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April 22, 2004

VIA E-MAIL
The Honorable Erin O'Connell-Diaz
Illinois Commerce Commission
160 North LaSalle Street
Suite C-800
Chicago, IL 60601

Re: Post – 2006 Initiative: Position Statement of Navitas Energy, Inc. on Matters Concerning Renewable Energy Resources

Dear Commissioner O'Connell-Diaz:

Thank you for providing Navitas Energy, Inc. ("Navitas") and its consultant GEV Corp. ("GEV") the opportunity to present its position statement on certain matters concerning renewable energy resources that are included in the Final Issues List prepared by the Illinois Commerce Commission (the "Commission") as part of its Post-2006 Initiative.

Background – Completion of the Mendota Hills Wind Energy Project

As you may know, Navitas, a subsidiary of Gamesa Energia, S.A., a Spanish corporation ("Gamesa"), is a wind energy development company. Gamesa has completed numerous wind energy projects world-wide. Most recently, Navitas' subsidiary Mendota Hills, LLC ("Mendota Hills") completed the first major, operational wind energy project in the State of Illinois (the "Mendota Project"). The Mendota Project is located in Lee County, Illinois, near the towns of Compton and Steward.

On Friday, March 26th the Ribbon-Cutting Dedication Ceremony of the Mendota Project was held. Hundreds of people attended, including several senior government officials from Spain, the United States, the State of Illinois and the City of Chicago. During the week following the dedication ceremony, the Mendota Project was the featured tour at the recently completed American Wind Energy Association ("AWEA") conference held in Chicago, and once again hundreds of individuals came to view the wind farm. Navitas contemplates additional wind energy projects in Illinois.

Support for a Renewable Portfolio Standard

Navitas supports the twin goals of efficient wholesale and retail electricity competition, and adequate development of reliable electricity supplies. One of the most critical steps in accomplishing these goals is the establishment of a renewable portfolio standard ("RPS") for Illinois. Renewable energy resources (generally referring to wind, solar, geothermal, and small hydropower generation sources) will increase the security of Illinois' power supplies and move Illinois toward the renewable energy goals set forth in the Illinois Resource Development and Energy Security Act. (20 ILCS 688/1, et seq.). Unless an effective RPS is implemented as part of the post-2006 electricity plan for Illinois, though, those goals will remain mere aspirations rather than actual accomplishments.

The discussion that follows addresses (i) the benefits of renewable energy resources as an important and desirable component of Illinois' post-2006 electricity markets, (ii) why an RPS and mechanisms for green ticket trading are essential to Illinois' development of those resources, and (iii) the essential elements of an effective RPS.

I. Benefits of Renewable Energy Resources

Navitas supports the implementation of an RPS that will increase the amount of electricity that is required to be derived from renewable energy generation sources. The consumption of renewable energy has become increasingly preferable to non-renewable generation sources. Wind generation is one of the most efficient and cost-effective sources of renewable energy generation. Therefore, Navitas will focus on expanding the opportunity for energy derived from wind generation.

Incentives implemented at the federal level to encourage development of the renewable energy marketplace have reduced the cost of producing renewable energy. Over the last 20 years, the cost of electricity from utility-scale wind systems has dropped by more than 80%. In the early 1980s, when the first utility-scale turbines were installed, wind-generated electricity cost as much as 30 cents per kilowatt-hour. Now, state-of-the-art wind power plants can generate electricity for less than 5 cents/kWh in many parts of the U.S., a price that is in a competitive range with many conventional energy technologies. (American Wind Energy Association, *Most Frequently Asked Questions About Wind Energy*, 2002, at 6; http://www.awea.org/pubs/documents/FAQ2002%20-%20web.PDF). In 1980, the price of wind-generated electricity was approximately $380 per MWh. Today the same energy costs less than $40 per MWh. However, the United States trails other countries in the development and use of renewable energy. World demand for renewable energy has substantially outpaced United States demand. For this reason, the dominant manufacturers of renewable energy equipment are foreign-based, with most of these companies located in Europe. An RPS will increase the development of renewable energy manufacturing operations within the United States.

