

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

THE ILLINOIS POWER AGENCY	)	
	)	
Petition for Approval of	)	Docket No. 10-0563
The 220 ILCS 5/16-11.5(d)	)	
Procurement Plan	)	

**WIND ON THE WIRES REPLY**

NOW COMES Wind on the Wires, in its' Reply to the Illinois Power Agency ("IPA"), Commonwealth Edison Company ("ComEd"), Constellation Commodities Group ("CCG"), Staff of the Illinois Commerce Commission ("Staff") and Exelon Generation ("Exelon"), pursuant to the Notice of the Administrative Law Judge dated October 7, 2010.

**INTRODUCTION**

The purpose of the Illinois renewable portfolio standard ("RPS") is to promote the growth of renewable generation resources<sup>1</sup> and provide a diverse electric portfolio to ensure the lowest total cost over time<sup>2</sup>. In doing so, the IPA has the ability to procure any type of renewable product within cost impact limits<sup>3</sup>, which the IPA has named the Renewable Energy Resource Budget ("RRB"). In selecting the types of products to procure for the RPS, the IPA should develop a portfolio of renewable products that ensures long-term growth of renewable energy resources to ensure success of the RPS

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<sup>1</sup> 20 ILCS 3855/1-5(4).

<sup>2</sup> 20 ILCS 3855/1-5(5).

<sup>3</sup> 20 ILCS 3855/1-75(c)(2).

through its end date of 2025. That cannot be done by continuing to procure one year RECs. Procuring renewables through longer term contracts will foster the growth of renewable energy under Illinois law and ensure ample supply at the lowest cost, unlike short-term RECs which inherently are the highest cost option. Procuring renewable energy in this way can provide long-term price stability and can offset environmental impacts of fossil-fuel generation.

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## Five-Year RECs

### IPA

The IPA argues that five year RECs should not be used in the 2011-2012 procurement because the full cost of the 2010 procurements is not known and that funds in the RRB are limited and not guaranteed. (IPA Response @ 15). The impact of the long term renewable contracts approved in Docket 09-0373 are capped by the budget proposed by the IPA, procurement administrator, utilities and staff. During the contract development phase the proposed budget for Ameren's long term renewable RFP's was \$8,992,297<sup>4</sup> and the proposed budget for ComEd's long term renewables was \$22,868,155<sup>5</sup>. The proposed budget is approximately 30% of Ameren's and ComEd's RRB for 2011-2012 (\$30,180,309 and \$77,176,270, respectively). The RRB for 2012-2013, the first delivery year of the long-term contract, should be similar to the RRB for 2011-2012. Moreover, the percentage of the RRB that will be used for the long term renewable RFPs will diminish over the 20 year contract if the forward curve is set at a level that exceeds 2%.<sup>6</sup> The contango in the forward curve implies more than 2% growth per annum throughout the term, especially when the projected costs of carbon emission are included.

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<sup>4</sup> See Ameren Illinois Utilities webpage for Illinois Power Agency 2010 Procurement, Q&A #32 <http://www.levitan.com/AIURFP/LongTerm/qa.html> (10/24/2010).

<sup>5</sup> See ComEd Energy RFPs website for Long Term Renewable Energy and RECs Documents, Appendix 5 -- Evaluation Process: Section 3 [http://www.comed-nergyrfp.com/docs/lt/Appendix\\_5\\_%28LT%29\\_Evaluation\\_Process\\_Final\\_10-SEP-2010.pdf](http://www.comed-nergyrfp.com/docs/lt/Appendix_5_%28LT%29_Evaluation_Process_Final_10-SEP-2010.pdf) (10/24/2010).

<sup>6</sup> The Appendix K that was approved by the Commission in Docket 09-0373 defined the terms of the long term renewable RFPs. Appendix K states that the bid price would increase annually by a fixed escalator of 2%. The REC price of the long term RFPs is the difference between the contract price + 2% escalator and the benchmark price + a fixed escalator. The benchmark price and its fixed escalator are determined by the IPA. If the IPA chooses a fixed escalator greater than 2% then the benchmark price will increase faster than the contract price, thus annually reducing the price of the RECs over the 20 year contract.

