Central Road Energy

MEMORANDUM

To: Illinois Power Agency & Program Administration Team

From: Central Road Energy, LLC

Date: February 28, 2022

Subject: Response to Draft Long-Term Renewable Resources Procurement Plan

---

Central Road Energy (CRE) appreciates the opportunity to comment on the Draft Long-Term Renewable Resources Procurement Plan. Central Road Energy, as an ILSfA Approved Vendor Aggregator, are in general agreement with the ILSfA working group and support their comments on the Draft LTRRPP. The following comments address issues that are specific to the AVA and AVD experience with the ILSfA program.

We urge the IPA to include a commitment to review, streamline, and improve both the Part 1 project submission and Part 2 project approval processes for all of the ILSFA subprograms. We suggest that the IPA convene a stakeholder advisory group, consisting of ILSFA AVs, AVAs, AVDs and other interested stakeholders such as the ILSfA Working Group, to work directly with the program administrator to come to consensus on these very specific issues. Regardless of the forum, we would welcome the opportunity to further discuss these issues.

For this response, we address questions related to the Draft LTRRPP and re-iterate our comments to Slides 14 and 25 of June's Workshop 2 on the Draft LTRRPP.

Comments on the Draft LTRRPP

We request that the Agency end the use of "Capacity Factors" as determinants of REC amounts in the Part 2 application. We ask that AVs be allowed to resubmit modeling to establish the number of RECs a project is eligible to receive when the equipment or project size is changed between part 1 and Part 2 applications with the caveat that those projects cannot receive more RECs than approved as part of the Part 1 Application.

CRE had an AVD that built a system that used fewer panels than proposed in the accepted Part 1 Application (i.e., the as-built kW ac was smaller than that proposed in the Part 1). This was offset by the use of an inverter that had a higher efficiency than the one that was proposed in the Part 1. Currently, the program requires that the capacity factor approved in the Part 1 be used to determine the number of RECs for the Part 2. Consequently, even though modeling showed that the system was expected to generate more RECs than the original system, the awarded RECs were reduced based solely on the size of the system and the capacity factor for the Part 1 system.

We ask that the language on Page 191 be changed as follows:

> The quantity of RECs used for payment calculations is based on the lesser of the RECs calculated based on the proposed (Part I) system size and capacity factor, and the RECs calculated based on the final (Part II) system size and capacity factor or modeling. The final ~~capacity factor~~ number of RECs can be adjusted down from the initial ~~capacity factor~~ approved REC quantity but cannot be increased from the original ~~capacity factor~~ approved REC quantity, including changes in ~~capacity factor~~ REC quantity due to switches between tracking technology, non-tracking and tracking systems, and bifacial vs. standard module use.

Performance assurance amounts should be based on the Part 2 REC award, not the collateral amount posted for the Part 1 application. One of CRE's AVDs posted $3,729 for performance assurance when the Part 1 application was accepted by the ICC. Because system size changed, there was a reduction in the number of RECs at the completion of the Part 2 application. With the reduction in the RECs resulting from the installed system changes, the performance assurance should have been reduced to $3,356. CRE had expected the program to return the difference when they made the REC payment. Much to our surprise, the program kept the Part 1 performance assurance amount.

We do not believe that REC prices should be adjusted annually. Rather, we advocate for once every other year and in conjunction with the revision to the LTRRPP. Furthermore, we do not believe that the REC prices at this stage of the program should be determined by modeling. We believe REC pricing changes should be determined through an evaluation of the results of the program, rather than based on a model, at this stage of the process. The program should ask itself the following:

At the current REC price,

- Is the subprogram getting applications for and awarding REC contracts to a variety of project sizes?
- Is the subprogram getting applications for and awarding REC contracts to projects throughout the state?
- Are NP/PFs owning projects or on a reasonable time frame to ownership?
- Are the savings being passed to the NP/PF above or, better yet, significantly above the minimum requirements?
- Is there a healthy level of competition that results in the ability to prioritize and fund projects that best meet the goals of the program?
- Are MWBEs successfully participating in the subprogram year over year?
- Are returning citizens and graduates of the foster care program hiring goals being met?

