**STATE OF ILLINOIS**
**ILLINOIS COMMERCE COMMISSION**

| | | |
|---|---|---|
| Illinois Power Agency | ) | |
| | ) | |
| | ) | Docket No. 14-0588 |
| Petition for Approval of Procurement Plan | ) | |

**AMEREN ILLINOIS COMPANY'S OBJECTIONS**
**TO THE ILLINOIS POWER AGENCY'S PROPOSED PROCUREMENT PLAN**

The Illinois Power Agency ("IPA") filed a petition for approval of its procurement plan ("Plan"), with the Illinois Commerce Commission ("Commission") on September 29, 2014. Ameren Illinois Company ("Ameren Illinois") offers the following objections pursuant to Section 16-111.5(d)(3) of the Illinois Public Utilities Act ("Act"), 220 ILCS 5/16-111.5(d)(3).

Ameren Illinois appreciates the opportunity afforded it and others to offer informal comments to the IPA draft plan, and the IPA's consideration of same. As a consequence and for the Plan as a whole, Ameren Illinois generally supports the Plan contents and its recommendation. There remain, however, areas of concern that warrant objection and the need for certain clarifications in order to ensure the Plan is in accord with Sections 16-111.5(d) (4) and 111.5B of the Act, as explained below.[1]

## 1. Capacity

Ameren Illinois supports the Plan proposal to solicit capacity for the second and third delivery years. However, in reference to the quantity of capacity to be solicited, Ameren Illinois has several recommendations, which follow.

[1] Ameren Illinois reserves it right to address any issues contained in the Plan at any time during this proceeding and silence on an issue should not be construed as an endorsement of the Plan's treatment of that issue.

First, the Plan references soliciting 50% of forecasted requirements for the second plan year and 25% of forecasted requirements for the third plan year, while in other cases the Plan references "at least" 50% of forecasted requirements for the second plan year and "at least" 25% of forecasted requirements for the third plan year. Ameren Illinois recommends that the Plan remove any potential for ambiguity by eliminating "at least" and provide the specific percentage quantity to be solicited.

Second, on page 2 of the Plan it states: "Additionally, the IPA recommends purchasing capacity to satisfy a portion of the capacity requirement for Ameren Illinois for the second delivery year and potentially, subject to the consensus of the IPA, ICC Staff and Procurement Monitor, 25% of the forecast requirement for the third delivery year." On page 3, this proposal and associated quantities is illustrated in Table 1-2: Summary of Capacity Hedging Strategy. However, on page 94 of the Plan it states:

> At this time the Agency is not recommending a capacity procurement for the 2017-2018 period *(i.e. third delivery year)* or beyond but recognizes that unexpected capacity retirements, or significant exports of capacity from MISO into PJM, could adversely impact the capacity market in MISO. Therefore the IPA requests that the ICC pre-approve the procurement of 25% of the 2017-2018 obligation for Ameren Illinois, simultaneously with the September 2015 procurement event, subject to consensus among the IPA, Staff and Procurement Monitor. The IPA intends to continue monitoring the capacity market in MISO and may propose additional adjustments to the capacity hedging strategy for Ameren Illinois in future procurement plans.

Ameren Illinois interprets the proposal on pages 2 and 3 as a recommendation in favor of soliciting 25% of capacity for the third delivery year subject to consensus of the IPA, Staff and Procurement Monitor. However, the statement on page 94 could be interpreted as the IPA not being in favor of a solicitation, but instead pre-approving a solicitation assuming the IPA, Staff and Procurement Monitor reach consensus. While the difference in the statements may be subtle, the potential for ambiguity exists and therefore the statement on page 94 should be modified to make clear the IPA's intent.

More importantly, Ameren Illinois does not agree there is a need for the procurement associated with the third delivery year to contain a contingency that calls for consensus between the IPA, Staff and Procurement Monitor. As detailed in our comments to the draft Plan (excerpts of which are included as an Attachment to this Objection), the differences between the MISO and PJM capacity markets leads to considerable price uncertainty for Ameren Illinois customers relative to Commonwealth Edison Company ("ComEd") customers. Specifically, in a year where resourced adequacy demand exceeds supply within MISO, Ameren Illinois customers could be exposed to dramatic and sudden capacity price increases which would increase the total price of supply. While we appreciate the IPA proposing a capacity procurement for Ameren Illinois customers consistent with our comments to the draft Plan, we are concerned that the proposal may not go far enough, especially if the contingency for the third delivery year procurement is approved.

We therefore recommend removal of the proposal for consensus associated with the procurement of capacity for the third delivery year. Our rationale is that both the second and third delivery year procurements already have a built-in contingency because confidential benchmarks will be developed, and should capacity offers from suppliers exceed these benchmarks, the rejection of some or all offers could occur.

Under our recommendation, the language on page 94 would change as follows:

> **~~At this time~~** **T**he Agency is **~~not~~** also recommending a capacity procurement for the 2017-2018 period **~~or beyond but recognizes that unknown unexpected capacity retirements, or significant exports of capacity from MISO into PJM, could adversely impact the capacity market in MISO~~.** Therefore**~~,~~** the IPA requests that the ICC pre-approve the procurement of 25% of the

> 2017-2018 obligation for Ameren Illinois, simultaneously with the September 2015 procurement event~~, subject to consensus among the IPA, Staff and Procurement Monitor~~. The IPA intends to continue monitoring the capacity market in MISO and may propose additional adjustments to the capacity hedging strategy for Ameren Illinois in future procurement plans.

To the extent that the Commission disagrees, at the least Ameren Illinois and the Procurement Administrator should be added to the list of parties required for consensus regarding the procurement of capacity for the third delivery year. For the removal of doubt, this secondary recommendation is not suggesting that Ameren Illinois participate in the capacity price benchmarking process.

