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AN EXELON COMPANY

February 28, 2022

VIA EMAIL

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Michael A. Bilandic Building  
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Chicago, Illinois 60601

RE: Commonwealth Edison Company's Comments on the Illinois Power Agency's Draft 2022 Long-Term Renewable Resources Procurement Plan

Pursuant to Section 16-111.5(b)(5) of the Public Utilities Act (“PUA”), Commonwealth Edison Company (“ComEd”) respectfully submits these comments (“Comments”) on the Illinois Power Agency’s (“IPA”) 2022 Long-Term Renewable Resources Procurement Plan (“Draft Plan”), which the IPA published on January 13, 2022, for public review and comment. ComEd commends the IPA on its well written and thorough Draft Plan, and appreciates the considerable time and effort required to implement, on an expedited basis, Public Act 102-0662’s (or “the Clean Energy Law”) extensive amendments to the State’s Renewable Portfolio Standard (“RPS”).<sup>1</sup>

While the focus of the comment process is the Draft Plan and its implementation of applicable Clean Energy Law revisions, it is of considerable import that nearly 15 years of RPS implementation and experience precedes the Clean Energy Law and this Draft Plan. This provides the IPA, Illinois Commerce Commission (“ICC” or “Commission”), and stakeholders with a unique vantage point – informed by years of learnings – to optimize this latest iteration of the RPS

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<sup>1</sup> ComEd’s silence at this time regarding any particular issue should not be interpreted as agreement with all statements, approaches, calculations, or recommendations made in the Draft Plan pertaining to that issue.

and associated Long-Term Renewable Resources Procurement Plan (“LTRRPP”). The Draft Plan, too, seems to acknowledge the opportunity of this moment. As to the new Self-Direct Renewable Portfolio Standard Compliance Program (“Self-Direct Program”), the Draft Plan recounts the shortcomings of the State’s prior RPS self-direct efforts, and underscores the importance of implementing the new Self-Direct Program to ensure that – in contrast to past attempts – it effectively supports new renewable energy projects. Likewise, the Draft Plan – while preserving in large part the existing Renewable Energy Credit (“REC”) Pricing Model – nonetheless invites stakeholder feedback on the Model and inputs.

Mindful of this shared implementation history and common goal of maximizing the effectiveness and success of the State’s RPS, ComEd offers these Comments to the IPA as a longstanding co-laborer in the RPS’s implementation and evolution since 2007. Given the different roles held by the IPA and electric utilities, ComEd offers its recommendations and comments from a unique “electric utility perspective” and the associated experience and analyses that ComEd has developed over these past 15 years. Because the Clean Energy Law continues to preserve the fundamental cost recovery provisions for utility RPS expenditures, moreover, ComEd is – in a very real sense – a neutral (or non-financially interested) party – *i.e.*, virtually none of the various policies and programmatic details proposed in the Draft Plan will impact ComEd’s cost recovery. While others commenting on the Draft Plan will understandably come from a position of financial interest tied directly to the policies and programs ultimately approved by the Commission, ComEd trusts that its Comments will be received as untethered to a financial outcome and instead focused on ensuring that the Draft Plan reflects the best practices and policies that will propel the State toward achieving its clean energy goals and, ultimately, a clean energy future.

## **I. Chapter 3: REC Portfolio, RPS Goals, Targets, and Budgets**

### **A. REC Portfolio (Sec. 3.2) and RPS Budget (Sec. 3.4)**

With respect to Table 3-1 on page 64 of the Draft Plan, it appears that the column headers for “ComEd” and “Ameren” are flipped, and the headers should be switched to match each column’s data with the correct utility. Moreover, the data included in the columns that should be labeled as “ComEd” does not match the data that ComEd previously submitted to the IPA on November 12, 2021 (“Response”). *See* Response #3b. These columns should accordingly be corrected to reflect the data submitted by ComEd in its Response. Similarly, the related ComEd REC-under-contract data in Appendix B of the Draft Plan does not conform to the data submitted by ComEd in its Response, and should also be revised.

