

Illinois Power Agency
Anthony Star, Director
Michael A. Bilandic Building, Suite C-504
160 North LaSalle Street
Chicago, Illinois 60601

May 17, 2017

Dear Director Star:

NRG Energy, Inc. (NRG) appreciates the opportunity to comment on the proposed parameters for the Initial Forward Procurements.

NRG supports the IPA's goal of ensuring that the results of the procurement are not skewed by speculative bidding. Clearly, if standards for bidding are too lax, there is a risk that winning projects will prove to be nonviable and will ultimately be canceled by developers. However, there is an equivalent risk at the other end of the spectrum. It is not possible to retire all risks before a project is contracted and built: A range of issues often necessitate changes in a project's footprint or design during development, and once the project is placed in service, its generation relies on solar and wind, which are inherently variable resources. We are concerned that the proposed bidding and contract rules are unreasonably rigid, creating a significant risk that viable projects will be excluded from the procurement or have their contracts terminated. The end result is the same at either extreme: insufficient RECs delivered under the program and a failure to meet Illinois' clean energy goals.

In summary, NRG recommends the following:

- If a project must be scaled down during development (for example, due to unforeseen geotechnical or real estate title issues on part of the site), the developer should have the option of reducing the contract amount and surrendering only the proportional amount of the development security, rather than having the contract canceled outright. This would be a preferable outcome for all parties, as the project could continue to deliver some RECs rather than none, and the shortfall in contracted RECs could be mitigated by procuring additional capacity in the subsequent REC procurement.
- NRG recommends a system of banking and penalties to mitigate unavoidable variation in production during operation of the projects, while reserving contract default only for situations where a project is underperforming beyond that range of reasonable variability.

NRG's responses to IPA's questions follow:

Site Control

Question 1: NRG proposes that a site lease option should be the minimum requirement to demonstrate site control. This could be documented by a memorandum of lease option, or by a copy of the lease option itself with commercially sensitive information redacted. Both larger and smaller developers should be able to secure a lease option at their intended sites, since the lease option requires securing the landowner's consent to develop on their property but allows the developer to wait to incur a major, long-term financial obligation until they have secured approval for their project.

For solar projects, it is reasonable to require that the developer demonstrate site control for 100% of the proposed project site. For wind projects, a 100% standard may not be reasonable, as wind projects typically require many more distinct parcels of land. NRG does not have a specific recommendation for what percentage of the land should be under site control.

Question 2: An additional performance guarantee should not be accepted in lieu of site control. Site control is a basic requirement for project viability. In addition, the proposed performance guarantees are already very high, and increasing them further is unlikely to have a significant impact.

REC Delivery Flexibility

Question 1: There are two categories of factors that could lead to a project failing to deliver its full contracted level of RECs: those that arise during development of the project, and those that arise during operation.

- Development risks include ground conditions; real estate and title issues; discovery of protected species; and additional requirements imposed during the permitting process. All of these may affect the entire site or only a portion of a site.
- Operational risks include variability in weather, especially for wind projects; utility work that takes a line or substation offline for a period of time; curtailment; or equipment failure. With the possible exception of curtailment, any of these factors will generally vary from year to year but smooth out over several years. A system of banking and penalties should therefore be effective at mitigating these risks.

Question 2: NRG recommends allowing banking within the following parameters:

- Banking should be allowed within a specified band of the contract amount of RECs. Based on the different variability profiles of wind and solar, as well as predictable degradation for solar, we suggest a band of +/- 20-25% for solar projects and +/- 30-35% for wind projects.
- Within this band, if there are no banked RECs available in a given year, the project owner should be assessed a penalty but should not be at risk of default.
- Banking within this band should be allowed for the full 15-year REC contract.

Question 3: Banking should only be allowed at the individual project level. Allowing banking across projects has the potential to create arbitrage opportunities, and it would provide an advantage to large companies that could assemble large portfolios of projects – effectively decreasing the risk of penalty for these companies but not for smaller companies with only one or two projects.

Question 4: NRG takes no position on replacement RECs, though we note that this could create potential opportunities for arbitrage and would add complexity to the program.

Question 5: In connection with our response to Question 2, a project should only be considered in default if it produces less than the lower bound of the allowed band (for example, below 25% of the contracted amount for a solar project) for three years of the 15-year contract.

With regard to the specific levels of the penalties, we note that because the proposed security deposits and penalties are tied to the value of the REC contracts, the penalties would be significantly larger for solar projects than for wind projects. This discrepancy appears to be an unintended result of the method for calculating penalties; it does not seem to serve any public policy goal. We suggest reducing the level of the securities and penalties for solar projects to approximately half the proposed level. Smaller penalties would also make the market more equitable; the proposed security deposits and penalties are large enough to be a significant financial burden on any developer and a major barrier to participation by newer and/or smaller developers.

Thank you for your consideration. We look forward to discussing these issues further.

Sincerely,

Julia Zuckerman
Manager, Policy and Market Strategy
NRG Energy, Inc.