Renewable energy produces both environmental and, in terms of energy security, societal benefits. The principal rationales for renewable energy development are summarized as follows:

Reduced dependence on foreign oil;
Reduced air emissions, such as air pollutants and greenhouse gases;
Tapping abundant – and unused – resources, such as wind;
Diversification of national and regional energy portfolios;
Creation of Illinois jobs;
Creation of Illinois investment;
Increased Illinois tax base; and
Enhancement of incomes (farmers, local contractors) in wind farm areas (predominantly rural).

II. An RPS is Essential to The Development of Renewable Energy Resources

An RPS and the green ticket trading mechanisms that accompany it (which we discuss below) are essential to the development of renewable energy generation in Illinois. These mechanisms do not create a subsidy to the renewable energy generator; rather, they level the playing field between these new types of generators and traditional generators that use fossil or nuclear fuels. Renewable energy resources represent new technologies (e.g. wind, geothermal, solar) that compete with long-established technologies (e.g. nuclear, coal, oil, and gas-fired generation). Consumers pay a commodity price for electricity from traditional generation sources, but that price does not reflect damage to environment or health caused by traditional generation. Renewable energy projects of commercial scale require large initial capital investments. Over time, as capital costs are recovered, renewable resources become a highly cost-effective generation source. At the development stage, though, energy market transactions between private parties do not assign a value to the environmental and societal benefits of renewable energy generation.

Perhaps most significantly, renewable energy resources provide environmental benefits that are not reflected as components of electricity prices in a market in which power dispatched to the grid is bought and sold as a commodity without reference to its source. At the "back end" of the electricity generation cycle, electricity provided by renewable generators produces no emissions or air pollution. In addition, at the "front end" of that cycle, when renewable resources generate electricity, less energy is required from coal, oil, nuclear or gas. Over time this reduces the need to extract, refine, transport and consume these fuels. There are no greenhouse gases or spent fuel rods to deal with after the completion of the renewable resource generation cycle.

In this day and age, it also is of critical importance that renewable energy resources decrease our country's reliance on fossil fuel imports. We need only refer to the Organization of Petroleum Exporting Countries, or OPEC, and its activities since 1973 to know that reliance on foreign oil makes our national economy and our national

security vulnerable to a foreign, and sometimes hostile, cartel's decision to raise prices, curtail production, or both. Of course, oil prices also are subject to supply interruption caused by terrorist acts or other events not within the cartel's control. Regardless of the cause, a chief economic effect of such an event is an increase in prices for electricity generated by oil and natural gas-fired plants, which Illinois relies on to meet its peaks in electrical demand. Completed renewable energy resources diversify our nation's generation portfolio, and contribute to price stability when electricity supply based on traditional fuels is subject to price volatility. Renewable generation also enhances the "readiness" benefit of additional generation resources interconnected to the grid, and decreases reliance on foreign energy sources, thereby enhancing our national security.

These aforementioned benefits of renewable generation have an economic value separate and distinct from the value of the electricity generated by the renewable resource plant, and that economic value is real and quantifiable. However, all electricity delivered to the interconnected grid, whether from renewable energy or traditional generation, is combined into a power pool that is balanced to meet the total customer load. Once delivered to the grid, electricity from a renewable source is indistinguishable from electricity delivered by a traditional generator. Therefore, the value of these attributes of renewable energy is separately tracked by means of renewable energy certificates (also known as "RECs," "green tickets" or "green tags"). Green tickets are issued by renewable energy generators and are commonly denominated in terms of megawatt-hours of renewable energy they have generated. Green tickets provide a means for larger scale development of renewable energy resources by enabling the purchase of the renewable energy's green energy attributes separate from the electricity itself (commonly known as "brown energy"), which can be produced as cost-effectively by wind generation as it can from traditional generation sources.

Absent green tickets, the delivery of renewable energy from generation source to renewable energy customer would require a laborious process of generation and transmission scheduling that would increase the cost of the green energy. In contrast, green tickets track the economic value of green energy and reduce the transaction costs of purchasing it. Green energy can be delivered to the grid at the most advantageous point, without concern over matching its generation directly to particular customer loads. Green tickets and the ability to trade them make "tracking electrons" unnecessary.

