

**Reply Comments of Commonwealth Edison Company
Concerning Five Recent Procurement Events Which Were Held On
Behalf of Commonwealth Edison Company and the Ameren Illinois
Utilities (Ameren-CILCO, Ameren-CIPS, and Ameren-IP)**

Four parties submitted comments in response to the Illinois Commerce Commission's ("Commission") Request for Comments on the recent procurement events. They were Boston Pacific Company ("BP" or the "Procurement Monitor"); NERA Economic Consulting ("NERA" or the "Procurement Administrator"); the People of the State of Illinois (the "AG"); and Constellation Energy Commodities Group, Inc. ("Constellation"). Commonwealth Edison Company ("ComEd") submits these comments in reply.

1. Procurement Administrator

ComEd either agrees with or does not oppose all of the comments submitted by NERA. There is only one of NERA's comments that ComEd wishes to submit further comments on.

A. Bilateral Credit

ComEd agrees with the recommendation of both the Procurement Administrator and the Procurement Monitor that the issue of bilateral credit should be re-examined in future procurement events. While ComEd was supportive of providing reciprocal credit for the recent procurement event, that support was largely based on the desire to attract as

many suppliers as possible given the public debate that occurred in 2007 regarding rate freeze legislation, as well as the relatively small size of the procurement event. The recent procurement event procured less than 20% of ComEd's need for a one-year period. Future procurement events will procure energy for larger percentages of ComEd's load and could well be for longer periods of time. The issue of the need for reciprocal credit should be considered by the Illinois Power Agency ("IPA") as it works with the Commission and other interested parties to develop standard contracts for use in future procurement events. In general, if the procurement process is accepted and supported by all stakeholders (or, as in this case, specified by law), and tariffs are in place that assure full and timely recovery of supply costs, the need for reciprocal credit is greatly reduced if not eliminated. Suppliers may also be better positioned to accept and price this risk, to the extent that there is any, at a lower cost to customers than having the utility provide reciprocal credit.

2. Attorney General ("AG")

A. Prices Obtained in 2008 Procurement Event

The AG provides some comments regarding the prices obtained in the 2008 procurement event compared to the prices obtained in the 2006 auction. ComEd does not think it is useful to reopen the debate on the many issues that the Illinois General Assembly has resolved. However, ComEd does want to take this opportunity to clarify certain misstatements in the AG's filing in order to help avoid customer confusion. The

AG comments on the fact that wholesale prices have increased significantly but that the impact to customers has been mitigated due to the financial swap that was negotiated between the AG's office and Exelon Generation ("ExGen"), as well as the remaining auction contracts. The AG's office goes on to state on page 7 of their comments that "the good news for ComEd customers is that they will pay a lower average price (\$62.69) for electricity during the coming year than the price (\$64) established by the 2006 auction for electricity during the coming year." ComEd agrees with the comments regarding the value of the swap and remaining auction contracts, but disagrees with the comment about the impact on customers' bills as it is not accurate. As required by the Public Utilities Act (220 ILCS 5/16-111/5(i)), after the 2008 procurement event, ComEd made an informational filing with the Commission setting out the retail supply charges that reflected all of the costs associated with the 2008 procurement event, including the impacts of acquiring capacity, ancillary services and load following.¹ That filing is publicly available.² When translated to a retail rate, ComEd residential retail customers will pay an estimated 2.5% more in their supply charge beginning with the June 2008 billing period than they did in previous delivery periods.

The AG's comments refer to \$62.69/MWh as representing the resulting power price for customers in the coming year after giving recognition to the results of the recent procurement event. It is important to understand that this is just a simple average of the

¹ Load following represents the cost associated with providing energy to meet the actual usage requirements of customers as it changes minute by minute. Since the energy obtained in the 2008 procurement event and in the swap with Exelon Generation is for a constant amount, ComEd must buy or sell power in every hour to meet actual load requirements. Depending on market conditions, this cost can be substantial. In fact, in the informational filing ComEd estimated this cost to be \$3.50 MWh for the June 2008 to May 2009 delivery period.

² See the transmittal letter of April 29, 2008 from Lawrence S. Alongi to Ms. Elizabeth Rolando accompanying the Retail Purchased Electricity Charges Information Filing.

24 monthly on and off peak block energy prices, and is not an “apples to apples” comparison to the \$64/MWh price established by the 2006 auction. It appears that there are a few incorrect assumptions or misinterpretations of available data relied upon to develop the AG’s number. First, the AG’s comments suggest that the load weighted average price of energy obtained in the 2008 procurement event is \$63.66/MWh. However, the actual load-weighted average price is \$67.70/MWh. Second, the AG’s comments also appear to understate the costs for capacity and ancillary services. Finally, the AG’s number admittedly does not include an assessment of the costs for following the load. Since these costs can be substantial, a comparison to the results from the auction, which procured a full requirements product, is inappropriate.

These comments are not intended to highlight a comparison between procurement methods since there are a number of other differences and risks that are not even discussed here. Rather, the intention is to clear up any confusion around customer impacts.