Though there was a misunderstanding about the ITC when the REC price was set, that mistake has happily resulted in the NP/PF subprogram being able to provide a resounding yes to each of these criteria. The current REC prices have successfully driven project size, location, energy cost savings, energy sovereignty, and MWBE participation towards program goals. Because the level of competition is high, developers know they need to pass on savings to the customer (including ownership), enlist MWBE participation, and develop smaller projects in the locations directed by the selection criteria if they want to win a REC contract. MWBE firms, CRE being one example, have carved out what we hope to be a long-term businesses based on serving the ILSfA program. With a moribund small DG subprogram and a community solar program that has only funded three to four projects per program year, CRE is heavily reliant on the NP/PF subprogram. We expect that a drop in the REC price would curtail our AVDs' ability to develop and fund projects and would thus adversely impact CRE.

Consequently, we ask that the following language of Section 8.5.2 of the LTRRPP be changed as follows:

> …Rather, the Agency proposes to review and update the incentive levels on ~~an annual~~ biennial program year basis. That update will include an adjustment to account for how the comparable Adjustable Block Program REC price for each Group and category has changed since the previous update, allowing for the prices offered through Illinois Solar for All to track overall market conditions while continuing to be offered at a higher level than for the Adjustable Block Program. The evaluation of the REC price will consider the success of the subprograms relative to project size distribution, location distribution, energy cost savings, energy sovereignty, and MWBE participation towards program goals. The Program Administrator will solicit input from stakeholders in these evaluations and any proposed changes to REC prices.

Comments from Workshop 2 on the Draft LTRRPP

Slide 14: Project Application Requirements

What project application requirements should the Agency consider streamlining, and how?

Response: After four program years, we now better understand the challenges presented by the ILSFA project application process and the annual report requirements. We address these below.

Project Application Process and AV Portal: The project application process and AV portal for the Illinois Solar for All program needs improvement. In PY4, we are still experiencing the same technical problems working with the portal (particularly in contrast to the ABP program portal), and the necessity for extensive back and forth with program administration staff on nearly every single project that we experienced in PY1. In the AV portal, for example, needed improvements include:

- A more user-friendly graphical interface;
- A more intuitive and targeted application structure (each subprogram should have its own interface and required document uploads. You shouldn't have to click four different buttons to complete an application);
- The ability to delete documents that have been inadvertently uploaded without involving the Program Administrator; and
- The elimination of duplicative data entry, perhaps by requiring either document uploads or the information therein manually uploaded rather than the current system which requires both in some cases.

Annual Reports: AVs need clarification on what should be included in annual reports. For example, the report asks for the "Date of first REC Delivery" and "RECs Delivered." Is the "Date of first REC Delivery" the date the system generation exceeded 1 MWh in total, the date generation information was entered into the PJM-EIS (or MRETS equivalent) and the total exceeded the first MWh, or something else? For "RECs Delivered," is that the total RECs delivered over the life of the system to date, last calendar years' total RECs delivered, the past 12 months of delivered RECs, or something else? The LTRRPP or other guidance should be clearer and more specific regarding annual reporting requirements.

Disclosure Forms: The disclosure forms need to be revisited and revised to better reflect the uncertainties and realities of the production and business models being used by the industry. For example, two or three significant figures should be adequate for disclosing the production and the resulting savings that is estimated from modeling to the customer. Using exact production and savings numbers that result from a modeling exercise, while important to REC calculations, is misleading to the customer. By using a two or three significant figure production and savings estimate in the disclosure, minor alterations to the design or specifications that may affect the production and savings numbers would not impact the disclosure form signed by the customer.

