ILLINOIS HOUSE OF REPRESENTATIVES
PUBLIC UTILITIES COMMITTEE
Testimony in Opposition to HB 2861

March 26, 2019

Judith Lagano
Senior Vice President, Asset Management, NRG Energy Inc.

Good afternoon, Chair Walsh, and members of the Public Utilities Committee, thank you for the opportunity to testify and begin a dialogue on House Bill 2861 Amendment 1. My name is Judith Lagano and I am the Senior Vice President of Asset Management for NRG Energy, the parent company of Midwest Generation, which owns and operates several power plants in Illinois. I am joined by many of my colleagues from the Powerton Generating Station in Pekin.

House Bill 2861 Amendment 1 would remove Illinois from the PJM wholesale capacity market. Illinois would be walking away from the lowest power cost in the PJM footprint, which is one of the most competitive energy markets in the world. There is only one place for prices to go: and that is up. Competitive markets are the best way to deliver value for consumers in terms of achieving lower prices, spurring innovation and for attracting business investment.

Exelon asks that Illinois consumers, the residents and business owners that you serve, to pay billions in additional energy costs, to lose thousands of well-paying highly skilled jobs, and deprive host communities millions in tax revenues -- all to put more money in the pockets of Exelon's shareholders.

As Exelon reported in its latest earnings presentation, zero emissions credits produced 27 cents of the 41-cent-per-share growth in adjusted operating profit at Exelon Generation for the first half of 2018. Let's be frank; the ZEC program is not preventing nuclear retirements, rather it is guaranteeing Exelon profit at the expense of IL ratepayers. I implore you not to backtrack on the benefits and success that Illinois has received from its competitive electricity markets.

Just last week, the PJM Independent Market Monitor determined that all five of Exelon's northern nuclear units will be profitable over the next three years. And just this February, Exelon predicted that in 2019 its operating earnings will be higher than what it experienced in the last seven years. Indeed, Exelon announced immediately after the capacity auction settled for the 2021/2022 Power Year that even though Dresden and a portion of the Byron Nuclear Power Plants did not clear the PJM auction, "they are not at risk of early retirement at this time". Now they are here threatening to take their ball and go home. With all of this flip flopping, what is a consumer to believe?

NRG is a leading energy company with nearly 3 million residential and commercial customers across the U.S. and Canada and approximately 23,000 MW of all kinds of generation nationwide nuclear, coal, gas, oil, solar, and wind. NRG is committed to addressing climate change through science-based goals of reducing carbon emissions 50 percent by 2030 and 90 percent by 2050. These are among the industry's most aggressive and substantive targets placing NRG at the forefront of sustainability efforts across the country.

NRG's subsidiary Midwest Generation owns approximately 4,325 MW of generation, which is about 1/3 of the conventional power plants from northern to central Illinois. Our fleet includes the Powerton, Joliet, Fisk, Will County, and Waukegan generating stations. Our plants provide fuel and geographic diversity to ensure Illinois is not over-reliant on any one fuel source and play an important role in keeping the lights on during the most critical times, during the hottest and coldest days of the year and during outages of other plants.

We employee hundreds of men and women in the state and are significant tax payers in all five communities. NRG retail companies serve more than 200,000 residential and small commercial customers in Illinois.

When NRG acquired the Illinois Midwest Generation fleet in April 2014 we promised to modernize the fleet, make it significantly cleaner and lower emissions. We sat down with union leadership, listened to their concerns and suggestions and worked out a plan whereby NRG invested over half a billion dollars in the fleet, bringing an economic infusion to our local communities during construction, saving jobs, preserving fuel diversity, and dramatically reducing the overall emissions of these units - all without ever asking for a handout or guarantee from Illinois ratepayers or taxpayers.

We installed emission controls on the Waukegan, Powerton, and Will County plants. We converted the 1,300 MW Joliet station from coal to cleaner natural gas and upgraded emission controls at the Will County plant in Romeoville.

A great example of the benefits from these upgrades is that key emissions at Waukegan Station have been reduced, on average, by more than 80 percent since 2005. All together, these investments, across Midwest Generation's Illinois fleet, are eliminating 19 million tons per year of carbon emissions (69 percent of 2012 emission levels) and single-handedly achieves 50 percent of all statewide energy related CO2 reductions called for under the United States Climate Alliance, which Illinois joined in January (2005 vs. 2025).

In short, tangible environmental benefits and jobs preserved through private investment without a single subsidy asked for or delivered.

Yet at the same time, other Illinois power producers are aggressively seeking billions of dollars in payments for their generating stations that will be paid for by Illinois ratepayers in exchange **for running in place – for doing the exact same thing they have been doing only for a lot more money,** a lot more of *your* money.

