

Illinois RPS Passes With Cost-Effectiveness Standard

BY PAUL G. NEILAN

This summer, after three years of regulatory, legal and legislative struggles, Illinois' electric utilities, generation companies, legislature and Attorney General Lisa Madigan reached a historic settlement on fundamental issues in the state's electricity industry. On Aug. 28, Gov. Rod Blagojevich, D-Ill., signed legislation that enacted this settlement into law – the 2007 Rate Relief Act. This new law preserves the competitive retail electricity market in Illinois, provides \$1 billion in rate relief for consumers, and establishes aggressive demand reduction and renewable portfolio standards (RPS) for electric utilities. In addition, the act establishes the Illinois Power Agency. The agency will be responsible for procuring power for the utilities Commonwealth Edison (ComEd) and Ameren, which no longer own generating plants.

The most important feature of the act for the wind energy industry is the new RPS. By 2025, 25% of the electricity supply procured by the power agency must be renewable energy provided it meets cost-effectiveness requirements set forth in the act, and at least 75% of this renewable energy must be derived specifically from wind power.

Operating on a June 1 to May 31 planning year, the new power agency is responsible for preparing a procurement plan pursuant to which it will procure all electricity supply.

This supply includes renewable energy to be used by ComEd and Ameren in serving "eligible retail customers." These customers receive tariffed, fixed-rate bundled electricity supply and delivery service from the utilities. Customers who purchase electricity from competitive electricity suppliers or who buy from the utility under hourly pricing are not eligible retail customers.

Table 1: RPS Requirements

By June 1 of:	Renewable energy standard:
2008	2%
2009	4%
2010	5%
2011	6%
2012	7%
2013	8%
2014	9%
2015	10%
Each subsequent year to 2025	An additional 1.5%, up to 25% total

Beginning in June 2008, and for each subsequent planning year, an increasing minimum percentage of each utility's total electricity supply must be generated by cost-effective renewable energy resources. The RPS

requirements are detailed in Table 1.

The required quantities of renewable energy are determined by applying the RPS percentages to the actual quantity of electricity supplied to eligible retail customers in the immediate preceding planning year. Significantly, the quantity of electricity to which these percentages are applied is the amount of electricity supply that utilities provide to their customers, rather than the broader base of all load for which the utilities provide delivery services.

The RPS percentages for the various periods are not absolute because the actual quantity of renewable energy procured is determined by whether the renewable energy is cost-effective. Until 2011, renewable energy does not meet the cost-effectiveness standard unless the annual average estimated cost per kWh paid by eligible retail customers for electricity supply and delivery would increase by less than the greater of the following:

- 0.5% over the preceding planning year on a cumulative basis or
- the sum of all scheduled percentage increases since May 31, 2007, over the planning year ended (PYE) May 31, 2007 are detailed in Table 2.

Under the current law, the cost-effectiveness standard in 2012 and beyond would be the greater of:

- the incremental cost paid for renewable energy in 2011 or
- 2.015% of the cost paid per kWh by eligible retail customers during PYE May 31, 2007.

Table 2: Cost-Effectiveness Criteria

In year:	Incremental Renewable Energy Cost May Not Exceed:	
2008	0.5% of the per kWh cost during PYE 5/31/2007	
2009	<i>The greater of:</i>	<i>Or:</i>
	0.5% of the cost per kWh during PYE 5/31/2008	1.0% of the cost per kWh during PYE 5/31/2007
2010	<i>The greater of:</i>	<i>Or:</i>
	0.5% of the cost per kWh during PYE 5/31/2009	1.5% of the cost per kWh during PYE 5/31/2007
2011	<i>The greater of:</i>	<i>Or:</i>
	0.5% of the cost per kWh during PYE 5/31/2010	2.0% of the cost per kWh during PYE 5/31/2007

The act also establishes an order of preference for the location of renewable resources. Through June 1, 2011, renewable energy must be generated in Illinois unless cost-effective renewable energy is not available in the state. If cost-effective renewable energy is not available in Illinois, then renewable energy generated in adjoining states may be utilized. In addition, if cost-effective renewable energy is not available from generation resources either within Illinois or in adjoining states, then cost-effective renewable energy can be purchased elsewhere.

The new RPS leaves a critical issue unanswered. While at least 75% of the renewable energy procured by

the power agency must be from wind power, the law does not specify how the cost-effectiveness standard would impact the actual quantity of renewable energy procured if the power agency proposes a procurement plan with 75% wind and 25% more costly energy from other renewable sources. To meet the cost-effectiveness requirement, the power agency could reduce the actual quantity “across the board” (i.e., apply the reduction ratably among wind energy and all other renewable energy resources, with the result that the composition of the renewable energy procurement remains at 75% wind power and 25% other renewable resources).

Since wind power is more cost-

effective than other renewable generation resources, the power agency might also meet the RPS cost-effectiveness requirements by increasing the proportion of wind energy to 85%, for example, and decreasing the proportion of other renewable generation resources. By using the latter method, the actual quantity of renewable energy procured by the power agency would be larger due to the greater cost-effectiveness of wind power.

Despite the cost-effectiveness limitation, the RPS should substantially boost the development of wind power in Illinois, which already has experienced significant development without the benefit of an RPS. In 2004, for example, the 50.4 MW Mendota Hills Wind Farm, the first utility-scale wind energy project in Illinois, was completed. By the end of this year, both phases of Horizon Wind Energy’s 396 MW Twin Groves Wind Farm will be completed. Additional installations scheduled for completion in 2007 include Invenenergy’s 150 MW White Oak Wind Energy Center and Orion Energy Group’s 150 MW Camp Grove Wind Farm. *SNP*