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Mario Bohorquez
Planning and Procurement Bureau Chief
Illinois Power Agency
160 N. LaSalle Street, Suite C-504
Chicago, IL 60601

RE: Draft Long-Term Renewable Resources Procurement Plan

Dear Mr. Mario Bohorquez,

Thank you for this opportunity to provide comments to the Illinois Power Agency (IPA) on the Draft Long-Term Renewable Procurement Plan ("Procurement Plan"). 3Degrees Group Inc. ("3Degrees") appreciates this chance to offer feedback on the future of renewable energy procurement in Illinois under the revised Renewable Portfolio Standard (RPS) goals and targets. 3Degrees acknowledges and appreciates the time and consideration that was required in undertaking this effort and developing a plan that incorporates the breadth and scope of the requirements of Public Act 99-0906.

3Degrees is a leading provider of comprehensive clean energy and carbon services that enable organizations and individuals to transition towards a low-carbon economy. 3Degrees is one of the largest buyers and sellers of renewable energy credits (RECs) in the country and serves hundreds of businesses, utilities, and other load serving entities. Over the past decade, 3Degrees has worked closely with suppliers in Illinois in order to support them in meeting the state's RPS goals.

3Degrees' comments seek to support the overarching goals of developing a Procurement Plan that fosters an active and vibrant renewable energy market and encourages a wide array of stakeholders and investors to engage in the market. 3Degrees' comments focus on resource eligibility and on creating a favorable environment for successful renewable energy procurements, both in the form of a short-term REC market and long-term investments.

1. Geographic Eligibility of Renewable Energy Resources

3Degrees suggests streamlining the geographic eligibility assessment for adjacent state resources, particularly for facilities engaging in the Procurement Plan's Spot Procurements. 3Degrees recognizes the challenges the IPA faces in finding the best way to translate public interest criteria related to the health, safety, and welfare of Illinois citizens into measurable proxies that can be considered and weighted in order to determine eligibility. In addition to meeting the specific goals outlined in Public Act 99-0906, we recognize that the IPA also must consider how to align the process with the goal of encouraging investment in renewable energy resources in the state. 3Degrees recommends that the methodology proposed to assess public benefits also consider the different needs of an active short-term REC market compared to those of new resources built to meet Illinois long-term procurement demand. In order for a short-term REC market in Illinois to succeed and offer its full suite of benefits (see Comment 3 for more details on the benefits of a properly functioning short-term REC market), market players require clarity of information. Particularly, marketers must be able to identify and understand rules in order to aggregate supply. A properly functioning short-term market will incentivize further investment in renewable energy in the state and region, as the short-term REC market will provide transparency around pricing and availability of supply.

We would also argue that, while such a methodology makes sense in the context of the ZES, the market for renewable energy, and the goals of the RPS, operate slightly differently than those of the ZES. As the IPA has identified, nuclear generators are much larger facilities and comparatively few will be bidding into the ZEC RFP. As the IPA notes, "given the known size of nuclear power generating units, a very small number of facilities will be required to meet the statute's 16% target."[1] Furthermore, nuclear generators will likely be bidding into an RFP for long term contracts themselves rather than requiring a third party to support them in order to successfully submit proposals. For the RPS, the IPA will be running extremely large spot procurements where marketers will play the role of aggregating supply and bidding into procurement events. A concrete understanding of market supply will be necessary in order to bid into the RFP and help Illinois meet RPS goals. Furthermore, unlike the ZES goals, the RPS plan must support a goal of annually increasing renewable energy supply—achieving this goal will require certainty and clarity around market rules in order to continue to attract new renewable energy investments.

In looking at each of the public interest criterion, 3Degrees proposes a simplified allocation of points for renewable energy resources in adjacent states bidding into spot procurements where all facilities from adjacent states are awarded the same points within each criterion (based on a maximum possible of 20 points for each criterion):

1- **Minimize air pollutants that adversely affect public health in Illinois: 10**. 3Degrees supports the rationale that the impacts of adjacent state renewable energy facilities on air quality in Illinois is a function of the amount of air pollutants that would have travelled into the state had a polluting facility been built in its place. In the context of existing resources being used for spot market procurements, assessing avoided air pollutants associated with a facility is more nuanced. However, it is reasonable to assume that these facilities have had benefits to the air quality in Illinois; as such, 3Degrees recommends assigning existing zero-emitting renewable resources 10 points for criterion 1. It would also be reasonable for emitting renewable resources to be assigned less points for this criterion. We recommend the addition of the following, or similar, language within the Procurement Plan: "In the case of existing non-emitting resources (i.e. those

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[1] Illinois Power Agency. (2017, July 31). *Zero Emission Standard Procurement Plan*. (p.15). Available at: https://www.illinois.gov/sites/ipa/Documents/2018ProcurementPlan/Zero-Emission-Standard-Procurement-Plan-ICC-Filing.pdf.

not eligible to bid into the RFPs for long-term contracts), the facility will be assigned 10 points."

