REPLY COMMENTS ON THE 2010 PROCUREMENT PROCESS PURSUANT TO SECTION 16-111.5(o) OF THE PUBLIC UTILITIES ACT

PRESENTED TO

THE ILLINOIS COMMERCE COMMISSION

by

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Boston Pacific Company, Inc. ("Boston Pacific") appreciates the opportunity to submit these reply comments in response to the Illinois Commerce Commission's (the "Commission's") request for comments concerning the Spring 2010 Electric Procurement Events.[1] In our reply comments we focus on a select subset of comments that we believe deserve to be highlighted, discussed or in some cases clarified.

Full Requirements vs. block products: Constellation comments that the IPA should conduct future procurement events that rely upon the use of full requirements products. Constellation indicates that full requirement procurements would result in lower risk to consumers than the purchase of separate block products. Constellation also points to a recent analysis ("2010 Procurement Structure Analysis") conducted on behalf of Narragansett Electric Company d/b/a National Grid which was filed before the Rhode Island Public Utilities Commission. That analysis concludes that a full requirements structure would cost about $0.72/MWh more than a managed portfolio. Constellation views this cost savings as narrow and comments that "for this very limited benefit in cost due exclusively to the price for supply, consumers will be faced with considerably more costs due to increased risks."

Boston Pacific agrees with the general concept being presented by Constellation that one of the benefits of full requirement procurements is that risks are shifted from ratepayers onto the full requirements providers. While we did not perform a thorough review of the National Grid study, we have commented before on the importance of understanding the full costs of providing full requirements service to Ameren and ComEd customers. Quantifying these costs will provide a sense of the magnitude of the additional costs that consumers have historically incurred in addition to the costs that have resulted from the RFP purchases. This data can be used as an input to assess the merits of full requirements vs. block products procurements. For example, if the added cost to provide full requirements service in real time on top of block products, has been historically high, it may be worthwhile to consider the implementation of a full-requirements procurement process in which those risks and costs are assumed by suppliers. An analysis could be performed in which benchmarks for full requirements are created for the 2008 through 2010 procurement periods. These benchmarks would then be compared to the actual costs incurred by the utilities for those years.

Calculating the full costs of providing full requirements service to Ameren and ComEd customers would include the costs currently incurred to purchase spot energy supplies due to deviations of load from forecasts and load shaping. As background, one of the major cost differences between full requirements supply and block energy is the cost of matching up supply

[1] *Public Notice of Informal Hearing (Request for Comments) Concerning the Spring 2010 Electric Procurement Events Which Were Held On Behalf of Commonwealth Edison Company and the Ameren Illinois Utilities (Ameren-CILCO, Ameren-CIPS, and Ameren-IP),* Issued 5/28/2010.

with actual load, a process called load-shaping. Winning prices in RFPs for block energy products tend to be below what the utilities actually end up paying for energy, while that is not the case for the full-requirements products. Energy demand fluctuates day-to-day and within days, so a block of energy at a constant number of MW will need to be supplemented with market purchases and sales to match output with demand. These market interactions will tend to raise the price of electricity. This follows from a simple line of reasoning about matching supply to demand. The block energy solicited in these RFPs is an estimate of average demand for a month. When demand is higher than this average, as it will be at some point in a month, and the utility must go to the market to purchase additional energy, prices will tend to be high because less efficient units will have to be switched on to meet this higher demand. When demand is lower than this average, and the utility must sell energy in the market, prices will tend to be low because only the more efficient units will be needed to meet this lower level of demand. Thus, load-shaping block energy products tends to cause utilities to buy high and sell low, increasing costs above the price of block energy.

Understanding the full costs in Illinois would also make possible comparisons between Illinois and other jurisdictions. We note that many other states have chosen to implement full requirements procurements. That is the case of Delaware, the District of Columbia, Maryland, New Jersey, Ohio, and Allegheny Power in Pennsylvania. Boston Pacific is the procurement monitor for the annual full requirements auctions held in these states.

Acceptance of Green-e certificates for REC procurements: Constellation comments that ComEd bidders were precluded from utilizing RECs that carried Green-e certification and that Green-e certificates should be acceptable for future REC procurements. As a clarification, Green-e certified RECs were not precluded from the REC RFPs, but Green-e certification alone was not sufficient; RECs would still have to be provided through a recognized tracking system, such as PJM-EIS GATS or M-RETS. While Green-e provides verification of the source, technology, and vintage of RECs, it does not track RECs for trading or retirement purposes. A tracking system has been deemed to be necessary as an independent verification that RECs are only sold and retired once.

Having said this, both REC RFPs should accept RECs from any reasonable REC tracking system. In addition to M-RETS and PJM GATS, there are an additional five REC tracking and certification systems in the United States that should be allowed in the REC RFPs: (a) the Michigan Renewable Energy Certification System, or MIRECS (b) ERCOT's My REC; (c) New England's NEPOOL GIS; (d) WECC's WREGIS; and (e) the North American Renewables Registry. In fact, Ameren uses a simple system, wherein suppliers can retire RECs in Ameren's name in any tracking system and only need to provide proof to Ameren once the RECs have

been retired. This process removes the need for Ameren to maintain accounts in tracking systems or for suppliers to pay for and transfer RECs between tracking systems.

REC RFP collateral requirements: As Staff pointed out, one difference between ComEd and Ameren's REC RFPs was the amount of collateral required. We support Staff's recommendation to have REC collateral requirements for both RFPs be set at 10% of the remaining contract value, as was done by Ameren's REC RFP this year. We also support Staff's recommendation for ComEd's REC RFP to grant unsecured credit limit to REC suppliers, as was done by Ameren's REC RFP this year.

By supporting these limitations on collateral requirements, we recognize that some suppliers may not have to post any collateral at all. However, we still want to ensure that suppliers are presented with a disincentive for default. As a result, we support adding a non-monetary penalty for failure to supply, such as banning defaulting suppliers from future REC procurements.

Time between bid day and bidder notification: Constellation comments that shortening the amount of time between submission of bids and when bidders hear whether they have won any supply could result in lower bid prices, and that one helpful step is to tell bidders on bid day, after bids have been evaluated, whether any of their bids will be recommended to the Commission as winning bids. If bidders see a benefit in hearing this information, we see no harm in providing it to them, as was done for the ComEd RFPs this year. The notification process should be made consistent between all RFPs. Bidders must understand, however, that such notice – or lack of notice – does not guarantee that any of that bidder's bids will or will not, in the end, be approved by the Commission as winning bids. All bids should still be required to remain open until the Commission has issued its final decision.

As noted by Constellation the procurement administrators have made successful efforts to shorten the time period between bid day and Commission review from two days, which is allowed under the Public Utilities Act, to just one day. Furthermore, the Commission has also made an effort to shorten the time to issue a decision on the procurement results. This may have reduced prices received somewhat from what they otherwise would have been. However, we note that further reductions in time would be difficult to achieve without jeopardizing the quality of the post bid report that the Act requires the Procurement Monitor and Procurement Administrator to submit to the Commission.