ENVIRONMENTAL LAW & POLICY CENTER
Protecting the Midwest's Environment and Natural Heritage

COMMENTS OF THE ENVIRONMENTAL LAW & POLICY CENTER AND THE CITY OF CHICAGO
REGARDING THE IPA'S DRAFT SUPPLEMENTAL PHOTOVOLTAIC PROCUREMENT PLAN

The Environmental Law & Policy Center (ELPC) and the City of Chicago (City) respectfully submit these comments in response to the Illinois Power Agency's (IPA) Draft Supplemental Photovoltaic Procurement Plan. The IPA proposes three different solar renewable energy credit (SREC) procurements using up to $30 million from the Renewable Energy Resource Fund, as authorized by Section 1-56(i) of the Illinois Power Agency Act. 20 ILCS 3855 These procurements are intended to allow the nascent solar market to grow in a "measured manner, avoiding some of the boom/bust cycle that has been seen in other states' PV procurements." (Plan at page 2) The draft plan does not propose to address all barriers or solve all potential problems, but rather proposes to "provide a template and learning opportunity" for participants and policymakers. (Plan at page 2) While we generally believe this to be true, and commend the IPA on their development of this draft, we have identified several specific areas where we believe the plan can be improved so as to avoid potential pitfalls. We offer our comments below and suggested language changes in the attached document.

Sec 2.2.3 Procurement Process: The IPA has chosen to do a competitive bid process for all products, stating that the statute "restricts the Agency's ability to develop a fixed-price standard offer…." (Plan at page 7) For several reasons that have been discussed going back to the IPA's original 2012 DG workshops, we believe that the IPA's traditional reverse auction model is not a good fit for smaller projects. We believe that the competitive process, coupled with some of the other requirements set forth in the proposed plan, will make development of the smaller systems more difficult, and will disadvantage smaller development firms and third

parties. An alternative program design using a "standard offer" puts all participants on an equal footing, is easy to understand by both developers and consumers, and is easy to administer. Many participants in the IPA's June 2014 DG workshop suggested such a design, and the IPA itself suggested such a design in its 2013 Procurement Plan. We recognize that Section 1-56(i)(4)(E) requires a "competitive procurement process," but the IPA retains consideration discretion to interpret the IPA Act to meet legislative intent for a cost-effective and successful procurement process. We recommend that the IPA consider whether Section 1-56(i) could be interpreted to use "sealed, binding commitment bidding" to select a program administrator to run a fixed-price standard offer program for the under 25 kW category of projects. We recommend the IPA reconsider this decision, but we will nonetheless offer comment on aspects of the competitive process in the event the IPA determines to move forward with that model.

Sec. 3.1 Resource Selection:

A. Procurement of DG Systems

We strongly agree with the IPA's proposal to purchase RECs from Distributed Generation (DG) photovoltaic systems. The goal of this supplemental solar procurement is to "ensure adequate, reliable, affordable, efficient, and environmentally sustainable renewable energy resources (including credits) at the lowest total cost over time, taking into account any benefits of price stability." 20 ILCS 3855/1-56(i)(1) Monies spent as a result of this supplement procurement are meant to address the overall Renewable Portfolio Standards goals, which include a goal of procuring 6% of annual resources from solar facilities and 1% of annual resources from Distributed Generation systems. Any resources procured from solar DG systems can also count towards the 6% solar goal, (*See* 20 ILCS 3855/1-56(b)) so procuring RECs from solar DG resources satisfies two goals. The IPA has yet to make any progress on the DG goal, as all prior procurements have not included any DG resources. Thus the IPA's draft plan appropriately focuses this limited money on DG resources, where attention is most needed.

B. Procurement of "New" Systems

We also strongly agree with the IPA's proposal to procure "new" DG resources. Spending money on existing resources with this procurement is unnecessary, particularly given the IPA's proposal in its 2015 Procurement Plan to use Alternative Compliance Payment monies from hourly customers to procure new and existing DG RECs. Illinois will not meet its DG goals

nor will it realize the significant advantages and grid benefits of distributed generation unless steps are taken to promote the development of new DG resources. Incentives for new development will also help catalyze the growth of a larger and more competitive DG industry in Illinois, which will help to bring project costs down for all Illinois customers. Procurement of RECs from projects that have been built and financed years ago will not promote any of these goals and would not be the most effective use of limited IPA resources at a time when the state of Illinois has fallen behind on its distributed generation goals.

