STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

The Illinois Power Agency	**)**	
	)	
Petition for Approval of the	**)**	**Docket No. 13-0546**
2014 IPA Procurement Plan pursuant to	**)**	
Section 16-11.5(d)(4) of the	**)**	
Public Utilities Act.	**)**	

REBUTTAL TESTIMONY ON REHEARING OF

ERIC THUMMA

ON BEHALF OF

THE RENEWABLES SUPPLIERS

RENEWABLES SUPPLIERS EXHIBIT 3.3

APRIL 2, 2014

Q. Please state your name, present position and business address.

A. My name is Eric Thumma. I am Director of Policy and Regulatory Affairs for Iberdrola Renewables LLC. My business address is 1693 Beacon Street, Number 3, Brookline, MA 02445.

Q. Have you previously submitted testimony in this rehearing proceeding?

A. Yes, I previously submitted direct testimony on rehearing, identified as Renewables Suppliers' Exhibit 3.0, and accompanying exhibits identified as Renewables Suppliers Exhibits 3.1 and 3.2.

Q. What is the subject matter of your rebuttal testimony?

A. I am responding to a number of points in the direct testimonies on rehearing of Richard Zuraski on behalf of the Commission Staff ("Staff"), David Zahakaylo on behalf of Commonwealth Edison ("ComEd"), and Anthony Star on behalf of the Illinois Power Agency ("IPA").

Q. Mr. Zuraski describes other reasons, besides the curtailment of the long-term renewables power purchase agreements ("LTPPAs"), which may have made Illinois unattractive for new wind energy development (ICC Staff Ex. 1.0C at 14-15). Does the existence of such other factors negate the significance of the revenues losses from curtailment of LTTPAs as a disincentive to new wind energy development to meet Illinois' RPS requirements?

A. No. All owners and developers of generation, whether renewable or conventional, require revenue adequacy in order to attract or invest capital for new generation (and/or to keep older power plants from retiring). Conventional generators have benefited from previous and ongoing public policies to enable them to achieve revenue adequacy, including capital recovery for power plants through regulated rates under the vertically integrated, regulated rate-of-return utility model which pre-dated electricity restructuring; stranded cost or transition cost payments or revenues for generation owners during the transition to restructured markets; and, more recently, the establishment of capacity markets to provide sufficient revenues for power plants to ensure maintenance of system reliability. Developers of renewable generators, like conventional generators, will only invest in new generation to meet increasing RPS requirements if they can achieve revenues which recover their costs and a risk-weighted rate of return. Renewables Suppliers Exhibit 3.2, submitted with my direct testimony on rehearing, showed that under Illinois' current RPS design, full reliance on short-term REC markets cannot reliably produce enough revenue to justify investments in new renewable energy generation to meet future RPS requirements. None of the other witnesses' direct testimonies rebutted the demonstration in this exhibit. Long-term contracts such as the LTPPAs are a fundamental and, potentially, the only, way to reliably encourage investments in new renewable generation necessary to meet Illinois' increasing RPS requirements. As a result, policies and actions which undermine confidence in long-term power purchase agreements, particularly when reasonable alternatives have been posited to address the challenges presented by curtailments to achieving revenue adequacy under the LTPPAs, must necessarily dampen the investment appetite for new renewable energy projects to meet the Illinois RPS (and, more generally, to meet the need for electricity from clean generation resources).

Q. Mr. Star cites your testimony that the Illinois REC market is oversupplied as a factor in the slowdown/stoppage of wind projects in Illinois (IPA Ex. 1.0R at 15). Is he correct?

A. Yes. However, that is only the first part of the story. As I described in my direct testimony on rehearing, the Illinois RPS necessitates an increasing amount of new investment in renewable energy facilities. Renewable energy developers will only invest in these projects if they can recover their costs and achieve a reasonable, risk-weighted rate-of-return. The current Illinois REC market price signal does not encourage new investments in renewable energy for the purpose of serving Illinois' RPS requirements. Further, as demonstrated in Renewable Suppliers Exhibit 3.2, the RPS cost cap makes it impossible for REC prices in the out-years to send a strong enough price signal to encourage new renewable energy investments. In short, neither current spot-market REC prices nor future spot-market REC prices will be sufficient to ensure new investments in renewable energy projects. Long-term power purchase agreements are the best and possibly only policy approach sufficient to encourage cost-effective investment in new renewable energy projects necessary to meet Illinois's increasing RPS requirements. Therefore, it is important that factors which discourage entry into long-term renewables contracts, such as the current method of implementing curtailments to meet the RPS price caps, be addressed.

Q. Mr. Zuraski noted that wind farms have other forms of revenue besides those described in your direct testimony, including accelerated depreciation and capacity services (ICC Staff Ex. 1.0C at 15). Are these additional forms of revenue sufficient to compensate for revenue losses caused by the curtailment of LTPPAs?

