

November 10, 2017

Mario Bohorquez (Mario.bohorquez@illinois.gov)
Illinois Power Agency

RE: Comments on Draft Long-Term Renewable Resource Procurement Plan (LTRRPP)

Dear Mr. Bohorquez,

Innovative Power Systems (IPS) is one of the fastest-growing solar developers in the Midwest Region. From its base in Minnesota, IPS has completed or is in development for 100 megawatts of community solar gardens. IPS has also been a regional leader on solar energy projects for commercial-industrial customers and institutional customers such as school districts and municipal governments. We have been a participant in state Public Utilities Commission proceedings for the roll-out of Minnesota's solar energy programs, and we are an active member of industry associations that are focused on renewable energy development.

IPS has also been participating in workshops, webinars and meetings hosted by various stakeholders in solar energy in Illinois and has begun to develop projects and hold discussions with potential project partners to build its development team in Illinois. We are very interested in applying some of the lessons learned from our solar energy development in Minnesota to meet the goals of renewable energy programs in Illinois.

Our comments on the Illinois Power Agency's Long-Term Renewable Resources Procurement Plan (LTRRP) are based on what we know is most likely to meet the requirements of the financial markets and will result in successful construction and operation of solar energy facilities under current market conditions.

1. Costs recovered through rates. The "energy-only" bill credits for community solar and distributed generation systems under-values solar energy. These systems have demonstrated benefits for utilities in reducing peak demand, transmission line losses, and deferring capital costs for upgrades to local distribution systems. These system benefits should be reflected in the bill credits on customer utility bills. This is not a subsidy of solar energy, but a fair valuation of its value to all ratepayers as part of a comprehensive energy generation and distribution system.

Energy-only bill credits also do not fully capture the value of social and environmental benefits that are experienced generally by residents and ratepayers. While some of these benefits are assumed within the value of Renewable Energy Certificates (RECs), it is more transparent to quantify these benefits separately and build the benefits into the rate structure.

2. Solar For All Partnerships. The requirement that solar project developers enter into agreements with community partners for all SFA projects reflects a clear legislative intent to assure that the benefits of new solar energy development are equitably shared with all ratepayers. For this provision to be workable, and not have the unintended consequence of reducing participation in these programs, the scope and nature of these partnerships should initially be as flexible as possible. It will take some time for solar developers to adapt, and for community partners, which have not had to be a partner on these sometimes complex energy

projects, to gain the experience and capacity to participate at the meaningful level contemplated by the legislation.

Because the requirements for community partnerships is a new and unique feature of the Illinois program, maintaining maximum flexibility should also apply to the definition of “economic benefits” and the requirement for “community ownership”. It will take some time for business strategies to adjust to these new requirements, and for community based organizations to gain enough experience to negotiate meaningful roles for their organizations. How these requirements are met should be monitored by IPA and additional guidelines considered as part of future LTRRPP drafts.

3. Forward versus spot procurements. IPs believes the IPA needs to further clarify its intentions regarding when it will use spot procurements of RECs in conjunction with forward procurements. One-year, spot procurements will not generally provide enough financial certainty for developers to use these spot sales in the financing for their projects. While this may represent some “upside” return, it is likely to be viewed as highly speculative without further clarifications. The LTRRPP draft suggests that spot procurements will be used primarily to meet annual targets not met through scheduled auctions. It also suggests that projects could sell their excess RECs above and beyond the more conservative projections used to enter into forward contracts. However, there is not enough information in the draft LTRRPP for developers to include this revenue in their projections.

4. Block Allocations. Allocating 25 percent of Adjustable Block RECs to systems with less than 10 kilowatts of capacity does not reflect the way IPS, with its experience from other state markets, believes the solar energy industry will grow in Illinois. These small systems are almost exclusively installed as residential systems and it takes many more of these small, individual projects to provide a sufficient supply of RECs. Small, residential projects are more likely to encounter roof and shading issues, and homeowners cannot typically take full advantage of federal tax credits. Access to solar for residential ratepayers will also be available in the form of community solar subscriptions, which will be very price-competitive with the costs of small, individual systems.

It will take more than 30,000 projects with average capacity of 6-7 kilowatts to produce 250,000 RECs, while an equivalent amount of RECs will come from 1,000 commercial or institutional projects with an average of 200 kilowatts of capacity. This allocation toward projects under 10 kilowatts seems inconsistent with goals for rapid market development of 2,700 megawatts of solar capacity in Illinois. At a minimum, IPS suggests that the small-scale, 25 percent Adjustable Block allocation threshold be increased to 100 kilowatts. This will capture small business, institutional and multi-family buildings in addition to residential installations.

5. Timeline for Completion. IPS suggests extending the time of performance for projects that are awarded REC bids, whether for community solar or distributed generation, from 12 months to 18 months, with an administrative option to extend for an additional six months. The complexities of local permitting, subscription procurement, financing and other due diligence often requires 6-12 months before final engineering and construction can begin. Current market uncertainties may disrupt supply chains and the timeliness of equipment delivery. Winter weather conditions, for both ground-mount and roof-mount systems, can delay projects that do not get underway before the end of the construction season. An 18-month timeline for project completion is more consistent with the development process.

6. Participation by public and non-profit agencies. This is another area where greater flexibility is warranted, particularly as solar developers in Illinois are developing plans and formulating their business strategies. The IPA should postpone any further narrowing of the program to certain public and non-profit agencies that serve low-income persons, at least until after several years of actual market data that could inform such a decision. IPS has had extensive experience with public and non-profit agencies and has found that there are real differences in the solar energy goals for these project partners. It would be better to allow the market to respond to the current framework and work with all public and non-profit agencies.

7. Adjustments to REC pricing due to market and policy changes. The possibility of federal tax law changes, and the likelihood of some form of tariff and/or import quotas on solar panels have created considerable uncertainty in solar energy markets. IPA has requested comments and suggestions on how to mitigate some of that uncertainty through its REC auctions and other programs.

The economic impacts of tax law changes or tariffs should be easily quantifiable. We will know the effect of any change in tax laws, and we will know the effect of any tariffs or quotas very soon after such actions are approved. There will likely be an immediate pause in solar project development as developers evaluate these changes and revise their business models and strategies. IPA can shorten the period of curtailment in project schedules and mitigate the effects of any changes by pro-actively offering to change REC pricing schedules in response to changes in tax law or equipment import rules.

Generally, REC prices should be adjusted to offset 80 percent of the increased costs from changes to tax laws or import fees. The market should be prepared to respond to the other 20 percent of the increased costs with changes to its pricing and project costs. Any adjustment to REC pricing should be within 30 days of any tax or import changes, and in place for at least 12 months. The REC adjustments could be gradually reduced in subsequent years as the market continues to adapt to any changes. To accomplish such a program within budget constraints, it may be necessary to reduce the total amount of REC purchases made through IPA programs. However, it would be better to have a slightly smaller program that still works for the market, than seek to maintain program size with RECs at a price that does not allow for financing and successful completion of projects.

Thank you for the opportunity to comment on the draft LTRRPP. We look forward to further participation in the development of renewable energy markets and programs in Illinois.

Respectfully Submitted,

Eric Pasi

Chief Development Officer
IPS Solar