The ability of renewable energy generators and consumers to trade green energy tickets in a competitive market means that green energy will be increasingly market-driven as the number of generators increase. Electricity retailers required to comply with a renewable portfolio standard can do so by a number of means, including the purchase of green tickets. As more renewable generators come on line in response to the establishment of renewable portfolio standards, competition will increase among these generators to sell green tickets, and prices will be reflective of the market demand. As of the end of 2002, reports indicated that the median premium among green energy pricing programs was 2.5 cents per kilowatt-hour (or $25 per megawatt hour), which equates to an additional monthly cost of $5 for a residential household that purchases 200

kWh/month of renewable energy. (R. Wiser, S. Olson, Utility Green Pricing Programs: A Statistical Analysis of Program Effectiveness, National Renewable Energy Laboratory, February 2004, at 4; http://www.nrel.gov/docs/fy04osti/35609.pdf). More recent markets reflect green ticket prices below that level, indicating that the price of green tickets has decreased. But while the price of green tickets may decrease, the value of the environmental and societal benefits they embody remains unchanged.

III. Essential Features of an Effective RPS

The features of an effective RPS that are listed below are intended to be illustrative rather than exhaustive.

Clear Goals, Clear Rules. As a general matter, an RPS enacted as part of Illinois' post-2006 plan for electricity markets should have clear goals and clear rules. An RPS should encourage renewable energy resource and market development, rather than litigation.

Statewide RPS For All Providers. A statewide RPS, expressed as a percentage of total electricity production by all generators within Illinois, is the most realistic and effective means of achieving the actual development of renewable energy in the state. The Illinois Resource Development and Energy Security Act, referred to above, contemplated a renewable energy goal of 15% of Illinois' energy production by the year 2020. Based on our experience with wind energy generation, it is our opinion that such a goal (and the environmental benefits) can be accomplished much sooner if an effective RPS is adopted. The RPS should apply to all power retailers within the state, including investor-owned utilities, municipal utilities and Retail Electric Suppliers ("RESs")

Enforcement Mechanism. The RPS will not result in the development of renewable energy resources in the state unless it includes meaningful penalties for electricity retailers that fail to meet the RPS. To be effective, penalties for non-compliance should be greater than the cost of compliance. Unless the enforcement mechanism and penalties are properly established, a power retailer may simply opt out by paying the penalty rather than buying renewable energy, thereby defeating the goal of the RPS. The Illinois Resource Development and Energy Security Act, to which we refer above, shows why an enforcement mechanism is necessary. That law was passed in 2001 and sets forth a renewable energy goal of 5% of Illinois' production by the year 2010. However, the law lacks an enforcement mechanism, and no major renewable energy projects were undertaken as a result of its enactment.

Green Tickets Trading Mechanism. Trading of green tickets is necessary to enable suppliers to meet RPS requirements, including intermediate goals, pending completion of renewable energy projects within Illinois. As discussed above, green tickets quantify benefits of renewable energy that are separate from the commodity electricity. Trading of green tickets establishes a market price for the renewable portion of the energy produced. To ensure the integrity of the market for green tickets, the RPS

rules should prohibit any improper issuance of green tickets by a renewable energy generator and require that green tickets are properly accounted for. It also may be in the best interest of maintaining the environmental benefits that the green tickets are required to be generated by facilities within the boundaries of Illinois.

Policy Duration And Stability. An RPS must be a long-term policy for Illinois. Without a long-term RPS policy, and without long-term stability of that policy, renewable energy projects will not gather the necessary initial investments to make a substantial impact on electricity generation in Illinois. A long-term RPS is essential to ensure that long-term power purchase arrangements will occur with retail electricity providers which provide adequate returns on renewable generation investment.

IV. Conclusion

In sum, it is Navitas' belief that an RPS will help establish renewable energy in Illinois, and that once established, renewable energy will provide phenomenal benefits to the residents and businesses of Illinois. Navitas looks forward to working with the Commission and other parties on the development of an RPS and other critical issues being addressed in the post-2006 proceedings.

Respectfully submitted,
NAVITAS ENERGY, INC.
By: GEV CORP.,
Consultant to Navitas Energy, Inc.

By: _____
Paul G. Neilan
Its: Vice President

cc: Mr. Gabriel Alonso
Mr. Christopher F. Moore
Navitas Energy, Inc.