

# The Market Value Index ("MVI")

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Workshop

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# Introduction

Q. What is the MVI?

A. In Illinois, the MVI is a projection of energy prices based on forward prices for electricity in the mid-west regional market.

# MVI: It's the law.

- The MVI appears in three significant contexts in the Public Utilities Act.

# MVI: It's the law.

- A MVI is currently used to set transition charges paid by customers on delivery services (taking retail “choice”) during the transition period.
- A MVI is used to determine the costs of the energy component of the Power Purchase Option (“PPO”) that is available during the transition period.

# MVI: It's the law!

- Section 16-110 (c) and (d) and Section 16-111(i) show the MVI as a measure of the cost of energy after the transition period.
- In particular, 16-111(i) designates the MVI as the measure by which to determine the “justness and reasonableness of the electric power and energy component of an electric utility’s rates for tariffed services.”
- The language presents the MVI+10% as a cap on the energy component of tariffed service.

# MVI: How does the MVI fit into the Procurement Discussion

- ◆ Regardless of the acquisition or procurement method proposed by the utilities and/or the Commission, the MVI appears in the act as a benchmark by which to judge the energy cost component of tariffed rates after the transition period.
- ◆ So whether there is a formal procurement methodology or not, it appears that the MVI is going to play a role in the procurement process, by setting a cap on the energy component of costs in tariffed rates.
- ◆ As a benchmark, the MVI could serve as *the* regulatory tool/arrangement used by the ICC to oversee an otherwise informal procurement process.

# MVI: Setting the Benchmark

- The goal of designing any Market Index is to make it both independent but relevant.
- This is often a difficult balance, made more so by the absence of a transparent marketplace in the Mid-West.
- However there is an expectation of a Regional Market that will be getting more transparent and robust with time—with LMP, FTRs, day-ahead markets, capacity markets, etc.
- As the transparency and the liquidity of the market improves, setting an independent but relevant index should become easier.

# MVI: As Procurement Oversight

- The MVI “cap” would not limit the price that can be paid to a particular supplier.
- The MVI would instead set a cap on the load weighted bundle of prices that can be charged to tariffed customers based on a “market basket” of the cost of energy in the Mid-West Regional Market.
- The MVI would need to reflect the load weighted full cost of energy.

# MVI: As a Procurement “Method”

- The MVI proposal reduces the need for regulatory oversight, other than on setting the MVI's, on energy acquisition by the utilities (market mitigation would still be needed).
- Assuming a good fit between the MVI and regional market prices for power, the process should police itself by providing a price to beat for the utility's suppliers and competitors.
- Assuming a relevant but independent index, the MVI should mitigate some of the affiliate concerns associated with power procurement and scheduling relative to the portfolio and the “tranche” procurement proposals.
- Utilities would be free to play in the market in order to minimize their costs, and to take advantage of changing conditions to maximize their profits and minimize their risk.

# MVI: Revenue sharing (True-Up)

- If acting merely as a cap on the energy component of “bundled” service, there will be no true-up. The MVI would be used to evaluate the results of whatever procurement process was in place (Full requirements “tranche” auctions, portfolios, etc).
- If MVI is the “procurement” method, the difference between the MVI and the ‘actual’ costs of a utility’s delivered power could be redistributed through a sharing mechanism (true-up).
- If no sharing mechanism was used, then the utilities would receive all of the benefits of finding energy for less than the MVI, but they would bear all of the risk of energy costs in excess of MVI.

# MVI: Adjustments

- Rather than a revenue based “true-up,” the MVI calculation could be adjusted from year to year to account for new market developments or regulatory requirements to allow a tighter fit between the MVI and the delivered cost of wholesale power.

# MVI: Wrap up

- I. Where used as the “procurement” structure
  - Utilities have great freedom to arrange power and to hedge their risks.
  - Regulatory oversight is simplified.
  - To the extent that the MVI provides an independent, but relevant measure of the regional market’s costs of delivered power, the MVI will reduce concerns about affiliate market power within specific utility territories.
  - Where the MVI is set in tandem with customer service “lock-in” switching risk is reduced.

# MVI: Wrap Up

- Class-specific, seasonal sets of MVI could be used to provide familiar rate structures for customers and as a vehicle to maintain price signals to customer regarding peak/off-peak/summer/winter costs to reduce load risk and provide price signals to customers.
- The MVI structure provides an incentive for utilities to find the least cost power (unlike a simple pass-through structure). A sharing mechanism would ensure that these incentives translate into lower priced power for customers.

# MVI: Wrap up

## II. As a cap

- Whether used as a procurement method, or the means by which to determine “just and reasonableness” of the energy provided via other procurement methodologies, the MVI will have a place in the regulation of “tariffed” energy.