

Initial Forward Procurements Workshop

May 10, 2017

Agenda

9:00 a.m. – 9:30 a.m. Welcome and introductions

9:30 a.m. – 10:00 a.m. Background and statutory overview

10:00 a.m. – 11:30 a.m. Key contract provisions

11:30 a.m. – 12:30 p.m. Overview of proposed procurement structure

12:30 p.m. – 1:30 p.m. Lunch break

1:30 p.m. – 3:00 p.m. Stakeholder input

Presenting Today

- Illinois Power Agency
 - Anthony Star, Director
 - Brian Granahan, Chief Legal Counsel

- NERA Economic Consulting
(Procurement Administrator)
 - Dr. Chantale LaCasse, Managing Director
 - Benjamin Chee, Director

Workshop Goals

- The purpose of this workshop is to introduce the planned approach the Illinois Power Agency will take to conduct the Initial Forward Procurements pursuant to the new Section 1-75(c)(1)(G) of the Illinois Power Agency Act which takes effect on June 1, 2017.
- The workshop will also serve as an opportunity for stakeholders to provide feedback to the Agency.
- The formal procurement process will begin on or after June 1, 2017.
- Issues discussed today are for informational purposes only. Final decisions on the procurement design, rules, and contracts will be expressed in documents posted to the official procurement website.

Illinois Power Agency Background

Background on IPA and Procurement Approach

- IPA created in 2007 as part of resolution of debate on how to procure power for customers who did not switch to alternative suppliers (eligible retail customers)
- Key responsibilities include:
 - Developing annual procurement plan, subject to Illinois Commerce Commission approval
 - Running procurements via third-party program administrator. Results subject to ICC approval
- In 2011 became independent Agency under the oversight of the Illinois Executive Ethics Commission

IPA Renewables Responsibilities

- Utilities have annual RPS percentage requirements.
 - Through 2016 the IPA included in its annual procurement plan proposed procurements to meet those targets
- IPA administers the Renewable Energy Resources Fund to purchase additional renewables (funds collected from alternative suppliers as a portion of their RPS compliance)

The Challenges of the Original RPS

- Retail choice meant that customers could switch back and forth between utility service and alternative suppliers leading to budget and target uncertainties
- The Renewable Energy Resources Fund encountered challenges as funds were redirected to other purposes, and the wording of the law constrained its use

What Was Accomplished

- Annual REC procurements in 2008 – 2012, 2014 - 2016
- 2010 Long-term procurements
- 2012 multi-year “Rate Stability” procurement
- Supplemental Photovoltaic procurements in 2015 and 2016
- 2015-2017 Distributed Generation procurements

Public Act 99-0906

- Passed in December, 2016. Effective June 1, 2017
- Establishes Zero Emissions Standard
- Reforms Energy Efficiency programs
- Changes Renewable Portfolio Standard

Changes to the RPS

- Phases out separate Alternative Supplier RPS requirements over two years
- Requires the development of a Long-Term Renewable Resources Procurement Plan including adjustable block programs for distributed generation and community solar
- Creates Illinois Solar for All program to use the Renewable Energy Resources Fund to support low-income programs
- Updates net metering, creates inverter rebates
- Initial Forward Procurements

Statutory Overview: Section 1-75(C)(1)(G)

Section 1-75(C)(1)(G)(i): Wind

- 160 days to complete procurement (after effective date)
- Projects must be new
- 15 year contracts
- 1,000,000 renewable energy credits delivered annually
- Delivery beginning June 1, 2019 if available
- Delivery no later than June 1, 2021
- RECs count toward state RPS

Section 1-75(C)(1)(G)(ii): Solar

- **One year to complete procurement (after effective date)**
- **One or more procurement events**
- **Projects are utility-scale solar or brownfield site PV**
- Projects must be new
- 15 year contracts
- 1,000,000 renewable energy credits delivered annually
- Delivery beginning June 1, 2019 if available
- Delivery no later than June 1, 2021
- RECs count toward state RPS

Geographic Requirements

Geographic requirements found in Section 1-75(c) apply to RECs qualifying to be used for the IL RPS, and thus facilities producing those RECs, including any facilities winning contract in the initial forward procurement. (See 20 ILCS 3855/1-75(c)(1)(G)(iv))

Based on the following criteria: “**maximize the State's interest in the health, safety, and welfare of its residents**, including but not limited to minimizing sulfur dioxide, nitrogen oxide, particulate matter and other pollution that adversely affects public health in this State, increasing fuel and resource diversity in this State, enhancing the reliability and resiliency of the electricity distribution system in this State, meeting goals to limit carbon dioxide emissions under federal or State law, and contributing to a cleaner and healthier environment for the citizens of this State” (20 ILCS 3855/1-75(c)(1)(I))

Geographic Requirements (cont.)

