Ameren ILLINOIS

September 14, 2012

Ms. Arlene A. Juracek
Illinois Power Agency
Michael A. Bilandic Building, Suite C-504
160 North LaSalle Street
Chicago, IL 60601

Ameren Illinois Comments to the Illinois Power Agency's Procurement Plan

Pursuant to Section 16-111.5(d) (2) of the Public Utilities Act, Ameren Illinois Company (Ameren Illinois) respectfully submits comments to the proposed Procurement Plan (Plan) submitted for public review and comment on August 15, 2012. Ameren Illinois first would like to compliment the Illinois Power Agency (IPA) on the successful completion of the procurement events completed in the spring of 2012 and wish them continued success going forward. Furthermore, in reference to the Plan for the period June 2013 through May 2018, Ameren Illinois generally supports the concepts imbedded in the Plan as proposed by the IPA, but respectfully offers the following comments and recommendations in an attempt to strengthen the proposal and prepare it for implementation.

Ameren Illinois recommendations are also enclosed in a redline version of the Plan and are intended to highlight areas of the Plan that, in the opinion of Ameren Illinois, need modification or additional clarification.

Highlights of the comments are provided below:

1) On page 4 and pages 69-70 and in reference to capacity, the IPA proposes that Ameren Illinois procure 290 MW of capacity in 2013/2014 from the FERC approved MISO capacity auction and clarifies that this quantity may change based on updated forecasts from Ameren Illinois if mutually agreed upon by Ameren Illinois, IPA, ICC Staff, Procurement Administrator and Procurement Monitor. While all indications are that MISO will implement its annual capacity construct in 2013/2014, the mechanics and business practice manuals are still being finalized, which therefore leaves some operational uncertainty. At this time, Ameren Illinois expects the initial resource adequacy requirements (capacity) for each market participant in the Ameren Illinois control area will be based on a yet to be developed forecast provided by Ameren's local balancing authority (a separate organization from Ameren Illinois). The point is that the 2013/2014 Ameren Illinois capacity requirement in MISO may be based on a forecast different than the forecast provided in the IPA procurement plan. In addition and in order to accommodate the retail choice states where customer switching is so dynamic, we expect the MISO capacity market to include a settlement provision which calculates each market participants actual daily resource adequacy requirement on an after the fact basis (S7 or S14) multiplied

by the cost associated with the auction clearing price. This will become the final resource adequacy requirement. In order to allow for flexibility to address this operational uncertainty, Ameren Illinois recommends that the quantity of 290 MW be changed to state that Ameren Illinois will purchase any *remaining* 2013/2014 capacity in the MISO auction so as to satisfy the initial MISO resource adequacy requirement with any balancing of capacity requirements to be achieved through the MISO market or as otherwise required by MISO.

2) On page 18, Ameren Illinois notes that we have recently received updated information regarding November 2012 government aggregation referenda. This latest information increases our current estimate of the number of municipals and counties expected to pursue such referenda. While we do not have any detailed information about 2013 referenda at this time, it is possible the aggregating consultants will pursue this opportunity as well. While our expected forecast scenario suggests that a majority of residential load could be switched by June 2013, under our low forecast scenario, which includes higher switching assumptions, it is possible a significant majority of residential load could be switched by June 2013.

3) On page 4 and pages 62-65, and in reference to energy, Ameren Illinois notes the IPA is proposing no sale of the forecasted excess position for 2013/2014 and 2014/2015 which would result in such positions being sold through the MISO spot market. Ameren Illinois takes no position at this time, but believes the IPA proposal has both benefits and drawbacks, some of which may include the following:

Benefits:

a. The 2013/2014 energy hedges are moderately "out of the money" and selling may result in locking in a loss.
b. Buyers in any reverse RFP may seek purchases below market price.
c. The cost of administering a reverse RFP would be avoided.
d. A reverse RFP in spring 2013 would do nothing to mitigate price exposure between now and the RFP event.
e. Any increase in power prices during 2013/2014 could prove beneficial through the MISO settlement process, whereas a reverse RFP could remove this benefit.

