

Illinois' Sustainable Energy Initiative

ComEd's Proposed Implementation Plan Renewable Portfolio Standard

ICC Workshop – April 21, 2005

***Arlene A. Juracek
Vice President EED - Energy Acquisition***

The Governor has proposed ambitious goals for the use of renewable resources by retail electricity providers in Illinois.

Renewable Standard

- 2% by 2006
- Increases 1% each year; 8% by 2012

Renewable Mix

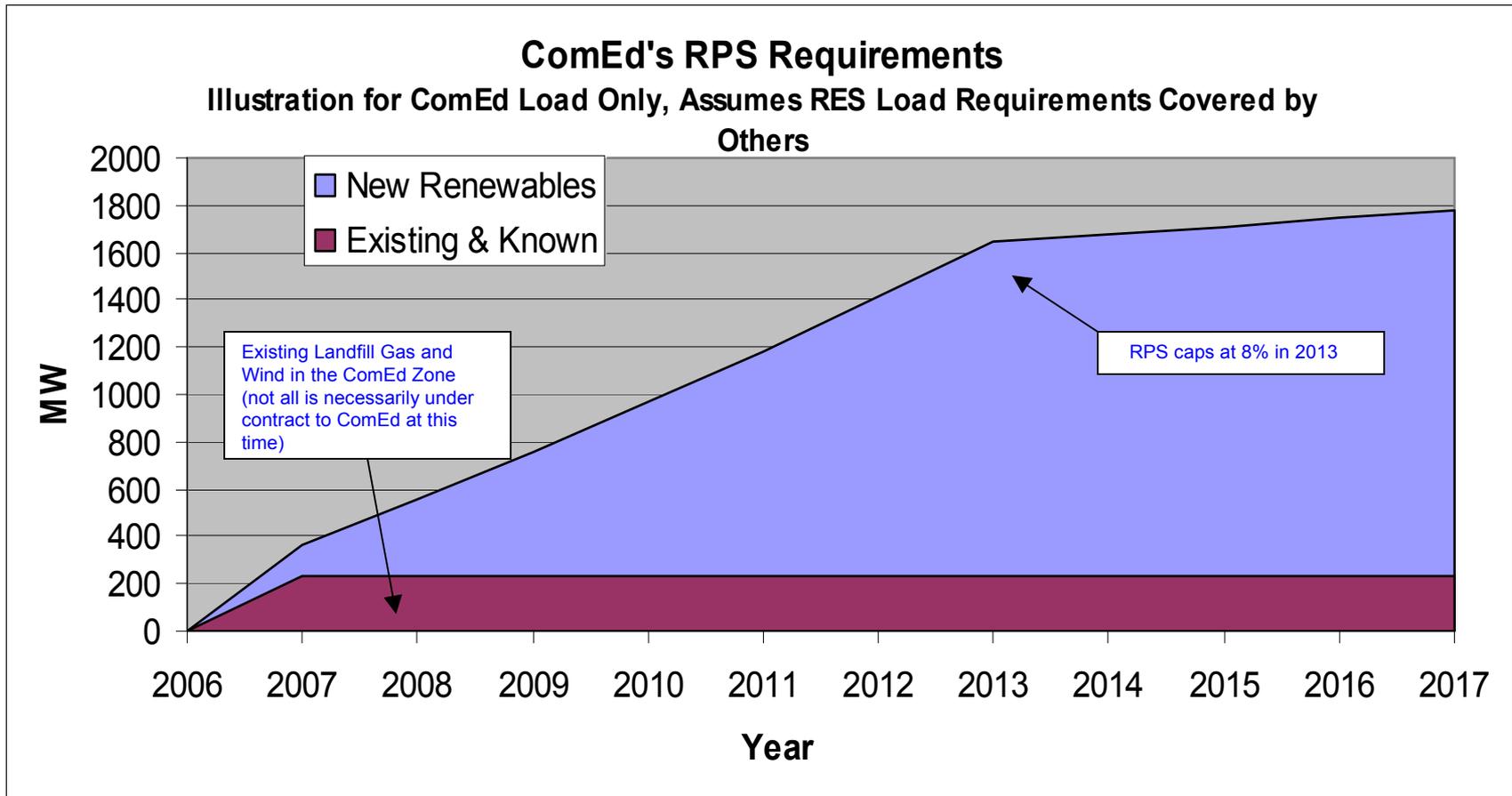
- Preferably Illinois generation
- 75% wind
- 25% landfill gas and other as defined in 1997 law

Renewable Contracting

- Long-term contracts; at least 10 years
- Competitive procurement; ICC oversight and process approval
- Cost recovery

ComEd supports these goals but recognizes the specific challenges in implementing them successfully.