With respect to the ComEd RPS Budget Summary that appears on page 4 of Appendix B, ComEd has also identified data errors related to the balances. These include the following issues:

- The Delivery Year Ending Balance for delivery year (“DY”) 2020-2021 of \$271.4 million is approximately \$20.3 million greater than the \$251.1 million figure ComEd provided in its Response #3c.
- For each DY, the Delivery Year Starting Balance of a given DY does not match the Delivery Year Ending Balance of the immediately preceding DY, and no explanation is given for this discrepancy. In the absence of a reason for this difference, the figures should be corrected.
- The estimated expenditures for DY2021-2022 of \$220 million does not comport with the \$236 million figure provided in ComEd’s Response #3c.

### **B. Alternative Compliance Payment Funds Held by the Utilities (Sec. 3.5)**

In the first full paragraph on page 84 of the Draft Plan, the IPA states that the remaining balance of uncommitted hourly alternative compliance payments (“ACP”) is \$22,259,385.66 for

ComEd. However, Table 3-14 reports that this amount is \$22,249,927. ComEd recommends that these amounts be corrected to match or, in the alternative, that an explanation be added accounting for the difference.

## **II. Chapter 5: Competitive Procurements – Indexed REC Settlement (Sec. 5.4.5)**

On page 116 of the Draft Plan, the IPA notes that “[d]raft proposals for the Subsequent Forward Procurement using this Indexed REC structure call for hourly settlements summed up to the monthly level for monthly settlement purposes.” In response to the IPA’s request for feedback regarding “whether this constitutes the optimal approach,” ComEd concurs that this is an appropriate approach.

## **III. Chapter 6: Self-Direct Renewable Portfolio Standard Compliance Program**

ComEd shares the IPA’s objective of designing a Self-Direct Program that – unlike the State’s prior RPS self-direct initiative – effectively spurs the development of new renewable projects. As explained below, however, the Draft Plan’s methodology for calculating the self-direct bill credit will almost certainly chill participation in the Program and thus discourage the development of the new wind and solar renewable projects that the Program was designed to incent. Consistent with the proposed methodology and bill crediting example set forth in the Draft Plan, ComEd estimates that a participating customer’s credit would reduce the customer’s monthly RPS charge by only 10% (*i.e.*, \$0.50/MWh or \$0.0005/kWh) even though the customer is required to procure RECs from new wind or new solar projects for 40% of its load – which is the State’s RPS REC target *for DY2030* applicable to all load delivered by electric utilities subject to the RPS. *See* 20 ILCS 3855/1-75(c)(1). Put another way, a participating customer would receive only a 10% discount off its monthly RPS charge in exchange for accelerating – by eight years – achievement of the State’s DY2030 REC procurement goal with respect to the customer’s load.

Given the RPS self-direct shortcomings of the past, it simply is not plausible that the economics of the General Assembly’s new Self-Direct Program would so dramatically discourage – if not effectively penalize – participation. Indeed, it is unclear why a customer would agree to terms requiring accelerated achievement of the DY2030 RPS goal while continuing to pay nearly all (90%) of the monthly RPS charge. That the State is currently falling well short of the existing RPS goals only further exacerbates the unfairness of holding Self-Direct Program participants to such a high standard in exchange for *de minimis* compensation.

As laid out below, ComEd proposes an alternative self-direct bill crediting methodology that better reflects the value of a Self-Direct customer’s participation and contribution, and which results in a cents-per-kWh credit that approaches the customer’s monthly RPS cents-per-kWh charge. ComEd believes that this incentive structure more closely aligns with the General Assembly’s intent to stimulate investments in new wind and new solar development.

