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Comments of the Citizens Utility Board and Environmental Defense Fund
On the 2015 Illinois Power Agency Draft Procurement Plan
September 15, 2014

The Citizens Utility Board (CUB) is glad to provide comments on the 2017 Illinois Power Agency (IPA) Draft Procurement Plan (Draft Plan). CUB commends the IPA on its thorough consideration of previous stakeholder feedback and workshop results in developing its Draft Plan. CUB concurs with many of the IPA's policy recommendations and procurement decisions, and offers these comments in response to areas where the IPA has requested further stakeholder feedback.

CUB's comments concern one area of external uncertainty, and several points of refinement to evolving annual processes. As the capacity prices in the Midcontinent Independent System Operator (MISO) market approach an apparent equilibrium and the organization contemplates a new auction approach specifically designed for competitive retail markets, the IPA is considering transitioning Ameren Illinois (AIC) to full reliance on the MISO auction. CUB believes caution is the right approach to respond to the proposed changes from MISO, and the IPA should continue to pursue resources that ensure the best value for Illinois ratepayers. The Agency also seeks comment on ways to improve its annual Distributed Generation (DG) procurement event and incremental energy efficiency (EE) procurement, to which we offer comments.

7.2.1.2 Ameren Illinois

The IPA plans to continue is strategy of procuring 75% of AIC's capacity obligations through bilateral contracts as a hedge against volatility in MISO's Planning Resource Auction (PRA), with the rest coming from the PRA. However, the Agency also recommends

ceasing its bilateral hedging strategy in 2019, in anticipation of greater stability stemming from MISO's proposed Competitive Retail Solution (CRS).[1]

This change is conditional on the CRS gaining approval, but CUB recommends the IPA take a "wait-and-see" approach to this transition. While it is true the IPA's hedge has had little impact on capacity prices for AIC customers in recent years, CUB has reservations about the potential effects of the CRS, which may end up raising prices further. A sloped demand curve for competitive customers introduces new opportunities for market inefficiencies, such as the procurement of capacity beyond forecasted requirements and excessive price points due to overly generous cost of new entry calculations. It will be incumbent on the IPA, if and when the CRS is implemented, to monitor closely the trends in the MISO capacity market in the intervening years and comparable cost of opting out through MISO's Fixed Resource Adequacy Plan. We agree that the IPA should be empowered to respond quickly to MISO developments, if it appears necessary to minimize impacts on consumers.

8.4 Distributed Generation Procurement

Noting the inability of previous DG procurement events to achieve their statutory Renewable Energy Credit (REC) target volumes, the Draft Plan includes refinements to the DG procurement process for 2017.[2] These refinements are in response to recommendations in Boston Pacific's report to the ICC on Planning Year 2015 procurement events.[3] That report recommended future DG procurements 1) allow bidders to offer speculative RECs, 2) reduce transaction costs and credit requirements for bidders, 3) switch from an aggregator model to unit-specific contracts, and 4) consider bidders' development timeline in setting procurement dates and deadline rules. With the exception of unit-specific contracts, the Draft Plan incorporates all of these suggestions to some degree, which CUB supports. CUB believes the development of a robust DG marketplace in

[1] IPA, *2017 Draft Procurement Plan*, pg. 84
[2] Ibid., pg. 101
[3] Boston Pacific, *Initial Comments on the Summer 2015 Through Spring 2016 Electric Procurement Events Pursuant to Section 16-111.5(o) of the Illinois Public Utilities Act*, Presented to the Illinois Commerce Commission, June 30, 2016, pg. 11

Illinois is vital for consumers, because proliferation of DG gives consumers greater control over their grid electricity uses and leads to a more resilient grid for all customers, and that it is incumbent on all stakeholders to make these procurement events functional.