The AG concludes her discussion of the prices obtained in the 2008 procurement event by recommending that the Commission and the IPA consider establishing stricter market-based benchmarks in order to eliminate any difference between the load-weighted average price of the winning bids and wholesale market prices on the day the bids are received. While ComEd supports continual evaluation of and improvements to the benchmark-setting process, it is not clear to ComEd that the AG’s goal is achievable as it appears to be based on an apples-to-oranges comparison. Bidders in the ComEd

procurement process are required to hold their bids open for a period of up to 9 days. This added risk has a cost that is built into the price of the bids. While it is not clear what wholesale market prices the AG is referring to, prices quoted on markets such as NYMEX do not include the cost of such a risk and would be expected to be somewhat lower in price. Any process to establish benchmarks will need to be aware of this fact and account for it in any benchmarks that are established.

B. Use of Benchmarks for Renewable Energy Certificates (“RECs”)

The AG recommends that the Commission adopt benchmarks to reject in-state bids that deviate significantly from regional market prices. The basis for this recommendation is a disagreement with the priority established by the Illinois General Assembly for the procurement of RECs. The IPA Act requires that 75% of the RECs procured be from wind generation, and further provides a preference for RECs generated from Illinois sources. ComEd believes that the Commission needs to move cautiously in this area and should not establish benchmarks for the purpose of revising the statutory scheme. The value of benchmarks is as a tool for comparing bids to market prices to help ensure that the bids are within a range of reasonableness. However, the development of benchmarks assumes that a liquid market exists for the commodity being looked at in which the prices are highly transparent. Before requiring the development of benchmarks, the Commission would need to assure itself that such a market exists for RECs. ComEd does not believe that such a market for RECs exists today. Establishing such benchmarks would be difficult given the current state of the renewable market.

C. Disclosure of Confidential Information

The AG recommends that the Commission and the IPA promptly disclose all information about the 2008 and 2009 procurements that is not expressly designated as confidential under statute, rule or regulation. However, it is not so clear how much discretion either the Commission or the IPA has on this issue. Section 16-111.5(h) of the Illinois Public Utilities Act (“PUA” – 220 ILCS 5/16-111.5(h)) provides that the names of the winning bidders and the load-weighted average prices for each product should be made public, but that “all other supplier and bidding information” shall remain confidential. That section does not allow any entity, including the Commission or the IPA, to publicly disclose any other information “absent a compelling demonstration of need[.]” Moreover, the purpose for this confidentiality provision is to encourage participation in the procurement process by a wide range of suppliers many of whom do not want to have their confidential, competitive bidding information and strategies to be made public. In addition, disclosure of such highly competitive information could adversely affect the robustness of the bidding process.

3. Constellation

A. Shorten Window Between Bid Submission and Execution of Contract

Constellation suggests that the window of time between bid submission and contract execution be shortened, and specifically proposes that contracts be executed within one business day of Commission approval. ComEd does not believe that this proposal is realistic. The contract execution process requires the development of a confirmation for each product won by each supplier. This will typically involve the development of a hundred or more confirmations. ComEd does not have access to the information necessary to complete the development of the confirmations until after the Commission approves the results of the bidding. Completing the confirmations requires a full day of work in and of itself. The confirmations must then be sent by overnight mail to the suppliers for their review and execution, and then overnighted back to ComEd for its final review and execution. This process simply cannot be done in shorter than three days. Moreover, the contract execution process is purely administrative. Suppliers face little, if any, risk that ComEd will decide at this point not to execute the agreements.

B. Standardization of Procurement Events

Constellation suggests that more of the procurement events and processes be standardized. ComEd is not necessarily opposed to this. However, it may need to be done over the course of the next several procurement events. There are many differences

in the systems and operations of ComEd and the Ameren companies, as well as the fact that they operate in different regional transmission organizations. ComEd and Ameren had worked to standardize a great number of the contracts, form and processes in the auction. However, that required a great deal of time, effort and resources. There simply was not sufficient time in the first procurement event under the new legislation to permit efforts to standardize the process to any great extent.

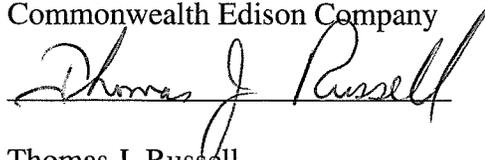
With the IPA handling future procurement events, there will be some opportunity to standardize the processes and ComEd is willing to work to do so. However, the IPA has a significant amount of work ahead of it in organizing its agency and conducting its first procurement event. It is more important that the IPA spend time putting those initial building blocks in place than that it spend inordinate amounts of time and resources revising systems and processes that worked well for the first procurement event. In addition, it is equally important that we ensure that whatever contracts, forms and processes are put in place mesh well with the respective systems and operating

environments of both ComEd and Ameren. This will very likely require that many differences remain.

Respectfully submitted,

Dated: May 29, 2008

Commonwealth Edison Company

A handwritten signature in cursive script that reads "Thomas J. Russell". The signature is written in black ink and is positioned above a horizontal line.

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