Power Procurement Post 2006

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Ameren's Procurement Guidelines

- Procurement Process Goals
  - Create a well designed RFP process that is fair to all bidders
  - Provide a process that is transparent to the market, ICC and FERC
  - Yield a competitive, fair market price for Regulated Generation Service, free of the influence of market power
  - Maintain reasonable customer protections and mitigate market volatility to customers in 2007 and beyond

Questions to consider when thinking about Post 2006 Power Procurement

- What supply products should the Illinois utilities procure?
- How should the desired products be procured?
- How should the cost of the resulting power contracts be recovered from customers?
- What impact should power procurement have on tariffs?
- Is there a need for ICC guidelines?

What supply products should the Illinois utilities procure?

- Survey of supply procurement by utilities in other jurisdictions has shown that two general approaches are being used:
  - "Standard Offer Approach" - RFP for slices of load for regulated service (each slice is the same product)
  - "Portfolio Management Approach." - RFP for portfolio of traditional supply contracts (e.g., baseload, peakload, capacity release options, load following service, other ancillary services) actively managed by the utility

What supply products should the Illinois utilities procure?

- "Standard Offer Approach"
  - Regulated service obligation is sliced into "load shares" (a.k.a. "traunches", "slices") of full requirements services, which are bid out to competitive suppliers
  - Number of "load shares" can be set to supply customer class load or the system load
  - Bidders acquire and manage the portfolio necessary to meet their obligation
  - Suppliers have load-following responsibility

What supply products should the Illinois utilities procure?

- "Standard Offer Approach" (Continued)
  - Overlapping contracts with durations from 1 to 5 years to manage market volatility
  - ICC would pre-approve design of the RFP/auction approach, with resulting contracts deemed prudent
  - Cost of ICC approved RFP/auction outcome becomes generation component of retail rates for regulated supply service (i.e., costs are passed through)

What supply products should the Illinois utilities procure?

- "Standard Offer Approach" ***Pros***
  - Relatively simple and transparent
  - Regulatory track record established – most restructured states are using it for post-rate freeze procurement and finding success
  - Allows participation of diverse group of suppliers
  - Provides customers with a stable price to compare with retail market options

What supply products should the Illinois utilities procure?

- "Standard Offer Approach" ***Cons***
  - Fewer "types of products" than portfolio approach; may require teaming approach for single-asset generators
  - Rate design flexibility may be somewhat limited

What supply products should the Illinois utilities procure?

- "Portfolio Management Approach"
  - Utility performs resource planning function and purchases/manages a portfolio of contracts to meet its demand for regulated service
  - Utility files RFP process and obtains approval from ICC
  - Utility acquires portfolio of resources from list of possible products (base load/intermediate/peaking, seasonal blocks, spot purchases, reserves, capacity release options, ancillary services)

What supply products should the Illinois utilities procure?

- "Portfolio Management Approach" (Continued)
  - Utility has active, daily portfolio management responsibilities, including load following responsibility
  - Prudence based on adherence to the ICC-approved plan, not after-the-fact results

What supply products should the Illinois utilities procure?

- "Portfolio Management Approach" ***Pros***
  - Utility has high flexibility in product procurement
  - Less supplier sophistication required (i.e., suppliers can bid standard products)
  - Consistent with traditional IRP and "Energy Plans"

What supply products should the Illinois utilities procure?

- "Portfolio Management Approach" ***Cons***
  - Selection and evaluation of supply portfolio is complex; complexity reduces transparency of process
  - Contentious regulatory process (procurement decisions easily second guessed based on after-the-fact analysis).
  - Final cost of supply not known until after the fact; this could hamper the ability for customers to shop the market
  - Potentially creates stranded cost risk for remaining customers due to unanticipated customer switching, etc.

How should the desired products be procured?

- Alternative procurement and pricing options are available for RFP process, such as:
  - Multi-round bidding with paid-as-bid pricing
  - Bidding processes with uniform pricing for all awarded bids

- Uniform pricing requires highly standardized product (i.e., standard offer approach) but:
  - Allows suppliers to bid the best offer and obtain market price without speculating where the market might be
  - Reduces risk of contract disputes with suppliers who guessed wrong and priced power below market
  - Allows for "price taker bids" to address market power concerns (e.g., must run generation, pivotal suppliers)

How should the cost of the resulting power contracts be recovered from customers?

- Options Include
  - Include generation costs in cost of service in traditional rate case
  - Institute generation cost recovery clause (similar to fuel adjustment clause)
  - Use standard offer price from RFP/auction process as generation component in tariffs

What impact should power procurement have on tariffs?

- Many tariff decisions need to be made before procurement process begins

- Procurement process must mesh with:
  - Tariffs offered
  - Terms and conditions (e.g., switching rules)

- Example - - if large customers want fixed-rate generation price, should agree to one-year term

Is there a need for ICC guidelines?

- Guidelines for post-2006 power supply procurement are needed to:
  - Create a transparent, competitive procurement process that is open to the widest group of suppliers.
  - Provide for full ICC monitoring and approval of the procurement process
  - Allow power to be procured in 2005 and 2006

Ameren's Power Procurement Solution

- Use standard offer product and process
  - Pre-approved by ICC (and FERC)
  - RFP/auction process determines suppliers and price
  - Price from RPP/auction process becomes generation component in tariffs

- Results
  - Competition enhanced
  - Generation suppliers take on generation responsibilities
  - Utilities deliver electricity