VIA ELECTRONIC MAIL

Mr. Mario Bohorquez
Illinois Power Agency
Michael A. Bilandic Bldg.
Suite C-504
160 N. LaSalle Street
Chicago, IL 60601

July 21, 2017

Re: Comments to the Illinois Power Agency's Draft Zero Emission Standard Procurement Plan

Dear Mr. Bohorquez:

Invenergy LLC ("Invenergy") thanks the Illinois Power Agency ("IPA") for the opportunity to provide public comments to the draft Zero Emission Standard Procurement Plan ("Plan") as this is a new program that comes at a significant cost to the ratepayers of Illinois for the next decade. This program could cost Illinois ratepayers as much as $2.35 billion over its life. For comparison, that is approximately the all-in capital cost of nearly 1,600 MWs of new utility scale wind.[1] Those new wind farms would provide Illinois with much needed rural economic development, create temporary and permanent good paying jobs and inject significant amounts of cash to project participants, local communities and local governments. Those new wind farms would also provide Illinois with near zero variable cost emission-free renewable energy for decades to come, as well as the operational flexibility that the grid of the future will require.

Because of the significant cost to ratepayers, Invenergy believes it is in the public interest to ensure that the program costs are minimized. In addition, as noted by the IPA and at the General Assembly's direction, the agency's procurements are guided by the principles of affordability and

[1] *See* Lazard's Levelized Cost of Energy Analysis – Version 10.0 at 11 (Dec. 2016) ($2.35 billion over $1.475 million/MW)

competitive markets.[2] Our comments provide specific ways to ensure that the IPA's ultimate Plan is affordable and allows Illinois ratepayers to benefit from competition.

Correctly Calculating ZEC Values

The calculation of the Market Price Index includes capacity prices from PJM Interconnection, LLC ("PJM") and the Midcontinent Independent System Operator, Inc. ("MISO").[3] The referenced PJM capacity price is the "RTO" price, a price that represents the least expensive, non-constrained capacity price in PJM, but not necessarily the relevant capacity price in northern Illinois. Nor does the RTO price necessarily represent the capacity prices actually received by the facilities owned by the likely recipients of the ZEC contracts.

It is in the interests of affordability and maintaining the competitive market price signal that the ZEC price corresponds to the actual value of capacity in the northern Illinois ("ComEd LDA") area of PJM. Therefore, Invenergy respectfully proposes that the IPA change its calculation to use the "higher of the PJM RTO price or the ComEd LDA price." The expected savings to ratepayers from this change could be in excess of $64 million as shown in the table below. By using the "higher of" in the calculation, the resultant price accurately reflects the true value of the capacity provided by the electricity generated to obtain a ZEC in Illinois.

The table below illustrates the resulting ZEC values when using the RTO capacity price instead of the ComEd LDA capacity price. Each of the first three planning years are shown for comparison. In 2017/2018, there is no difference in price between the RTO and ComEd LDA capacity price,

[2] *See* IPA Draft Plan at 3, 15 22, (citing 20 ILCS 3855/1-5(1)-(4); P.A. 99-0906, Section 1.5)
[3] Plan at 21.

and the resulting ZEC prices are equivalent, the program maximum amount of $16.50/MWh. In 2018/2019, the weighted-average capacity price for RTO is $162.40/MW-Day compared to $212.63/MW-Day for the ComEd LDA. The ComEd LDA price is a 30% premium over RTO, meaning that ComEd's ratepayers are already compensating Illinois' nuclear generators premium prices for their capacity. However, by utilizing the lower RTO capacity price in calculation for ZECs, the resulting annual ZEC cost is increased by $21.05 million.

The capacity price discrepancy is even more significant in 2019/2020. The weighted-average capacity price for the ComEd LDA is $102.77/MW-Day higher than the RTO capacity price. On a percentage basis, capacity costs for ComEd's ratepayers are 106% higher than RTO. This significant discrepancy results in an even greater annual cost discrepancy when it comes to calculating the ZECs. By utilizing the lower RTO price in the calculation for ZECs, the resulting annual ZEC cost is $43.07 million higher than it could be.

