



EDF and CUB comments on IPA Distributed Generation procurement

July 21, 2014

Environmental Defense Fund (EDF) and Citizens Utility Board (CUB) commend the Illinois General Assembly on passing Public Act 98-0672, and Governor Pat Quinn, who signed the bill into law on June 28, 2014. The new law was necessary to kick-start progress toward meeting the state’s obligations under the Renewable Portfolio Standard. That ambitious, yet achievable measure, requires Illinois to meet 25% of its electricity needs with renewable resources by 2025. Strong renewable energy credit procurement efforts have been key for leading states across the country to meet their renewable energy goals.

In order to prevent a “chill” in the market, it is imperative for the IPA to provide a significant level of certainty to the market, indicating in the near-term how it will conduct the procurement events and define the products. However, it is also necessary for the IPA to establish a plan that can be used as a long-term framework for future procurement activity in order to provide that same certainty.

EDF and CUB propose the following framework as a discussion point as the Illinois Power Agency (IPA) works to develop its procurement plan under Public Act 98-0672. EDF and CUB will provide additional comments following the workshop required under the Act.

IPA 2015 – Supplemental Procurements (6 products)

	New Projects	Existing Projects
< 25kW (distributed)	<ul style="list-style-type: none"> • 20-year REC contract • Standard Offer 	<ul style="list-style-type: none"> • 5-year REC contract • Standard offer
> 25 kW (distributed)	<ul style="list-style-type: none"> • 20-year REC contract • DG Auction – Average Price 	<ul style="list-style-type: none"> • 5-year REC contract • DG Auction – Average Price
> 25 kW (non-distributed)	<ul style="list-style-type: none"> • 10-year REC contract • Utility-scale Auction – Sealed-bid 	<ul style="list-style-type: none"> • 5-year REC Contract • Utility-scale Auction – Sealed-bid

- 1. New vs. Existing (Contract length):** In order to avoid a deeper “chill” in the market, it is recommended that “New” systems be classified as any system becoming operational on or after the effective date of Public Act 98-0672, rather than a contract date after the procurement event. Additionally, we recommend a differentiated product between new and existing RECs. Due to the long-term uncertainty of REC availability from an existing system, based on its age, equipment condition, and existing contractual obligations with other parties, we recommend that contracts for existing systems be limited to 5-year terms, with the opportunity for those system owners to participate in future procurement

events if the systems are still viable. Conversely, we recommend that new projects be offered a contract term of 20-years, a contract term that has been sufficiently successful in other states to merit replication and provide market certainty.

2. **Non-distributed (utility-scale) vs. distributed:** Public Act 98-0672 requires an inclusion of an unspecified amount of procurement from systems classified as distributed generation. Additionally, the Act requires at least half of the distributed generation procurement to come from systems with an installed capacity of less than 25 kW.

EDF and CUB believe that this supplemental procurement should have a significantly larger focus on distributed generation than its proportional share of the RPS would predictably require. Significant obstacles – including overhead, marketing, and customer mobility – exist that limit the ability of load-serving entities to create and maintain effective distributed generation procurement programs to comply with Illinois’ RPS. The IPA has an opportunity to create such a procurement program that would cut across those obstacles. Additionally, given the time constraints on developing and interconnecting large, utility-scale projects, the lengthy PJM Wind power interconnection queue, and the need for a near-term timeframe for the procurement event, IPA should reserve a significant portion of its \$30 million budget for distributed generation product.

EDF and CUB believe that 2/3 of the budget authorized under the Act should be dedicated to distributed generation products, with at least half of that amount reserved for systems under 25 kW. Introducing scarcity pricing for sophisticated market players at the utility-scale level will have the additional benefit of driving down the procurement pricing throughout the program.

3. **Auction vs. Standard Offer:** EDF and CUB believe a balanced approach of auctions and a standard offer will have far greater success of meeting the Act goals for renewable procurement. The IPA will be undergoing a delicate balancing act in structuring its procurement: Achieve a procurement value that is high enough to move projects to development, while low enough to maintaining sufficient budget for a critical mass of projects to be developed.

EDF and CUB propose to differentiate the type of procurement event based on system size and market type, simply due to the fact that projects are developed differently based on system size and market type.

- a. **Residential Standard Offer:** As the IPA outlined in its 2013 Procurement Plan, standard offer programs for residential and small commercial renewable installations are the best practice throughout the country for stimulating necessary distributed resource development. Participating in an auction event is difficult, if not nearly impossible, for individual homeowners and small businesses. A predictable REC price that can be built into system quotes and project finance will lead to a successful program.
 - i. **Option A – Scalar:** As the IPA described in its 2013 Procurement Plan, a standard offer price could be set by evaluating national trends in residential/small-business REC prices

and establishing a scalar to the auction prices set by the DG Auction (>25 kW) or the utility-scale auction.

- ii. **Option B – Reserved Blocks:** Alternatively, the IPA could create an auction to reserve blocks and set the standard offer price. Under this scenario, the IPA would conduct a procurement for new project developers to reserve “blocks” of RECs for their future project development efforts. This market mechanism would reserve a REC price for successful bidders (last-price, average-price, or as-bid) that also could be used for existing systems. Individual system owners (such as an individual homeowner) should not be excluded from a REC contract under this scenario.
 - iii. **Up-front option:** To ease long-term administrative burden and uncertainty, EDF and CUB recommend that the homeowner be provided the option of selling their 20-year REC contract to the IPA in exchange for an up-front lump-sum payment at a slight discount to the IPA.
- b. **DG Auction (>25kW) – Average Price:** Due to the additional benefits of having significant renewable penetration on the distribution grid, distributed generation projects should be able to compete with like projects, rather than utility-scale projects that operate at the wholesale/transmission level.

EDF and CUB recommend IPA conduct an auction for distributed generation systems above 25 kW that provides the average bid price to all successful bidders under an auction price cap. This type of auction should provide an optimal balance between ensuring projects are able to be built and a sufficient number of projects can be afforded under the procurement budget.

- c. **Utility-scale Auction – Sealed-Bid:** Given the sophisticated market participants at the utility-scale level, EDF and CUB recommend a separate auction for systems > 25 kW and connected at the utility-level. EDF and CUB recommend these projects receive their bid price through a limited capacity procurement event to drive down costs.
4. **Aggregators:** EDF and CUB understand the administration of this procurement could become unduly burdensome for the IPA, and it has been suggested that participants in procurement events serve as aggregators of projects in order to reduce the quantity of contracts. However, it is almost guaranteed that requiring the use of aggregators for procurement will create inefficiencies in the development of projects, and aggregators consume overhead costs for administering REC procurements.

EDF and CUB recommend that no procurement events require the use of an aggregator. However, aggregators should be allowed to participate as an optional party in order to further the marketplace.

5. **Community Solar:** EDF and CUB recommend that the IPA use this opportunity to create a carve-out for community solar projects, where customers can purchase a portion of a larger solar project located in their community, with the energy production credited to their own utility account through virtual net metering. EDF and CUB recommend a discussion of how to leverage this supplemental procurement to advance community solar should be included at the formal IPA workshop as required by the Act.