Under our secondary recommendation, the language on page 94 would change as follows:

> ~~At this time t~~**T**he Agency is ~~not~~ also recommending a capacity procurement for the 2017-2018 period, ~~or beyond~~ but recognizes that **the capacity market in MISO remains uncertain due to** unknown ~~unexpected~~ capacity retirements and~~, or significant~~ exports of capacity from MISO into PJM~~, could adversely impact the capacity market in MISO~~. Therefore the IPA requests that the ICC pre-approve the procurement of 25% of the 2017-2018 obligation for Ameren Illinois, simultaneously with the September 2015 procurement event, subject to consensus among the IPA, Staff**, Ameren Illinois, Procurement Administrator** and Procurement Monitor. The IPA intends to continue monitoring the capacity market in MISO and may propose additional adjustments to the capacity hedging strategy for Ameren Illinois in future procurement plans.

## 2. Solar REC Procurement

The IPA states that the REC target for total renewables and the subtarget for wind RECs are forecasted to be met during 2015/2016. But the IPA states the solar and distribution generation REC subtargets are not forecast to be met. The IPA therefore recommends conducting a procurement of Solar Renewable Energy Credits ("SRECs") using the remaining renewable resources budget for 2015/2016.

Regarding this proposal, having reviewed the Renewable Portfolio Standard ("RPS"), there is not a clear requirement that REC subtargets must be met in a year where the total REC target has been exceeded. And since the total REC target for 2015/2016 has been exceeded with existing contracts, the Commission should clarify whether the IPA should spend the remaining renewable budget funds for a one year SREC procurement.

The RPS states the following in reference to subtargets:

> To the extent that it is available, at least 75% of the renewable energy resources used to meet these standards shall come from wind generation and, beginning on June 1, 2011, at least the following percentages of the renewable energy resources used to meet these standards shall come from photovoltaics: 0.5% by June 1, 2012, 1.5% by June 1, 2013, 3% by June 1, 2014; and 6% by June 1, 2015 and thereafter.
>
> 20 ILCS 3855/1-75(c)(1) (emphasis added)

The phase "to the extent that it is available" could be interpreted to mean "to the extent that subtarget RECs are available from the market." However, it could also be interpreted to mean "to the extent that total RECs under existing contracts have not been exceeded."

Notwithstanding the above, Ameren Illinois notes the proposal could result in the expenditure of approximately $3.8 million which would otherwise not be spent. Based on the current forecast, such expenditures would increase supply costs to Ameren Illinois eligible retail customers by approximately $0.50/MWh. In addition to the cost increase to customers, logic suggests that a one year SREC procurement would not provide an incentive for new construction of solar facilities within Illinois. Instead, the more likely outcome would be a procurement that results in contracts from existing solar facilities.

This issue was previously addressed in the 2013/14 Plan where the IPA stated: "on a total portfolio basis, there is no compelling reason to purchase additional renewable resources during the planning horizon, even though there may be dollars 'left over' to spend." ICC Docket

No. 12-0544, 12/19/13 Final Order at 51. The Commission agreed and therefore the IPA did not pursue any additional procurement of REC subtargets for 2013/2014. *Id.* at 109-110. The circumstances between the two years are similar and therefore Ameren Illinois is unaware of any reason why the Commission should be of a different view.

**3. Distributed Generation REC Procurement**

The IPA recommends a procurement of distributed generation RECs ("DG RECs") using renewable funds previously collected from Ameren Illinois real time pricing customers and where these funds are currently held by Ameren Illinois in a liability account. The IPA proposes a procurement term of five years with a solicitation date in September 2015.

Ameren Illinois does not in principle oppose using the previously collected Alternative Compliance Payment ("ACP") funds for the procurement of DG RECs; however there is no evidence to suggest the market is mature enough to support the desired procurement. In addition, the contract is not yet developed and since the Plan identifies Ameren Illinois as the contractual party, the uncertainty surrounding our administrative and operational responsibilities is also a concern, especially to the extent that such responsibilities could add additional labor and systems costs. Specifically on page 108, the Plan states:

> Contracts under this procurement are between winning bidders and either Ameren Illinois or ComEd; the Agency is not a contract party as it will be for the DG procurement in the supplemental PV plan. Further details regarding the contracts will be developed by Procurement Administrator in consultation with the Agency, the Commission, Utility, and other interested parties and subject to Commission oversight, after the Procurement Plan is approved by the ICC.

Ameren Illinois is of the opinion that the contract terms are critical to the proper functioning of the proposed procurement, as well as administration after execution of the contracts. These issues are amplified given that the DG REC market is not yet well defined and many critical issues are still being discussed among interested parties. Ameren Illinois therefore cannot fully endorse the proposal as currently described because too many uncertainties remain.

Ameren Illinois recommends that any Commission approved DG REC procurement in the Plan should recognize that the IPA is simultaneously pursuing a supplemental solar REC procurement (including DG RECs) using up to $30 million from the Renewable Energy Resources Fund ("RERF") and where the IPA will act as the contractual counterparty with suppliers. Ameren Illinois believes that the proposed DG REC procurement associated with the Plan would benefit all interested parties by stipulating that the IPA is the contractual counterparty with suppliers and not Ameren Illinois. To compensate the IPA for DG REC expenses under its contract, the Commission would order Ameren Illinois to transfer funds to the IPA based on prior Ameren Illinois collections from real time pricing customers. The Commission would also stipulate that the total dollar value of DG REC contracts would not exceed funds already collected by Ameren Illinois as of a date certain, as well as stipulate whether funds would be transferred on a lump sum basis to the IPA or through a contractual arrangement between Ameren Illinois and the IPA with a more systematic distribution of funds when supplier invoices are received by the IPA. Finally, the Commission should stipulate the September DG REC procurement associated with this Plan should be contingent on the June 2015 DG REC portion of the supplemental solar REC procurement being fully subscribed. The rationale is that any shortcoming in quantities under the DG REC portion of the proposed supplement solar REC procurement would indicate the market is not fully developed and therefore the September 2015 DG REC procurement would not likely result in contracts.