2- **Increasing fuel and resource diversity in Illinois: 20**. The methodology should recognize that increasing fuel and resource diversity in Illinois is directly related to increasing fuel and resource diversity on the distribution grid. Renewable resources should therefore be assigned 20 points for criterion 2 if they are connected to PJM or MISO. We recommend the addition of the following, or similar, language within the Procurement Plan: "In the case of existing non-emitting resources (i.e. those not eligible to bid into the RFPs for long-term contracts), the facility will be assigned 20 points."

3- **Enhancing reliability and resiliency of the electricity distribution system in Illinois**[2]: **20**. Similar to criterion 2, this criterion is directly related to the overall distribution grid's resiliency and reliability. Therefore renewable resources should receive full points for this criterion if they are connected to PJM or MISO. We recommend the addition of the following, or similar, language within the Procurement Plan: "In the case of existing non-emitting resources (i.e. those not eligible to bid into the RFPs for long-term contracts), the facility will be assigned 20 points."

4- **Meeting goals to limit CO2 emissions under state and federal law**: **IPA proposed methodology**. 3Degrees agrees with the IPA's assessment that zero-emitting renewable energy resources should be assigned 20 points for this criterion and supports the use of the proposed score calculation for other renewable resources.

5- **Contributing to a cleaner and healthier environment for the citizens of this state: IPA proposed methodology.**

3Degrees recognizes that such a proposal would likely require an additional designation within the PJM-GATS and M-RETS tracking systems to differentiate between resources eligible for long-term contract and those eligible for spot procurements.

2. Definition of Generating Units Whose Costs are Recovered Through Regulated Rates ("rate-recovery rule")

3Degrees would like to emphasize the importance of providing a clear definition of rate recovery as soon as possible. We understand that the IPA and ICC are continuing to work on addressing this market concern, and we appreciate this continued effort. Below we have highlighted some key considerations that should be included in the IPA's final determination and guidance provided by the IPA and in the Procurement Plan.

The Procurement Plan should provide a very clear definition of what rate recovery means in the context of Illinois RPS procurement (for both ARES and utility eligibility). The definition should be straightforward and comprehensive, such that market participants can identify on their own if a facility is eligible for the RPS. 3Degrees supports a methodology in which facility ownership is the key factor that determines whether or not a facility is eligible under the rate-recovery rule. Under such a

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[2] Please note that we believe a typo exists in the current equation for Criterion 3 (Figure 4-3), and it should read as follows: (1 if in PJM/MISO; else 0) x (**1 -** [distance from Morris, IL/470]) x 20

methodology, market participants would need to determine the facility owner and its parent companies, and then determine whether or not the rates of the owner or any parent companies are regulated by the state public utility commission. If the owner and/or any parent companies do not have rates regulated by the state, then the facility would be eligible under the rate-recovery rule.

Once a clear and comprehensive definition is provided to the market, the IPA should provide a list of any facility ownership models that generally exclude a facility from eligibility. For instance, such a list would include investor-owned utilities and any municipal utilities or cooperatives that are known to have their costs recovered in regulated rates. Generators who believe they should receive an exception to this list would be able to apply directly to the IPA for approval of eligibility.

3Degrees requests that the IPA clarify the impact of the rate-recovery rule on the following ownership and off-taker combinations:

- A facility that is owned by a utility but for which the off-taker of the electricity, in the form of a PPA, is a third-party who does not recover their costs through regulated rates.
- The Procurement Plan states that "[t]he mere presence of a PPA between a facility and a utility whose costs are recovered in regulated rates does not disqualify a facility." The market will benefit from clarity on whether and under what circumstances a PPA between a facility and a utility whose costs are recovered in regulated rates *could* disqualify a facility.