Additional changes that would better serve the program and the clients include:

- Better project role definitions. For example, what is the "Seller" of "Your Seller" in the PPA disclosure? If it is a PPA, this block should read "Your Project Owner" with the project owner being the party that holds the PPA contract.
- The "Non-Profit/Public Agency" box is not clear as to what address should be used, the address of the NP/PF or the address of the project, which may or may not be the same. We suggest that an additional box be added that specifies project location with a check box that indicates if the NP/PF address and the project location are the same.
- Why should the system size of the disclosure "exactly match" the contract for PPAs and lease agreements? Even for purchases, the final system size is allowed to vary by the larger of 5 kWac or 25% of the Part 1 Approved AC system size. We feel a new disclosure should only be required if the system size changes by 5%.
- "Term of the Agreement" numbers used in the disclosure are actually the projected 25 year life of the system numbers from the savings calculator. This is confusing and potentially very misleading. The savings are significantly different for the six years of a six-year PPA versus the savings realized over the 25 year expected life of the project.
- The percent savings for the first year and the life of the system should be two significant figures and should be based on the numbers used in the disclosure so that the math is obvious to the client. The requirement for the 50% savings should not be specified in the disclosure in the event that rounding errors result in a lower savings rate. The language should specify that the Program approves the savings rate provided by the AV.
- Savings projections should be three significant figures.
- The project should specify if it intends to take the smart inverter rebate, which is available to NP/PF projects that are on certain rate schedules.
- If the "total cost of the system, including design, components and equipment and installation is always included in your payment", why do we have a box to specify what that cost is? We understand that the client may want to have an idea of the value of the system that they are receiving but the way this is presented is potentially confusing.
- Why is there a choice afforded in the disclosure when the program contract requirements specify that a system performance/electricity production guarantee must be provided (see screenshot below)?

The lessor is providing you with a:

x_________: System performance or electricity production guarantee

_________: Other type of system guarantee (please specify)
____

_________: No system guarantee

- Please note that the above screenshot comes from a PPA Disclosure form. The language used in the disclosure should match the business model. In this example, the disclosure for a PPA includes the term “lessor”. Nowhere in the disclosure is the term “lessor” defined or the party that is the lessor specified. This should be the “Project Owner” for a PPA or Lease disclosure.
- If the program requirements define who and for how long the system operations, maintenance, and warranties must be provided, why are there blanks to be filled out by the disclosing parties?
- The insurance specifications are confusing. The Project Owner (not the undefined “Lessor”) should describe the insurance that they plan on maintaining for the term of the agreement. They should also specify the types and amounts of coverage they expect the client to have and who will be responsible for paying for that insurance. It might also be worth having a box for the AV or AVA to specify the minimum insurance coverage that they require the project owner to maintain so that they can be confident that the RECs will be delivered. This becomes important if the project owner changes or the client will assume ownership of the project prior to the end of the REC contract.
- Both developers and project owners are often choosing the end of term disposition of their solar systems at contract signing (note that the PPA disclosure is labeled “End of Lease…”) because both parties desire certainty at contract signing. The client should be made aware that they must be given a choice, but the details should remain in the contract.
- The “if you move” section of the disclosure is confusing. Can more than one box be checked? Now instead of the “Lessor” the form designates the “seller”. There should be some specificity that the project must remain operational until the REC contract is fulfilled or the moving party must, at a minimum, be responsible for the value of any remaining RECs that have yet been delivered.
- The RECs generated number should be a maximum of three significant figures. For the disclosure, the numbers are estimates and are not finalized until after the Part 1 Application is accepted by the program (arguably, it is not truly finalized until the Part 2 application is approved).
- The net metering description assumes a specific rate classification, of which many larger NP/PF do not utilize, and that the project has not taken the smart inverter rebate. Furthermore, it does not reflect the fact that the client will be getting a bill from the project owner (unless it is a purchase). This section needs to be rethought and re-written or eliminated as the project savings have already been estimated and presented.

We believe many of these same issues spill over into the CS and DG disclosure forms. These issues are best addressed through our previously suggested stakeholder advisory group.

Savings Calculators: Much of the terminology on the spreadsheet is poorly defined and difficult to understand. For instance, "term of the agreement" and "life of the project" are often used interchangeably. These issues should be fixed. Furthermore, the savings calculator should be modified to take into account:

- PPA or lease terms that are less than 15 years;
- Projects that intend to take the smart inverter rebate;
- More realistic Purchase agreements scenarios; and
- How and when O&M and warranty costs can be charged.