**4. Pre-Bid Letter of Credit**

The pre-bid letter of credit held by Ameren Illinois is used primarily to protect customers from a scenario where winning suppliers do not execute contracts and this in turn results in higher supply costs. The IPA has also identified that it has risk under a scenario where winning suppliers do not pay for fees associated with procurement events. The IPA has therefore proposed that Ameren Illinois and the IPA have a side agreement whereby under certain circumstances Ameren Illinois could draw on funds associated with the pre-bid letter of credit and reimburse the IPA for unpaid supplier fees.

Ameren Illinois believes that the solution that provides the best credit protection for both Ameren Illinois and the IPA is for Ameren Illinois and the IPA to hold separate pre-bid letters of credit from suppliers. However, we recognize that doing so may create additional administrative burden and cost to the IPA and suppliers. Therefore, Ameren Illinois does not oppose the IPA proposal; however we desire to make the Commission aware that the pre-bid letter of credit has limited funds available for drawing. This is especially pertinent to a scenario where the Commission approves a procurement and winning suppliers fail to execute contracts <u>and</u> fail to pay supplier fees. It is therefore our belief that the side agreement should state that funds are available to the IPA only to the extent that they are not required by Ameren Illinois.

**5. Energy Efficiency As A Supply Resource ("EEAASR")**

The Plan offers two proposals with respect to EEAASR. First, Section 7.1.3 of the Plan proposes the procurement of energy efficiency products to be delivered between 3 p.m. to 7 p.m. on weekdays for the period June 1 through August 30 which would offset supply hedge requirements during those periods. This equates to approximately 260 hours per year. Contracts would be for terms of three years in 100 kW increments with a procurement to occur in late 2015 with a June 2016 delivery start date, subject to the IPA, in consultation with ICC Staff, the Procurement Administrator, and the Procurement Monitor, seeking formal approval of the Commission to cancel the procurement by August 2015. Such a cancelation request can be made if the IPA believes that EEAASR procurement would not be in the best interest of the customers.

Second, Section 7.1.5 offers an "alternative proposal" whereby the IPA requests that the Commission require Ameren Illinois and ComEd to modify their respective Section 16-111.5B third-party RFPs so as to procure targeted energy efficiency products for peak periods of time. Ameren Illinois has many significant concerns about both EEAASR proposals and objects to the inclusion of EEAASR in the Plan.

The IPA's first EEAASR procurement proposal leaves many key issues unexplained or unresolved and should be rejected. While Ameren Illinois appreciates the IPA's request of the interested stakeholders, including the utilities, to provide input and work towards resolution of many of these issues (as well as hold workshops at a later time to work on unresolved issues), the issues with the IPA's EEAASR proposals are too fundamental to be allowed. The following provides examples of such issues:

a) It is not certain what the proposed EEAASR products are or whether they meet the definition of "standard wholesale products" for which the IPA can procure under the Act. Although the Plan appears to be seeking this determination by the Commission in a footnote on page 70, there is no explanation as to why the products to be procured by the proposed EEAASR procurement meet the statutory definition "standard wholesale products." Indeed, the Plan acknowledges the product definition requires significant refinement on page 71:

> Prior to procurement, the Agency will need to develop a more refined definition of resources eligible to participate. It is currently unclear whether standby generation, energy storage, and combined heat and power should be eligible, and the Agency believes there may [be] other resource types it has not yet considered which would inform "product" definition.

Approval of EEAASR procurement under Section 5/16-111.5 requires a full vetting of whether the products at issue meet the requirements of the Act *before* the procurement event is approved (not the other way around).

b) The Plan does not provide a detailed analysis of whether the proposal meets the IPA goal to "develop electricity procurement plans to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service a*t the lowest total cost over time*, taking into account any benefits of price stability" (emphasis added) nor is the total quantity of the proposed procurement defined in the Plan. Even if EEAASR were a viable product under Section 5/16-111.5 (which as noted above remains unresolved), it should then be compared to a solicitation of comparable supply resources that achieve the same super peak hedge (noting that even a supply super peak product might be difficult to benchmark and procure). No detail has been provided as to how IPA can or would choose the mix of EEAASR and supply side resources that achieve the least cost to customers. Again, such details should be provided *before* the Commission approves a procurement event and would be consistent with the law and how the IPA and the Commission treat planned procurement of other products.

c) The Plan is already hedging July/August on peak at 106% of average load in an attempt to reduce risk across the super peak. Therefore, it appears the EEAASR procurement proposal could result in redundant hedges in the summer. The Plan is silent as to how the IPA will avoid such redundancies.

d) While the Plan acknowledges that significant design issues remain, the IPA nonetheless asks for ICC pre-approval based on the understanding that the IPA will hold workshops in the spring of 2015 to resolve any remaining issues. Further, if the IPA determines that the product is not ready for solicitation by late 2015, the solicitation could be canceled after consultation with the ICC Staff, Procurement Administrator and Procurement Monitor and a subsequent Commission filing requesting such cancelation that would occur no later than August 2015. This proposal raises significant concerns as to whether there is enough time for full vetting among interested parties of the many known (let alone unknown) issues that have been identified. Additionally, this proposed process desires to exclude Ameren Illinois from the decision as to whether to ultimately proceed with a procurement event, even though the Plan appears to contemplate that the utilities would be the counterparty to resulting contracts.

