

JOINT COMMENTS of WIND ON THE WIRES and THE ILLINOIS WIND ENERGY ASSOCIATION (IWEA) ON THE ILLINOIS POWER AGENCY'S DRAFT 2012 POWER PROCUREMENT PLAN – August 15, 2011

Wind on the Wires and the Illinois Wind Energy Association (“IWEA”) appreciate the time and effort the Illinois Power Agency has put into collecting and analyzing the necessary information to develop the 2012 procurement plan. After reviewing the Draft 2012 Procurement Plan and contemplating the best way to ensure environmentally sustainable electric service, Wind on the Wires’ and IWEA’s primary recommendations are that: [1] the utilities’ Expected Load Scenarios be used for estimating the volume of multi-year RECs to be procured; [2] a portfolio of multi-year REC products be procured within the hard budget limit; and [3] the energy volumes from long term renewable power purchase agreements be factored out of the proposed procurement volumes the Illinois Power Agency intends to use for 2012.

BACKGROUND

On August 15, 2011, the Illinois Power Agency (“IPA”) made its 2012 Draft Power Procurement Plan (“Draft Plan”) publicly available, as required by 220 ILCS 5/16-111.5 (d)(2). The Plan lays out a procurement strategy for both Commonwealth Edison (“ComEd”) and The Ameren Illinois Utilities (“Ameren”). Pursuant to 20 ILCS 3855/1-75, the Procurement Plan is to be designed “to ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time...” The IPA has requested comment by September 15, 2010.

To account for the highest level of consumer switching that may occur among the utilities and the alternative retail electric suppliers the Draft Plan proposes to use the utilities Low Load scenarios for the next five years and then project trendlines for the remaining fifteen years (“Low Load proposal”). In addition, the IPA proposes a “hard budget limit” for the RRB. The Draft Plan states that the cost obligations associated with the long term renewable power purchase agreements approved in the 2010 Procurement will be subtracted from the RRB for each of the next twenty years to yield a net RRB for each year, and that half of that dollar amount would be used in each year for twenty years. Those amounts would serve as a “hard budget limit” for this procurement. (Draft Plan at 49-50). The IPA invites parties to submit bids for periods of up to twenty years.

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COMMENTS

A. The Load Forecast Should be Based on the Utility’s Expected Load Scenario

The Draft Plan states that the Low Load scenarios “will be a portfolio volume that represents the highest level of estimated consumer switching away from the IPA portfolio.” We applaud the IPA for working with what information it is provided in trying to create an effective renewable resource procurement. However, using the utilities’ Low Load scenarios is overly conservative -- primarily for ComEd. The IPA’s Low Load

proposal uses the most conservative estimate of switching. For instance, ComEd's low load scenario is 8.8 million MWhs less than its expected load for 2012-2013, which is 69% of expected load. The forecasted low load flattens out from 2015 to 2017 at just under 14.5 million MWhs per year (forecasted for 2016-2017) -- which is 50% of the expected load in 2012-2013. Using the Expected Load scenario, instead of the Low Load scenario, in conjunction with the net RRB proposal (also referred to as the hard budget limit in the Draft Plan) would suffice. The hard budget limit will act as a cap on the number of multi-year RECs that may be procured. If the cost obligation of all of the multi-year REC bids that would be used to meet the RFP quantity exceeds the hard budget limit, the IPA would select the bids that would be rejected so as to reduce the cost obligation of multi-year RECs to below the hard budget limit.¹ The multi-year REC bids that were rejected would become one year RECs.

B. "Hard Budget Limit" is Overly Conservative

Wind on the Wires & IWEA recognize that the IPA is attempting to find a regulatory solution for load migration and we are open to trying a reduced RRB, for the limited purpose of this procurement, to see how well it works. While we understand the 50% value to be an attempt to preserve a portion of the RRB for future procurements, we'll note that it is unduly constraining for Ameren's Low Load scenario. Ameren is projecting an approximate 10% drop in load between 2012 and 2017 due to migration of

¹ This proposal is not intended to be a methodology for contract curtailments, but intended to be used during bid selection (prior to contracts being signed).

customers to ARES (2012 Draft Procurement Plan, Attachment C), and while Wind on the Wires couldn't find a Low Load scenario for Ameren, there are no facts supporting that its migration will approach a 50% value.

If it is the IPAs intent to use this method in future procurements, we'll note that the use of 50% of the RRB is unlikely to be a satisfactory long term solution given the constraint the reduced RRB would place on larger procurement volumes that would occur in the future.

C. Renewable Portfolio Proposal

Wind on the Wires & IWEA recommend the IPA offer a portfolio of products ranging from 1 year to 20 years. Each product type and duration should have its own benchmark. The multi-year products should be procured within the hard budget limit and one year RECs outside of the hard budget limit. If the cost obligations of the winning multi-year bids exceed the hard budget limit the IPA is to select the method of rejecting bids. In the event of a tie between bids of similar duration and price the IPA could consider the option of rejecting the bidder who relies on an out-of-state resource because that project brings no additional benefits to the state in terms of economic development.

