

ILLINOIS SUSTAINABLE ENERGY PLAN

Submitted to the Illinois Commerce Commission, February 11, 2004

RENEWABLE PORTFOLIO STANDARD

Renewable Energy Procurement Requirement

We recommend that by 2006 at least 2% of the electricity to be sold to Illinois customers by electric utility and alternative retail electric suppliers be generated from renewable energy. We further recommend that the amount of electricity required from renewable resources increase by 1% annually until, in 2012, at least 8% of the total electricity supplied to Illinois customers is generated by renewable resources. Since wind resources are Illinois' most abundant and affordable renewable energy resource, we recommend that at least 75% of the renewable energy procured to meet the Renewable Portfolio Standard be required to be generated by wind resources.

Eligible Renewable Energy Resources

We recommend that only renewable energy resources, as that term is defined in the Renewable Energy, Energy Efficiency, and Coal Resources Development Law of 1997, be eligible to meet the Renewable Portfolio Standard requirements. In addition, energy produced by methane recovered from landfills may be considered a renewable energy resource for the purpose of meeting the Renewable Portfolio Standard requirements.

For Illinois to improve air quality and help comply with federal air quality standards, we recommend that renewable energy procured to meet the Renewable Portfolio Standard be generated in Illinois or in a directly adjacent serious or severe National Ambient Air Quality Standard non-attainment area as designated by the United States Environmental Protection Agency.

Competitive Procurement

We recommend that electric utilities and alternative retail electric suppliers enter into competitive long-term (e.g. at least ten-year) power purchase agreements with renewable energy generators to meet the annual goals of the Renewable Portfolio Standard. We also suggest that fully executed power purchase agreements be submitted to the Illinois Commerce Commission with adequate lead time to ensure that necessary renewable energy resources are available to meet the Renewable Portfolio Standard requirements.

We concur with the Illinois Commerce Commission's recommendation as stated in its December 2, 2004 letter that "any RPS must consider the effect of the use of renewable resources on rates while also analyzing their net economic impact on utilities and ratepayers including health costs, electric distribution investment, etc." We recommend that the Commission take these factors into account when reviewing renewable power purchase agreements to ensure that such contracts are competitive with long-term electricity market price projections and have a stabilizing impact on long-term electric rates.

Power purchase agreements for renewable electricity procurement should be based on reasonable costs that reflect a full accounting of overall long-term benefits of renewable energy (i.e., consumer benefits of long-term fixed price contracts, environmental, economic

and electricity system benefits including increased fuel diversity). Recovery for renewable energy procurement will be treated as other fuels as allowed by law and consistent with this standard. The ICC may consult with consumer and environmental organizations, electric utilities, alternative retail electric suppliers, and developers of renewable energy generating facilities to help determine appropriate renewable energy prices.

Interstate Renewable Energy Trading

We recommend that the Illinois Commerce Commission in cooperation with the Illinois Department of Commerce and Economic Opportunity conduct a study by no later than December 31, 2008 to determine the feasibility of interstate trading of renewable energy credits with other states that have adopted Renewable Portfolio Standards and which allow purchases of renewable energy generated in Illinois to meet those standards. We also recommend that the Illinois Department of Commerce and Economic Opportunity convene a meeting of energy officials from these states to discuss potential trading mechanisms.

Penalties for Non-compliance

To ensure compliance with provisions of the Renewable Portfolio Standard, we recommend that electric utilities and alternative retail electric suppliers pay a penalty of \$25 per megawatt hour each year for any shortfall in contracted supply if they do not supply the required amount of renewable energy by the designated date. We suggest that any penalties be deposited into the Renewable Energy Resources Trust Fund to be used by the Department of Commerce and Economic Opportunity for the purposes of supporting the actual development, construction, and utilization of renewable energy projects in Illinois.

An electric utility or alternative retail electric supplier should not be fined if the company can demonstrate that its contracted renewable energy suppliers were unable to deliver adequate supplies of renewable energy due to circumstances beyond the control of the electric utility or alternative retail electricity supplier. In any case where the Illinois Commerce Commission finds that such a compelling demonstration has been made, the electric utility or alternative retail electric supplier must provide a mutually acceptable alternative means of developing and utilizing renewable energy resources in Illinois, subject to the review and approval of the Illinois Commerce Commission and the Department of Commerce and Economic Opportunity.