e) Although none of Ameren Illinois' energy efficiency is currently registered at MISO as a resource, the Plan is silent as to whether its EEAASR procurement proposal would satisfy MISO requirements should energy efficiency be determined to be a supply resource and registered at MISO in the future.

f) Energy efficiency is already procured pursuant to Section 5/16-111.5B and it is unclear whether the EEAASR procurement proposal comports with the existing requirements set forth in the Act for energy efficiency procurement. For example, if EEAASR is determined to be "cost-effective" under the Act, it is left unexplained why energy efficiency procurement should not simply be done under Section 5/16-111.5B.

g) The Plan's intention to procure energy efficiency from customers throughout each utility's service territory (including from "competitive class customers") and not only from a utility's "eligible retail customers" appears to contradict the specific requirements of Section 5/6-111.5B, which limits energy efficiency procurement to Ameren Illinois' "eligible retail customers" and raises additional unanswered questions of how and from whom the costs would be recovered for such procurement.

h) The Plan does not resolve the many complicated and technical issues that would result from impact of the proposed EEAASR procurement on the other energy efficiency being offered to customers in accordance with the requirements of Sections 5/16-111.5B and Section 5/8-103. Having energy efficiency be both a demand side management resource and supply resource would require yet another planning, implementation and verification framework subject to the rules of supply, which could potentially include stricter credit requirements, non-delivery penalties, near-immediate verification of peak period savings and the use of "gross" savings instead of "net" savings. Additionally, the Plan provides no detailed analysis as to how the EEAASR procurement would impact the planning, savings, cost-effectiveness and implementation of the currently offered energy efficiency programs, each of which is important given the requirements (including savings requirements) imposed on the utilities under Sections 5/8-103 and 5/16-111.5B. Resolution of these critical issues is necessary to ensure utilities can effectively deliver energy efficiency to the market subject to the requirements of the Act.

Additionally, the Plan itself recognizes that significant and fundamental issues still need to be resolved prior to EEAASR procurement and suggests that workshops be hosted in spring of 2015 (and completed by summer of 2015) to accomplish this. Notwithstanding the ambitious schedule proposed by the IPA, Ameren Illinois is concerned that many of the unresolved issues identified above cannot (and should not) be resolved by agreement of the interested stakeholders only. Instead, Commission approval would (and should) be necessary to ensure compliance under the Act (for example, whether the final "products" procured comport with the Act).

Finally, in Section 7.1.5, the IPA requests that the Commission consider an alternative proposal whereby the Commission directs the utilities to modify their respective Section 16-111.5B third party requests for proposals ("RFPs"). Specifically, the IPA requests that the utilities: (1) include requests for targeted programs that could identify and demonstrate reductions during peak periods; (2) perform total resource cost test ("TRC") calculations for these targeted programs using a time-specific avoided energy cost; (3) provide additional financial incentive to these programs for demonstrated peak period kWh reductions; and (4) require the programs be of at least three-years in duration. The second EEAASR procurement proposal should also be rejected.

As an initial matter, many of the issues raised by the first proposal—for example the scope of customers to be served by the EEAASR procurement and how verification of supply savings could be timely accomplished—are not remedied by the alternative. But Ameren Illinois has additional concerns with the alternative proposal that require resolution.

First, the utilities would need further specificity as to the types of targeted bids that should be sought (for example, what "peak periods" should be targeted) through the RFP process so that the utilities can adequately analyze the received bids for compliance with the RFP. The Plan is currently silent on such details. Second, while the provision of additional financial incentives to program implementers who demonstrate reductions during peak periods is understandable, Ameren Illinois notes that it is the implementers themselves who set the incentive levels in the bids, not the utility. Finally, clarity would be needed as to which "rules" apply to EEAASR procurement: traditional supply side rules or the demand side management ("DSM") rules currently in place for energy efficiency programs. As a supply resource, the supply rules would have to apply to EEAASR. As noted above, applying the rules of supply would include such things as stricter credit requirements and non-delivery penalties for vendors; the comparison of the EEAASR procurement cost to other supply options; a prompt verification of gross savings, particularly for "peak periods"[2]; and could cause confusion to customers as to whether they are eligible for such program incentives or not. The Plan does not adequately address or resolve any of these issues nor identify a need for the Commission to do so at this time.

Accordingly, the EEAASR proposals contained in the Plan are premature and give rise to too many fundamental issues that, when left unresolved, would create significant issues for procuring, implementing and verifying any achieved supply savings. Accordingly, for the reasons set forth above, Ameren Illinois recommends that the Commission reject the EEAASR proposals and remove Section 7.1 from the Plan in its entirely. The suggested deletion is provided as Appendix 2 of this filing.

**6. Incremental Energy Efficiency**

Section 7.2.5.1, dealing with the Ameren Illinois Bid Review Process, contains a recommendation on page 80 that "ICC Staff hold workshops in early 2015 to examine if the inputs used for the Section 16-111.5B "total resource cost" test calculations should be different from those used for the Section 8-103 programs, and to develop recommendations for use in next

[2] Currently, for Section 5/8-103 programs, an independent Evaluation, Measurement and Verification ("EM&V") evaluator applies a Net to Gross ("NTG") ratio to identify the savings attributable to the programs, though that process can take over a year to complete.

year's filings." The Plan also suggests that the workshops consider whether the IPA should develop and perform an independent TRC calculation with distinct inputs and assumptions rather than relying on inputs provided by the utilities. Ameren Illinois agrees that a workshop series on the issue should be held, but suggests that the workshops be conducted through the Stakeholder Advisory Group ("SAG") process. The SAG process is set up to address resolution of such policy issues like calculation of TRC values and would allow all interested parties, including other utilities in Illinois not participating in this docket, to participate in addressing the issue. Accordingly, AIC requests the following change deletion and insertion on Page 80:

> . . . the IPA recommends that ~~ICC Staff~~ **<u>the SAG</u>** hold workshops in early 2015 . . .