We recommend that the IPA consider changing the definition of "new" to include projects that are currently under development for the purposes of the first procurement event. The Draft Plan states that "[f]or the first procurement event, a system will be considered "new" if it has been energized on or after the date at which bids are due in the first procurement event." (Plan page 12) However, we have already heard from market participants that for the first proposed procurement, defining "new" as systems "energized on or after the date at which bids are due" (Plan at page 12) will create an unintended chill in the market over the next 9 months. Projects currently under development and energized over the next 9 months will be able to participate in the 2015 Procurement using hourly ACP money, if approved by the ICC. But those funds are limited and recently-energized systems will be competing on price with systems that have been operating for many years, which have much different economics. Therefore, the hourly ACP procurement event represents the only opportunity to bid for recently-energized systems, whereas "new" systems have three opportunities to bid. As a result, customers are more likely to delay development in order to participate in one of the three "new" DG REC procurements offered through this supplemental plan. The IPA suggests in a footnote that if the DG procurement part of the 2015 Procurement Plan is not approved by the ICC they would seek to amend the definition of "new" in this Supplemental Plan to include systems energized on or after the approval of this supplemental plan. Unfortunately this does not solve the problem of unintentionally causing a chill in the current DG market as systems will have to wait for this determination by the ICC, and still will only have one chance at participation. Therefore we recommend that at least for the first procurement "new" be defined as any system energized on or after the signing of Public Act 98-0672. For subsequent procurements we agree with defining "new" as systems energized on or after the date of the preceding procurement event.

C. Project Size Categories

The IPA has also proposed to procure projects in two different size groups: above 25 kW in nameplate capacity and below 25 kW in nameplate capacity. We agree that the IPA should strive to procure, to the extent possible, half of cost-effective RECs from systems under 25 kW in nameplate capacity. Not only is this consistent with the statute, but it ensures that smaller projects, such as residential systems, have a fair shot at participation. However, in order to promote more balanced market development, we recommend that the IPA further divide the 25 kW to 2 MW category in two separate sub-categories of 25 kW to 200 kW and 200 kW to 2 MW and strive to procure equal amounts of RECs from each of the two sub-categories. The economics of 25-200 kW systems are much different than 1 and 2 MW systems. Including all of these systems in one category will force a 25 kW system to compete with a 1 MW system, with the result that very few RECs from mid-sized 25-200 kW systems will be procured. We already know of a real world example of a system owner that has decided to reduce the size of a project to less than 25 kW because he does not believe he will be able to win a contract when competing against the larger systems. This unintended consequence is not efficient or desirable. There are advantages to balanced market development that include small (under 25 kW), mid-sized (25-200 kW), and large (200 kW-2 MW) DG projects. Nothing in the statute precludes the IPA from soliciting bids from specific system size ranges within the larger system category, and in fact this is what many participants in the June 2014 DG workshop suggested was fair and appropriate.

Sec. 3.3 Converting System kW Size into RECs: The IPA has suggested that "a standard capacity factor allows for ease of bid evaluation and reduces the administrative burden on bidders…." (Plan at page 14) The Agency proposes a standard capacity factor of 11.416%. While we tend to agree with the premise of selecting a "standard" capacity factor, the resulting suggested capacity factor seems arbitrary, does not accurately reflect the likely REC production of many systems, and if left unchanged will not properly reward systems for their production, thereby undercutting the economics of many projects. The Illinois Solar Energy Association pulled together a series of expected capacity factors for systems in different Illinois locations from PVWatts, the performance calculator developed by the National Renewable Energy Laboratory (NREL). PVWatts estimates Illinois systems to produce energy at a capacity rate of

between 13.85-14.87% in various regions of the state. The effect of using the IPA's proposed capacity factor of 11.416% for bidding purposes is that systems will in reality produce RECs that they will not be able to be compensated for through the IPA's procurement. This will negatively affect the economics of projects. For example, according to PVWatts, a system in Springfield has an expected capacity factor of 14.87%, and would produce over 6 RECs per kW over 5 years. The IPA's proposal would allow only 5 RECs to be included in the bid. At an example price of $100/REC, each kW of capacity would not be able to realize over $100 in value over the 5-year term. See below for a several examples. For this reason we suggest providing several regional capacity factors based on PVWatts expected capacity factors. Alternatively, the IPA could do away with the expected capacity factor without negatively affecting the evaluation process. Since bids have to include a price per REC it should be fairly easy to evaluate those bids on price alone.