Drawbacks:

a. Prices may continue to fall thus increasing the magnitude 2013/2014 hedges are "out of the money".
b. Switching to ARES may be higher than forecast, thus increasing the magnitude of the excess hedge position, which if coincident with falling prices would increase the magnitude of the "out of the money" position.

Ameren Illinois recommends the IPA list both the benefits and drawbacks of its proposal in the Plan and the basis for its recommendation in order to assist the Commission in its Order.

4) On page 3 and pages 54-55, the IPA recommends that the energy hedging plan be changed to 75% prompt year, 50% prompt year + 1 and 25% prompt year + 2. Since the IPA is

recommending no energy purchases under the Plan, it appears the intent of this proposal is associated with future procurement events. The appropriate energy hedging plan has been debated on several occasions starting with the Plan associated with 2008/2009. While Ameren Illinois appreciates the desire of the IPA to make changes as a result of multiple years of declining to flat prices and increasing customer switching, we also recognize this trend could change quickly. Given that the IPA is proposing no energy purchases associated with the Plan, the IPA may wish to consider delaying this proposal until the next Plan, which would further allow for the inclusion of an analysis that includes the impact of various hedging strategies on volatility and expected cost.

5) On page 4 and pages 56-59, the IPA recommends the Commission approve the expansion of existing energy efficiency programs for 2013/2014 where assessment suggests that such programs are cost effective. Given that Ameren Illinois is projecting significant excess energy hedges for 2013/2014, any expansion of energy efficiency programs would increase the magnitude of excess energy hedges, albeit in an estimated quantity less than a standard 50 MW block of energy. In light of the projected excess, Ameren Illinois would request the IPA to seek guidance from the Commission with respect to whether additional funds should be spent on the expansion of energy efficiency programs during a year where significant excess energy hedges would exist.

   Additionally, Ameren Illinois would respectfully request that throughout the Plan the term "proposed" be changed to "assessed" as Ameren Illinois has provided an assessment of energy efficiency programs rather than a proposal.

   Further, on page 59, Ameren Illinois would request that certain clarifications be made to the summary of Ameren Illinois' requests, which, as noted in the attached edits, could be addressed if the Commission thought it appropriate to do so at this time.

6) In several areas of the Plan, the IPA recommends Ameren Illinois provide updated load forecasts in November 2012 and March 2013 after the results of the government aggregation are known. Ameren Illinois supports this recommendation and will provide this information to the IPA, ICC Staff, Procurement Administrator and Procurement Monitor once available. Ameren Illinois will need to decide whether to use unofficial ballot results which are typically available shortly after the vote or wait for the official results which can take somewhat longer. This is logistical issue that can be addressed at a later date.

7) On page 4 and pages 73-76, the IPA references the inclusion of a clean coal sourcing agreement associated with Future Gen and recommends the Commission "approve the sourcing agreement and inclusion of this resource within the context of approving the 2013 Procurement Plan". Under the sourcing agreement, costs of Future Gen would be shared by all Illinois retail load on a load share basis. Ameren Illinois appreciated the opportunity provided by the IPA and Future Gen to review the proposed sourcing agreement prior to its inclusion in the Plan (this same opportunity was provided to ComEd and ARES). Some of our recommendations were included in the sourcing agreement provided in the Plan, however several other important recommendations were omitted. It is our opinion that the sourcing agreement as currently proposed does not provide adequate protection for Ameren

Illinois or its customers who take supply under our tariffs. Ameren Illinois welcomes the opportunity to continue discussions with the various parties to see if a mutually agreeable sourcing agreement can be included in the formal Plan to be filed with the Commission in late September and for which the Commission will issue an Order prior to the end of the year. Finally, Ameren Illinois notes that while the Plan is clear that the sourcing agreement applies to both utility fixed price load and ARES load, the implication to utility hourly price load is not clear. Ameren Illinois interprets the sourcing agreement to require hourly priced load to take its share of Future Gen. If this is the intent of the IPA, then we recommend it be stated in the Plan.