The IPA should consider how to minimize the risk to participants participating in Spot Procurement RFPs when enforcing the provision of Section 1-75(c)(L) of the IPA Act that states:

> *"Each contract… shall provide for the contract's termination if the costs of the generating unit supplying the renewable energy credits subsequently begin to be recovered through rates regulated by this State or any other state or states; and each contract shall further provide that, in that event, the supplier of the credits must return 110% of all payments received under the contract."*

Enforcement and implementation of assessing whether facilities are impacted by the rate-recovery rule should be aided by the IPA so as to expedite clarity in the market. To begin with, the IPA should actively approve existing facilities as eligible under the rate-recovery rule. For existing facilities, the IPA could require that facilities not under long-term contract reapply for approval only if the facility ownership model and/or off-taker agreement changes. The IPA should provide guarantees around facility approval, such that generation from a facility that is approved as eligible under the rate-recovery rule cannot later be rejected by the IPA for not complying with the rule if nothing about the ownership model or off-taker structure has changed. The primary concern in the market is that a facility could be approved and accepted within an RFP, and then at any point later, the generation from the facility could be deemed to be ineligible even if nothing about the ownership model or off-taker agreement has changed. It is detrimental to the renewable energy market in Illinois if market participants do not have certainty around RPS-eligibility of renewable energy, and fear retroactive penalties for non-compliance in spite of having actively sought approval.

3Degrees believes the above assurances around risk mitigation could be included in the Procurement Plan and IPA's processes while still fulfilling the intent of the rate-recovery rule. 3Degrees interprets the intent of the rate-recovery rule to be to protect Illinois utilities in the event that a facility is awarded a long-term REC contract and then later changes its ownership model or off-taker structure such that the facility no longer complies with the rate-recovery rule. The rate-recovery rule could also protect utilities in the event that a contract is signed for a spot market purchase and the RECs delivered under this contract are from a facility that did not actively seek re-approval under the rate-recovery rule when its ownership model and/or off-taker structure changed. Since it has been identified that no facilities within Illinois are rate-recovered, the initial approval under the rate-recovery rule could be implemented in conjunction with the process where adjacent state facilities seek eligibility.

3. Further Details on Spot Market Procurements

3Degrees recommends that the IPA provide further clarity around spot market procurements within the Procurement Plan. 3Degrees supports the inclusion of planned Spot Procurements within the Procurement Plan, and believes that Spot Procurements should continue to play a role in future Procurement Plans in order to help Illinois achieve RPS goals and sustained renewable energy investment in the region. As we stated in our June 2017 comments:

> *"Fostering a short-term REC market through the inclusion of annual short-term REC procurement within the Procurement Plan will lead to lower costs of compliance, flexibility and stability in meeting RPS targets, support for the existing fleet of renewable generators in the state, and preservation of the voluntary renewable energy market ("voluntary market")."*[3]

The IPA has identified very large volumes of required Spot Procurements for the 2017-2018, 2018-2019, and 2019-2020 delivery years, and has identified what seem to be single procurement events in Spring 2018, Summer 2018, and Summer 2019, respectively, to achieve these volumes. 3Degrees requests that the Procurement Plan include further details on the RFP process for these volumes, and specify whether it intends to run a single RFP for these volumes, or engage in several, staggered RFPs. While we recognize that the IPA is under time constraints, given that the plan will be finalized after the first delivery year has begun (2017-2018), 3Degrees recommends engaging in multiple procurement events. A single procurement event of such large magnitude might not deliver the full suite of benefits that short-term REC procurement supports, such as planning, flexibility, and cost containment. For instance, multiple procurement events would provide more clarity to the IPA and the market on the availability of supply, the appropriate bid price, and the feasibility of meeting the annual RPS goals. Active short-term markets punctuated with staggered RFPs will provide relevant indicators of the value of renewable energy (price signals) in the state and lead to more investment in renewable

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[3] 3Degrees' June 27, 2017 comments are available at: https://www.illinois.gov/sites/ipa/Documents/3Degrees-Comments-IL-IPA-Procurement-Plan-062717.pdf.

energy in the state and region on an ongoing basis. Single procurement events of such volume might lead to distorted price signals and a misunderstanding of the market dynamics, which can hinder investment in renewable energy in the region.

3Degrees welcomes the opportunity to discuss the above comments in further detail. Please do not hesitate to reach out with any questions, comments, or requests for further information.

Sincerely,

Maya Kelty
Regulatory Affairs Manager