Program Evaluation

We recommend that every two years following adoption of a Renewable Portfolio Standard the Illinois Commerce Commission conduct a review to assess progress toward meeting the Renewable Portfolio Standard requirements and make any necessary modifications to ensure that the annual standards are met. We would also instruct the Director of the Department of Commerce and Economic Opportunity to prepare a biennial report on the impact of the Renewable Portfolio Standard on Illinois' economy and the Director of the Illinois Environmental Protection Agency to conduct a biennial report on the environmental impact of the Renewable Portfolio Standard in Illinois.

ENERGY EFFICIENCY PORTFOLIO STANDARD

Increased investment in energy efficiency and electric demand reduction would reduce the amount of money that Illinois citizens and businesses spend on electricity and would produce significant economic, employment and environmental benefits. Many energy efficiency measures actually save more money than they cost.

Energy Efficiency Procurement Requirement

In order to realize the significant benefits of energy efficiency and demand reduction, we recommend that the Illinois Commerce Commission establish goals for Illinois electric utilities and alternative retail electric suppliers to procure sufficient energy efficiency and demand reduction services to reduce electricity consumption in Illinois by the following amounts each year:

Years 2006 to 2008: 10% of Projected Annual Load Growth

Years 2009 to 2011: 15% of Projected Annual Load Growth

Years 2012 to 2014: 20% of Projected Annual Load Growth

Years 2015 to 2017: 25% of Projected Annual Load Growth

Competitive Procurement

We recommend that electric utilities and alternative retail electric suppliers enter into competitive long-term (e.g. at least ten-year) contracts with efficiency services providers to meet the annual goals of the Energy Efficiency Portfolio Standard to implement efficiency measures for residential, commercial and industrial customers. At the end of each year, electric utilities and alternative retail electric suppliers would be required to demonstrate that these efficiency measures reduced their total electricity sales and/or demand by the goals of the Energy Efficiency Portfolio Standard.

Similar to the treatment of renewable resources, we recommend that the Commission review contracts with Energy Efficiency Service Providers to ensure that such contracts are competitive with long-term electricity market price projections and have a stabilizing impact on long-term electric rates. We recommend that the costs of complying with these energy efficiency and demand reduction requirements be fully recoverable in rates if they are shown to be competitive with traditional forms of generation and delivery resources. Contracts for energy efficiency and demand response should be based on reasonable costs that reflect a full accounting of overall long-term benefits of such resources (i.e. consumer benefits of long-term fixed price contracts, environmental, economic and electricity system benefits). Contracts could be in the form of up-front capital investment or ongoing energy/demand payments.

In addition, we recommend that Illinois electric utilities and alternative retail electric suppliers make available a portion of their Energy Efficiency and Demand Response plans necessary to meet this standard to equal \$10 million annually to support DCEO-administered energy efficiency programs (such as training for the building trades, building operators, engineers, architects and design professionals). The \$10 million annual charge could be apportioned on a pro-rata basis among electric utilities and alternative retail electric suppliers, based upon the

number of kilowatt-hours sold in Illinois. Rate recovery for energy efficiency/demand response resources and for DCEO funded programs could be incorporated into Rider 21.

ILLINOIS SUSTAINABLE ENERGY ADVISORY COUNCIL

To help ensure that any Renewable Portfolio Standard and Energy Efficiency Portfolio Standard successfully encourage renewable energy development and energy efficiency investment in Illinois, we recommend that the Illinois Commerce Commission establish an Illinois Sustainable Energy Advisory Council (Council) as an adjunct committee of the Illinois Commerce Commission. The Chairman of the Illinois Commerce Commission shall appoint the members of the Council. The Council could assist the Commission with implementation of the Portfolio Standards and periodically assess compliance of electric utilities and alternative retail electric suppliers with the Portfolio Standards. The Council could include representatives of environmental organizations, consumer rights organizations, utility companies, power generators, transmission organizations and other members as may be deemed appropriate.