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POWER AGENCY

Illinois Power Agency

RFP for Long-Term Renewable Energy and Renewable Energy Credits

Bidder Information Workshop

Monday, August 30, 2010

Plan Includes Procurement of Renewable Energy and RECs on a Long-Term Basis

- **Sep 30, 2009**: the Illinois Power Agency ("IPA") filed a procurement plan for each of Commonwealth Edison Company ("ComEd") and the Ameren Illinois Utilities ("Ameren")
  - Short-term energy and capacity
  - Short-term Renewable Energy Credits ("RECs")
  - Long-term renewable energy and RECs
- **Nov 9, 2009**: IPA filed Supplemental Recommendations ("Appendix K") to add and modify the procurement plan
- **Dec 28, 2009**: the Illinois Commerce Commission ("ICC") issued an Order approving Appendix K

Two RFPs, Two Contracts, One Common Framework

- Two RFPs: The IPA will solicit proposals separately for ComEd and Ameren
  - NERA Economic Consulting is the Procurement Administrator for the ComEd portfolio
  - Levitan and Associates is the Procurement Administrator for the Ameren portfolio
- Two contracts: The contracts that would be signed by ComEd and Ameren following ICC approvals of the bids rely on the standard ISDA Master Agreement
  - However, there are differences in the way the contracts are customized for ComEd and Ameren
  - Each contract is subject to a separate comment process
- One common framework: Contracts and RFPs faithful to Commission Order approving Appendix K (Docket No. 09-0373) and governing legislation (Illinois Power Agency Act and Public Utilities Act)

The Presentation Today Is in Three Parts

1. Overview of common framework provided by Appendix K and enabling legislation
   – Eligibility
   – Products
   – Bid Evaluation
   – Contract terms
   – Schedule

2. Details of ComEd RFP and contract

3. Details of Ameren RFP and contract

This is the First of Three Workshops

When	*Where*	What
Aug 30	*160 North LaSalle* *Room C500*	Joint session (ComEd and Ameren) RFP for procurement of long-term renewable energy and RECs
Aug 31	*160 North LaSalle* *Room C500*	Separate sessions 10-Noon: ComEd ISDA Agreement 2-4 PM: Ameren ISDA Agreement
Sep 01	*To be confirmed*	Joint session (ComEd and Ameren) 9:30AM-12:30PM: Additional Issues

Eligibility, Products, Evaluation

IPA solicits Bids for Up To 2,000,000 MWh on a Yearly Basis

- 1,400,000 MWh for ComEd and 600,000 MWh for Ameren
- Twenty year contract with a June 1, 2012 start for deliveries
- Energy and RECs – but not capacity – from a specific generating unit
- Each of ComEd and Ameren will have a specific budget for the purchase of RECs

Eligibility

- Renewable energy resources as defined under Section 1-10 of the Illinois Power Agency Act
- New and existing projects eligible
  - Existing projects must not already be under a long-term power purchase agreement
  - Offers by new projects must take into account any relevant transmission interconnection costs as well as the scheduled lead times to accomplish any required transmission interconnection work

Proposal Will Specify Bundled Price, Percentage, and Quantity

- Bidder offers a **single bundled price** for energy and RECs
- Contract is settled through a **fixed for floating** financial swap for energy and RECs
  - Fixed price is the bid price in the first year and escalates at 2% per year
  - Floating price is the day-ahead LMP at the utility zone
- **Quantity** is a specified percentage *times* net output of the project up to a target annual Contract Quantity
- Bidder specifies the bid price, the percentage and the annual quantity

Bids Must First Meet Benchmarks

- Bids that fail to meet the **benchmarks** established by the Procurement Administrator, the Procurement Monitor, and the IPA are eliminated
- Bids adjusted as needed to allow for **direct comparison of offers** from renewable resources that have significantly different production profiles
- Priority is given first to cost effectiveness, second to resource type then last to resource location
  - Cost effectiveness is on a price-only basis given acceptance of identical contract terms by all bidders for a given utility

Changes to Resource Type and Location Priorities Under the Act

- **Resource Type.** Bill HB6202 amended the Illinois Power Agency Act to give priority to solar photovoltaics in addition to wind starting in 2012