What qualifies for Illinois RPS (i.e., what projects can sell RECs under contracts executed through this process?)

- Facilities located in IL
- Facilities in adjacent states? (See 20 ILCS 3855/1-75(c)(1)(I))
 - If the generator demonstrates and the Agency determines that the operation of such facility or facilities will help promote the State's interest in the health, safety, and welfare of its residents based on the public interest criteria described in the prior slide
 - Long-term renewables plan “shall describe in detail how each public interest factor shall be considered and weighted”
 - As criteria is used to determine whether RECs qualify for RPS, would be applied to any contracts executed in initial forward procurements
- But not a “a generating unit whose costs were being recovered through rates regulated by this State or any other state or states on or after January 1, 2017.” (20 ILCS 3855/1-75(c)(1)(J))
 - Additional detail on how this language applies to projects developed through long-term renewables plan

Subsequent Procurements

- Contemplated in Section 1-75(c)(1)(G)(iii), must be at least 1,000,000 RECs for wind
- Help meet quantitative targets for future new build (see 20 ILCS 3855/1-75(c)(1)(C))
 - 2020 (2 million RECs each for wind and solar)
 - 2025 (3 million)
 - 2030 (4 million)
 - Subtargets by project type for solar
- Matching requirement between wind and solar (wind deliveries shall not exceed projected cumulative solar deliveries)
- Adjustment to procurement programs in long-term plan if 200,000 RECs out of balance
 - Would not call for curtailment of an executed contract
- Additional procurements possible to meet percentage-based RPS targets found in Section 1-75(c) as proposed through long-term renewable resources plan

Procurement Process

Initial forward procurements “shall follow the **procurement processes and procedures described in this Section and Section 16-111.5 of the Public Utilities Act to the extent practicable.**” (20 ILCS 3855/1-75(c)(1)(G)(iv))

However, “processes and procedures may be expedited to accommodate” the accelerated schedule associated with the initial forward procurements.

Most relevant provisions found in 220 ILCS 5/16-111.5(c)(1)(i)-(xi)

Statutory Overview: Section 16-111.5

Section 16-111.5 of the Public Utilities Act

- Describes the procurement process used by the IPA for energy and renewable resources
- Used since 2008, process and procedures well established and tested
- No significant changes from past practices required for the Initial Forward Procurements
- Adjustable block programs for distributed generation and community solar that will launch next year will not use this process

Key Roles

- Procurement Administrator: NERA (in consultation with the IPA)
 - Designs procurement process
 - Develops benchmarks
 - Develops contracts
 - Interface with bidders and utilities
 - Administers RFP
 - Provides evaluation of RFP results and recommendations to the ICC for approval
- Procurement Monitor: Bates White
 - Works for the ICC
 - Monitors entire process
 - Provides independent confidential assessment of the RFP process and results to the ICC

Key Provisions of Section 16-111.5 of the Public Utilities Act

- Standard contract and credit terms
- Confidential benchmarks
- Sealed, pay as bid RFP
- Procurement Administrator provides confidential report and recommendation within two business days of bid date to the ICC
- ICC has two business days to vote to accept or reject procurement results
- Three days after ICC approval to execute contracts



Workshop: Initial Forward Procurement for RECs

Procurement Specifications and Description

NERA
ECONOMIC CONSULTING

Chantale LaCasse, NERA
Ben Chee, NERA

Chicago, IL
May 10, 2017

Procurement Targets

- Under the new law:
 - Utility-scale wind: one procurement
 - Utility-scale solar & brownfield PV: multiple procurements
- First procurement potentially as early as August 2017 (August 10 tentative bid date)
- 15-year contracts for a total of
 - 1,000,000 RECs annually from utility-scale wind
 - 1,000,000 RECs annually from utility-scale solar and brownfield PV
- Working assumption is for:
 - A single contract form for all technologies
 - A first procurement for both wind and solar (including brownfield) projects