The contracts for the long term renewable RFPs have not been finalized and workshops are currently being held to finalize them in early November.<sup>7</sup> Wind on the Wires has asked that the Ameren and ComEd budgets for the long term renewable RFPs be increased to the range of \$15 to \$16.5 million and \$38 to \$42 million, respectively. These ranges would allocate a percentage of the RRB to the long term renewable RFPs that is roughly equal to or slightly less than the long term renewable RFPs percentage of the RPS Volume Target for 2012-2013.<sup>8</sup> Using the higher figures (\$16.5 M and \$42M), would leave \$13.68 million in the 2011-2012 RRB for Ameren and \$35.176 million in the 2011-2012 RRB for ComEd.

While not explicitly stated in the IPA's Response, another factor that presumably concerns the IPA is the switching of residential customers from utilities to Alternative Retail Electric Suppliers. Ameren and ComEd have included this risk in their load forecasts. Even after procuring long term RECs and five-year RECs the one-year RECs<sup>9</sup> provides a buffer for switching between 20% and 300% of the utilities forecasted amount of switching. The Residual Volume of the RPS (which is the amount of RECs that remain after accounting for the long term renewable RFP RECs and five-year RECs and could be procured as one-year RECs) increases for both Ameren and ComEd, from 2012-2017, in the range of 11% to 56%<sup>10</sup> of the RPS Volume Target for each utility.

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<sup>7</sup> A schedule has been set that projects new contract being finalized by November 4, 2010.

<sup>8</sup> The long term renewable RFP for Ameren is for 600,000 MWHs and that is 55% of the 1,086,064 MWH Planning Year RPS Target Volume for 2012-2013. Similarly, the long term renewable RFP for ComEd is for 1,400,000 MWHs and that is 64% of the 2,198,208 MWH Planning Year RPS Target Volume for 2012-2013.

<sup>9</sup> See, Residual Volume shown in Wind on the Wires Objection -- Tables C and D.

<sup>10</sup> Wind on the Wire's Objection, Table C and REVISED Table D: Impact of Procuring the Proposed 5 Yr RECs on ComEd's RPS Target Volumes, *infra*.

This allows for the following amount of additional switching above and beyond what the utilities have already included in their forecasts between 2012 and 2017:

**Table E: Residual RECs that Can Be Reduced to Compensate for Switching Volumes that Exceed Utility Forecasts**

Planning Year	ComEd			Ameren		
	Reference Year Delivered Volume (MWh) <sup>11</sup>	Residual Volume in RPS Volume Target -- Adjusted for 5 Yr RECs (MWh) <sup>12</sup>	ADDITIONAL SWITCHING: Residual as a Percentage of Reference Year Delivered Volume	Reference Year Delivered Volume (MWh)	Residual Volume in RPS Volume Target -- Adjusted for 5 Yr RECs (MWh) <sup>13</sup>	ADDITIONAL SWITCHING: Residual as a Percentage of Reference Year Delivered Volume
2011-2012	35,284,241	1,567,054	4.4%	15,869,084	752,145	4.7%
2012-2013	31,402,974	248,208	0.8%	15,515,203	250,064	1.6%
2013-2014	31,183,782	425,628	1.4%	14,966,120	344,302	2.3%
2014-2015	31,435,435	725,040	2.3%	14,849,085	466,442	3.1%
2015-2016	31,537,286	1,014,505	3.2%	14,493,895	562,427	3.9%
2016-2017	31,647,351	2,021,078	6.4%	14,042,845	918,031	6.5%

Ameren predicts 10%<sup>14</sup> migration within five years while ComEd predicts about 2% migration of residential customer to ARES over the same period<sup>15</sup>. The 0.8% of

<sup>11</sup> The Reference Year Delivered Volume starts with the numbers provided by the IPA in the Procurement Plan and subsequent year volumes were calculated using the growth rates derived from the Supply Forecasts that Ameren and ComEd provided the IPA.

<sup>12</sup> *Infra*, REVISED Table D: Impact of Procuring the Proposed 5 Yr RECs on ComEd's RPS Target Volumes.

<sup>13</sup> Wind on the Wire's Objection, Table C: Impact of Procuring the Proposed 5 Yr RECs on Ameren's RPS Target Volumes

<sup>14</sup> IPA Procurement Plan September 30, 2010, Attachment A at 7.

<sup>15</sup> *Id.*, Attachment E at 10-12.

Residual for ComEd in 2012-2013 is about 40% of the predicted volume of switching. Similarly, the 1.6% of Residual for Ameren is about 16% of their predicted volume of switching. The Residual percentages increase over the five years for both utilities. There is plenty of headroom for the utilities' predicted amount of switching plus an allowance for error between 16% and 50% for 2012-2013. Thus, there is little likelihood that switching will adversely impact the procurement of five-year RECs.