While the annual cost cap protections provide for a deferral of ZEC payments in any year the cost cap is hit, ratepayers are still exposed to payments for those ZECs[4] over the life of the program.

[4] Albeit at potentially different prices.

	2017/18		2018/19 (Estimate)		2019/20 (Estimate)	
	RTO Capacity	ComEd LDA Capacity	RTO Capacity	ComEd LDA Capacity	RTO Capacity	ComEd LDA Capacity
Forward NI Hub Energy*	$ 28.68	$ 28.68	$ 30.00	$ 30.00	$ 30.00	$ 30.00
PJM ($/MW-Day) Base	$ 120.00	$ 120.00	$ 149.98	$ 200.21	$ 80.00	$ 182.77
PJM ($/MW-Day) CP			$ 164.77	$ 215.00	$ 100.00	$ 202.77
Wtd Avg PJM	$ 120.00	$ 120.00	$ 162.40	$ 212.63	$ 96.80	$ 199.57
PJM ($/MWh)	$ 5.00	$ 5.00	$ 6.77	$ 8.86	$ 4.03	$ 8.32
50% PJM Factor	$ 2.50	$ 2.50	$ 3.38	$ 4.43	$ 2.02	$ 4.16
MISO Zone 4 ($MW/Day)*	$ 1.50	$ 1.50	$ 1.50	$ 1.50	*$ 1.50*	*$ 1.50*
MISO Zone 4 ($MW/MWh)	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.06
50% MISO Factor	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Market Price Index	$ 31.21	$ 31.21	$ 33.41	$ 34.46	$ 32.05	$ 34.19
Baseline Market Price Index	$ 31.40	$ 31.40	$ 31.40	$ 31.40	$ 31.40	$ 31.40
Net ZEC Price (Max of $16.50)	$ 16.50	$ 16.50	$ 14.49	$ 13.44	$ 15.85	$ 13.71
Contracted ZEC Volume	20,118,672	20,118,672	20,118,672	20,118,672	20,118,672	20,118,672
Annual ZEC Cost **	$ 331,958,088	$ 331,958,088	$ 291,425,838	$ 270,372,486	$ 318,922,865	$ 275,847,950
Incremental Impact to Ratepayer	$ -		$ 21,053,352		$ 43,074,915	
* Estimated prices						
** Single year impact assumes eventual full payment of ZECs						

For the delivery year commencing June 1, 2020, and each year thereafter, the PJM capacity price to be used is the ComEd LDA.[5] This change in the calculation methodology implies that the methodology for the first three years may have been a drafting error that can and should be corrected now. Interpretation of a statute that would result in illogical or absurd results must be avoided.[6] Leaving the calculation unchanged for the first three years leaves ratepayers on the hook for tens of millions of dollars at a price that fails to reflect the actual revenues obtained by the generation that the ZEC is intended to subsidize. This is unjust, illogical, and thus should be avoided.

[5] Plan at 22.

[6] *Mulligan v. Joliet Regional Port District*, 527 N.E.2d 1264, 1269 (1988).

Bilateral Transaction Disclosures in the Risk-Based Multiplier

As participants in the wholesale power markets, the winners of the ZEC contracts are actively engaged in hedging strategies to lock-in revenues to minimize cash flow volatility and market risk. Wholesale generators enter into financial hedges as well as physical hedges with other wholesale customers. Both types of hedges can be long-term in duration, providing the generators with a long-term hedge on revenues. These hedges can reduce financial risk to specific units as well as to entire portfolios of generating assets. Those hedges can also provide revenues that are well above current market prices.

While the draft Plan assesses the financial risk of bidding facilities, it does so in a simplistic fashion: simply determining whether the facility has rate base protection or if it is merchant. Facilities with rate base protection are deemed to have less financial risk, and merchant facilities are deemed to have higher financial risk. The draft Plan assigns a multiplier of 0.5 to facilities with rate base protection and a multiplier of 1.0 to merchant facilities.