We applaud the IPA's willingness to accept products with durations of up to 20 years. Such a proposal is the rightful application of the statute's requirement that the Agency assess bids by "taking into account any benefits of price stability" (20 ILCS 3855/1-20(a)(1)). However, to allow for the easiest and most effective selection of bids,

Wind on the Wires & IWEA propose that the IPA procure a portfolio of REC products with standardized terms of 1, 5, 10 and 20 years. Standardizing contract term lengths in this way allows for the easiest comparison of bids of a similar duration and makes the bid-selection process more efficient. Without standardized durations, the IPA and procurement monitor will be forced to compare pricing of a one-year REC with that of a 20-year REC, which is not an “apples-to-apples” comparison. Further, it makes the assessment of the statutorily-required preference for “benefits of price stability” that much harder to assess.

Wind on the Wires & IWEA recommend that the portfolio of multi-year RECs would be comprised of 5/10/20 year REC products with a majority being longer term products. It should reflect a portfolio split of approximately 25%/50%/25%. This would take advantage of the favorable conditions for long term products. The tables below estimate the volume of renewable energy that would be procured under Wind on the Wires & IWEA’s proposed portfolio for ComEd and Ameren using the Expected Load scenarios and the Low Load scenarios.

RPS Requirement - Expected Load

	Ameren	ComEd
Reference Year Delivered Volume	16,048,235	37,106,686
Planning Year RPS Volume Target (MWh)	1,123,376	2,587,398
Lowest Planning Year RPS Volume Target in next 5 Years (MWh)	1,123,376	2,143,691
Existing LT PPAs (MWhs)	600,000	1,261,725
Remaining RPS Volume Target (Lowest Planning - Existing LT PPAs) (MWhs)	523,376	881,966

25%	20 yr RECs (MWh)	130,844	220,492
50%	10 yr RECs (MWh)	261,688	440,983
25%	5 yr RECs (MWh)	130,844	220,492
	1 Yr RECs	0	443,707

RPS Requirement - Low Load

	Ameren	ComEd
Reference Year Delivered Volume	16,048,235	37,106,686
Planning Year RPS Volume Target (MWh)	1,123,376	2,587,398
Lowest Planning Year RPS Volume Target in next 5 Years (MWh)	1,123,376	1,574,107
Existing LT PPAs (MWhs)	600,000	1,261,725
Remaining RPS Volume Target (Lowest Planning - Existing LT PPAs) (MWhs)	523,376	312,382

25%	20 yr RECs (MWh)	130,844	78,095
50%	10 yr RECs (MWh)	261,688	156,191
25%	5 yr RECs (MWh)	130,844	78,095
	1 Yr RECs	0	1,013,291

In 2011, wind energy products have taken dip below where they were in 2010.² This is due to a number of factors including – the access to better capacity factors through higher turbine heights, improved performance and larger rotors, and the U.S. Treasury Section 1603 cash grant program. Given the foregoing factors and that the PRC may expire at the end of 2012, it is prudent for the IPA to procure a larger percentage of longer term products than shorter term products to take advantage of the potential value in the wind bid prices, given the status of the aforementioned factors affecting wind prices.

Each renewable product should have its own benchmark. Several factors impact REC pricing in today's markets, including, but not limited to: resource type, location, duration. Because the IPA is proposing to secure RECs from multiple resource types and for multiple durations, the IPA should apply confidential benchmarks for each length and resource type (i.e., one-year solar, one-year wind, five-year solar, five-year wind, etc). Using multiple benchmarks in this way will allow the IPA to assess bids' on their overall merits of both price and their benefits of price stability, as required by statute. In the event that two bids for a product have an identical price, the selection of the in-state resource would acknowledge the economic benefit that project would provide Illinois above an out of state project, given all factors being equal -- including price.

² See U.S. Department of Energy -- 2010 Wind Technologies Report, at vi-vii, stating "Indications from projects that came on-line in late 2010 and early 2011 suggest a price thaw, however, as a number of PPAs that start in the low-to-mid \$40/MWh range or lower have been witnessed."; see also Figure 28.

At the public meeting the IPA had mentioned the potential of comparing similar products of varying length durations through a net present value comparison. In practice, our members have found that a net present value comparison will tend to favor shorter term RECs. While the discount rate accounts for the risk associated with capital it doesn't fully account for other risk factors such as the risk of being caught long in a REC contract when the market goes short on RECs or renewable energy. Each developer will have a different perspective on that risk and their perspective will vary based on factors such as their asset portfolio, debt structure, etc.,. Therefore, we are not in favor of using the net present value comparison without more details on how it might be implemented in a balanced fashion.