Another factor that reduces the risk or unknowns surrounding the procurement of five-year RECs is that the IPA should be able to use the annual unused portion of the RRB to pay down the costs of medium or long-term obligations. The IPA has never used the entire RRB to procure renewables in the 2008 through 2010 procurements. If that continues to be the case in future procurements, the remaining money in the RRB could be used to pay down the existing obligations under the long term renewable RFP or the five-year RECs.<sup>16</sup>

Accordingly, Wind on the Wires estimates the RRB headroom for the 2011-2012 procurement to be in the range of 45% to 70% of the total expected RRB remaining (depending on whether the budget for the long term renewable RFPs is increased to Wind on the Wires suggestion or remains at 30%) and the procurement of five-year RECs shouldn't be adversely affected by switching. Thus, there is plenty of room in the RRB to procure five-year RECs.

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<sup>16</sup> This is not a proposal but appears to be authority inherent in the IPA's responsibility to use the RRB funds to procure renewables pursuant to the Illinois Power Agency Act.

## Staff

Staff raises a couple of concerns with Wind on the Wires proposal and both can be addressed. First, Staff recommends that a percentage of the RRB be set aside or used for the five year RECs; suggesting something in the range of 10% to 15%.<sup>17</sup> Wind on the Wires is proposing that 550,000 five-year RECs be procured for ComEd and 200,000 five-year RECs be procured for Ameren, which is about 26% of ComEd's RPS Volume Target and 21% of Ameren's RPS Volume Target for 2011-2012. Wind on the Wires would split the difference and use 12.5% of the Total RRB for 2011-2012 to procure five-year RECs. Since the volume of five-year RECs we are proposing for ComEd is a larger percentage of its' RPS Volume Target (26% versus 21% for Ameren), a slightly higher portion of the RRB should be used for ComEd's procurement. The exact percentage for each utility should be weighted based on the five-year RECs percentage of the respective utility's RPS Volume Target. Thus, Wind on the Wires recommends that 11.8% of Ameren's RRB be used for five-year RECs and 13.2% of ComEd's RRB be used to procure five-year RECs.

Staff also raises a concern about the target quantity for photovoltaic or solar RECs.<sup>18</sup> Staff recommends setting the solar requirement to zero and any positive solar residual RECs for 2014 and 2015 can be procured through 1 year RECs, or in the alternative, use the procurement procedure proposed by NERA for the 2010 long term renewable RFPs which treats wind and solar as having the same priority. Wind on the Wires has not expressly addressed how solar RECs should be procured, though we did

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<sup>17</sup> ICC Response at 14.

<sup>18</sup> Id. at 15.

enumerate the assumptions we used for the purpose of estimating the REC requirements over time.<sup>19</sup> If, 6% of the long term renewable RFP that was approved on 09-0373 is allocated to photovoltaic resources (which is approximately 3.6% of the RPS requirement for 2012-2013), then the first option Staff has proposed would seem to work, since it appears that photovoltaic RECs would not need to be procured while the SREC volume exceeds the statutorily prescribed limit. If 120,000 photovoltaic RECs were procured for 2012-2013 through the long term renewable RFP then there appears to be sufficient SRECs until 2014 or 2015. We may, however, have significant concerns about the use of Staff's alternative proposal. Our concern is with the decision-making process for prioritizing wind, solar and other renewable if the RRB limit is met in a procurement. A number of priorities would need to be weighed and balanced by the Commission in setting the guiding principles, such as wind development v. solar development v. costs v. priority for meeting the RPS, etc. These issues have not been fully laid out on the table at this point in the hearing for there to be an adequate record for the Commission to make an informed decision. Moreover, the solar carve-out doesn't go into effect until 2012 and does not need to be addressed in this hearing but can be addressed in a procurement hearing in which solar procurement is an issue.

We will take this opportunity, however, to express our concern that continuing to look at renewable procurements one year at a time may result in decision being made that exhausts the RRB before 2025. A well developed portfolio of renewable products with a multi-year procurement plan is needed to ensure that the RPS targets will be met

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<sup>19</sup> See Wind on the Wires Objections at 4.

within the RRB over the life of the RPS. The long term renewable procurement approved by the Commission in Docket 09-0373 did not include solar RECs nor did the Commission analyze their impact nor approve their procurement nor did it approve the method the procurement administrator is evaluating solar versus wind versus other renewables, yet the contracts being developed include the procurement of some solar RECs. This is an example of the complexity of the renewable portfolio procurement. This statutory process does not allocate sufficient time or opportunity for parties to fully address the dynamics at play in the renewable portfolio. Such issues should be discussed in a workshop format in which interested parties can submit forecasts, analyses and recommendations in preparation of a Proposed Procurement Plan. A workshop process that occurs over a two to three month time frame prior to the August submission of the Draft Procurement Plan.