- ✓ Minimize the impact on customers' bills and impact on customer choice (i.e., competitive neutrality).
- ✓ ICC must make findings consistent with its authority under existing law.
- ✓ Full and timely cost recovery in utility rates based on ICC's findings.
- ✓ Recognize early action, in-place resources as part of the mix.
- ✓ Recognize a broad and creative array of resources that can contribute to supply diversity and long-term price stability.
- ✓ Leverage existing markets to simplify the process.



- New landfill gas is limited; new wind is needed to reach goals.
- 200-400 MW of new wind is needed to meet 2007 and 2008 targets.

+ Procure Renewable Resources not already under long-term contract to ComEd via a competitive bidding process.

- RFP for energy and renewable energy certificates (RECS) to cover ComEd load obligation only.
- Generation may directly bid, or through aggregators/marketers.
- Laddered 10-year solicitation (similar to tranches) for output from a fixed amount of resources over the 10 year period.
- Each subsequent solicitation procures an incremental 10 year tranche to facilitate ramp-up of RPS targets.

*For example, Solicitation 1 – 2% of projected 2007 energy for 10 years
(less any existing long-term contracts).*

Solicitation 2 - 1% of 2008 energy for 10 years.

Solicitation 3 - 1% of 2009 energy for 10 years.

(Consider synchronizing with PJM Planning Year.)

+ Limit consumer impact by capping annual expenditures for first few years.

- Quantity of resources to be procured in Solicitations 1 and 2 capped at the lesser of the target MWh of energy/RECs required and that amount of energy/RECs that can be purchased and create no more than a 0.5% impact on bundled revenues from ComEd's retail customers projected for the calendar year.
- Includes recovery for existing long-term contracts in 2007 and beyond.
- ComEd believes the Governor's targets for first few years are achievable under these constraints, under current market assumptions.
- Revisit goals after Solicitation 2 to assess changing market conditions and costs.

- ✦ **Resources procured via this process are a fixed price hedge against volatile energy prices.**
 - Renewable resources typically not subject to escalating fuel prices.
 - RECs are retained and retired against ComEd voluntary goal.
 - Energy sold to PJM in the real-time spot market per PJM market rules.
(generators >10 MW at the nodal price; <10 MW at the zonal price, offset against CPP-H hourly energy purchases).
 - Cost recovery rider passes through to retail customers the difference between fixed contract prices and PJM revenues/avoided costs (essentially the implicit cost of the RECs).
 - At times, PJM revenues will exceed contract costs; credit passed on to consumers.

- ✚ **In order for the Plan to work, the Commission must find that this procurement of renewable supply resources is an accepted “utility function” (e.g. as a long-term supply price hedge) and that all the costs associated therewith are prudently incurred in light of the benefits realized by customers in their electric service and rates.**
 - A rider mechanism will be required to be in place to recover procurement costs.
 - ICC pre-approval of solicitation process, and approval of contracts are necessary to minimize risk to all stakeholders.
 - Further risk mitigation such as “regulatory out” contract clauses will be necessary.
 - Market for renewable resources will be influenced by many external forces, there should be no penalty for missing targets if insufficient resources are bid.

- ✦ **Recognize a broad and creative array of resources that contribute to supply diversity and long-term price stability.**
 - Behind the meter customer-installed facilities such as wind, photovoltaic, bio-mass digester installations that reduce customer load should count towards the goal.
 - Allowing aggregators/marketers to bid can bring small resources to market more effectively.
 - For Solicitation 3 and beyond, expand RFP to projects within PJM.
- ✦ **This is not a competitively neutral solution, unless RESs voluntarily comply with the Governor's goals.**

- **Our goal is that in the post-2006 auction environment, renewables procurement produces the intended outcomes cost effectively for all stakeholders, such that there is minimal operational and supply risks to ComEd, the participants and winners in both the declining price auction and renewables solicitation, and ComEd's customers.**
- **ComEd believes that its proposal, coupled with the regulatory action described above, can accomplish that goal, by addressing the implementation challenges it has identified.**

- **Obtain feedback from Sustainable Energy Initiative stakeholders, including PJM.**
- **Develop detailed solicitation parameters.**
- **Develop standard form contracts.**
- **Structure an RFP process that will result in delivery beginning 1-1-07 of energy and RECs sufficient to meet the Governor's goals in accordance with this high level plan.**
- **Develop a cost-recovery tariff to enable appropriate pass-through of residual costs not recovered from PJM.**
- **File, for ICC approval, the standard contracts, RFP process and associated tariffs to accomplish the RPS goals.**
- **Conduct the RFP once all regulatory approvals are obtained, including approval for cost recovery.**