COMMENTS OF **THE STOP COALITION** (STOP TENASKA'S OVERPRICED POWER)

TO A JOINT MEETING TO THE ELECTRICITY AND GAS POLICY COMMITTEES

OF THE ILLIINOIS COMMERCE COMMISSION

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STOP Representatives

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Philip R. O'Connor

On behalf of the STOP Coalition, I want to thank the Commission for arranging this open discussion of the consumer electricity rate issues and competitive market impact of the proposed Tenaska Taylorville Energy Center (TEC) project.

I will address certain specific errors and implications of the rate impact analysis presented by Tenaska to the Commission and will also present salient findings of an analysis and study of the rate impact that was commissioned by the STOP Coalition. STOP's study was performed by Dr. Mathew Morey of Christensen Associates Energy Consultants. Dr. Morey is well known to some members and staff of the Commission from his many years of work here with Illinois State University.

I will be followed by David Vite of IRMA who will describe STOP's membership and address the Tenaska project's negative impact on business operations and job development in Illinois. David Fein of Constellation NewEnergy will follow Mr. Vite and will address the negative impact the TEC project and its mandated power purchase obligations would have on the competitive market that this Commission has worked so hard to develop since 1997.

The STOP Coalition is not opposed to Tenaska's undertaking to build and operate a synthetic gas-fired power plant in Taylorville. Indeed, STOP aligns with the *Chicago Tribune's* view as expressed in an August 6 editorial. In supporting clean coal efforts, the *Tribune* warns against giving the Tenaska project a blank check, but unfortunately that is precisely what Tenaska is asking for from Illinois taxpayers and ratepayers. STOP is against imposing billions of dollars of unnecessary and non-bypassable electric costs on Illinois consumers of all sizes over a 30-year period. STOP is against subsidizing the outsized costs of the project and allowing Tenaska to shift project and operating risks to Illinois electricity consumers.

Tenaska's own rate impact study reveals the magnitude of the cost and risk shift. For the sake of simplicity we will focus mainly on the base or reference case presented in Tenaska's rate study.

Tenaska's reference case shows a total, over thirty years, of add-on, above market charges of $8.76 billion dollars. The specific amounts in each year range between a low of $235.7 million in 2043 and a high of $343.7 million in 2017. [*See* Exhibit 5, p. 6 of the Pace Rate Impact Analysis.] On the preceding page on Exhibit 4 in that analysis, Tenaska reports incorrect and therefore misleading figures for the percentage impact on consumers. These incorrect figures indicate that only in the first few early years does the subsidy burden hit the 2.015% cap for so-called eligible customers, meaning residential and small business commercial customers. The necessary implication is that in the first several years so-called non-eligible customers, mainly larger businesses and government, would pay very little when the cap was pierced and thereafter would pay nothing to subsidize the Tenaska project.

I would invite Tenaska to correct its calculations. Doing so will show that the 2.015% cap is reached in almost every year into the distant future for eligible customers. Further, a correction will show that because the 2.015% cap is routinely pierced, large subsidies will be imposed on business and government customers. That is a key reason STOP was formed and is here today. If Tenaska's numbers were correct then larger business and governmental customers would barely be affected by the subsidies. But Tenaska's numbers are wrong.

Tenaska, in calculating the percentage impact of the annual subsidy charge, applied an average estimated rate of 11.492 cents per kWh and applied that to total load, rather than just to the estimated load of the eligible customers. [*See* p. 63 of the Pace analysis.] Only about half of all electricity in Illinois is sold at an all-in delivered rate at around that rate. The other half of the electricity sold in Illinois, accounted for by larger customers, would have an average all-in delivered price of about 6.8 cents per kWh. Tenaska's error has a cascading effect, dramatically skewing all of its many rate impact estimates. The error dramatically inflates average statewide electricity revenue by billions of dollars annually and therefore commensurately deflates the percentage rate impact. Tenaska's error was noted at page 16 in Dr. Morey's report that was submitted to the Commission in April. Based on comments Tenaska made just recently about the impact of a federal investment tax credit, it appears that Tenaska continues to use incorrect and highly misleading calculations. Tenaska's error is easy to verify.

These compound errors mean that Tenaska is incorrect in its claim that a purported federal investment tax credit (ITC) would reduce the average rate impact from a 1.8% add-on to the bills of eligible customers to a 1.7% add-on. Were Tenaska to correct these errors, it would be obvious that the ITC would have little, if any, downward impact on the subsidy paid by residential and small business customers. Virtually all mitigation would flow to larger business customers.

