COMPETE

Electricity Competition Drives Innovation and Consumer Benefits

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March 28, 2012

The Honorable Michael J. Madigan
Speaker of the House
Illinois General Assembly
300 Capitol Building
Springfield, IL 62706

Dear Speaker Madigan:

The undersigned Illinois businesses are writing to you in opposition to SB 678 (the "Tenaska bill"). If approved, the Tenaska bill will cost the state's businesses and families over $12 billion more in electricity charges to subsidize the Taylorville Energy Center (TEC) project, an unneeded and incredibly costly power plant. **We ask you to vote "No" on the Tenaska bill.**

The bill requires Illinois' utilities and alternative retail electric suppliers to enter into 30-year power purchase agreements paying Tenaska massive above market costs for the TEC project, plus a guaranteed profit. If approved, the bill not only will substantially increase our electricity costs for thirty years directly through increased rates, but will also inflict considerable harm on Illinois' thriving competitive retail electricity market and the regional competitive wholesale market, thereby unfairly increasing the costs of Illinois businesses and citizens who are realizing significant benefits from the cost discipline and innovation that those markets are now producing.

Collectively, our companies have 447 facilities in Illinois and employ over 70,000 workers. Because we spend over $112 million each year on electricity in the state, we recognize the importance of controlling our energy costs. The thriving competitive electricity market in Illinois empowers us to control our costs. First, the competitive market transfers the business risk of generation investment away from consumers to service provider investors, where it belongs. Illinois' competitive retail market also helps lower our costs by enabling us to choose a supplier that best meets our individual needs, through offering customized price, generation portfolio mix, risk management, and product and service features.

The following facts demonstrate that employers and citizens are realizing substantial benefits from the thriving competitive electricity market in Illinois. These benefits would be undercut by the Tenaska bill's massive subsidization of the TEC project.

- Over 75% of small business users and more than 90% of large customers, such as manufacturers, schools, and governmental units, are saving millions of dollars annually by competitively procuring electricity from an alternative retail electric supplier. And, those savings are spreading steadily to smaller electricity users and residential consumers as over 52% of all kilowatt hours consumed in Illinois are now provided by alternative retail electric suppliers.

- Since early 2011, over 260,000 residential customers have switched to retail electric suppliers as their source of electric supply. This number is expected to significantly increase due to the over 200 municipalities planning to launch Municipal Aggregation for its residents.

- With 42 competitive suppliers licensed, competition is driving creativity and innovation in product development. Consumers now have products and services available to them that are customized to their individual needs. These products did not exist in the regulated monopoly market. Product examples include real-time energy monitoring, renewable energy products and credits, access to online management tools, specialized hedging programs, market analysis, custom billings services, demand response and energy efficiency products.

- Since retail competition was adopted in 1997, over 11,500 MW of gas-fired generation has been built in Illinois and upgrades at existing nuclear plants have added almost 1,000 MW of reliable supply – all at no risk to consumers.

The Tenaska bill, however, undermines the competitive electricity market and would thereby reduce or eliminate these benefits and significantly raise our costs. Under the bill, the substantial investment risks of the TEC project are transferred back to all electricity consumers, but especially Illinois' businesses. The Illinois Commerce Commission (ICC) noted that when the bill's 2.015% residential rate impact cap is met, all the additional project costs and cost overruns would be shifted and disproportionately borne by commercial and industrial customers.[1] This could have a significant adverse impact on the retail competition model adopted by the General Assembly in 1997.

Outlined below are a few additional significant harmful impacts of the Tenaska bill:

- The ICC concluded that the costs associated with electricity generated by the TEC project is substantially higher than that of wind, nuclear, traditional coal and combined-cycle gas turbine facilities. Based on market forecasts, in 2010 the ICC concluded the TEC project's above market costs, would total over $8.5 billion, or about $286 million per year for 30 years.[2] Because natural gas and wholesale electricity prices have significantly declined since then, the TEC project's above market costs now are likely closer to $400 million per year, totaling almost $12 billion over 30 years.[3]

- Illinois businesses will bear the brunt of those astronomical above market costs. The proposed rate impact cap in the legislation offers no real protection and is meaningless. On its face, it purports to allow business rate increases two times higher than those for residential customers, but the cap actually will not even provide our businesses that limited protection. The purported "cap" excludes any cost increases resulting from changes in market prices for coal, natural gas, and electricity, and, in any case, the rate impact cap only protects against $50 million in cost increases.

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[1] Illinois Commerce Commission, *Report to the Illinois General Assembly, Illinois Commerce Commission Analysis of The Taylorville Energy Center, Facility Cost Report,* September 1, 2010. Available at http://www.icc.illinois.gov/electricity/tenaska.aspx

[2] *Id.*

[3] *Id.*

- In addition, all indications as referenced above are that the TEC project's projected $3.5 billion price tag is grossly underestimated. Most notably, Tenaska has provided no definitive plan of how it will capture and sequester carbon. Therefore, no costs for carbon capture and sequestration are included in its $3.5 billion estimate. Duke Energy's "clean coal" Edwardsport plant in Indiana, which is more than $1 billion over budget, provides a stark example of likely massive cost overruns. Yet the proposed legislation would make our businesses, not the plant's private developer Tenaska, pay for a third of the construction cost overruns.

- Alternative retail electric suppliers will be required to purchase above market power from TEC significantly raising their costs that they will in turn pass along to the ultimate consumer and eliminating their freedom to purchase electricity in the competitive electric market.

- The growing Municipal Aggregation initiatives, that more than 200 communities are expected to enact later this year, will be saddled with the above market costs and will raise the power prices on residential consumers when they can least afford it in these economic times.

We cannot afford this costly legislation. Illinois consumers and businesses should not be forced to pay billions of dollars to subsidize a project being sold as offering some temporary jobs and a few hundred permanent jobs. Through its direct impact of significant rate increases and its indirect impact of substantially weakening both Illinois' thriving retail electricity market and the market's cost-savings benefits, the Tenaska bill will actually destroy more jobs than it will create and will harm, not help, Illinois' businesses and economy.

Please vote NO on the Tenaska bill.

Sincerely,

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The Andersons, Inc.

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