A. No. Mr. Zuraski is correct that accelerated depreciation is a meaningful tax incentive for wind farm developers and owners, and it is included in a wind farm's financial analysis along with other federal tax incentives, such as the production tax credit or the now-expired Section 1603(b) grant program. Additionally, wind farms do participate in capacity markets, and those markets do provide additional revenue. However, wind farms are primarily energy, not capacity resources; thus, energy and REC revenues must be sufficient in order to achieve revenue adequacy. Reductions in energy and REC revenue directly impact a wind farm's ability to recover its costs and make a reasonable risk-weighted rate of return. This is the problem presented by the curtailment of the LTPPAs, and in particular the current method of implementing curtailments that reduces energy revenues in addition to reducing REC revenues to meet the RPS rate caps.

Q. Mr. Zuraski states that an excess of long-term contracts with fixed quantities can increase risk if the utility loses enough load to ARES (ICC Staff Ex. 1.0C at 16-17). Are there ways to address this risk?

A. Yes. First, Mr. Gordon explained in his direct testimony on rehearing that the IPA devoted considerable attention to sizing the 2010 long-term renewables procurement to avoid or minimize risk of future curtailments due to load shifting to ARES and the RPS rate caps being triggered. It does not appear that the amount of renewable resources being contracted for through the LTPPAs was considered excessive at the time of the December 2010 procurement event. However, given what has transpired, both the Renewable Suppliers' primary and secondary proposals present alternatives which address the problem presented by the LTPPA curtailments.

One of the points of my direct testimony on rehearing, including Renewables Suppliers Exhibit 3.2, was to outline the shortcomings of Illinois RPS design which currently relies solely on short-term REC purchases for RPS compliance. Beyond what the Commission can do in the context of this rehearing proceeding, there are additional mechanisms which could be put in place to address the risks and disincentives for long-term contracting presented by load shifting away from the electric utilities, and policy makers should continue to consider such approaches in order to ensure that Illinois' RPS objectives can be met.

Q. Mr. Star states that in-state development of renewable energy projects has not been curtailed, because the companies that were awarded LTPPAs in the 2010 procurement event completed facilities to be used to meet their obligations under

those LTPPAs and have been delivering power under the LTPPAs. He also states that if there are future long-term contract renewables procurements, the IPA and the Commission can consider new, different terms for the contracts. (IPA Ex. 1.0R at 14). Do you have any response to his observations?

A. Yes. First, he is correct that renewables projects that were being built to provide the energy and RECs that suppliers contracted to provide under the LTPPAs were completed, and that suppliers are delivering energy and RECs under the LTPPAs. However, I do not see the relevance of these facts. The projects were completed and placed into service before the suppliers began to experience revenue losses under the LTPPAs due to curtailments and, in particular, due to the loss of energy revenues beyond the loss of REC revenues in order to comply with the RPS rate caps. The disincentive to future investment in renewable energy projects to meet Illinois' RPS requirements that the Renewables Suppliers are concerned about arises from the revenue shortfall they are experiencing under the LTPPAs due to the current method of implementing the RPS rate cap curtailments. Finally, future long-term contracts may have different terms (although Mr. Star makes no specific suggestions), but the revenue losses being experienced by suppliers under the current LTPPAs, if not addressed, would still likely leave potential suppliers in the future concerned about the certainty of receiving the revenues contracted for in future long-term contracts.

Q. ComEd witness Mr. Zahakaylo argues that the Renewables Suppliers have presented no tangible support for their contentions that the revenue shortfalls being experienced under the present method of implementing LTPPA curtailments will negatively impact the development of new renewable generation for use in Illinois, and that the LTPPAs represent only a fraction of Illinois wind generation (ComEd Ex. 1.0 at 15-16). Do you have a response to these arguments?

A. Yes. First, I believe that my direct testimony on rehearing, including Renewables Suppliers Exhibit 3.2, along with the testimony of Mr. DiDonato and Mr. Whitlock, who are representatives of two major wind generation developers, represent tangible evidence that the revenue shortfalls being experienced under the present method of implementing the LTPPA curtailments will negatively impact the development of new renewable generation for use in Illinois Second, the LTPPAs may represent only 20% (and the curtailed percentage a smaller percentage) of existing Illinois wind generation, as Mr. Zahakaylo states, but all prospective developers of wind generation facilities in, or to be sold into, Illinois, will take note of and have their investment decisions impacted by, the fact that the LTPPAs curtailments are being implemented in a manner that deprives the LTPPA suppliers of more revenues under their contracts than is necessary to comply with the RPS rate caps.

Q. Mr. Zuraski expresses concern that if the Renewable Suppliers are kept "whole," the costs necessary to keep them whole will be borne by the utilities' eligible retail customers (ICC Staff Ex. 1.0C at 17-18). Is this your understanding?

A. No. The Renewable Suppliers are not suggesting that eligible retail customers be charged for the revenues from the imputed costs of curtailed RECs that the LTPPA Suppliers are not receiving due to the curtailments. The Renewables Suppliers' proposals assume that curtailed RECs will continue to be purchased by the utilities using their ACP funds accumulated through sales under their hourly pricing tariffs, or by the IPA using the IPA Renewable Energy Resources Fund.

Q. Does this conclude your prepared rebuttal testimony?

A. Yes.