Thus, Wind on the Wires would agree to a budget for the five-year RECs that is in the range of 12.5% of the total RRB that is weighted in proportion to the volume of five-year RECs as a percentage of the utility's Volume Target for 2011-2012. As stated above, we recommend that 11.8% of Ameren's RRB be used for five-year RECs and 13.2% of ComEd's RRB be used to procure five-year RECs. We agree with Staff's first proposal for procurement of solar RECs, though the issue should be more fully discussed in the hearings for the 2012-2013 procurement plan.

### **ComEd**

ComEd objects to the procurement of five-year RECs stating: [1] only 8% of RECs are available for procurement in 201-2012; [2] that Wind on the Wires provides no

other support other than buy low before prices go up; and [3] 1 year RECs offer a better value to customers.

In making its calculation for how many RECs would be available in 2011-2012 ComEd inadvertently included the 1,400,000 of long term renewable that were approved in Docket 09-0373. That product, however, is not delivered until 2012-2013. Thus the percentage of Residual RECs is approximately 11% in 2012-2013, see Table D below, from Wind on the Wires Objection, though we have revised it to remove an incorrect double-counting of solar RECs in 2012-2013:

**REVISED Table D: Impact of Procuring the Proposed 5 Yr RECs on ComEd's RPS Target Volumes**

Planning Year	Planning Year RPS Volume Target (MWh)	Planning Year SREC Volume Target (MWh)	Residual Volume Adjusted for SRECs (MWh)	Multi-Year REC Volumes Procured in 2010 (MWh)	Residual Volume Adjusted for Multi-Yr RECs (MWh)	PROPOSED -- 5 Year RECs (MWh)	Residual Volume in RPS Volume Target -- Adjusted for 5 Yr RECs (MWh)
2011-2012	2,117,054	0	2,117,054	0	2,117,054	550,000	1,567,054
2012-2013	2,198,208	NA <sup>20</sup>	2,198,208	1,400,000	798,208	550,000	248,208
2013-2014	2,494,703	119,075	2,375,628	1,400,000	975,628	550,000	425,628
2014-2015	2,829,189	154,149	2,675,040	1,400,000	1,275,040	550,000	725,040
2015-2016	3,153,729	189,224	2,964,505	1,400,000	1,564,505	550,000	1,014,505
2016-2017	3,639,445	218,367	3,421,078	1,400,000	2,021,078	0	2,021,078

<sup>20</sup> The 84,000 SRECs to be procured for ComEd are included within the 1,400,000 total RECs being procured through the long term RFPs approved in Docket 09-0373. Therefore, they are not counted separately. In our objections we mistakenly included them in this column, which resulted in a double counting of those RECs. Thus the

**Table F: Long Term RECs, 5 Year RECs and 1 Year RECs as Percentages of the RPS Volume Target by Planning Year**

Planning Year	% LT RECs	5 Year RECs	1 Year RECs
2011-2012	0%	26%	74%
2012-2013	64%	25%	11%
2013-2014	56%	22%	17%
2014-2015	49%	19%	26%
2015-2016	44%	17%	32%
2016-2017	38%	0%	56%

In 2012-2013, approximately 64% of the RPS Volume Target would be procured through the long term contracts, 25% procured through five-year RECs and the balance would be procured with annual/one-year RECs. Thus, these percentages still allow plenty of residual volume in the RPS Volume Target for the IPA to procure 200,000 and 550,000 five-year RECs for Ameren and ComEd respectively. As the balance -- volume of one-year RECs -- increases the IPA can procure long term contracts or medium term RECs.

ComEd argues that Wind on the Wires provides no other support than to buy when prices are low and that 1 year RECs offer a better value. Neither responds to the point Wind on the Wires made in its Objection (at 7-10) that 1 year RECs will not sustain the development of renewable energy resources in the long term.

**CCG**

CCG objects to the use of five-year RECs because they cost more than 1 year RECs. The IPA Act (20 ILCS 3855/1 et seq.) allows for the procurement of renewable energy resources regardless of price but it cannot exceed the cost limits of the RRB.