- **Resource Location.** Preference is given to projects in Illinois and its adjoining states over projects in any other state
  - Starting June 1, 2011 there is no longer a preference for resources in Illinois over resources in adjoining states
  - Adjoining states are Wisconsin, Iowa, Missouri, Kentucky, Indiana, or Michigan

Procurement Administrators and Procurement Monitor Make Recommendations to ICC

- Each Procurement Administrator fully evaluates bids in accordance with the Act
- Procurement Administrators and Procurement Monitor submit a **confidential report** to the ICC within two (2) business days of bids
- ICC renders a decision on the bids within two (2) business days of receipt of reports

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Contract Terms (Appendix K)

Energy Settlement is through a Financial Swap

- **Payments** are monthly and calculated as follows
- In each hour, calculate the difference between:
  - The fixed price (bid price escalated at 2% per year)
  - The floating price (day-ahead LMP at utility zone)

  and apply the difference to the volume of energy produced by the project times the percentage specified by the seller
- Add the amounts over all hours of the month
- If the difference is positive (on average, the fixed price exceeds the floating price) then the utility pays the seller this difference
- If the difference is negative (on average, the floating price exceeds the fixed price) then the seller pays the utility the difference

Price Used for Settlement is the Bundled Price

- There is **no separate payment** or price for RECs

- Although the floating price used is the day-ahead LMP at the utility zone, this is a financial settlement only
  - Energy is NOT delivered to the utility zone

- REC deliveries accounted for through the PJM GATS system or MISO M-RETS system

There Are Minimum Deliveries Under the Contract

- Same quantity applies for energy and RECs
- Seller must provide a minimum quantity (90% of annual quantity) but contract offers some flexibility in managing deliveries
- After contract commitments are met, seller retains full benefit and value of additional production
- Seller may carry-over up to 10% of the annual quantity to the following delivery year

Managing Deliveries: REC Shortfalls

- If seller fails to deliver at least 90% of the annual quantity in a year, seller has 90 days to deliver replacement RECs at least up to the 90% level
  - Replacement RECs must be of same resource type and locational preference
  - No payment will be made for replacement RECs
- Shortfalls of less than 10% can be made up with regular deliveries during the following year

Managing Deliveries: Energy Shortfalls

- If Seller fails to deliver at least 90% of the annual quantity for a given year, the utility will compare the average LMP for the delivery year to the fixed price for that year
  - If the average LMP is higher, the seller will pay the difference *times* a quantity that would bring the shortfall within 10%
  - If the fixed price in the contract is higher, no payment is made
- As with RECs, shortfalls of less than 10% can be made up with regular deliveries during the following year

Separate Credit Requirements for Energy and REC Portions

- **Energy credit requirement** is determined by comparing, on a three-year forward basis:
  - ATC energy value (annual quantity *times* forward ATC energy price)
  - Contract value (annual quantity *times* contract price)
- Collateral due from the seller is this difference if ATC energy value is higher than contract value
- Utility performs daily mark-to-market calculations

REC Credit Requirement Also on a Three-Year Basis

- Seller posts $5/REC in the form of cash or a letter of credit to cover the three-year forward period (annual quantity x 3)
- Utility can use collateral to purchase replacement RECs if seller does not cure short-falls in the minimum quantity to be delivered
- Utility has the right to terminate the contract if seller fails to deliver minimum amounts of RECs in a given year (after accounting for replacement RECs)

Utility Must Be Able to Recover Costs

- Utilities will recover costs of purchasing annual quantities of energy and RECs through ICC-approved tariffs
- Utilities will not be liable for any costs that cannot be recovered from customers through tariffs
  - For example, this could occur if purchases of RECs under the contracts come to exceed budget limits in the future

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Schedule

An Abbreviated Schedule Has Been Proposed

Original

- Final Contract: 9/7
- Pre-Qual/Part 1: 9/13
- LC and Reg Form/LC and Part 2: 9/24
- Bid Day: 9/30
- Contract Signe

Proposed Revi n

- Final Co /3
- Pre rt 1: 9/3
- Reg Form/LC d Part 2: 9/13
- Bid Day: 9/16
- Contract Signed 9/27

A decision was made to adopt the original schedule on the basis of all comments

Before tal ions, we solicit any further comments you may n using this proposed revision