We believe this legislation is at a minimum premature and unquestionably bad policy for a number of reasons:

- <u>There is no imminent crisis:</u> Exelon's units that it claims are "at risk" are largely committed to operate in the PJM forward market for the next three years.
- <u>The Bill allows Exelon to "Name Your Price":</u> The fatal flaw of HB 2861 is that it creates a massive payment to Exelon, masquerading as a clean energy market. The overwhelming majority of payments are to Exelon and Illinois ratepayers will be compelled to buy what amounts to the most expensive MWs.
- <u>FERC's Process Should Play Out</u>: Much discussion has centered around the role of FERC and how to harmonize Illinois energy policy. That process is playing out in DC right now. Enacting legislation that locks in high prices and guarantees Exelon's profits is dangerous and very costly. Instead, Illinois should tailor its response to the new rules once they are announced.
- <u>Monopolies are Bad for Clean Energy Innovation:</u> This legislation would effectively re-regulate the Illinois market and lock Illinois ratepayers into contracts with Exelon for the next 15 years. What about tomorrow's

innovative clean energy technologies? They would be frozen out. Instead, we will fix a price for years to come based on yesterday's technology.

- <u>There is no Free Lunch:</u> The adage that "there is no free lunch" applies here. The supporters of the bill proffer that the high cost of the "clean" procurement will be offset by savings in payments to fossil resources. This is wishful thinking. Fossil resources provide 40% of Illinois's annual energy consumed and are needed to keep the lights on. Starving these resources of revenues will result in their shutdown. Remaining units will demand more for the reliability services they provide, and everyone will move to a full cost of service contract -- funded by ratepayers. One needs to look no further than New England to see how much money one particular fuel secure resource and its LNG terminal in Everett, MA are getting paid to run in place - coincidentally owned by Exelon who will collect at least four times the prevailing rate in the wholesale market to remain in service. Do I detect a pattern?
- <u>This Bill Jeopardizes Illinois's Position as a Low-Cost Energy Powerhouse</u>: One of Illinois's biggest competitive business advantages is low energy prices relative to surrounding states. Why make Illinois uncompetitive, just as others are poised reap the savings from innovation and the continually declining technology costs that we are experiencing in the renewable energy sector today? Rather than make economically rational decisions based on wholesale market signals, the primary architect of HB 2861 is turning to the legislature at the expense of the Illinois ratepayer for **continuity of profits, something you did not guarantee when you approved the restructuring of the electric market** in 1997.
- <u>What about renewable energy investment in Illinois:</u> One of the great ironies of this bill is that a relatively small amount of the total expenditures will go to renewable energy resources. If Illinois wants to green its power supply, it needs to have a robust platform of conventional resources to balance out spikes in renewable energy production. A nuclear unit doesn't have the physical characteristics to be responsive with fluctuating demand

due to either customer load or output of intermittent resources. Illinois has, and will continue to have, the ability to implement technology inclusive clean energy programs. In fact, NRG has a plan that would invite all sources of carbon-free energy to compete to supply Illinois's energy needs, while continuing to rely on the wholesale market to ensure that the lights stay on. Allowing all carbon-free megawatts to compete lowers prices. I question whether we can afford to give Exelon record profits and afford the next generation of renewables.

Conclusion

With those concerns regarding possible changes to the capacity market in Illinois noted, I'd like to conclude by emphasizing the following points. First, Illinois consumers enjoy low and stable prices and high levels of reliability due to a competitive energy marketplace that provides a fair and level field for a diverse range of energy generators. Competition has reduced CO_2 emissions. And, a competitive market in Illinois is the best option for securing value and consumer protection in a changing energy sector. Placing well-intentioned but artificial limits on the competitive marketplace will eventually lead to less investment, higher prices, and potentially less reliable energy for Illinois businesses and consumers.

Let me stress that NRG remains a strong advocate for achieving decarbonization through market-based solutions. Market based solutions transfer the risk of performance from ratepayers to companies like NRG who are willing to invest private capital in Illinois's future. We believe in minimizing ratepayer subsidies and allowing competitive forces to drive innovation, efficiency, and cost reductions in the achievement of clean energy policy goals and for the benefit of ratepayers.

Thank you, Chair Walsh and members of the Public Utilities Committee, for the opportunity to testify today about this very important issue. I welcome questions and the opportunity to work on this issue as part of a stakeholder process.