8) On pages 4 and 76-82, the IPA illustrates the yearly REC targets, previously purchased RECs and remaining budget for Ameren Illinois. The IPA recommendation is that no additional REC procurement should be associated with the Plan and that Ameren Illinois should continue to accumulate ACP from its hourly priced customers for use in future years in order to offset any potential reduction in quantity associated with the long term 2010 bundled REC and energy contracts caused by exceeding the budget. If the Commission does not prefer this recommendation, the IPA offers an alternative recommendation whereby a photovoltaic (PV) REC procurement for 2013/2014 would be pursued using ACP funds already collected by Ameren Illinois from hourly priced customers. Under this alternative, the quantity of RECs procured is uncertain because it would be a function of the price offered by suppliers and the ACP funds Ameren Illinois has collected. Ameren Illinois appreciates the difficulty associated with the renewable issue and the IPAs creativity in addressing the issue. The following comments are offered in order to further discuss and clarify certain issues.

   In regards to the IPAs *primary* recommendation to not hold a REC procurement event and for Ameren Illinois to continue to accumulate ACP from customers on hourly priced load, Ameren Illinois supports this recommendation, but notes that no mention is made of whether the projected excess RECs for the 2013-2017 plan years is to be sold by the IPA. Ameren Illinois assumes that the IPA does not desire to sell these RECs, nor is the expectation that Ameren Illinois would do so. But Ameren Illinois recommends the IPA make its intentions known in the Plan. A distinction should also be made between the excess energy previously described and excess RECs, that is while excess energy can be sold through the MISO spot market, excess RECs can only be sold through a reverse RFP. Regarding the accumulation of ACP by Ameren Illinois and the use of such funds as a mechanism to offset any reduction in the quantities under the long term 2010 bundled REC and energy contracts, Ameren Illinois recommends the IPA describe in its Plan that such a proposal is consistent with the Renewable Portfolio Standard requirements.

   In regards to the IPAs *alternative* recommendation to hold a PV procurement for 2013/2014 using accumulated ACP, Ameren Illinois notes that ComEd has no such alternative recommendation, presumably because the ComEd budget is projected to be negative in 2013/2014. Ameren Illinois notes that having different strategies regarding the use of ACP between Ameren Illinois and ComEd could create issues with competitively neutrality because ACP funds for Ameren Illinois would be used for incremental REC purchases, while the ACP funds for ComEd would be used to offset any reduction in the long term 2010 bundled REC and energy contracts. In addition, Ameren Illinois notes that under its *low* forecast scenario, the RPS budget could be exceeded in 2013/2014. Given this possibility, Ameren Illinois considers that a more conservative strategy would be a delay in the *alternative* one-year PV procurement until better information regarding the quantity of future load served becomes available.

In regards to the IPAs proposal that it may use ACP funds accumulated from real time pricing load or ARES load in order to offset any reduction in the quantities under the long term 2010 bundled REC and energy contracts, Ameren Illinois notes that such contracts have prescriptive language which describes the circumstances under which a curtailment occurs and that any curtailment in quantities would, by the bundled nature of the contracts, include both energy and REC quantities proportionally. This contract language requires Ameren Illinois to curtail under certain circumstances unless as directed otherwise by the Commission or statute. Therefore, under a scenario where the IPA uses ACP funds as an offset to any potential reduction in quantity under the long term contracts, Ameren Illinois recommends the methodology proposed by the IPA (whether real time ACP funds or ARES ACP funds) be approved by the Commission within the context of the Plan or pre-approved by the Commission at such time in the future when the proposed IPA methodology is agreed upon.

Ameren Illinois further notes that the budget cap for each forward planning year is in large part derived from the expected forecasted scenario for the load on its fixed price tariffs. Ameren Illinois recommends that the IPA state in the Plan that this forecast will become the basis for determining when ACP funds should be used to offset any potential reduction in quantity in the long term contracts. We also recommend that the IPA state that the forecasted budget should be the sole criteria in this regard and any after the fact calculation of budget would have no bearing.

Ameren Illinois appreciates the IPAs review of the REC position and the forward looking proposals. We have provided the above comments and recommendations which we believe will help clarify certain issues. Ameren Illinois will continue its review of this issue, including our obligations under the long term contracts, and will offer further comments and opinions in the docket.