Location	**Capacity**	**PVWatts kWh/kW**	**5 kW**	**250 kW**	**1 MW**
Rockford	14.0868%	1,234	6,170	308,500	1,234,000
Chicago	13.8584%	1,214	6,070	303,500	1,214,000
Springfield	14.8744%	1,303	6,515	325,750	1,303,000
Carbondale	14.7489%	1,292	6,460	323,000	1,292,000
Average	14.3921%	1,261	6,303	315,157	1,260,750
IPA Suggestion	11.416%	1,000	5,000	250,010	1,000,042
Springfield vs IPA (kWh/year)			1,515	75,740	302,958
Springfield vs IPA ($/year)			$151	$7,574	$30,296
Chicago vs IPA (kWh/year)			1,070	53,490	213,958
Chicago vs IPA ($/year)			$107	$5,349	$21,396

Sec. 4.2.Qualification of Systems to Deliver RECs: The IPA proposes different methodologies for different categories of systems. The Agency proposes to allow for speculative bidding for the systems under 25 kW in nameplate capacity. This means a bidder need not have the system identified at the time of the bid, but will need to prove the viability of systems within 6 months. The IPA is not specific in what information will be needed to prove the viability, and we suggest the IPA determine the specific documents it will require as soon as possible. At the point at which systems are identified, the system will have 12 months to be energized, with the potential for a 6 month extension. We feel this is an appropriate amount of time to identify projects and energize systems while still providing for some flexibility. For systems above 25 kW, the IPA proposes that all systems must be identified at the time of bid. Again the IPA is not specific on the exact documents needed to prove viability, but merely provides examples. We again suggest the IPA determine the exact documents needed as soon as possible. For this category if the identified project is not energized the bidder may substitute a project that meets all the same criteria as the original project (number of RECs, installed by a qualified person, new, etc.) which we find to be prudent.

The IPA also proposes to require a deposit amount of $25/REC for speculative bids and $10/REC for bids with identified systems. The deposit for identified projects seems reasonable, but the deposit for speculative projects seems high. Coupled with a minimum bid size of 500 RECs, the total $25/REC deposit for speculative systems would require a minimum deposit of $12,500. We fear this might be prohibitive for smaller participants, and we suggest something along the lines of $15-$20/REC, which is more in line with what other states charge as listed in Sec. 6.2 of the Draft Plan.

Sec. 5.1 Procurement Timeline and Scale: The IPA proposes three separate procurements over the course of 9 months, with an additional contingency event available if funds remain. We find the use of different procurement events prudent and it appears the timing will be appropriate for developers to identify systems and participate in procurement events. As mentioned above, our concern lies with the definition of “new” for the first event, as well as the grouping of all bids between 25 kW and 2 MW. The IPA has tried to address the latter concern by limiting participation in the first procurement event to systems below 500 kW in nameplate

capacity, but unfortunately this will only provide minimal relief for small commercial system developers. Rather, as discussed above, we suggest that the IPA divide the 25 kW to 2 MW category in two and strive to procure equal amounts of RECs from each of two sub-categories: 25 kW to 200 kW and 200 kW to 2 MW. While not perfect, it will provide ample opportunity for small commercial systems to compete.

Sec. 5.2.4 Benchmarks: Per the statute, the IPA has proposed to use a confidential benchmark with which to evaluate bids. The benchmarks will be developed by the procurement administrator in consultation with the Agency the Illinois Commerce Commission, and the procurement monitor. Participants are not privy to the various considerations given in determining the benchmark, but we hope the IPA and its procurement administrator will recognize the variables associated with developing DG projects. In particular, the Agency should recognize that not all projects will be able to use the federal Investment Tax Credit, the Department of Commerce and Economic Opportunity's solar rebate, or other financial incentives or grants. Similarly, some projects will not be able to recognize the full value of system production through net metering. All of these factors affect the economics of individual projects and the IPA and its procurement administrator should not assume all projects will be able to take advantage of each of these or even any of these policies when developing its benchmarks.

Respectfully submitted,

Brad Klein
Senior Attorney
Environmental Law & Policy Center
(312) 795-3746

John Paul Jewell
Research Coordinator, Clean Energy Finance Specialist
Environmental Law & Policy Center
(312) 795-3732

Sarah Wochos
Co-Legislative Director
Environmental Law & Policy Center
(312) 795-3711

Orijit K. Ghoshal

Assistant Corporation Counsel
City of Chicago, Department of Law
(312) 744-6936