Finally, the IPA posed the following question to the Commission on page 79: "should the utilities be expressly encouraged to engage stakeholders in the review of third party bids and 'duplicative' program determinations?" In response to this question, Ameren Illinois notes that the current models employed by the respective utilities already include stakeholder review. Accordingly, Ameren Illinois does not believe any "express" encouragement is needed or warranted.

**7. Technical Issues**

Tables 7-6, 7-7, 7-8 and 7-9 appear to contain quantities that are representative of the July 2014 expected load forecast without consideration for additional energy efficiency. This is in contrast to the footnote which states that the volumes will be based on the March 2015 forecast including newly approved energy efficiency programs. Ameren Illinois suggests the footnote for each of the tables, found on pages 88-90 be changed to say:

> **~~Volumes to be adjusted using the March 2015 expected load forecast, which shall also include newly approved energy efficiency~~**
>
> **~~programs.~~ <u>Volumes are based on the July 2014 expected load forecast without consideration for incremental energy efficiency programs. Assuming approval of incremental energy efficiency programs by the Commission, the actual quantities will be based on the March 2015 expected load forecast including adjustments for incremental energy efficiency programs.</u>**

Likewise, Tables 7-14, 8-1 and 8-3 appear to contain quantities that are representative of the July 2014 expected load forecast without consideration for additional energy efficiency. Ameren Illinois suggests a footnote be added to those tables found on page 98, 101 and 103, respectively, which says:

> **<u>Volumes are based on the July 2014 expected load forecast without consideration for incremental energy efficiency programs. Assuming approval of incremental energy efficiency programs by the Commission, the actual quantities will be based on the March 2015 expected load forecast including adjustments for incremental energy efficiency programs.</u>**

## 8. Conclusion

For the reasons set forth above, Ameren Illinois Company respectfully requests that the Commission give consideration to the comments and objections expressed herein and for any such other relief the Commission deems just and equitable.

Dated: October 6, 2014

Respectfully submitted,

The Ameren Illinois Company

By: <u>*/s/ Mark W. DeMonte*</u>
One of its attorneys

Edward C. Fitzhenry
Eric E. Dearmont

Counsel for Ameren Illinois
One Ameren Plaza
1901 Chouteau Avenue
P.O. Box 66149 (mc 1310)
St. Louis, MO  63166-6149
efitzhenry@ameren.com
edearmont@ameren.com

Erika M. Dominick
Regulatory Paralegal
Ameren Services Company
One Ameren Plaza
1901 Chouteau Avenue
St. Louis, Missouri 63166
Telephone: (314) 554-3649
Facsimile: (314) 554-4014
edominick@ameren.com

Mark W. DeMonte
JONES DAY
77 West Wacker Drive
Chicago, IL  60601-169
Telephone:  (312) 782-3939
Facsimile:  (312) 782-8585
mdemonte@jonesday.com

## VERIFICATION

I Richard L. McCartney, certify that: (i) I have read the attached Objections; (ii) I am familiar with the facts stated therein; and (iii) the facts stated therein are true and correct to the best of my knowledge, information and belief.

Richard L. McCartney

NAME

SUBSCRIBED and SWORN to before
me this 6 day of October, 2014.

Dona L. Rector

Notary Public

DONA L. RECTOR
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: March 12, 2016
Commission Number: 12502445

My commission expires: March 12, 2016

## VERIFICATION

I Keith Martin , certify that: (i) I have read the attached Objections; (ii) I am familiar with the facts stated therein; and (iii) the facts stated therein are true and correct to the best of my knowledge, information and belief.

Keith Martin
NAME

SUBSCRIBED and SWORN to before me this 6th day of October, 2014.

Holli Willmert
Notary Public

"OFFICIAL SEAL"
Holli D Willmert
Notary Public, State of Illinois
My Commission Expires 10/10/2016

My commission expires: 10/10/16

## Appendix 1

### Excerpts from Ameren Illinois' 9/12/14 Comments on the IPA's 8/15/14 Draft Plan, pages 4-5

In the Plan, the IPA correctly describes high level differences between the MISO capacity construct and the PJM capacity construct. One example is that while the MISO construct pertains only to the prompt year (and where results are not known until two months prior to year commencement), the PJM construct is three years forward. To shed further light on this key difference from a hedging perspective, Ameren Illinois provides an illustration in the table below.

| Capacity Price Certainty | | |
|---|---|---|
| **Year** | **PJM** | **MISO** |
| Prompt Year | 100% | 100% |
| Prompt Year + 1 | 100% | 0% |
| Prompt Year + 2 | 100% | 0% |

As the table indicates, under the proposal where all of Ameren Illinois capacity is hedged through the MISO auction, the result is a dramatically different hedging strategy between Ameren Illinois and Commonwealth Edison Company (ComEd) customers. Further, since the MISO market does not provide a forward price signal beyond one year, this increases the likelihood that capacity prices could increase suddenly and dramatically in a year where supply-demand equilibrium is reached. This could result in considerable risk to Ameren Illinois customers in the form of much higher supply costs. While customers in PJM are also subject to the risk of rising capacity prices, it is likely tempered relative to MISO because the PJM three year forward market signals that prices are rising, which in turn encourages new generation construction, which in turn should reduce the chances of a sudden and dramatic price increase.