#### **A. Transition to a New Self-Direct Framework**

As the Draft Plan observes, Illinois law previously included a version of an RPS self-direct program that was phased out under 2017’s Future Energy Jobs Act (“FEJA”). In brief, before FEJA consolidated all RPS compliance obligations under the electric utility umbrella, alternative retail electric suppliers (“ARES” or “RES”) were responsible for complying with the RPS targets applicable to the retail customers they supplied. This obligation could be met through procurement of RECs from qualifying facilities or through an alternative compliance payment (“ACP”). 220 ILCS 5/16-115D. Of this prior iteration, the IPA commented that the “self-procurement obligation was not structured to lead to the development of new renewable energy generation.” Draft Plan at 125. Because of its “short-term, transactional incentive structure for ARES self-directed RPS compliance,” “very little new renewable generation was able to be developed through this compliance mechanism.” *Id.*

The Draft Plan sees promise in the Clean Energy Law’s new Self-Direct Program, however, and credits several new features that portend its success:

Through new Section 1-75(c)(1)(R), Illinois law now allows for a return to self-direct structure – but with significant guardrails regarding the customer, qualifying facility, REC delivery contract, and self-direct benefit intended to ensure that participation in this self-direct program supports the spirit informing the Illinois RPS (namely, to support new renewable energy projects sited in areas that bring benefits back to Illinois residents and businesses).

*Id.* at 126. At the same time, the Draft Plan acknowledges that the Clean Energy Law’s new Self-Direct Program provisions pose various interpretative challenges regarding key components of the Program. Indeed, the issue is of such consequence in the context of the Program’s bill crediting calculation that the Draft Plan devotes an entire subsection to “Self-Direct Bill Crediting: Interpretative Issues” (Sec. 6.5.1.1). The subsequent subsection, “Self-Direct Bill Crediting Example,” attempts to lay out a complex multi-page example of how the bill credit would be calculated.

While ComEd shares the IPA’s hope for a successful launch of a Self-Direct Program that cures the defects of the past, ComEd is concerned that the Draft Plan advances an erroneous interpretation of the Program’s bill credit that almost assuredly dooms participation in – and the ultimate success of – the Program. Below ComEd identifies its concerns with the IPA’s proposed bill crediting methodology, and offers an alternative approach that gives effect to the statutory language while also providing a meaningful bill credit – based on transparent market data – that will incent participation in the program and support new renewable projects.

**B. The Self-Direct Bill Credit Should Be Based on the Value of RECs Procured from a Utility-Scale New Wind or New Solar Facility.**

ComEd appreciates the Draft Plan’s commitment to giving effect to the (at times) challenging statutory language, and joins in the sentiment that “[r]econciling this language is not

easy.” Draft Plan at 132. Yet, the bill crediting methodology proposed in the Draft Plan would almost certainly discourage participation in the new Self-Direct Program. Although participating customers must satisfy an accelerated REC procurement target that does not apply to the State’s overall RPS *until DY2030*, the IPA’s methodology would provide a credit against the monthly RPS charge equal to approximately 10% of the charge – leaving the participating customer responsible for 90% of the charge. In other words, under the Draft Plan’s proposal, a Self-Direct Program customer would be required to achieve an accelerated REC procurement target (currently double the target applicable to the State) but receive only a 10% credit against its RPS charge for doing so. It is unclear to ComEd who would be incented by this structure, which unquestionably results in the participant incurring tens (if not hundreds) of thousands of dollars in additional costs, and thus effectively serves to penalize participants for achieving more aggressive RPS REC procurement targets.

Like the IPA, ComEd has devoted considerable time to analyzing the bill crediting provisions of the Clean Energy Law to develop the best path forward for incentivizing participation and, ultimately, the energization of new wind and solar projects. As with the Draft Plan, ComEd began with the statutory language, and reproduces it below in relevant part:

(4) The Commission shall approve a reduction in the volumetric charges collected pursuant to Section 16-108 of the [PUA] for approved eligible self-direct customers equivalent to the anticipated cost of renewable energy credit deliveries under contracts for new utility-scale wind and new utility-scale solar entered for each delivery year after the large energy customer begins retiring eligible new utility scale renewable energy credits for self-compliance. The self-direct credit amount shall be determined annually and is equal to the estimated portion of the cost authorized by subparagraph (E) of paragraph (1) of this subsection (c) that supported the annual procurement of utility-scale renewable energy credits in the prior delivery year using a methodology described in the long-term renewable resources procurement plan, expressed on a per kilowatt-hour basis, and does not include (i) costs associated with any contracts entered into before the delivery year in which the customer files the initial compliance report to be eligible for participation in the self-direct program, and

(ii) costs associated with procuring renewable energy credits through existing and future contracts through the Adjustable Block Program, subsection (c-5) of this Section 1-75, and the Solar for All Program.

