidders electing at the first phase which of the four procurements in which to take part. This would prevent the IPA from having to conduct the same participant application and screening process four times, thus needlessly adding to the IPA's administrative burdens. Obviously, other additional steps can be taken to reduce the additional burden caused by multiple procurement events, and those too should be considered.

The IPA should move toward multiple procurement cycles for the following reasons. Generally, utility default service procurement should result in market reflective price signals. Continued progress toward a competitive electric market is the best way to help all consumers balance price risk and budget certainty while also providing innovative and customer-driven value-added services. Successful retail competition will produce downward pressure on price, offer a variety of product options for end use customers, increase conservation incentives, enhance customer service, improve environmental management and hasten the introduction of new, innovative products. Retail energy competition requires that default service pricing be properly structured; consumers must see a default price for electricity that reflects the actual market price of the electricity they consume.

[2] In its final order in Docket 10-0563, the Commission noted that its Staff had offered to take the lead in developing the issue of multiple procurement events prior to the submission of the next procurement plan (the one being addressed in these comments). The Commission indicated that the parties were free to have discussions regarding this matter, but would not direct that they occur. (Order in Ill. C. C. Docket 10-0563, p. 106)

RESA recognizes that in addition to more frequent procurement events, there are other mechanisms that can be considered to make current default service more market reflective. For example, the current weighting[3] of the three-year blended contracts could be changed so that heavier weight is placed on the current energy year; or, rather than using three-year blended averages, shorter contract terms, such as 6, 12, and 18 month blended terms could be utilized.

Specifically, the failure of long-term procurement contracts to reflect current wholesale market prices creates inefficiencies in either direction. In the event that the company's procurement costs are higher than those available in the wholesale market, then customers are harmed by having to pay higher than market prices. In the event that wholesale market prices rise above the locked in utility costs, customers will receive incorrect price signals that distort the market and give rise to the following unintended harmful consequences: 1) a belief that energy is less expensive than reality, leading to potential over-consumption; 2) discouraging energy efficiency investment by under-valuing avoided costs; and, 3) the risk of rate shock as those contracts end. In all of these instances, customers will be harmed.

The use of more frequent procurement events would enable the procurement of shorter-term contracts which could be procured closer in time to actual delivery of the supply. The use of shorter term contracts procured closer in time to the date of delivery will enable customers to see a default price that better reflects prevailing market prices and will minimize long term contract hedging premiums that are associated with longer term contracts procured far in advance of delivery. Better price signals will spur more thoughtful efficiency investments, wise

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[3] 35% of projected energy needs procured two years in advance of the year of delivery.
35% of projected energy needs procured one year in advance of delivery.
30% of projected energy needs procured in the year in which power is to be delivered.

energy usage, and spur development of the competitive market. Better accuracy reduces customer costs over the long term. A major benefit of having default prices reflect the market is that consumers who are on those default rates will be sent clearer price signals that, in turn, will cause more efficient energy usage.

Under the IPA's current three-year laddered approach, the time period between procurement and delivery of energy is too great. RESA's approach would provide multiple forecasts and multiple procurement events that would achieve the significant benefits described above.

III. RENEWABLE ENERGY RESOURCES

RESA believes that the IPA should continue the approach it took in the 2011 Procurement Plan, approved in Ill. C. C. Docket 10-0563, with respect to the procurement of one-year renewable energy credits ("REC"). The Commission's order approved the IPA's proposal to include in the 2011 Plan the acquisition of only unbundled one-year RECs with no long-term renewable energy contracts. The Commission specifically found that the IPA's proposal met the requirement of Section 1-75 (c) (1) of the IPAA of including cost-effective renewable energy resources. (Order in Docket 10-0563, dated December 21, 2010, p. 83)

Average prices for REC's have dropped from $30, to $20, to $4.50 to approximately $1.00 in four years.[4] There appears to be a significant oversupply in the renewables market in Illinois. Moreover, with the Illinois preference dissolving, the over-saturated REC market should allow low compliance costs for the RPS throughout the medium term. This position is confirmed by the recent report submitted, pursuant to the requirements of Subsection 1-75 (c) of

[4] These prices were for wind RECs. While solar RECS are less plentiful and more expensive then wind RECS, the 2012 Draft Plan itself notes that the costs of solar RECs in other states appear to be dropping. (2012 Draft Plan, p. 49). Moreover, under the Illinois Power Agency Act, the carve-outs for solar renewable energy resources are only 0.5% by June 1, 2012 and 1.5% by June 1, 2013. (20 ILCS 3855 Section 1-75 (c) (1))

the IPAA, by the Commission to the Illinois General Assembly, the June 2012 Report to the Illinois General Assembly Concerning Spending Limits on Renewable Energy Resource Procurement, which concluded that renewable energy resource generating capacity has been on the rise (and renewable energy prices have been on the decline) and that the Commission finds that there are factors favoring the continued development of renewable energy resource generating capacity. (ICC Report, pp. ii; 20)

RESA believes that now is not the time to be making any long, or even medium, term procurement of renewable energy resources. In addition to the fact that one-year RECs are plentiful and inexpensive, there is great uncertainty about the amount of load migration that will be taking place in the coming years. There has been a great deal of migration of residential customers in the ComEd service territory. There are currently 21 Alternative Retail Electric Suppliers in ComEd's service territory certified to serve residential customers. The latest migration statistics show that, as of July 31, 2011, approximately 92,000 residential customers of Ameren and ComEd are being served by Retail Electric Suppliers ("RES"). This number is particularly significant in that there were virtually no residential customers being served by RESs as of the end of calendar 2010.

Moreover, as the 2012 Draft Plan itself notes, municipal aggregation is on the rise in Illinois. Currently, there are 20 municipalities which adopted opt-out municipal aggregation in referenda. (Draft Plan, p. 3) This number is expected to increase dramatically in the April 2012 elections. The utilization of one-year RECS for the 2012 Draft Plan will result in a low-cost supply of renewable energy resources and will allow time to assess the impact of municipal aggregation and increased competition for residential customers on the level of migration from the Illinois electric utilities. The issue of medium and long term procurement of renewable energy resources can be better addressed in the 2013 procurement plan after another year of experience.

IV. TIMING OF PROCESS

The procurement process needs to be accelerated to allow the publication of new rates sufficiently in advance of their effective dates. Many of the 2011 procurements took place several weeks later than those same procurements in the past. In fact, they were the latest since the creation of the IPA in 2007. That timing contributed to approved utility tariffs regarding new rates being made available by Commonwealth Edison Company ("ComEd") only one day before those rates went into effect.

Delays in the release of utility tariffs and charges cause substantial confusion and competitive harm in the retail market. To the extent that procurements are to occur in the same year as the start of the new June-May cycle, the procurement events should be held in late February or early March. This will benefit suppliers and their customers. Future Commission orders approving the IPA Plans should establish schedules that permit calculation of new rates sufficiently in advance of their effective dates and require that utilities file and make available approved tariffs and charges no less than two weeks before the new rates would go into effect.

V. CONCLUSION

RESA commends the IPA for its 2012 Draft Plan and appreciates the opportunity to submit these Comments. However, three modifications should be made to that plan. First, provision should be made for consideration of multiple procurement events. Second, the plan should be modified to utilize solely one-year RECs to meet the renewable energy resource requirements. Third, there should be specific timetables in the plan that ensure that new rates will be available to RESs no less than two weeks before they would go into effect.

Respectfully submitted,

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