Wind on the Wires & IWEA also applauds the IPA for its proposal to factor in-state economic development into its benchmarking. Such an approach would help to accurately assess the economic benefit of wind development to citizens of Illinois. While we are not presenting a proposal at this time, we are contemplating how to best incorporate it into a benchmark and may present a proposal during the formal hearing process before the Illinois Commerce Commission.

D. A Balanced Portfolio of Long, Medium and Short Term Products Provide the best Balance of Price Control for the Renewable Resource Budget

In the public hearings held on September 9, 2011, the IPA asked for feedback on why it should procure products other than one year RECs given the low bid prices it received for that product during the 2011 procurement. The IPA should procure a balanced portfolio of products, and not just one year RECs, to ensure long term stability

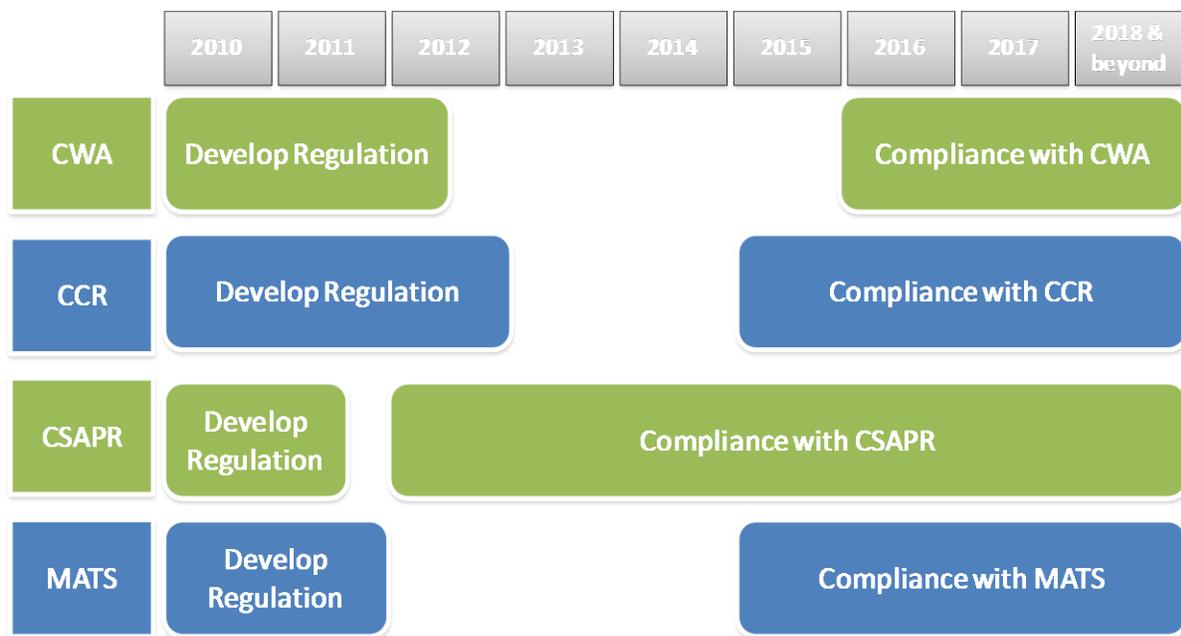
of REC prices in Illinois, to hedge against energy price volatility³ and to replace the generation units that will retire or go into mothball status within the next two to five years due to U.S. Environmental Protection Agency regulations.

The effect of the renewable portfolio standard is to change the utilities' energy portfolio so it reflects 25% of renewable energy resources. The statute gives the IPA discretion to procure unbundled REC or bundled REC products to meet that requirement. In selecting those products the IPA should focus on long-term price stability for RECs. Within PJM and MISO there are eighteen states and the District of Columbia that have energy portfolio standards or goals. Each requires an incrementally increasing amount of energy from renewable resources, with some standards active beyond 2026. For there to be enough renewable resources to meet the requirements of these energy portfolio standards or goals so as to avoid REC price volatility, longer term renewable products need to be procured. Unbundled RECs, while cost-effective in the short run, will not build new renewable resources. Short-term, unbundled RECs yield a fraction of the revenue needed to build new generation. Without new renewable resources the demand will cause a shortage in renewable resources resulting in a potential spike in REC prices. There is value in taking steps to avoid this price volatility. A plan that encompasses short term and long term products, procuring unbundled RECs and bundled renewable energy will provide a stream of development that will help temper REC prices over the long term; as more resources are built there will be greater

³ As discussed below, the energy from long term renewable contracts should be reduced from the utilities annual load requirements.

competition which will drive the price down to market levels. Lower cost renewable resources increase the likelihood of Illinois' utilities reaching the 2025 goal within the renewable resource budget.