20 ILCS 3855/1-75(c)(1)(R)(4).

From this language, ComEd gleans the following principles. In the first sentence, ComEd understands that the credit should be applied against the monthly cents-per-kWh RPS charge that ComEd assesses under its RPS rider, Rider REA,<sup>2</sup> which recovers ComEd's RPS costs, and further, that this credit should be equal to the costs of REC deliveries associated with contracts for new utility-scale wind and solar RECs entered into for delivery years after the customer commences participation in the Self-Direct Program. As to the second sentence, the credit amount must be determined annually, and must equal the portion of the cost authorized by the RPS rate cap that supported the annual procurement of utility-scale RECs *using a methodology described in the LTRRPP, expressed on a per kWh basis*, provided that the bill credit exclude amounts associated with DYs preceding the customer's Self-Direct Program participation and those amounts related to procuring RECs under the Adjustable Block Program ("ABP"). While certain of the language in Section 1-75(c)(1)(R)(4) is undoubtedly challenging, these instances of vagueness or ambiguity also create opportunities to faithfully interpret these provisions and give full effect to the General Assembly's intent. Indeed, it is notable that the law grants the IPA the authority to develop a "methodology" rather than merely perform a rote statutory calculation.

Consistent with the statute's bill crediting framework, ComEd recommends that the Draft Plan be revised to incorporate a revised bill crediting methodology that ensures customers participating in the Self-Direct Program are fairly compensated for the RECs they procure to ensure the Program is utilized and the General Assembly's intent in incentivizing new renewable

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<sup>2</sup> Rider REA – Renewable Energy Adjustment ("Rider REA").



projects is fully realized. *First*, to give effect to the requirement that the Rider REA credit equals REC deliveries under contracts for new wind and new solar, ComEd proposes that the credit value equal the average cost of a REC procured from a utility-scale new wind or new solar project. As to the results of the calendar year 2018 procurements, this average cost was \$4.95 per REC, and since 2017 this average cost is \$4.77 per REC. *Second*, with respect to the law’s directive that the IPA develop a methodology to value the RECs from utility-scale new wind and solar projects that are supported by the Rider REA charge, ComEd contends that a methodology that utilizes the actual utility-scale values does just that. Moreover, because this methodology excludes any other costs associated with pre-existing contracts or with the ABP, it gives effect to the required exclusions.

This alternate methodology also resolves one of the principle “contradictory elements” identified by the Draft Plan in Section 1-75(c)(1)(R)(4), namely the reference to valuing anticipated REC values in one sentence and the subsequent reference to valuing past REC values in the second sentence. Because RECs from utility-scale new wind and solar contracts are subject to multi-year contracts whose costs are recovered over multi-year periods, ComEd recommends that the multi-year value of \$4.77 be used as a proxy for the value of the utility-scale new wind and solar RECs procured by Self-Direct Program participants, which is inclusive of both past REC costs and those anticipated in the future. Indeed, in a very real and practical sense, each utility-scale REC procured by a Self-Direct Program participant is one less REC that electric utilities must procure under an IPA-led procurement.

Given that the anticipated Rider REA cents-per-kWh charge is \$0.00502 (or (\$5.02 per MWh), the effect of ComEd’s proposed methodology is a bill credit that largely offsets the Rider REA charge. While ComEd appreciates that the statute poses interpretational challenges, ComEd

believes that these are best resolved in a manner that gives full effect to the General Assembly's intent. A bill crediting methodology that nearly offsets the monthly Rider REA cents-per-kWh charge recognizes the substantial contribution that Self-Direct Program customers provide toward accelerating achievement of the State's RPS goals, and thus serves as a robust incentive for participation in the Self-Direct Program. In this way, the result of ComEd's proposed methodology is not dissimilar from the incentives the State has provided in the context of full retail rate net metering where retail customers can obtain a 1:1 kWh delivery services credit that has the effect of eliminating rider charges such as those imposed under Rider REA.

