REPLY COMMENTS

IN THE MATTER OF THE ILLINOIS COMMERCE COMMISSION'S

PUBLIC NOTICE OF INFORMAL HEARING

(REQUEST FOR COMMENTS)

CONCERNING THE SPRING 2011 ELECTRIC PROCUREMENT EVENTS

Presented to

THE ILLINOIS COMMERCE COMMISSION

by

THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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The Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, submits these Reply Comments in the matter of the Commission's 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. The notice was issued on June 1, 2011, pursuant to 220 ILCS 5/16-111.5(o). On or about June 22, 2011, initial comments were provided by:

- Iberdrola Renewables, Inc.;
- Boston Pacific Company, Inc.;
- Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc.;
- The People of the State of Illinois, by and through Illinois Attorney General Lisa Madigan (" The People"); and
- NERA Economic Consulting.

Staff's Reply Comments, herein, address NERA Economic Consulting's ("NERA") recommendation, contained in its initial comments, to consider removing unsecured credit for renewable energy certificate ("REC") suppliers under the Commonwealth Edison Company's ("ComEd") Master Renewable Energy Certificate Purchase and Sale Agreement ("ComEd REC contract") in certain situations.

STAFF'S REPLY COMMENTS.

Currently the ComEd REC contract calculates suppliers' exposure as 10% of remaining contract value; that is, 10% of the value of undelivered RECs. Under the ComEd REC contract, suppliers must post either cash or a letter of credit to cover the first $500,000 of exposure, and creditworthy REC suppliers may receive up to $2.5 million of unsecured credit for exposure exceeding $500,000. Every REC supplier, regardless of creditworthiness, must post either cash or a letter of credit for REC contract exposure above $3 million, i.e. $500,000 liquid security, plus $2.5 million of unsecured credit.

In its June 22, 2011 comments, NERA, the procurement administrator for the ComEd REC contracts, acknowledges that in the 2011 REC procurement, no suppliers rely on unsecured credit due to the structure of the unsecured credit provided in the ComEd REC contracts and low winning REC prices of approximately $1 per REC. NERA argues that providing for the possibility of granting unsecured credit to REC suppliers (or their guarantors) complicates the application process for bidders. Thus, NERA recommends removing unsecured credit from the ComEd REC contract if the amount of security required does not justify the complication. (NERA Comments, pp. 2-3)

Staff opposes NERA's recommendation because it is currently unknown whether future REC procurements will have winning REC prices as low as the spring 2011 REC procurement. NERA calculates each bidder's unsecured credit limit during the application process, which occurs before the bid date. As such, any decision by NERA regarding the necessity of granting REC suppliers unsecured credit in advance of the bid date would be speculative. If winning bids were higher in future REC procurements than they were this year, then eliminating unsecured credit limits could be unnecessarily costly for creditworthy suppliers. The additional cost to REC suppliers resulting from eliminating unsecured credit, in comparison to granting creditworthy suppliers unsecured credit up to $2.5 million, would accrue to ratepayers by suppliers including an additional premium in REC prices to cover costs associated with posting liquid collateral to cover the entire amount of exposure under the ComEd REC contracts.

Moreover, the Illinois Power Agency's ("IPA") most recent procurement plan required the ComEd REC contracts to provide unsecured credit to creditworthy REC suppliers. The Illinois Commerce Commission ("Commission") approved this provision in the IPA's plan, despite ComEd's objections to granting REC suppliers unsecured credit. Given the IPA and the Commission agree that unsecured credit benefits REC suppliers (with the ultimate beneficiaries presumably Illinois ratepayers), the procurement administrators should not be permitted to unilaterally remove the unsecured credit provision from the ComEd REC contracts based on speculation that REC prices will be too low for unsecured credit to be useful in future REC procurements.

For the foregoing reasons, NERA's recommendation should not be adopted in future IPA plans. However, in Staff's view a reasonable alternative would be to make the unsecured credit limit evaluation optional for REC suppliers during future procurement proceedings, similar to the proposal NERA offers for ComEd's standard product RFP.

CONCLUSION

This concludes Staff's Reply Comments.