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ILLINOIS POWER AGENCY)
)
PETITION FOR APPROVAL OF)
INITIAL PROCUREMENT PLAN)

DOCKET #09-0373

**COMMENTS OF THE ILLINOIS WIND ENERGY ASSOCIATION ON THE
INITIAL POWER PROCUREMENT PLAN PROPOSED BY THE ILLINOIS
POWER AGENCY**

The Illinois Wind Energy Association ("IWEA") provides these comments and recommendations in response to the initial procurement plan submitted by the Illinois Power Agency ("IPA" or "the Agency") to the Illinois Commerce Commission ("ICC" or "the Commission") on August 17, 2009. The comments below solely focus on the sections of the procurement plan pertaining to renewable energy and renewable energy credits ("RECs").

IWEA (formerly known as "Wind for Illinois") is a non-profit organization dedicated to improving the business environment for wind energy in the state of Illinois. IWEA represents many of the largest companies in the wind energy sector, including many now developing or operating wind projects in the state. IWEA members operate hundreds of megawatts of wind generation in the state, giving the organization a strong interest in ensuring the Illinois energy market facilitates robust wind energy development.

IWEA and its members thank the Commission and staff for the opportunity to provide these comments, and we hope the statements below will help facilitate a workable procurement system that effectively satisfies the IPA Act's statutory requirements.

Introduction

Since the passage of the Renewable Energy Standard ("RES"), advocates of Illinois wind energy development have engaged with policymakers on the desirability of long-term contracts. As the RES ramps-up over time it is imperative that procurement encourage the development of least cost renewables with the most benefit to Illinois ratepayers. We believe that long-term renewable energy contracts are an essential instrument for achieving this goal.

However, the version of the procurement plan the IPA submitted in August needs more detail about how the Agency intends to handle renewable energy procurement. Based on the structure of the 2009 procurement event, it is foreseeable that the IPA intends to only offer one-year REC contracts in the Spring 2010 procurement event for compliance

during the 2010-2011 reporting year. As IWEA and other renewable energy advocates have stated previously, we believe this approach creates greater price volatility, leads to potentially higher long-term REC prices, creates financing challenges for project developers and possibly jeopardizes the ability to meet the statutory goals of the RES law in the long term.

IWEA requests that the Agency take a different approach in 2010. This approach should consist primarily of long-term contracts, both for “bundled” contracts (power and REC), as well as long-term REC-only contracts. Short and medium-term REC purchases could make up a smaller proportion of the overall renewables requirement, allowing the IPA flexibility to meet its goals, while also allowing the Agency to take advantage of possible low pricing during periods of favorable market conditions.

We urge the Agency to conduct an immediate procurement event as early as late fall 2009 for the reporting period commencing in June 2010. This will allow the IPA and wind developers to take advantage of a unique opportunity created by the specialized tax credits approved in the American Reinvestment and Recovery Act (ARRA).

The ARRA presents very near-term deadlines for wind developers to take advantage of the most favorable federal tax credits. ARRA extended the federal production tax credit (“PTC”) until the end of 2012, however, in order to qualify for the most favorable ARRA benefits, the U.S. Treasury Department grant, projects must be under construction by the end of 2010. The acquisition of long-term contracts prior to this deadline is essential in order for developers to acquire financing and commit capital to projects.

Projects which receive both ARRA benefits and long-term contracts should have a cheaper cost of capital which ultimately benefits Illinois ratepayers through cheaper RPS compliance costs. Minimally speaking, an immediate 2009 procurement for long term RECs or bundled RECs would reveal whether there are certain pricing advantages for the IPA as a result of federal stimulus funds that merit immediate action. If the IPA does not even offer a solicitation for long-term contracts then it cannot know what opportunities it may be missing.

Because these specialized credits expire at the end of 2010, IWEA requests the Agency hold an immediate procurement event solely for long-term bundled, and REC-only contracts as soon as possible. Going forward, IWEA recommends the IPA continue to utilize a renewable energy procurement strategy which utilizes the “portfolio approach” of bundled long-term power purchase agreements, long-term REC only contracts, and a blend of medium-term REC contracts and short-term and spot market opportunities.

Benefits of Long-Term Contracts

- Unlike existing generation units, whose capital costs have largely or completely been recovered through the previous vertically integrated rate of return model,

new renewables require financial contracts that enable them to recover their capital costs.

- Long-term contracts allow renewable energy developers to borrow money more cheaply than if their financing were based on merchant off-take. Cheaper debt should ultimately be reflected in lower renewable energy prices for ratepayers.
- Renewable energy markets are much “thinner” than wholesale and retail energy markets generally. This means that renewable energy demand and liquidity are not nearly as reliable as regular energy markets, making it more difficult and risky to solely rely on merchant or short-term off-take positions.
- Over-reliance on short-term procurements, particularly for RECs only, will expose Illinois ratepayers to price volatility and fail to accomplish any price hedge value. “Bundled” – energy and REC – long-term contracts can provide a price hedge for Illinois ratepayers while cost-effectively promoting RES compliance.
- Because wind farms have zero fuel cost, there is little price variability, allowing projects to engage in long-term fixed price energy contracts that other energy sources cannot.
- Bundled contracts can help bring new wind projects online and act as a price hedge for the Agency’s renewables and power procurement requirements.
- Long-term contracts for Illinois projects promote economic development, local tax benefits, and deliver electricity to the grid that lowers wholesale electricity prices.