Slide 25: Non-Profit/Public Facilities Sub-Program

1. Several projects have been structured as PPAs with an ownership buyout option after six years. How should Approved Vendor obligations for projects (e.g., ongoing O&M) carryover when system ownership changes?

   Response: The program envisioned and is administratively set up to accommodate only one type of contract (e.g., a PPA) for the entire 15-year term of the REC contract. However, we are seeing several PPA and Lease agreements in the NP/PF subprogram that transfer ownership of the solar array prior to the end of the REC contract. Energy sovereignty and customer ownership are priorities for ILSfA stakeholders including many of those that participate in the ILSfA Working Group. We feel it is important that the program not hinder the ability of the developer to pass on the project to the customer.

   Currently, the program requires the **installer** to provide 15 years of operations and maintenance (O&M), including system and component repairs "preventing functioning according to industry standards". Also, the PPA or lease agreement must include a 15-year warranty guaranteeing no degradation of electrical generation output greater than 15%. We believe the responsibility for O&M and the contract-required performance warranty should reside with the system owner, even if the customer becomes the system owner.

   We would like to see a standard scope of work (SOW) established for what must be included in an O&M contract. Because savings passed on to the customer are such a key component of project selection, we are concerned that less than scrupulous developers may price out nominal O&M plans, artificially inflating the savings they are passing on to the customer. The system owner should provide a contract for the O&M supporting the costs they use in their savings calculators. An added benefit to this approach is that opportunities are created for MWBEs to offer these services as a subcontractor and for Qualified Trainees to provide the required labor.

   We also feel that a disclosure should be provided by the system owner to the customer that desires to take ownership. That disclosure should include:

   - the O&M scope of work,
   - current O&M costs, and
   - a summary of system component warranties including the current costs for replacement of parts that have warranties less than 15 years

This disclosure language should make it clear to the new owner that RECs and all other environmental attributes (e.g., carbon credits) have been committed for the 15 years of the REC contract.

We also feel it would be reasonable for the program to require that the AV or AVD own the project for a minimum of six years for PPA and lease agreements. Within that time frame, we believe that any systemic issues that an array may have will be exposed and repaired, reducing the risk that the new owner will be stuck with high repair bills after ownership transfer.

2. Current REC prices are based on adjustment from Adjustable Block Program REC prices to assume projects do not receive the Federal Investment Tax Credit. Is there a better approach to calibrating REC prices for Non-profit/Public Facility projects?

   Response:

3. Projects are required to be a) in a low-income or environmental justice community and b) associated with a critical service provider. Can these requirements be refined to better ensure that projects serve and benefit low-income Illinois residents?

   Response: *Critical Service Provider designations* Per the AV Manual, NP/PFs must demonstrate "a high degree of critical services provision to LI communities or EJCs" to be considered CSPs. Critical services are described in the manual as those services which "improve living conditions, financial status, environmental and health status, and other social welfare indicators." The "other social welfare indicators" should perhaps be expanded to include "intangible" benefits such as rest and relaxation. Many studies have shown that "Daily stress, associated with lower social position … can lead to adverse health outcomes" (Kasper et al, 2008; Miech et al, 2007). Low income and EJ community residents are disproportionately likely to suffer from stress (Downey and Van Willigen, 2005). Expanding the definition to include those venues providing stress relief would be very beneficial to residents of LI and EJ communities. Movie theaters, swimming pools, ice rinks, arboretums, and conservatories, for example, would all seem to fit that relaxation component and should be added as CSPs.

   Environmental justice community designations We think it would be worthwhile to convene a stakeholder advisory group to review and revisit what is being included and excluded as EJCs. Should an EJC designation be based on current (i.e., on-going) or historical environmental impacts? For example, a major small town employer, a coal fired power plant, shuts down. The air is now demonstrably cleaner, but the ramifications of the plant shutdown severely curtail the town's tax base and their ability to provide services. Is this economics issue an EJ issue? How should the EJ scoring for this community reflect the change in the pollution and economics? For how long after the plant shuts down should it be considered as impacting the town? We think these types of discussions would benefit the evaluation of EJC designation requests.