It is also important to account for the fact that many companies are interested in the Self-Direct Program – not because it is necessarily less expensive to acquire RECs on their own outside of the IPA's RPS programs – but because these companies have their own Environmental, Social, and Governance (“ESG”) goals requiring that they purchase and retire RECs (on their own) to achieve these goals. In fact, many companies have adopted ESG goals that go beyond the State's ultimate 40% renewable target. Implementing the Self-Direct Program in a way that does not discourage or impede these actions and behaviors will not only help the State meet its RPS goal more quickly, but could propel the State to a level of renewables achievement that surpasses the 40% target.

While ComEd understands that some may oppose the application of a more fulsome RPS credit by arguing that it results in less funding available for the ABP, ComEd does not believe this is true given the statute's requirement that over 70% of the RECs procured to meet the State's objectives need to be sourced from utility-scale wind and solar projects. Indeed, ComEd estimates that if every ComEd customer eligible for the Self-Direct Program participated in the Program (*i.e.*, customers who have or can aggregate to 10MWs or more of demand), then they would

provide 6,000,000 to 15,000,000 (depending on the level of participation – 40% up to 100%) of the required approximate 22,000,000 utility-scale RECs that must be purchased anyway. Providing a near-full credit against the RPS charge for Self-Direct Program participants simply means that the majority of funds collected from other non-participant customers will be able to be dedicated to the ABP (instead of limiting those dollars) while also ensuring that Self-Direct Program customers are recognized and not penalized for their contributions in helping the State meet its renewable goals.

ComEd accordingly urges the IPA to revise its Draft Plan to adopt ComEd’s alternate methodology.

#### **IV. Chapter 7: Adjustable Block Program**

##### **A. Openings of 2022 Delivery Year Blocks & Subsequent Annual Block Openings (Sec. 7.3.4)**

In response to the IPA’s request for feedback regarding its proposed approach for opening DY2022 blocks (Draft Plan at 151), ComEd notes that it has no concerns with the proposed timing.

##### **B. Traditional Community Solar (Sec. 7.4.3)**

In response to the IPA’s request for feedback regarding the proposed scoring approach generally and on any additional prioritization criteria (Draft Plan at 156), ComEd recommends four additional prioritization criteria. First, and in the spirit of furthering the Clean Energy Law emphasis on diversity, equity, and inclusion, ComEd recommends a prioritization criterion for projects that are sited in environmental justice communities, low-income communities, and Equity Investment Eligible Communities. Second, ComEd recommends a prioritization criterion for projects with an emphasis on the development density of the township in which the project will be located. This could be demonstrated through awarding the highest point value to those projects to be sited in townships with the highest development density. Third, ComEd recommends a

prioritization criterion for projects that emphasize subscriber proximity, which could be demonstrated through a commitment to 100% of project subscriptions being met through subscribers located in a specific township or within a 10-mile radius. Fourth, ComEd recommends a prioritization criterion to elevate projects that are committed to passing savings along to retail customers. This could be demonstrated by a commitment to pass along the project's savings to subscribers, with more points awarded if the subscribers are low-income participants. While ComEd acknowledges that the proposed scoring criteria were designed "to avoid overlap with qualitative scoring provided to community-driven community solar projects under Section 1-75(c)(1)(K)(v)" (Draft Plan at 155), these proposed criteria are consistent with the concept of community solar projects and the equity goals of the Clean Energy Law.

#### **C. Equity Eligible Contractor Advance of Capital (Sec. 7.4.6.1)**

Among the new ABP categories created by the Clean Energy Law is the equity eligible contractor ("EEC") segment. For this category, the Law directs the IPA to "propose a payment structure for contracts executed pursuant to this paragraph under which, upon a demonstration of qualification or need, applicant firms are advanced capital disbursed after contract execution but before the contracted project's energization." 20 ILCS 3855/1-75(c)(1)(K)(iv). In response, the IPA proposes that up to 25% of the contract value may be advanced under this provision. Draft Plan at 160.

While ComEd takes no issue with the IPA's proposal to advance up to 25%, ComEd requests that the IPA clarify which entity will be responsible for payment of the advance (*i.e.*, IPA or utility) and how such advance will be addressed in the relevant contract. If the utility will be responsible for paying the advance, the Draft Plan should be revised to explain the process by which the utility will be notified of the IPA's approval of the advance, the amount of the advance, and the contract (and specific contract provision(s)) pursuant to which the advance will be paid.