Recommended Renewable Energy Market Design

IWEA recommends the IPA develop a renewable energy procurement strategy which utilizes a “portfolio approach” for renewable energy acquisition by making use of bundled long-term power purchase agreements, long-term REC only contracts, and a blend of medium-term REC contracts and short-term and spot market opportunities.

IWEA believes such a portfolio approach is the most preferable structure for renewable energy acquisition. Such a strategy would provide the benefits of long-term contracts, reduce volatility, enable the Agency to take advantage of market downturns, promote market liquidity and facilitate the development of Illinois wind projects.

Components of the portfolio approach should include:

- *Bundled long-term (10-20 year) contracts*: we envision the utilization of these contracts as a means to meet a significant portion of the IPA’s utility load. Bundled long-term contracts will provide a price hedge for Illinois ratepayers and will more effectively promote in-state renewable energy development. Preferred aspects of such a procurement:
 - The Agency should solicit contracts for a minimum of 10 years, but preferably 20 or more.

- Based on the bids received, we envision these bundled contracts, along with long-term REC purchases, encompassing approximately 60-70% of the total renewables requirement.
- The IPA should follow an advertised, consistent procurement schedule for long-term bundled contracts.
- IWEA is willing to provide additional information to the Agency on how such contracts could be structured.
- ***Long-term (10-20 year) REC contracts:*** these contracts would be used to meet a portion of the IPA's utility load not met by bundled long-term contracts. These contracts would be useful in meeting the RES requirements as the IPA becomes more comfortable with including wind energy's "shape" as a larger portion of its energy portfolio.
 - The Agency should solicit contracts for a minimum of 10 years, but preferably 20 or more.
 - Based on the bids received, we envision these long-term REC purchases, along with bundled contracts, encompassing approximately 60-70% of the total renewables requirement.
 - The IPA should follow an advertised, consistent procurement schedule for long-term REC contracts. We recommend that the IPA undertake annual, competitive long-term contract solicitations.
- ***Short- to medium-term REC contracts:*** In order to meet the IPA's total renewable energy requirements we recommend that the majority of the remaining 30 to 40 percent of the RES requirement be met through a series of short- (one year or less) to medium-term (one to five year) contracts.
 - We would expect the IPA to use long-term contracts primarily to promote Illinois-based resources, short- and medium-term contracts can be used to acquire adjacent state and other state resources to complement Illinois supply.
 - The IPA should follow an advertised, consistent procurement schedule for short and medium term contracts. We recommend that the IPA undertake bi-annual (every six months) competitive solicitations for these contracts.
- ***Spot market procurements:*** We expect most supply to be acquired through long-term and short to medium term competitive solicitations. However, the IPA may need to acquire a small amount of its supply on a spot basis. This can be done through periodic competitive procurements.

Utilizing such a portfolio approach ensures the Agency is not committed exclusively to long or short-term REC purchases, allowing the IPA to lock in low prices for the base of the portfolio, but allow the flexibility to take advantage of temporary price downturns.

Long-term bundled PPAs and REC-only contracts would also allow enable developers to finance new projects at a lower cost. This will provide the Agency with lower leveled prices over time and be a significant incentive to the development of Illinois wind projects.

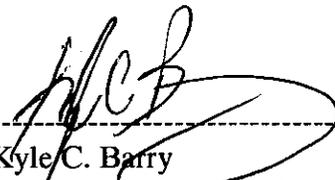
In order to provide assurance that wind project owners will deliver the RECs and energy committed, IWEA is open to exploring requirements that bidders achieve project development milestones (such as permitting and interconnection progress points) before bidding. We are also open to exploring requirements to post security deposits, which would be forfeited if the project fails to deliver. These requirements will help ensure that only serious bidders apply. Such requirements would also dovetail with the portfolio approach, as it will allow the Agency flexibility in meeting its requirements should a project face construction delays, performance shortcomings or encounter other problems that could inhibit delivery.

Conclusion

Again, we feel the approach above would ensure that the procurement encourages development of least-cost renewables with the most benefit to Illinois residents and ratepayers.

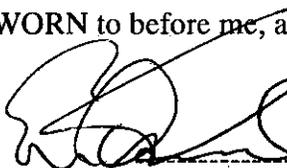
IWEA and its members again thank the Commission for the opportunity to provide comment on this issue, and we welcome the opportunity to discuss any aspects of this plan with you at any time.

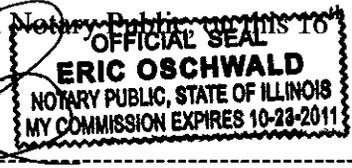
Respectfully Submitted,



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SUBSCRIBED AND SWORN to before me, a Notary Public, on this 16th day of September, 2009.





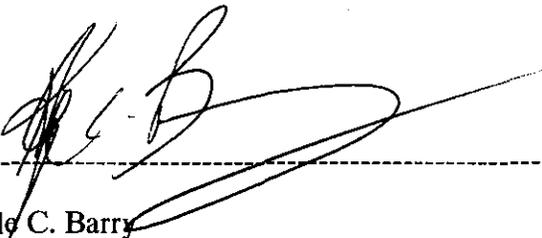
Notary Public

NOTICE OF FILING

Please take notice that on September 16, 2009, I, Kyle C. Barry, attorney for the Illinois Wind Energy Association, filed an original of its comments to Docket #09-0373, with Elizabeth A. Rolando, Chief Clerk of the Illinois Commerce Commission, by Federal Express.

CERTIFICATE OF SERVICE

I, Kyle C. Barry, on oath state that I served this notice of filing and comments to Docket #09-0373 to each person on the attached service list, as indicated, on September 16th, 2009, by electronic mail.



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