Given the magnitude of dollars to be paid by ratepayers for this program, and the IPA's guiding principles of affordability and competition, Invenergy recommends that for purposes of evaluating the financial risk of a facility, the IPA should require all merchant facilities to disclose all financial and physical hedges associated with that facility and its affiliates (as some wholesale generators use hedges for entire portfolios of assets). If such merchant facilities are not willing to disclose such hedges or other revenues, the Risk-Based Multiplier for that facility should be 0.5, consistent with facilities with rate base protection.

Invenergy's proposed language to address this issue is underlined below:

[On Page 42]

> "…a multiplier of 0.5 will be applied to the bid scores of facilities with rate-based cost recovery and those facilities that fail to disclose all financial and physical hedges associated with that facility and its affiliates, while a multiplier of 1.0 (i.e., no discount to the environmental benefits at all) will be applied to the bid scores of merchant zero emissions facilities that have disclosed all financial and physical hedges associated with that facility and its affiliates,"

Unpaid ZECs

The IPA looks for guidance with regard to what price should be paid for unpaid contractual volumes in a future delivery year – the ZEC price from the original delivery year, or the ZEC price used for the delivery year in which payment is actually made for the ZEC.[7]

Invenergy agrees with the IPA[8] and recommends that the ZEC price that should be paid in the future is the ZEC price for the delivery year in which payment is actually made for the ZEC, since that value represents the current market value of that ZEC.

Unpaid ZECs at ZEC program termination

If at the end of the ZEC program, the utilities are holding uncompensated ZECs, Invenergy recommends that the ZECs be held by the utilities for future Illinois compliance for any applicable

[7] Plan at 17, n. 60.
[8] This agreement should not be construed as agreement with the legality or propriety of the ZEC program as a whole.

program. If ZECs are in fact held in the accounts of the utilities at the end of the program, it implies that the cost cap was hit in the ten years of the ZEC program. Therefore, Illinois ratepayers may have paid approximately $2.35 billion into the program. In the interests of affordability and competition, Illinois ratepayers ought to benefit from any remaining unpaid ZECs at the rate at which the market values them

Therefore, if the utilities are authorized to monetize the remaining ZECs in a national or other state-based program, all associated revenues should be refunded to the ratepayers of Illinois who have paid for those credits in the first instance. The facilities and their affiliates should not be able to benefit twice from a ratepayer funded program intended to benefit Illinoisans.

Invenergy's proposed language to address this issue is underlined below:

[On Page 52]

> "In circumstances where there is an unpaid contractual volume, those ZECs will not be retired until such time as they are paid for in a subsequent delivery year<u>, or if in the final year of the program, then any revenues obtained by the utilities to compensate the utilities for those ZECs shall be credited to the utilities' ratepayers.</u>"

Conclusion

Invenergy appreciates the opportunity to provide comments to the draft Plan. As a Chicago-based clean energy developer that has successfully participated in numerous IPA administered procurements, we appreciate the hard work that the IPA puts into its procurement plans. Further,

we acknowledge the even greater difficulty of drafting a plan predicated upon legislation that was rushed through the legislative process with very little opportunity to review. Such legislation is bound to be incomplete, even inconsistent. In our opinion the IPA has done a good job of being consistent with its legislative direction where the law was unclear or even silent.

That said, certain interpretations of the law would increase the financial burden to ratepayers unnecessarily, especially with respect to the calculation of the ZEC values during the first three years of the program. There is no plausible defense for using the PJM RTO capacity price for plan years 2018/2019 and 2019/2020, as the price ComEd's ratepayers are subject to (as well as generators in the ComEd LDA) is the ComEd LDA capacity price.

The avoidable cost to ratepayers for those two years could exceed $64 million depending on the final Plan and executed contracts. Those tens of millions of dollars will go straight to the shareholders of the winning facilities and provide no incremental value to Illinois ratepayers, financially or environmentally. We urge the IPA to modify the plan to avoid this perverse outcome that will otherwise come to pass.

Sincerely,

Craig Gordon
Vice President, Regulatory Affairs
Invenergy LLC