CONTRACT PROVISIONS

Process for Contract Development

- This section presents proposed main contract elements for feedback from stakeholders
- At a later time, a draft contract will be released that will take into consideration the input of stakeholders
- An invitation to comment on the draft contract will be issued and potential bidders in the procurement events will have an opportunity for detailed review of proposed terms
- The IPA and its Procurement Administrator, the utilities, the Staff of the Commission and its Procurement Monitor, will consider all comments
- The final contracts, which will be standard for all participants, will be released prior to the Request for Proposals (“RFP”) after consideration of all comments
- Participants in the procurement events must accept the terms of the final contracts

General Contract Structure

- Master REC Purchase and Sale Agreement is the standard form used as a starting point
- Similar to REC contracts (general REC procurement and DG procurement) used previously for procurement events under the IPA's procurement plans
- Each utility will have its own contract form and the form may vary but all key provisions will be the same across utilities to the extent possible
- Output of winning project is shared among the utilities

Disclaimer

- **Any statements made in this presentation describing or referring to the agreements or RFP Rules may not reflect the final terms**
- **The governing documents are those posted as final when they become available and Bidders bear full responsibility for reviewing and understanding such documents**

Product Specification

- **Contract is for Standard RECs**
 - all environmental attributes
 - RECs only, no energy component

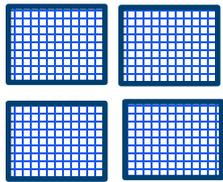
- **RECs must be from specific Projects qualified through the RFP process**
 - utility-scale solar projects
 - utility-scale wind projects
 - brownfield site photovoltaic projects

- **New Projects only**
 - Project must be energized after June 1, 2017

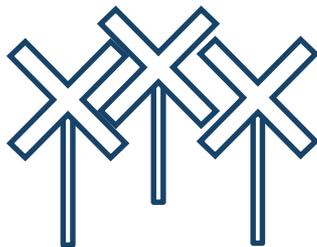
RECs from Each Project Allocated to Utilities

Seller

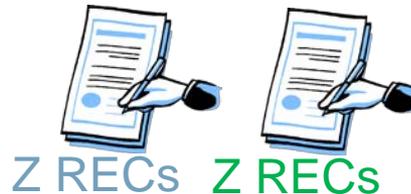
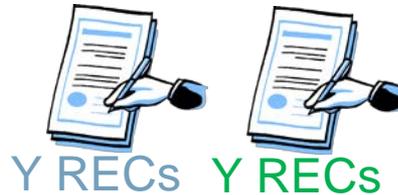
Buyers



Solar RECs



Wind RECs



Key Delivery Provisions



- Each party responsible for its own usage fees
- Suppliers deliver RECs delivered to utilities in unretired state
- Utilities retire RECs

■ **Term**

- 15 years of REC delivery and payment
- REC deliveries accounted and paid monthly
- payment subject to cost recovery by utility

■ **Initial REC Delivery**

- not earlier than June 1, 2019
- not later than June 1, 2021

Product Specification

■ **Vintage:**

- Delivery year: June 1st through May 31st of following year
- defined by when RECs are issued by GATS/MRETS
- RECs transferred in delivery year must be issued in same delivery year
- no banking of RECs

Key Delivery Provisions

■ Purchase Price:

- purchase price is price specified by supplier in its bid
- same price across all 3 utility contracts
- no price escalation

■ Quantity:

- annual quantity specified by supplier in its bid
- Supplier can sell RECs from project in excess of annual quantity to the market (but not to the utilities)
- Supplier can fail to meet annual quantity twice without penalty as long as all RECs from project are delivered to utilities
- Failure to meet annual quantity three times leads to contract termination and forfeiture of collateral

Key Credit Provisions

■ 1st Requirement: Development Security

- amount depends on project (e.g., size, etc.)
- security returned with first REC delivered
- Draft proposal: 50% of value of annual quantity of RECs from project, subject to a floor

■ 2nd Requirement: Performance Assurance

- amount proportion to contract value
- amount reduced over life of contract each year
- Draft proposal: 1 year value of Annual Quantity

■ Other Provisions

- unsecured credit line (\$2.5M based on one-year REC contract) available for investment grade entities
- may rely on guarantor