To illustrate this risk to Ameren Illinois customers, consider that the capacity price associated with 2014/2015 is approximately $1.90/MWh or about 5% of the Ameren Illinois supply price. Should capacity prices equal those in PJM (~$46,000/MW-Year for 2014/2015), capacity prices would equate to about $12/MWh. Continuing to use the 2014/2015 Ameren Illinois supply price as an example, this would increase the total supply price by 27%. However, should capacity prices abruptly increase to 75% of Cost of New Entry (CONE), capacity prices would equate to about $18/MWh, which would raise the total supply price for Ameren Illinois customers by about 43%. If prices were to increase to 100% of CONE, the supply price for Ameren Illinois customers would increase by about 59%.

Of additional concern is that MISO has performed recent surveys that suggest MISO is projected to be about 2.3 GW short of resource adequacy reserves in the north and central zones (where Illinois is located) in 2016/2017. This projected shortage is driven by projected plant shutdowns for environmental and economic reasons, coupled with load growth. If this forecast is accurate, the result could be substantially higher capacity prices within the MISO market in the near future.

…bilateral capacity activity (both sales and purchases) indicates that other parties in MISO are seeking to hedge forward positions and any contracts associated with these bilateral solicitations would result in "designated" capacity, which is a MISO term indicating that the capacity is "spoken for". If the magnitude of contracts resulting from bilateral transactions becomes significant, Ameren Illinois could be exposed to a dwindling pool of capacity available through future MISO auctions, which in turn could drive prices substantially higher.

All of these aforementioned issues lead us to conclude the IPA should pursue some quantity of forward hedging of bilateral capacity for Ameren Illinois.

Appendix 2
Suggested deletions from the Plan for EEAASR

On page 5,

~~**1.3 Energy Efficiency as a Supply Resource**~~

~~**After examining the concept of energy efficiency as a supply resource in the draft 2014 Procurement Plan, and after conducting a workshop and receiving written comments early in 2014, the IPA is proposing a procurement of energy efficiency as a supply resource. The proposal is for the procurement for "super-peak"summer weekday blocks, as discussed in more detail in Section 7.1. To work through potential challenges and allow the market to properly organize, the Agency is proposing that the procurement be held in late 2015, for delivery starting in 2016, and to ensure that the procurement is structured to lower the overall supply portfolio cost. In the alternative the IPA also recommends consideration of a strategy that would update the Section 16-111.5B third-party RFP process to accomplish a comparable result.**~~

On pages 68-72

~~**7.1 Energy Efficiency as a Supply Resource ("EEAASR")**~~

~~**7.1.1 EEAASR Background**~~

~~**In its draft 2014 Procurement Plan, the Agency raised the idea of procuring energy efficiency as a supply resource, separate from its Section 16-111.5B procurement, and invited comments from stakeholders for additional feedback. The rationale for the proposal was straightforward: rather than viewing energy efficiency simply as reducing forecast load, demand-side resources could potentially constitute a lower-cost alternative than comparable supply at times when prices are highest or load is greatest. If less-expensive demand-side resources could be procured in lieu of conventional supply during periods of high cost or high load, the Agency could be better-positioned to meet its statutory objective of developing "electricity procurement plans to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time, taking into account any benefits of price stability."[111]**~~

~~**While logically sound, the details of the approach proved complex. Upon receiving feedback on its draft 2014 Procurement Plan, the IPA determined that the idea lacked the detail and clarity necessary to transition from an alluring thought exercise to a concrete procurement strategy. Although still intrigued by the potential benefits, the Agency did not include the procurement of energy efficiency as a supply resource in its filed 2014 Procurement Plan.**~~

~~**The concept was tabled for further discussion in the 2014 Procurement Plan. Still, the Agency remained interested in its potential benefits and held a workshop on June 18, 2014 to receive continued feedback. Following that workshop, the Agency circulated a set of questions to workshop participants. Received responses were posted on the IPA's website.[112]**~~

~~**As expected, views were divergent. Some parties believed the Agency lacked statutory authority to conduct such a procurement, believing that demand-side resources were not "standard wholesale products" and that Section 16-111.5B set forth the exclusive pathway for including energy efficiency in the Agency's procurement plan. Others believed that while segmenting out more expensive energy procurement blocks was sensible, competition should be**~~

~~**between both demand-side and supply-side resources. Still others believed that the issue was ripe for inclusion and suggested a Spring 2015 procurement for the delivery of resources beginning in Fall 2015.**~~

### ~~**7.1.2 EEAASR Principles**~~

~~**After feedback and further consideration, the Agency has settled on the following key principles to guide an EEAASR procurement:**~~

~~**First, any EEAASR procurement should be structured to provide lower expected total customer costs than a comparable supply-side procurement. Although the Commission has interpreted "lowest total cost over time" as referring to the Agency's entire plan while stressing the value of portfolio diversity,[113] energy efficiency also participates as a Section 16-111.5B resource, allowing for some of its benefits to be already captured. For energy efficiency to displace blocks of supply in standard energy procurement, the Agency believes an EEAASR procurement should feature a lower expected total cost to ratepayers, inclusive of administrative costs, than what would be accomplished through its block supply procurement.[114]**~~

~~**Second, an EEAASR procurement should be focused on pre-designated "super-peak" blocks. Although procuring demand-side resources responsive to high price or load may have advantages, these approaches offer administrative complexities (such as active management through an operator) that the Agency is not currently equipped to manage or assign.[115] Segregating out expected highest-use blocks in advance and conducting a "super-peak" EEAASR procurement for those blocks offers a clear, consistent approach that enhances delivery certainty and fits squarely within the Agency's established procurement processes and expertise.**~~

~~**Third, the products procured in an EEAASR procurement should be resources on the customer side of the meter. The Agency envisions that in future procurements demand-side and supply-side resources could compete on level terms, but believes that procurement structure and administrative ease is best served by procuring customer-side products exclusively in its initial EEAASR procurement.**~~