This cost limit protects the ratepayers from procuring steep escalations in price. As discussed above, the IPA is therefore encouraged to have a longer term outlook to meet the goal of the RPS – growing new renewable energy resources within Illinois, Wisconsin, Iowa, Kentucky, Missouri, Indiana and Michigan -- between now and 2025 by procuring renewables in a manner that will ensure the RPS is met without exceeding the cost limitations of the RRB. This can be done through a combination of long term and mid-term renewable products. Such a portfolio balances the risk, the cost and a developer's need for a secure revenue stream for it to build new generating facilities.

### **Exelon Generation**

Exelon Generation states that it would not be able to support a multi-year REC proposal without some details regarding cost and implementation issues: [1] whether savings would result from procuring a three v. five v. one year REC; [2] ExGen would oppose the use of a geographic preference; [3] ExGen urges review of the allocation of RECs among various durations and resource types.

ExGen's concern about savings from three-year, five-year or one-year RECs is similar to the issue raised by CCG above, and is addressed therein. We have also explained above and in our Objections, that there is room in the RRB for this procurement.

The geographical preference issue is resolved by the statute (see 20 ILCS 3855/1-75(c)(5)), which states that as of June 2, 2011 the renewable procurements intended to comply with the RPS are to consider renewable energy resources from within Illinois and in states that adjoin Illinois may be counted towards compliance with

the RPS. It is not our intent to expand that to a larger region, and the language seems clear that we would not be able to recommend a more restrictive geographic location.

ExGen's recommendation that other types of products be considered is part of this process and parties, including ExGen, have the opportunity to raise those recommendations and support their proposal. As stated above, Wind on the Wires believes that a five-year RECs is the best way to move forward in supporting the growth of renewable in a responsible manner, as is the procurement of renewable energy resources through long term contracts.

### **Long Term Contracts**

A number of parties have challenged Iberdrola's proposal to procure renewable energy resources through long term contracts in 2012-2013. None of the challenges preclude the procurement of renewable through long term contracts. The Staff identified a number of terms and provisions that would need to be defined for a long term contract to be approved, other parties argue that the Commission shouldn't make a decision in this case based on findings it made in Docket 09-0373 and yet others state that the Commission should wait until the long term renewable RFP approved in Docket 09-0373 is completed. The Commission should not tarry in entering into long or longer term contracts. Longer term contracts for renewable energy provide price stability in the energy portfolio and supports new development that can offset environmental impacts of fossil-fuel generation.

The IPA and ICC have been tasked to procure energy resources in a fiscally responsible manner. Each type of generating resource has advantages and

disadvantages; if a utility relies too heavily on any one resource, it increases costs, risks and reliability problems and those disadvantages are passed along to ratepayers. That's true for conventional resources like coal, natural gas, and hydropower. It is also true for new resources like wind and solar. Putting all of a utility's eggs in one basket is not prudent for Illinois customers. Incorporating renewable resources will take advantage of the strengths of renewable and conventional resources while minimizing the disadvantages of conventional resources.

Conventional generation that is reliant on fossil fuels has its limitations. The question is when will fuel reserves decrease and what situations may occur that could cause a price spike. A recent report, from the University of Texas at Austin, projects coal production to peak next year, to reach 1990 levels by 2037 and drop to 50% of peak production by 2047.<sup>21</sup> The distinguishing factor in this report's analysis is that the analysts place no weight on the reserve estimates. His analysis is based on the Hubbert method – looking at historical production rates and assuming total production capacity will follow a bell curve shape. If the University of Texas report is right, the U.S. is in the beginning part of a major restructuring of energy generation.<sup>22</sup> As such, the zero to low cost of wind and renewable energy resources make them a perfect hedge against the risk of that price volatility.

Hedging against future policy change is another important reason that Illinois utilities should diversify its generation resources. Change in environmental regulation of fossil fuel plants in the country continues to be discussed. Additional regulation of

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<sup>21</sup> Patzek, Tadeusz; Croft, Gregory, "A global coal production forecast with multi-Hubbert cycle analysis", *Energy*, vol.35:8 pp. 3109-3122 (Aug. 2010).

<sup>22</sup> *Id.*

emissions including carbon, mercury and other pollutants is currently under serious consideration. The price impact of those changes would make the wind generation provided through the long term contracts a very good deal for Illinois ratepayers.

## **CONCLUSION**

WHEREFORE, Wind on the Wires recommends that the Commission adopt the recommendations contained herein.

Respectfully submitted,

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