

Recent Energy Market Updates – City of Chillicothe

Effective 5/25/2023

Ameren Rates Filings

Ameren's filings took place late on Friday, May 19th, 2023. Good Energy was able to gain access to the filings on Sunday, May 21st. Although the filings are not yet official, they rarely change substantially, especially during downward movement, except for very small components such as supply cost adjustments and purchased electricity adjustments over the 7-day period which then makes the rate "official".

Please see here the preliminary rates from June 2023-May 2024 as they are currently posted. The principal cause of the drop in rates is the reset in capacity prices, more on this in "**Capacity Auction Analysis**" below. Also, please note that there were several rate resets in the last 12 months, so the prices may change again in the following months.

Ameren BGS-1 Residential Rate is estimated to be \$0.08450 - \$0.08650.

New Aggregation Base Rate \$0.097

Variable difference for Residential Rate -\$0.0105 - \$0.0125

Current contract runs through December 2025

What does this mean for the Aggregation Group

As explained in our pre-bid meetings, with the extreme volatility in the energy markets, in terms of both commodity and capacity, aggregation programs have deviated away from the primary goal of consistently saving the residents money to seeking the best available rates, and allowing those rates to be insurance and protection during volatile times in the market while retaining the option to leave at any time without penalty.

Given the unprecedented and extreme volatility in the capacity market, Good Energy worked closely with the supplier to create a product that would allow for any drop in capacity costs to be passed through to the benefit of the customer. As a result of this innovative product's successful implementation, initial projected supply costs of about \$0.121 have dropped to \$0.097, allowing the group to capture all of the capacity savings.

The aggregation rate will, however, be above the first stated PTC of \$0.08450 - \$0.08650 principally owing to the fact that the energy commodity itself declined to new lows and Ameren's procurement was short term where the market was less expensive. However, given that the Group has locked in energy commodity rates for 29 months in a very low market, it is well placed for the long term, whereas Ameren customers are heavily exposed to the inevitable continuation of extreme volatility in commodity markets over the term. We do expect the value of the group's buy to be seen as both advantageous and prudent over the course of the contract.

Aggregation Group Options

As you well know, another key component of our aggregation program is allowing residents a cost free opt-out option. The program is designed for the residents to have a choice whether to participate in the program or not. We caution municipal leaders giving advice or opinions as to this option other than to make the option known to the resident. When doing so, please remind residents there is a utility hold after leaving the aggregation and returning to Ameren. If the resident does not choose a different alternative supplier within 60 days, they must remain with the Utility (Ameren) for an additional 10 months or 1 year total.

We also caution any community against publicizing or recommending mass opt-outs by residents. There are two specific reasons for our concerns. Primarily, verbiage in the contract prohibiting municipalities from purposely creating negative impact on enrollments. Two, politically, if a community recommends a mass opt-out of the contract and residents act on the recommendation and the market flip flops due to any of the concerns previously mentioned, and Ameren's rate increases dramatically like it did in the past 12-18 months, the political fallout to the elected officials could be damaging in the future. With that being said, it's best to leave the decision up to the individual residents, then there will be no blame placed toward municipal leaders. We do suggest you alert the proper authorities within your community to keep an eye out for Direct Marketers who may seek to take advantage of your residents with unfavorable offers through telemarketers and door to door solicitors.

Capacity Auction Analysis

Initially, there was a capacity auction in April 2023 which was cancelled, this being highly unusual. A subsequent capacity auction took place on May 17th, 2023. The previous capacity rate was established in April 2022 at \$236.66/MW-day up from \$5.00/MW-day

Since last year, there has been a structural change in the capacity auction platform from a yearly cleared price to a seasonal quarterly rate. Here are the new capacity rates below:

- Summer (June-July- August) \$10.00/MW-day
- Fall (September-October-November) \$15.00/MW-day
- Winter (December-January-February) \$2.00/MW-day
- Spring (March-April-May) \$10.00/MW-day

This drop in capacity prices was not only unexpected by Good Energy, but by other leading energy experts throughout the Midwest. Even the Midcontinent Independent System Operator (MISO) expressed concern for future capacity auctions, while highlighting the inherent challenges within the market.

“Reduced load forecasts and actions taken by members such as delayed retirements and increased imports may not be repeatable,” the grid operator said. Also, excess summer capacity

in MISO's southern region fell to 1,723 MW, or 5.1% above its reserve margin, down from 2,811 MW last summer, mainly driven by power plant retirements.

One of the leading energy market analysts, Vinay Gupta, from ICF, agreed with MISO's assessment. "The auction does not appear to solve the trend of declining reserve margins," he said. "The factors this time could be one-off."

Up until very recently, experts believed capacity would stay the same or even increase slightly since last year. The cancellation of the April auction gave more credence to the capacity rate increasing versus decreasing. Early last week was the first indication the auction would result in lower to moderately lower rates.

There continues to be a large question mark around future capacity auctions, with a reduction in excess summer capacity trending in the wrong direction and many of the reasons given for the capacity rates dropping being short-lived, such as delayed retirement of coal plants. Also, with weather forecasts showing strong heat in the Midwest region this summer, usage by consumers is expected to increase. We feel this, among other factors, will put a higher demand not only on capacity but on the commodity rate as well, resulting back to an upward trend. Also, several Ameren commodity supply purchases were made at extremely volatile periods at higher rates. These rates will eventually have to be passed on to residential and small business users.

Conclusion

Ameren's rates have dropped, but it is expected that high levels of volatility will continue in terms of both the capacity auction and natural gas market. Through December 2025 the current agreement provides 1. Stability in terms of locked in low energy commodity rates, 2. Flexibility in that any movement in the capacity rates will be reflected equally in both the aggregation and the utility PTC, 3. Protection from the extreme volatility in the commodity markets; all within the context of substantial uncertainty and systemic upside risks around the June 2024 and June 2025 rate resets. At all times there is also optionality since aggregation participants maintain the ability to leave the program at any time without penalty or remain with the program. Good Energy will continue to monitor and keep our communities up to date with the latest market news and how it impacts our program.

The opt out letters will be sent out within the next week or so.