~~**Fourth, the size of the individual blocks to be procured should be small enough to allow for small scale load reductions to compete. Whether such programs feature compelling-enough economics will be determined through a competitive procurement process, and the Agency should ensure that procurement block size is not so large as to exclude otherwise cost-effective load reductions.**~~

~~**Fifth, contracts should be for a length greater than only one year. Given the potential administrative costs of an EEAASR procurement, and the operational costs for resource-providers, multi-year delivery contracts feature far more compelling economics—significantly increasing the likelihood of a "least cost" procurement compared to supply side options. Multi-year contracts also provide more value and certainty to the end users who produce the underlying reductions.**~~

~~**Sixth, caution must be taken to ensure against non-delivery. The Agency recognizes that eligible retail customer interests are only furthered to the extent that lower-cost resources are actually delivered. Should non-delivery occur, replacement super-peak supply would have to be procured on the spot market at a potentially greater cost. Therefore, the Agency would need strong credit requirements and non-delivery penalties, perhaps mirroring those for conventional supply contracts. Failure to deliver the resource by a supplier should not create additional costs for eligible retail customers.**~~

~~**Seventh, EEAASR resources may be procured from customers throughout each utility's service territory (not**~~

~~**merely from "eligible retail customers", but also from competitive-class customers**~~

~~111 20 ILCS 3855/1-5(A); see also 220 ILCS 5/16-111.5(d)(4) (using the same language as the Commission's standard of procurement plan review).~~

~~112 Workshop questions and responses may be found here: http://www2.illinois.gov/ipa/Pages/Plans_Under_Development.aspx.~~

~~113 See Docket No. 12-0544, Final Order dated December 19, 2012 at 234-35.~~

~~114 Three notes on this principle: first, based on feedback received to date, the Agency believes the market currently has and will continue to develop demand-side alternatives featuring strong enough price differentials to provide the lowest total cost to customers; second, as some degree of forecasting is required, the Agency does not believe that the procurement *must* produce lower costs, only that it is *more likely than not* to do so, and thus should be pursued as a strategy expected to bring customer benefits; and third, to the extent quantifiable, the value of any reduction in wholesale LMPs should be considered.~~

~~115 Additionally, price and load-sensitive products are already being offered to the market through demand response and real time pricing options.~~

### ~~7.1.3 EEAASR Procurement Proposal~~

~~**With these principles in mind, the Agency proposes a procurement event for energy efficiency as a supply resource with the following characteristics.**[116]~~

- ~~**Super-Peak Blocks Using on Pre-Scheduled Dates/Times: The Agency proposes procuring a demand-side product delivered during the hours of 3 p.m. to 7 p.m. CST on summer non-NERC holiday weekdays (e.g., 4-hour blocks for 5 days a week—other than July 4th if it falls on a weekday— for the period running from June 1 through August 30). This equates to approximately 260 hours per delivery year. To the extent load reductions during the super-peak time result in load shifting to other times, the cost impact of the load reductions should net out the expected increased costs incurred by eligible retail customers at those other times.**~~
- ~~**Multi-Year Contracts: The Agency proposes to procure 3-year delivery contracts of EEAASR products. The Agency believes that this contract length best mitigates administrative costs and supplier overhead, while capping contract length in a manner consistent with the IPA's scheduled block procurement of supply.**~~
- ~~**100 kW blocks: The Agency proposes to procure 100 kW demand-side resource blocks. The Agency believes that this block size should be small enough to allow for broad participation and appropriately accommodating of small programs. The Agency notes that large load-reduction programs can purchase multiple blocks, and all load-reduction programs may aggregate to purchase individual or multiple 100 kW blocks. To ensure that procurement volumes remain consistent with other energy supply resources procured by the IPA, the Agency proposes to measure blocks by average kW over the block period. .**~~
- ~~**Late 2015 Procurement; June 2016 Delivery: As an EEAASR procurement will require new contracts and EEAASR suppliers will need ramp-up time to secure and develop resources, the Agency believes that conducting a Spring 2015 procurement or expecting Fall 2015 delivery decreases the likelihood of a successful procurement. By adopting a longer timeframe, the Agency will have time to work through administrative complexities and allow for the market to properly organize. This**~~

~~timeline will also allow for updating the March 2016 load forecasts to include the results of the EEASR procurement in identifying the supply gap remaining to be filled in a Spring 2016 procurement.~~

- ~~**Summer Procurement Only:** While arguments can be made for including a winter EEAASR product in this procurement, the periods (and magnitude) of high winter peak prices are generally less predictable than during the summer. The Agency would prefer to demonstrate the merits of an EEAASR procurement before pursuing what may be a more challenging model with a winter EEAASR procurement, and notes that a winter EEAASR procurement may be most effective if driven by triggered price or load thresholds.~~
- ~~**Optionality:** The Agency is proposing a late 2015 Procurement for June 2016 delivery. If the Agency concludes that administrative costs may be too significant relative to volume likely to be procured, that the market is not appropriately mature, or should some other reason or barrier emerges that causes the Agency to believe that an EEAASR procurement would not be in the best interests of customers, the Agency—in consultation with ICC Staff, the Procurement Administrator, and the Procurement Monitor—would seek to make a formal request of the Commission to cancel the procurement. This request would be made through a filing with the Commission no later than August 2015.~~

~~116 As part of approving the procurement of energy efficiency as a supply resource, the IPA specifically requests ICC determination as to whether EEAASR resources satisfy the statutory definition of "standard wholesale products." See 220 ILCS 5/16-111.5(b)(3)(iv) ("A plan for meeting the expected load requirements . . . shall include . . . the proposed mix and selection of standard wholesale products for which contracts will be executed . . .").~~