Then there is the question of why Tenaska is asking for or would need a subsidy at all for the Taylorville Energy Center. Tenaska is working on another coal project in Texas called Trailblazer. The two projects differ in that trailblazer is aimed at capturing carbon dioxide after combustion of the coal while Taylorville aims to capture carbon dioxide prior to combustion by manufacturing synthetic gas from the coal and then burning it. The projects also differ in that Tenaska's Trailblazer project does not reply on billions of dollars in subsidies from mandated, above market purchases of electricity by consumers. Tenaska's Trailblazer website makes it clear enough that it expects to sell electricity at market prices in

the Texas competitive market. Rather than a subsidy from electricity consumers, the Texas legislature is providing a 50% decrease in the state tax on oil that is extracted using CO_2 from the project for enhanced production. Presumably, the State of Texas expects to see increased overall oil revenue by using the CO_2 to revive declining oil fields. There are no such off-setting benefits for Illinois taxpayers or electricity consumers.

Tenaska may say that $8.76 billion in subsidies is not as large as it seems when spread out over thirty years and over millions upon millions of monthly electricity bills. However, let's consider two measures of the magnitude of this proposed subsidy. The Governor's Office of Budget and Management is estimating that the state electricity excise tax will yield $399 million in fiscal year 2011. The Tenaska rate impact analysis estimates for the reference case that the required subsidy in 2015 would be over $340 million. Tenaska is asking for the equivalent of a near doubling of the electricity excise tax. Imagine if the proposal, instead of a direct subsidy from electricity consumers buried in the price of electricity, was to increase the electricity excise tax by 80% or so to pay for Taylorville.

Another perspective on the cost of the subsidy is to calculate the present value of the $8.76 Billion subsidy over thirty years. Using Tenaska's own annual reference case subsidy figures and applying Tenaska's own estimate of project capital costs, a blended rate of 8.09%, and the present value in 2010 dollars of the subsidy is $2.5 billion. Imagine if the proposal were for a one-time, $2.5 billion gift to Tenaska from the people of Illinois to build the plant.

Just because the $8.76 billion in excess charges is spread out over thirty years does not make it any less burdensome to the Illinois economy. And it is from that point that my colleague, Mr. Vite will proceed.

David Vite

I join my colleague, Dr. O'Connor, in thanking you for this opportunity. STOP is a broad-based coalition whose membership includes business organizations which account for hundreds of thousands of employees in Illinois and for a large portion of the electricity consumed in this state. In addition to my organization the Illinois Retail Merchants Association, other STOP Coalition members include the Illinois Manufacturers Association, the Illinois State Chamber of Commerce, the Chicagoland Chamber of Commerce, the Building Owners and Managers Association of Chicago, the Chemical Industry Council of Illinois, and the Illinois Industrial Energy Consumers. STOP also includes the majority of active alternative retail electric suppliers (ARES) in Illinois, many of whom have invested vast amounts of resources over the past 10-12 years working with this Commission to develop what has become a competitive electricity market.

The subsidies that would be assessed on electricity consumers in Illinois to pay for the Tenaska project are enormous and would have a negative effect on job creation in Illinois. How could excess energy charges of several hundred million dollars every year for thirty years not result in thousands of lost jobs across the state as employers, public and private, have to dig deeper to pay more for power than the market demands?

The Morey report shows that the percentage loading on the so-called non-eligible customers, medium and large businesses, hospitals, units of government, schools and so on, would tend to be well above the 2.015% cap that would apply to residential and small business customers. Dr. Morey shows that on average these subsidy levels are between 3% and 4.75% depending on the scenario. And, because the charge would be a single, fixed kWh fee, customers seeking energy savings through load shifting and use of off peak power will be hit with much higher percentage increases.

It is amazing that Tenaska, even with $18 million in taxpayer money for a complete study of its project's impact, did not even touch on the subject of the negative effect of the subsidy. Of course, Tenaska reported solely on its estimates of jobs that result from the project but completely ignored the overall impact on the Illinois economy of an $8.7 Billion cost increase on Illinoisans.

STOP did not have $18 million to do a study. However, Dr. Morey used the same information that Tenaska could have used – standard economic theory. Dr. Morey was able to make a rough calculation that a sustained average increase of 3% in electricity prices over the next thirty years as indicated by the Tenaska study has the potential to destroy or suppress the creation of many thousands of jobs – far in excess of those created by the project. The TEC reference case scenario destroys about 15,000 jobs relative to 2009 employment levels and other Tenaska scenarios push that figure up to about 35,000. As stated earlier, this is the low end of the scenarios. This sort of negative impact far exceeds the level of job creation predicted by Tenaska. Tenaska may say that we have no basis for these figures. I would refer everyone to pages 35-37 of the Morey report for the analysis of the negative impact on Illinois jobs. Tenaska cannot refer us to any pages among the thousands in their various reports, because they didn't even consider the jobs lost throughout Illinois due to higher "out of pocket" costs for electricity for Illinois employers.

But big calculations do not really get to the heart of things.