Another motivating factor for procuring a balanced portfolio of renewable products is the potential reduction of generation capacity in PJM and MISO within the mid-term. The U.S. Environmental Protection Agency is finalizing four proposed regulations that will result in retirements or reduced usage of coal plants in MISO and PJM. These regulations are being developed now and compliance starts sometime between 2012 and 2016, depending on the regulation.



(Draft MTEP11, Fig. 4.2-2.)

Ameren Illinois obtains approximately 75% of its energy from coal-fired power plants and ComEd obtains approximately 40% of its energy from such plants. (Ameren Illinois' Environmental Disclosure, March 31, 2011; Commonwealth Edison's Environmental

Disclosure, March 31, 2011) The cost of ComEd's and Ameren Illinois' generation supply will likely be affected by the plant retirements and curtailments that will occur as a result of these regulations.

Given that the General Assembly set a renewable energy resource goal of 25% by 2025 they must have envisioned that the RPS would foster development of renewable generation that could offset the 40+ year old coal plants in the Midwest that would be retiring over the eighteen year period of the RPS. To foster development of such renewable resources, the IPA would need to use longer term renewable products that require energy delivery. Therefore, a balanced portfolio of short, mid and long term renewable energy products would not only be used to develop replacement renewable generation but also provide REC price stability and provide a hedge against long-term price volatility.

E. Long Term PPA Volumes Should be Factored out of the Proposed Procurement Volumes in 2012

In a few locations, the Draft Plan states that the contract volumes attributed to the long-term renewable power purchase agreements entered into by the utilities in December 2010 should not be factored out of the energy volume projections for 2012 because physical delivery of those contract volumes are not guaranteed to the utility. (Draft Plan at 26, 29 and 34). Wind on the Wires & IWEA recommend that those contract volumes be removed from the utilities energy volume projections. Illinois ratepayers should not be paying twice for the same energy when Ameren and ComEd

can use wind developers' monthly energy forecasts to determine the energy that windfarms can produce on a monthly basis.

Wind energy producers are committed to meeting their annual contracted quantities – it is their business purpose. They are adept at forecasting the energy volume outputs of their windfarms with reasonable confidence. Some of Wind on the Wires members, who were awarded long term renewable contracts with Ameren and ComEd, have provided their expected renewable energy generation output from their facilities to the utilities. It is our understanding that those wind developers identified their energy output volumes at peak and off-peak times for each month of the year. This information demonstrates how each wind developer intends to meet their annual contracted quantity of energy.⁴ Such information can be used by the utilities and IPA in preparing their load requirements for the year – subtracting out the wind producers forecasted energy output from the utilities on-peak and off-peak load forecasts for each month.

Even if a wind energy producer was to have a shortfall in energy production, the IPA should not be removing the entire amount of wind energy produced under the long term contracts because the utilities have the ability to meet their energy needs through spot purchases from MISOs or PJMs wholesale market.

The utilities and the IPA have access to reasonably accurate forecasts for energy outputs for the windfarms awarded long term contracts in 2010 and can use that

⁴ Each contract identifies a windfarm that is to be used to meet the annual contract quantity.

information to reduce their load projections by the amount of energy they will receive from those long term renewable contracts.

F. Table W has an Incorrect Value

Table W uses an incorrect value for the base year volume for eligible retail customers. The volume should be 20,719,607 MWh and not 17,658,276 MWh. The 20.7M MWh is the base year volume for 2006-2007, as shown in Table U.

G. Tables V, W, Y and Z use Incorrect Planning Year Delivery Volumes

The Planning Year Projected Total Delivery Volumes used in tables V, W, Y and Z differ from the load forecasts ComEd and Ameren provided for the planning year 2012-2013.

	Ameren	ComEd
Tables V, W, Y and Z -- Planning Year Projected Deliver Volume (MWh)	14,389,577	26,796,137
Forecasted Planning Year Volume for 2012-2013 from Utilities Five Year Load Forecast (MWh)	15,306,901 ⁵	28,376,384 ⁶

⁵ Draft Plan, Attachment D.

⁶ Draft Plan, Attachment B at 27, table II-13.

There is no discussion in the Draft Plan that identifies or explains changes the IPA may have made to the Planning Year Delivery Volumes provided by the utilities in their five year load forecasts. Wind on the Wires & IWEA recommend that the values in Tables V, W, Y and Z be amended to coincide with the energy volumes forecasted by the utilities.

H. Section 3.5

The first sentence of Section 3.5 incorrectly identifies this section as being a discussion of the renewable portfolio standard.

CONCLUSION

WHEREFORE, Wind on the Wires and IWEA recommend that the 2012 Procurement Plan to be submitted to the ICC on September 28th incorporate the recommendations made herein.

Respectfully submitted,

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