#### ~~7.1.4 EEAASR Procurement Issues to Resolve~~

~~In addition to these characteristics, there are several issues not yet resolved which should be determined prior to an EEAASR procurement. The following is a sampling of those issues:~~

- ~~**Vendor/Program Qualification:** The Agency believes it may need to adopt a rigorous qualification process for EEAASR procurement resources. This process would ensure that while bids will ultimately be evaluated on price as required by Section 16-111.5(e)(4) of the Public Utilities Act, they are in fact new demand side resources for purposes of this procurement. While not making any specific recommendation in this Plan, the IPA suggests that the ISO-New England *Manual for Measurement and Verification of Demand Reduction Value from Demand Resources* may be an appropriate starting point for development of protocols for this procurement.~~
- ~~**Other Programs:** As a general matter, the Agency seeks to avoid overlap of delivered energy savings for this procurement and energy efficiency outcomes for measures instituted via programs authorized under sections 8-103 and 16-111.5B of the Public Utilities Act, and would prefer for an EEAASR procurement to elicit the development of new resources. However, some parties have suggested that the peak hours for which the EEAASR procurement takes place could be "backed out" of participation in Section 8-103 or 16-111.5B programs, thus allowing for dual participation without energy savings overlap. The Agency seeks continued feedback on this topic as well.~~
- ~~**Product Definition:** Prior to procurement, the Agency will need to develop a more refined definition of resources eligible to participate. It is currently unclear whether standby generation, energy storage, and combined heat and power should be eligible, and~~

~~the Agency believes there may other resource types it has not yet considered which could inform "product" definition. Further thought may also need to be given to the distinction between energy efficiency and demand response, and to the relevance of that distinction for purposes of this procurement. The Agency believes a more inclusive approach may be advisable to ensure that an EEAASR procurement reaches sufficient scale, but seeks additional feedback from parties on how best to define an EEAASR product.~~

- ~~Credit Requirements and Non-Delivery Penalties: Ideally, an EEAASR procurement would feature no more default or non-delivery risk than a standard energy supply procurement. The Agency has given consideration to approaches to ensure against non-delivery, but would prefer to better understand risks and benefits of various approaches before making a firm recommendation. The Agency looks forward to continued feedback from parties through this docket on how best to ensure that non-delivery risks are mitigated.~~
- ~~Verification: To ensure customer interests are properly protected, load reductions through an EEAASR procurement should be subject to strict measurement and verification requirements. While specific evaluation approaches will be driven by choices made on other unresolved items (such as product definition), the Agency believes that the Illinois Technical Reference Manual for Section 8-103 programs may be an appropriate starting point in the development of EEAASR evaluation protocols.~~

~~The Agency is hopeful that the Procurement Plan approval process, with comments on the draft of the 2015 Procurement Plan and the formal litigation of the filed 2015 Procurement Plan before the ICC, will shed further light on how best to resolve open issues. However, to the extent that open issues may remain, the Agency would be open to hosting workshops in Spring 2015 with an eye toward resolution of matters by Summer 2015 to prepare for a late 2015 procurement.[117] The IPA understands the breadth and depth of issues still needing resolution, but is confident that the proposed procurement and delivery schedule allows sufficient time to accommodate them.~~

~~117 Workshops may be necessary for the development of contracts as well, and open policy issues could be addressed coincidental to developing contract terms.~~

### ~~7.1.5 EEAASR Alternative Proposal~~

~~While the IPA believes it has the authority to conduct an EEASR procurement as outlined above and requests that the Commission consider approving that proposal, an alternative approach should also be considered.~~

~~The goal of the EEASR proposal is to lower the cost of power by focusing on offsetting the cost of power during high price summer hours. Another way to achieve this result – and one which may better-match the EEAASR proposal's goal – is by flattening the load shape of eligible retail customers. In this approach, not only could the quantity of peak block procurement be reduced, but the match between procured peak blocks and the actual load shape would also be improved and shaping costs[118] could be reduced.~~

~~The IPA therefore proposes the alternative (and perhaps simpler) approach of mandating the modification of the Section 16-111.5B third-party RFP process to specifically seek out programs~~

~~**that would reduce demand during peak hours and provide additional incentives for those programs while remaining cost effective.**~~

~~**To approve this alternative approach, the Commission should require the utilities to modify their Section 16-111.5B third-party RFPs in the following manner.**~~

- ~~**Specifically include a request for proposals for targeted programs that could identify and demonstrate reductions during peak periods.**~~
- ~~**Update the TRC test for these targeted programs to use a time-specific avoided energy cost that would account for the higher price of power that is offset. This would allow for greater flexibility in programs that could bid.**~~
- ~~**Provide an additional financial incentive to these programs for demonstrated peak period kWh reductions. This additional incentive could take on the form of the difference between the estimated average energy cost and the estimated energy cost during peak periods.**~~
- ~~**For the reasons described in the IPA's core EEASR procurement principles, these bids should be for programs of at least three-years in duration.**~~

~~**The impact of this approach would manifest itself in a change to the hourly load profile of eligible retail customers, thus reducing procurement needs for times when price and load are highest.**~~

~~**118 Shaping costs and risks are discussed in the 2014 Procurement Plan in Sections 6.5.2.1 and 6.6.1.**~~

## CERTIFICATE OF SERVICE

I, Mark W. DeMonte, an attorney, certify that a copy of the foregoing Objections to the Illinois Power Agency's Proposed Procurement Plan, along with Appendices 1 and 2, was filed on the Illinois Commerce Commission's e-docket and was served electronically to all parties of record in this docket on this 6th day of October, 2014.

*/s/ Mark W. DeMonte*
Mark W. DeMonte
Attorney for Ameren Illinois Company