9) On page 4 and pages 82-88, the IPA seeks approval of the general parameters of a Distribution Generation (DG) program. In light of the IPA recommendation that no REC procurement be associated with the Plan, Ameren Illinois contemplates that it may be premature to seek approval of such details at the time. One alternative is for the IPA to list the results of its workshops and other efforts regarding a future DG solicitation without seeking approval in this Plan. This will allow for additions and clarifications in the Plan next year as more information becomes available and the REC position of Ameren Illinois is updated. If the IPA determines that the parameters of DG REC program should be included in the Plan and Commission approval sought, Ameren Illinois will consider providing further comment in the docket as warranted.

10) On pages 5 and 91-92, the IPA recommends certain changes pertaining to the contract and credit development and review process, in large part based on informal improvement opportunity comments received after the 2012 procurement process. Ameren Illinois

appreciates the desire of the IPA and other interested parties to streamline the contract and credit development and review process. Ameren Illinois is of the opinion that the process has become much easier is recent years and while further improvement opportunities exist, ever changing market dynamics merit an annual review of contract and credit terms, followed by a supplier comment period. In addition, on some issues, the utilities should be allowed to have differences in credit and contract terms as necessitated by the operational environment of each RTO or differing internal risk and credit policies. Ameren Illinois therefore has respectfully provided redline changes to the IPA proposals as highlighted below:

- Regarding the Boston Pacific recommendation that the pre-bid letters of credit be harmonized, Ameren suggests changing the language so the recommendation is that Ameren Illinois and ComEd will pursue a mutually agreeable pre-bid letter of credit. This is in contrast to the IPA proposal which appears to mandate that one pre-bid letter be used.

- Regarding the Boston Pacific suggestion that Ameren Illinois adopt the ComEd post-bid letter of credit, Ameren Illinois interprets Boston Pacific's suggestion to be that Ameren Illinois and ComEd should pursue standardized forms of the post-bid letter of credit that are mutually agreeable, as opposed to the Plan recommendation that Ameren Illinois adopt the ComEd form. Ameren Illinois recommends this language also be revised accordingly.

- Ameren Illinois has concerns regarding the IPA proposal that existing agreements with suppliers act as the agreement for future transactions and where no agreement exists, the agreement from the last procurement cycle should be used. Under this scenario, suppliers could have differing terms for the same product, thus jeopardizing the desire for a price only assessment of supplier offers. For example, if a supplier last was awarded capacity in the 2011/2012 procurement, they would be using an agreement that has no terms associated with the pending MISO ZRC construct, whereas a supplier that has never been awarded capacity would sign the agreement associated with the 2012/2013 procurement which has terms associated with the pending MISO ZRC construct. Given the dynamic changes associated with power markets, Ameren Illinois reiterates its opinion that an annual review of contract and credit terms and the consideration of supplier comments is in the best interest of all parties. Ameren Illinois therefore suggests the IPA recommendation in this regard be removed from the Plan consistent with our redline comments. In summary, Ameren Illinois is concerned that the IPA proposal as drafted, while well intentioned, could result in unintended consequences. Ameren Illinois supports a more deliberate approach to streamlining efforts and considering that no significant procurements are proposed for 2013/2014, Ameren Illinois believes the parties are afforded this opportunity.

In addition to the comments provided in this cover letter, the attached redline version of the Plan may contain additional items not mentioned here.

Ameren Illinois compliments the IPA regarding the considerable effort associated with Plan development and appreciates the identification of numerous complex issues and subsequent proposals that are associated with the Plan. Ameren Illinois looks forward to working with the IPA to finalize the development and implementation of the Plan. If you have any questions or would like to discuss any of the comments pertaining to power supply, please feel free to contact me at 314-613-9181 or rmccartney@ameren.com. Questions or comments pertaining to energy efficiency should be addressed to Keith Martin at 309-677-5562 or kmartin@ameren.com. Questions pertaining to legal should be addressed to Ed Fitzhenry at 314-554-3533 or efitzhenry@ameren.com.

Sincerely,

Richard L. McCartney

Richard L. McCartney
Manager, Power Supply Acquisition
Ameren Illinois Company

Cc: Michael Strong - IPA
Julie Oost – Kelley Drye
J.Blessing, E.Fitzhenry, K.Martin, K.Goerss, K.Kansfield - Ameren Illinois
Richard Zuraski, Tom Kennedy – Illinois Commerce Commission Staff