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With carbon rule, Illinois power struggle begins

Exelon could benefit as states move to enforce Obama's greener stance

June 03, 2014 | By Julie Wernau, Tribune reporter



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President Barack Obama's announcement Monday that it will be up to states to decide how to enforce his vision for a low-carbon future portends a battle among Illinois' [power](#) giants, with Exelon in a great bargaining position.

"I expect a pretty big fight within all the competing interests," said Jane Montgomery, a specialist in environmental law at Schiff Hardin LLP in Chicago.



Exelon's nuclear plants, including one in Byron, Ill., may ...

With a power mix that's split mostly between carbon-heavy coal-fired power plants and carbon-free nuclear power, Illinois is also home to the corporate headquarters of more than a dozen wind companies. Still, none is better positioned under the new rule than Chicago-based Exelon Corp., parent [company](#) of Commonwealth Edison. Exelon owns six nuclear plants in Illinois and has threatened to close plants if energy policies don't go its way.

The Environmental Protection Agency's aggressive goals of 30 percent greenhouse gas reductions from 2005 levels by 2030 give Exelon a strong hand if the company demands rules that reward its nuclear plants. Closing just one of those plants would set the state back in its goals because the formula that the EPA proposes to calculate state-by-state emissions [rates](#) gives the state credit for its nuclear plants.

On Thursday, Exelon Chief Executive Chris Crane said he was looking for a "clean energy standard that would compensate or have some clean energy credits for generation that is carbon free." He called the market-based system a "probable path in some of the states, including Illinois."

The company generates 175 million megawatt-hours nationally, on an annual basis, of carbon-free electricity, mostly from nuclear plants, Crane said. In Illinois, a \$1-per-megawatt-hour price on carbon would add \$100 million to the company's gross margins, he said.

As a result of competition from lower-priced forms of power, Exelon's earnings have suffered, and it has said at least three plants in the state could be forced to close.

According to the draft rule, the EPA believes that about 6 percent of nuclear generation in the United States is at risk for retirement absent the rule.

Robert McCullough, managing partner at McCullough Research in Portland, Ore., said a carbon rule won't solve all of Exelon's problems.

"The downward pressure on prices comes from inexpensive natural gas and zero marginal cost renewables," McCullough said.

In what the White House is calling a "[flexible](#)" approach, states can choose from a menu of measures to reach targets.

Rebecca Stanfield, deputy director for policy in the Midwest for the Natural [Resources](#) Defense Council, said Illinois already has energy-efficiency goals on the books, as well as goals for renewable energy that, if met, will get the state most of the way toward its targets.

"We know that Exelon would really like it if their nuclear fleet was part of the state standards as well; there's going to be competition for that space," she said. "We should compare the cost of keeping those plants open with the cost of replacing those plants with something that's cleaner and cheaper like renewables."

Exelon officials said they needed time to read the more than 600-page climate rule [document](#).

Changes afoot for Illinois' coal plants could also help the state meet carbon targets.

Even before the carbon rule was announced, Houston-based Dynegy, owner of nine Illinois coal plants, signaled that it might shut some of them.

New Jersey-based NRG Energy Inc., which recently bought four Illinois coal plants, has talked about converting coal plants to natural gas, a fuel that emits half the carbon of coal.

"If you repower with gas, you're replacing half right there," said Howard Learner, executive director of the Chicago-based Environmental Law and Policy Center. He called the flexibility of the draft rules a "pragmatic attempt to get us on a path to significant carbon reductions by 2030."

NRG on Monday said it endorses a policy that gives it time to shift to a more clean, tech-focused [business](#) model. The company has been investing significantly in solar power but has said the market will continue to need coal plants in the near term.

NRG said it has concerns that the EPA's "dramatically varying state emission targets" could adversely affect electricity reliability and create legal uncertainty.

Bob Flexon, chief executive of Dynegy Inc., said the devil will be in the details. For instance, the company has talked about ways it could sell fly ash to reduce carbon, but it's not sure if that will count under the new rules.

"It's safe to assume that we're more impacted in the state of Illinois than any other generator," Flexon said. "We would advocate for a number of things we would work on that create carbon offsets, and we want to make sure things of that nature are reflected in the state plan."

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Flexon said consumers can expect to pay more for electricity as a result of the rule as major power producers charge more as costs increase. He said the [company](#) has been preparing for a carbon rule for some time.

"I think if you sit there and do nothing or sit there and try to fight it, you could find yourself in a difficult place," Flexon said.

Since 2005, Illinois has achieved 8 percent of the EPA goals, according to an [analysis](#) by Georgetown Law. But a glitch in the state's renewable energy law has held up wind and solar build-outs. Attempts to fix the law haven't passed muster in Springfield. Advocates of renewable energy are hoping that a carbon standard will force a legislative fix to move forward.

"If you're looking for the easiest, most rapidly scalable, cheap forms of emissions reductions, we've got one," said Kevin Borgia, public policy manager for Wind on the Wires in Illinois. "And that's wind [power](#). We can do it in communities in rural Illinois right now."

But critics said it would take an area the size of Rhode Island to replace a nuclear plant with enough wind power to produce a similar amount of [energy](#). Critics also said the wind power would not be dispatchable unless the wind was blowing.

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