#### **D. REC Pricing Model (Sec. 7.5)**

As with the IPA's Initial Plan and First Revised Plan, the Draft Plan proposes to continue using a modified version of the National Renewable Energy Laboratory's ("NREL") Cost of Renewable Energy Spreadsheet Tool ("CREST") to calculate REC prices under the Adjustable Block Program. The Draft Plan refers to the IPA's adopted and modified version of CREST as the "REC Pricing Model." For this Plan, as with past Plans, the IPA also proposes several adjustments and modifications to the Model to respond to past Commission directives, update inputs to account for the passage of time, and incorporate relevant changes made by the Clean Energy Law.

As explained in more detail below, the Commission's previously articulated concerns regarding over-reliance on the REC Pricing Model, coupled with the increasing complexity and diversification of the ABP's categories and participants, warrant a larger conversation about whether CREST and the REC Pricing Model should continue to serve as the basis for setting ABP REC prices. To the extent the REC Pricing Model is retained in the short term, ComEd also recommends changes to accurately price the ABP RECs and avoid the high REC prices discouraged by the Commission.

##### **1. Challenges with the REC Pricing Model**

As summarized by the Draft Plan, "CREST is an economic cash flow model that estimates the cost of energy in terms of cents per [kWh] associated with specific input assumptions regarding technology type, location, system capital and operating costs, expected production, project useful life, and various project financing variables." Draft Plan at 161. Perhaps more to the point, the CREST User Manual describes the model's purpose as "designed to calculate the COE [cost of energy], or minimum revenue per unit of production needed for the modeled renewable energy

project to meet its equity investors' assumed minimum required after-tax rate of return.”<sup>3</sup> The Manual further explains that “[t]he primary output is the modeled project’s COE[, which] is the year-one price in cents per [kWh] necessary for the project to meet all expenses and debt service obligations (if applicable), as well as the equity investors’ minimum required after-tax rate of return.”<sup>4</sup> Put simply, the IPA’s REC Pricing Model, which is based on CREST, establishes a price that is supposed to represent the subsidy – in the form of a REC payment – that is necessary to make an owner economically indifferent regarding owning or leasing a solar system versus buying electricity through traditional methods. This Model uses many of the same principals and formulas used to calculate a utility revenue requirement.

In practice, “[t]he REC Pricing Model is a very complex model with many inputs and significant interactive effects between them.” Draft Plan at 163. Indeed, since the inception of the ABP and REC Pricing Model, the IPA has incorporated modifications and adjustments that are updated with each Plan cycle. For this Draft Plan, the IPA notes changes to the Federal Investment Tax Credit (“ITC”) value, project cost information, AC/DC ratios, net metering credit and energy values, and community solar interconnection costs. *Id.* at 162. In addition, the Draft Plan proposes changes related to the impacts of bonus depreciation:

For the up-to-10 kW AC small distributed generation project, the IPA considered the impact of the federal tax law changes regarding bonus depreciation. In this regard, it is the IPA’s view that having bonus depreciation at 100% may make third-party ownership of small systems more likely, compared to ownership by a homeowner, because being able to capture bonus depreciation will be more attractive. For this reason, the 100% bonus depreciation is now also applied to the up-to-10 kW AC project size.

Draft Plan, App. D, at 13.

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<sup>3</sup> CREST *Cost of Renewable Energy Spreadsheet Tool: A Model for Developing Cost-Based Incentives in the United States – User Manual Version 4* at 2 (“User Manual”), available at <https://www.nrel.gov/docs/fy13osti/50374.pdf>.

<sup>4</sup> *Id.* at 3.