And it's not just private employers who will carry the burden for Tenaska's project. If you look at the combined electricity load of major government bodies in the Chicago area, you find a huge transfer of Chicago area taxpayer dollars to the Tenaska project. Taken together, the City of Chicago, Cook County, Chicago Public Schools, Metropolitan Water Reclamation District and the Chicago Transit Authority purchase about 2.7 billion kWh each year. Tenaska's own base case for 2015 would produce a subsidy of about one-fifth of a cent per kilowatt hour. That may seem small until you do the math. The cost would be over $5 million in higher energy costs for these taxpayer funded governmental entities. Extended over thirty years, that figure rises to $150 million. I find that such a significant and unnecessary transfer of taxpayer' dollars to subsidize the TEC project to be unacceptable.

STOP's members are the major employers and job creators in Illinois. The Tenaska project would provide some local jobs around Taylorville but at the expense of tens of thousands of lost jobs from one end of the state to the other. We came here today to speak for the employees and the employers who will pay for the Tenaska project, perhaps with their own jobs, and get nothing in return except higher prices for their electricity.

I am now turning this presentation over to David Fein who will talk about how these mandatory above-market electricity costs will negatively affect the competitive electric market in Illinois, one of the most successful in the U.S. which this Commission and others have worked so hard to nurture.

David Fein

I am here today as a representative of alternative retail electric suppliers in Illinois. Today, more and more Illinois electric consumers enjoy the benefits of competition and being able to shop among a number of competing electric suppliers to find the best rates and products and services to meet their electricity needs. Thanks to your efforts, the Illinois competitive retail market is a huge success. As noted recently by the Commission's Office of Retail Market Development, over half of all electricity consumed in Illinois is bought from someone other than the incumbent utilities.

However, we are here today to warn the Commission and other energy policy leaders that if the TEC project moves forward under the current legislative construct, the choices brought about by the movement to competition are at risk for a number of independent reasons.

First, ARES would be required to enter into 30-year contracts with TEC to purchase the output of the plant. In fact, the 30-year PPA requirement has already become a condition of the ARES licensing process and annual compliance requirements. The failure to abide by this requirement automatically results in license revocation -- a form of regulatory death penalty. Such a draconian penalty does not exist for other transgressions – just the subsidy for the TEC project. In my role as Director of Retail Energy Policy across the U.S. for Constellation, I have come across no other mandatory purchasing requirement of this nature in any of the competitive retail markets. [One of the hallmarks of Illinois's competitive energy marketplace-- indeed, a hallmark of all competitive energy markets -- is that ARES are able to purchase the power they use to serve their customers at the best prices they can find in the wholesale market.]

Second, the 30-year PPA requirement would require ARES to carry a 30-year liability on their books. This 30-year obligation would:

- Reduce the ability to obtain capital for other commitments and commercial objectives.
- May chill the desires of smaller, niche providers from entering the Illinois market in the first place.
- What if a supplier wanted to solely offer a 100% green product to Illinois retail customers? By mandating that ARES purchase electricity from the TEC plant, the ability to offer such a product or service would no longer exist in Illinois. This is yet another way that the TEC project lessens the ability of ARES to provide choices to Illinois consumers and distinguish themselves from their competitors.

Third, the TEC project includes a cap that is supposed to protect the eligible retail customers of ComEd and Ameren (residential and the smallest commercial customers). However, no cost cap was put into place to similarly protect schools, hospitals, units of government, retail establishments, manufacturing facilities, office buildings, religious institutions, and others served by ARES. This places ARES at a distinct

and direct competitive disadvantage to ComEd and Ameren. That competitive disadvantage is only magnified when the cap is hit as ARES and their customers will be forced to bear a significantly greater share of the costs of the TEC project. More damning to the competitive market and related to the imposition of the inequitable cost cap is the potential DEATH SPIRAL that could result if customers want to avoid being assessed costs associated with the TEC project. Namely, thousands of customers currently taking competitive retail service from an ARES could switch to the ComEd and Ameren Hourly-Priced Service and they would avoid any costs whatsoever associated with the TEC project. Such a death spiral scenario is yet a further competitive inequity that could have a devastating and near fatal blow to the competitive market – even as significant resources are being deployed to stimulate competition for residential and small commercial customers.

Finally, the restructuring in the Illinois electric market has brought tremendous economic savings to Illinois consumers and the Illinois economy. The TEC project, under TEC's own base case would reverse that savings trend – for no valid economic, environmental, or other rationale. The estimates of the per kWh price that would be required to support the cost estimates are something on the order of **3.5 to 4.5 times current** on-peak market prices. At a time of declining and stable electric prices, why should Illinois' consumers and the competitive marketplace be forced to unnecessarily pay significantly above-market electric costs?

Given the many questions and errors so far identified in the TEC proposal as well as the negative impact upon the competitive market in Illinois, it seems that severe caution is in order. There is no doubt that the TEC project will negatively affect the ability of ARES to do business in Illinois and ARES may very well choose to sell electricity in other markets that do not impose such unprecedented obligations.

Thank you again for the opportunity to present here today.