In their report to the ICC, Boston Pacific identifies the option for bidders to include forecasted RECs from unspecified small systems in their portfolio as a factor in the relative success of Illinois' solar PV procurement events.[4] In response to this finding, the Draft Plan allows bidders to include speculative small-system DG RECs in their 2017 portfolios, with a nine-month deadline for identifying those systems. CUB supports this change, and believes it will serve to encourage greater response to the DG RFP. By giving aggregators more flexibility in developing their bids, this change will likely lead not only to more bids in the upcoming procurement, but better bids as well.

The Boston Pacific report also identified higher credit requirements, transaction fees, and termination provisions as a barrier to participation in previous DG procurement events, and recommended reducing these costs. In particular, the $8/REC credit requirement is twice as high as the credit requirement for the IPA's Supplemental Photovoltaic (SPV) procurement event, which saw higher participation. To bring transaction costs more in line with the SPV procurement, the Draft Plan reduces the credit requirement from $8/REC to $4/REC. Depending on a bidder's cost of capital, this could mean fairly significant savings: over five years, a one MW portfolio operating at 20% capacity factor generates 8,760 RECs – cutting the credit requirement in half for this bidder would be worth over $35,000 in frozen capital. However, the supplier fee for the most recent DG procurement was $11.25/REC, significantly higher than the $1.35/REC[5] charged for the Spring 2016 Renewable Energy Resources Procurement. The same hypothetical system above is then responsible for not only the $35,000 letter of credit, but also an upfront payment of almost $100,000. The higher per-REC fee is due to the dramatically lower volume of RECs procured, and this may represent a feedback loop: lower participation due to high transaction costs, and high transaction costs due to low participation. CUB supports lowering the credit requirement for bidders, however

[4] Ibid., pg. 9
[5] https://www.ipa-energyrfp.com/announcements/page/5/

something may also need to be done to lower supplier fees. The Boston Pacific report suggests levying these fees on utilities; another option may be to subsidize the DG procurement through higher fees on higher volume procurements, and there may be other solutions. A slight increase in fees for the Standard Products Procurement could easily cover the cost of holding the DG event. CUB takes no position at this time on the correct allocation of supplier fees, but agrees that adjusting this requirement in some way would help foster a more successful procurement event.

Finally, CUB notes the Draft Plan does follow Boston Pacific's recommendation in making provisions to allow aggregators ample time to get speculative systems identified, and identified systems energized. The 2016 Procurement Plan included language recommending the DG event be held as early in the year as possible.[6] Recognizing the busy schedule the IPA faces in the first quarter of each year, holding the DG procurement as early as possible will still provide bidders a longer ramp period to meet their contract obligations on deadline. CUB recommends including similar language in the 2017 Plan, and scheduling the event as early as it can be completed.

9.4 Policy Issues for Consideration in the 2017 Plan

As in prior years, the IPA has invited comments on a number of policy questions regarding the funding of incremental energy efficiency programs under Section 16-111.5B. This year, those questions revolve generally around the volume and quantity of bids utilities receive. CUB believes more could be done to attract cost-effective programs to the IPA procurement process, and to help the programs that submit bids to make improvements to become more cost-effective.

9.4.1 Scale of Section 16-111.5B Programs

The Draft Plan notes a 2016 decrease in Section 16-111.5B savings over the previous year, with a further decrease in the 2017 proposals over last year, as well as two different explanations for the phenomenon.[7] The argument that the bids received portray

[6] Draft Plan, pg. 139
[7] Ibid., pg. 113

an accurate picture of the current energy efficiency marketplace is belied by Ameren's and ComEd's respective potential studies, which both show realistically achievable savings above and beyond what has been proposed.[8,9]

The IPA suggests one solution may be targeted solicitation of new programs focused on opportunities for savings identified in the utilities' potential studies, but not yet served by existing programs. If targeted vendor outreach can increase participation, then it should be pursued in future bid cycles. As developing a targeted outreach strategy would draw on the expertise of utility teams as well as stakeholders with direct relationships with energy efficiency firms, this may be a worthwhile function for future SAG collaboration. The IPA here makes the excellent point that ratepayer funds have already paid for the generation of these extensive EE potential studies, and CUB agrees that this would represent an excellent opportunity to put them to good use.