However, the choices made by the IPA with respect to the inputs and modifications to the REC Pricing Model necessarily have the effect of creating policies that favor certain systems or ownership structures and, conversely, disfavoring, or even foreclosing, other options or choices that would be available to participants. For example, the IPA's decision to apply 100% bonus depreciation to the up-to-10 kW AC project size admittedly favors third-party ownership – and thus a leasing structure – in the residential solar rooftop segment. In other words, the IPA's choice to set a REC price inclusive of the bonus depreciation impact is designed to align with owners that can take advantage of bonus depreciation (*e.g.*, third-party owned system). Because this REC price will not align with homeowner-owned systems that cannot take advantage of bonus depreciation, the IPA's choice has the effect of discouraging homeowner ownership.

Similarly, the Clean Energy Law's expansion of the ABP to include additional categories adds further complexity and risk that the Model may be setting prices in ways that limit participation or foreclose certain choices. For example, the Clean Energy Law establishes a new category requiring that “[a]t least 15% [be procured] from distributed renewable generation devices or photovoltaic community renewable generation projects installed at public schools.” 20 ILCS 3855/1-75(c)(i)(K)(iv). According to Appendix D of the Draft Plan, the ABP REC prices for public schools were modeled using the same assumption as ABP distributed generation, with the exceptions that the up-to-10 kW AC system size was omitted and the REC contract duration was set to 20 years. Draft Plan, App. D, at 16. This means that the REC prices will reflect adjustments for the ITC and bonus depreciation. Because public schools cannot take advantage of the ITC or bonus depreciation, however, the REC prices will not be aligned with or incent public school ownership of the system. This also fails to take into consideration the unique funding opportunities available to public schools, such as municipal debt financing, which could allow

public schools to maximize operational savings through self-financing and self-ownership. Much like the previous example related to the up-to-10 kW AC size, the IPA's decisions in calculating the REC price favor third-party ownership (and a leasing arrangement) where the third party can take advantage of the ITC and bonus depreciation.

Beyond these complex issues, the Commission's prior Order approving the current First Revised Plan also expressed concerns regarding the REC prices calculated under the REC Pricing Model. In brief, the Commission concluded that the REC prices were too high, and as a result were resulting in oversubscriptions and onerous waitlists.<sup>5</sup> The Commission concluded that "REC prices must be lower to both efficiently invest ratepayer money and limit oversubscription resulting in a lottery process."<sup>6</sup> As to the Model itself, the Commission held that "the IPA must recognize market signals rather than solely relying on its cost modeling approach."<sup>7</sup>

ComEd concurs with the Commission's directive to align with market signals, and recommends that the Commission, IPA, and stakeholders consider whether a different pricing model or mechanism may be better suited to setting prices for the increasingly diverse array of participants included in the ABP, which now extends well beyond the private sector that had previously been the principle focus on the ABP. In ComEd's view, the Clean Energy Law's amendments have prompted an urgent need to reassess whether the REC Pricing Model can equitably accommodate this diversity of participants and preserve the range of choices available to them as they pursue renewable projects. While ComEd admittedly does not have a turnkey solution at the ready, it is nonetheless critical to begin the process of exploring other options, such as REC pricing based on the avoided costs of carbon and air pollutants, which are the real benefits

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<sup>5</sup> *In re Illinois Power Agency*, ICC Docket No. 19-0995, Final Order, at 46 (Feb. 18, 2020).

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*



of the RPS program, or perhaps some combination of the two concepts. This would be consistent with how incentives are calculated for energy efficiency programs, and also comports with statutory language pertaining to beneficial electrification.

## **2. Proposed changes to REC Pricing Model inputs**

If the REC Pricing Model proposed in the Draft Plan were to be adopted in the short term, ComEd recommends that the following changes be made to the Model to avoid creating a preference for third-party ownership and leasing arrangements and to address the Commission's past concerns related to lowering REC prices.

*First*, the REC Pricing Model should be revised to set REC prices in a neutral manner that is agnostic as to whether the system is owned or leased by the retail customer. This means that the Model should calculate separate REC prices for owned systems and leased systems to reflect the unique economics and incentives available under each arrangement. As discussed in Section IV.D.1 above, assumptions related to the ITC and bonus depreciation do not equally apply to both arrangements. Moreover, calculating separate REC prices for owned systems and leased systems would have the added benefit of allowing public schools to take advantage of their own unique financing opportunities in a way that would empower the schools to maximize operational savings. These savings could then be reinvested by the schools to address other operational needs, which enables schools to expand educational or community programs and which aligns well with the equity goals of the Clean Energy Law given that Tier 1 and Tier 2 schools are prioritized in this program.