PROCUREMENT PROCESS

Proposed Requirements to be Included in RFP

- This section presents proposed requirements for the qualification of projects for feedback from stakeholders
- Such feedback will be integrated into a draft document summarizing project qualification requirements that will be released and posted to the procurement website
- In accordance with the Act, the Procurement Administrator designs and issues the full request for proposals (“RFP”) for renewable energy credits from new wind, solar PV, and brownfield projects
- In addition to qualification requirements, the RFP will specify the financial guarantees to be provided with the proposal as well as the manner in which bids will be submitted
- The RFP is issued at the start of the qualification window and the final requirements will be explained through a webinar

General RFP Structure

- A **proposal** is presented for a **given project**, and a party putting forward several projects will put forward several proposals that will be evaluated separately
- The proposal is in **two parts**: Part 1 (also called “pre-qualification”) and Part 2 (also called “registration”)
- A project first meets the qualification standards of the Part 1 Proposal and second moves on to the Part 2 Proposal for which financial guarantees are required
- A **bid** submitted for a project will consist of a price per REC and an annual quantity of RECs to be delivered
- Submission of materials for the proposal will be done **online** and bids will be submitted electronically

Project Must Meet Requirements from the Act

- Allowable technologies
 - utility-scale solar projects (at least 2 MW)
 - utility-scale wind projects (at least 2 MW)
 - brownfield site photovoltaic projects (may be less than 2 MW)
- Projects must be new i.e., energized after June 1, 2017
- Not a generating unit whose costs were being recovered through rates regulated by Illinois or other state(s)
- Located in Illinois (or located in states adjacent to Illinois*)
- New solar PV must be installed by “qualified persons” as specified in the Act
- New solar PV subject to the Commission’s certification standards with respect to installation and wind projects may also be subject to these standards

Procurement Schedule

- RECs from wind resources must be procured within 160 days of law becoming effective (November 8)
- RECs from Solar PV resources must be procured with one year of law becoming effective
- IPA has set a goal to procure ahead of this deadline with a tentative bid date of August 10 for wind RECs and for solar PV RECs to the extent feasible
- IPA stands ready to adjust schedule so that sufficient time is given to receive and integrate feedback from stakeholders on the contract and RFP process

Schedule Milestones

Workshops

Draft contract is issued and comment period begins

Deadline for submission of comments on draft contracts

Final contracts and RFP posted

Webcast for potential suppliers

Suppliers submit their materials for the Part 1 Proposal

Bid Participation Fees are paid

Procurement Administrator advises suppliers of qualified projects

Suppliers submit materials for the Part 2 Proposal

Suppliers submit bids

Procurement Administrator and Procurement Monitor report to ICC

ICC renders a decision on bids

Contracts are executed

Supplier Fees are paid

Qualification (Part 1) Proposed Requirements

- **Bid Participation Fee**

- **Project information**

- Address
- Size
- Technology (if brownfield, provide site and document that it is regulated under one of the programs in the law)
- Installed by qualified person/certification standards to the extent required
- Copy of signed interconnection agreement (if not yet signed, representation that party understands all requirements)
- Expected energized date

Qualification (Part 1) Proposed Requirements

- **Information for representatives of bidding team**
- **Seller information**
 - Entity that will sign the contracts if bid approved by ICC
 - Name and contact information for individual who will sign contracts and make representations required by the proposal
 - Financial information, to the extent available, for the seller or a guarantor
 - Credit ratings
 - Financial statement
 - If financial information is provided, procurement administrator communicates an assessment of whether the party qualified for an unsecured credit line under the terms of the contracts
 - If no financial information is provided this does not disqualify the project

Qualification (Part 1) Proposed Requirements

■ Representations by seller

- Agrees to the terms of the contracts
- Milestones in project development achieved to date provides reasonable expectation that delivery will commence no later than June 1, 2021
- Cost of project not recovered through rates
- Agrees that development security will be held until first REC is delivered
- Qualified persons have been used or will be used, and certification standard for installation have been met to the extent applicable

Registration (Part 2) Proposed Requirements

- **Financial guarantees**
 - letter of credit to each utility
 - amount expected to be tied to development security required under contract
- **Information to prepare the contracts**
- **Representations that bids are binding for set period of time**
- **Bid**
 - price per REC
 - annual quantity

Have questions during Workshop?

Email any comments or questions to:

Anthony.Star@Illinois.gov

Have Questions Later On?

→ www.ipa-energyrfp.com



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