Appendix

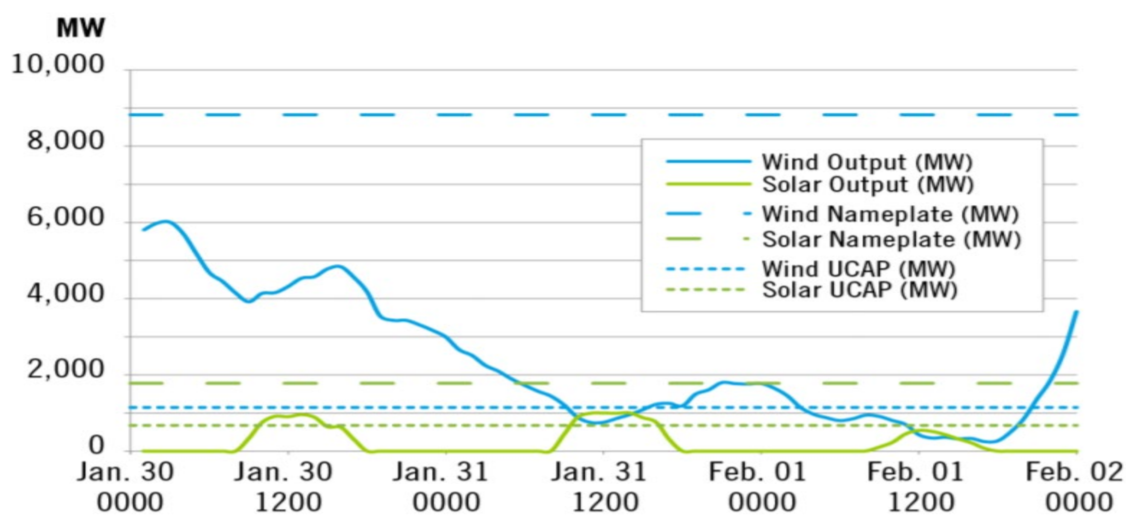
HB 2861 Amendment 1's goal of replacing firm, dispatchable capacity from carbon-fueled resources with capacity from intermittent wind and solar resources will lead to a lower level of energy security for northern Illinois. Figures 1 and 2 below convey the performance of intermittent resources during the polar vortex in January of 2019 in the PJM and the MISO wholesale markets (MISO is the wholesale market manager for central and southern Illinois). As noted in both figures, output from wind and solar resources dropped off precipitously as the cold weather continued and demand for critical energy increased.

Renewable Energy is Intermittent, not always available for capacity

Lack of Capacity Availability of Wind and Solar Resources in 2019 Polar Vortex

- Blue dashed line wind generation name plate capacity approximately 9,000 MW
- Solid blue line wind energy generation operates significantly below name plate capacity
- Green dashed line solar generation name plate capacity approximately 2,000 MW
- Green solid line solar during the day about half of name plate capacity

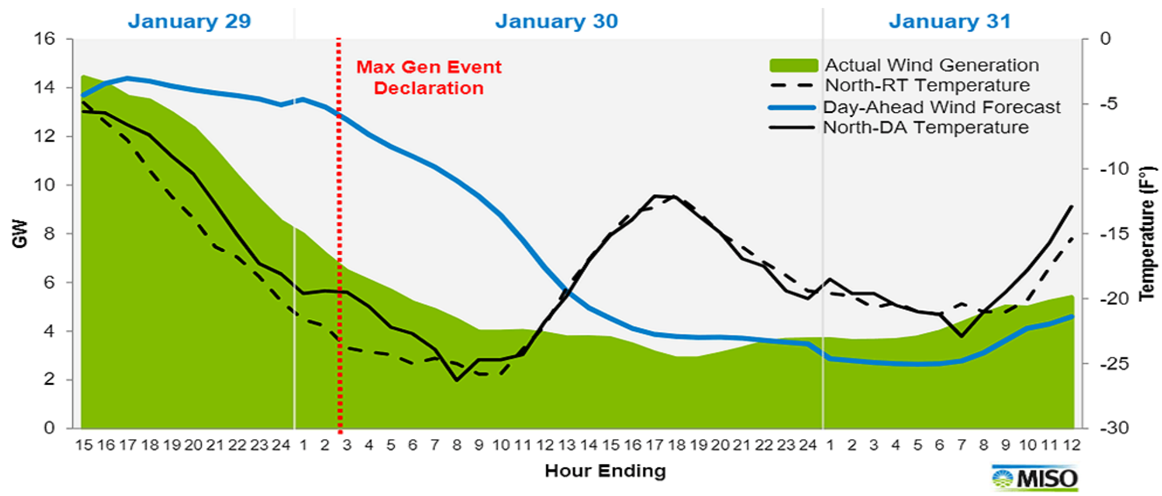
Figure 1



2019 Polar Vortex curtails wind

- Green shaded area wind generation drops below forecast during 2019 Polar Vortex
- January 30th and 31st wind generation falls by more than 50% from levels prior to the event

Figure 2



Capacity Availability in the Commonweath Edison PJM Zone

- Need: 25 Gigawatts capacity to keep the lights on in Illinois
- Exelon generates 10.25 Gigawatts
- HB 2861 Amendment 1 would put at risk natural gas and coal units representing 55.4% of the available capacity in the Commonweath Edison PJM Zone
- If natural gas and coal units are pushed out of the market, where would the capacity come from to keep the lights on in Illinois?