9.4.2 Improving/Refining Bids

The IPA suggests there may be an opportunity within the bid approval process for greater negotiation between the utility and bidder, to improve bids after their submission with the goal of developing the overall EE portfolio that best serves ratepayers. This could include programs that do not pass the Total Resource Cost test (TRC) on the first pass, but could be cost-effective with some improvements to their methods or program structure, or programs that do pass but could be made still more effective. The IPA also suggests bidders who are initially rejected by the utility's analysis could still benefit from engaging in the IPA's procurement process directly, by submitting comments or intervening in the subsequent ICC docket.[10]

CUB believes such a process could be effective at producing better programs, and also recognizes that further fine-grained analysis of every bid to look for improvements would involve further administration cost for the utility. This is an important issue, and

[8] Applied Energy Group, *Ameren Illinois Demand Side Management Market Potential Study: Volume 3 – Energy Efficiency Potential Analysis,* Draft Plan Appendix B.5v3, pg. 49
[9] ICF International, *ComEd Energy Efficiency Potential Study Report, 2013-2018*, Draft Plan Appendix C-1, pg. 28
[10] Ibid., pg. 114

one worthy of further analysis to ascertain whether increased admin costs would be less than the benefit of more and better programs. This would be an appropriate question for the SAG.

9.5 Ameren Illinois

While finding AIC's EE submittal compliant with sections 16-111.5 and 16-111.5B of the PUA, the IPA notes several issues with the utility's RFP and bid review process, in the end recommending inclusion of two bids AIC initially rejected. CUB echoes the IPA's concerns, and supports inclusion of the programs in question. AIC could attract more bids by advertising its RFP more broadly, and not requiring a surety bond of winning bidders. CUB also agrees with IPA that AIC errs in excluding gas savings from its cost-effectiveness test, and dismissing bids on the basis of gas savings.

9.5.1 Ameren Illinois Bids Received

The IPA highlights a 25% decline in bids received through AIC's RFP, and discusses potential causes. The first is simply insufficient advertising of the RFP: "… Ameren only posted the RFP to the Association of Energy Service Professionals ("AESP") website and conducted no further outreach."[11] As discussed above in reference to 9.4.1, CUB believes there is potentially a role for stakeholder collaboration in developing targeted outreach strategies, as the traditional RFP process is not attracting bids that add up to the potential market for EE services in Illinois, and lack of awareness may be part of the problem.

AIC's RFP also included a new requirement of a surety bond from winning bidders, to insure against program under-performance is another potential cause of lower participation. CUB believes this is an unnecessary measure, which has likely had a chilling effect on vendor participation. Imposing a higher upfront capital cost on bidders makes their required return higher, likely driving up costs of programs that submit bids, leading to fewer bids clearing the TRC. Indeed, fewer of AIC's submissions passed the TRC than ComEd, a fact undoubtedly related to lower supply costs in Southern Illinois, but which

[11] Ibid., pg. 116

may also be partially attributable to higher capital costs from this surety bond requirement.

9.5.4 Programs Deemed "Not Responsive to the RFP" by Ameren Illinois

The IPA includes in its proposal two bids that were not evaluated by AIC and dismissed at their initial submission, on the grounds that they were involved too much gas savings and thus did not adhere to the RFP. The IPA contends that according to the PUA, regardless of the relative levels of gas and electricity savings, if a program is cost-effective according to the TRC, which itself includes natural gas savings, then it should be approved.[12]

AIC's concern regarding the potential cross-subsidization of gas ratepayers through efficiency programs aimed at electric customers are valid, and warrant consideration in future refinement of Section 16-111.5B. However, CUB agrees with the IPA that a strict reading of the PUA requires programs that pass the TRC be approved. In particular, if a program that includes significant gas savings still passes the TRC considering only its electric savings, as does the ventilation program described in Section 9.5.4.2, it is in the interest of electric customers to procure it. CUB supports the IPA's decision to include these two programs, and encourages the ICC to provide clarity on this issue.

[12] Ibid., pg. 118