*Second*, the Model should be revised to incorporate the timing of the cash flows of the REC payments. The Model's Distributed Generation ABP REC Prices incorrectly assume that REC payments are made each year over a 15-year period, but this is not the case for small and large ABP programs where RECs delivered over 15 years are paid entirely upfront or within the first 4

years, respectively. Because payment for these RECs is made more quickly than the assumption used by the Model, ComEd estimates that the REC input price required to earn the target internal rate of return (“IRR”) is overstated by approximately 20%.

*Third*, ComEd notes that the commercial and industrial (“C&I”) net metering rate incorporates transmission charges sourced from the applicable ComEd tariff and energy charges derived from prior on-peak locational marginal prices for the ComEd Zone, but the rate does not consider capacity charges in its calculation. The effect of excluding the capacity charges results in a net metering credit that is lower than it should be, which in turn artificially inflates the REC prices required to achieve the project target IRR. The net metering credit calculation should be revised to incorporate the capacity value savings for a standard rooftop system, which is typically 40% of the installed AC capacity of the system.

*Fourth*, the REC Pricing model fails to include charges outside of transmission, distribution, and supply for which all net metering customers would receive credit. These include charges related to energy efficiency, RPS, zero emission credits, and other elements of the Clean Energy Law. The effect of excluding charges for which net metering customers receive credit results in a lower net metering credit within the Model by 0.5 to 1 cent/kWh, which in turn artificially inflates the REC prices required to achieve the project target IRR. The net metering credit calculation should accordingly be revised to incorporate the charges related to energy efficiency, RPS, zero emission credits, and other elements of the Clean Energy Law.

*Fifth*, the REC Pricing Model appears to overstate the required profit margin for the install cost input when considering third-party ownership. The NREL cost estimates used in the REC Pricing Model includes net profit margins of 17% (\$0.29/W) and 7% (\$0.10/W)<sup>8</sup> for residential

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<sup>8</sup> See *U.S. Solar Photovoltaic System and Energy Storage Cost Benchmark: Q1 2020*, available at <https://www.nrel.gov/docs/fy21osti/77324.pdf>.

and C&I systems, respectively, yet the REC Pricing Model also includes a cost of equity target in the after-tax IRR. Profit margins are how the cost of equity is recovered in a retail-based market, however. As a result, the REC Pricing Model should be adjusted to remove the net profit included in the NREL cost estimates so as not to double count the cost of equity when assuming third-party ownership.

*Finally*, if the IPA adopts the above recommendation to establish separate pricing for small systems that are not third-party owned, ComEd recommends that the Model be adjusted to reflect 100% of the net metering credits available to owners of the systems as compared to the 80% value currently included in the Model, which in reality represents payments made from end-use customers to third-party owners.

#### **E. Technical System Requirements (Sec. 7.9.1)**

Consistent with comments ComEd has previously submitted, ComEd continues to urge the IPA to reconsider – and eliminate – the requirement that an executed interconnection agreement (“IA”) be included with an application. Draft Plan at 175. This prerequisite mandates that electric utilities commit substantial resources, and incur significant costs, related to the processing of thousands of IAs – and, correspondingly, conducting studies on thousands of speculative interconnection requests necessary to produce the IAs – despite the fact that a small percentage of such projects successfully interconnect to the utility’s system. For example, as ComEd explained in comments previously submitted during the fall of 2021, ComEd has processed nearly 1,200 community supply IAs since 2017, but less than 5% of the projects associated with these IAs have proceeded to completion and interconnection to the grid. Each of those IAs required between one and four interconnection studies to produce them. Moreover, to the extent that such requirement was expected to be an indicia of project maturity, ComEd’s experience suggests otherwise. ComEd does not see the benefit of continuing to devote material time and customer-supplied funds for

processing a high volume of IAs that is wholly out of proportion to the number of projects that successfully interconnect.

In addition to these inefficiencies, the value of the IAs is limited – and erodes over time – due to the constantly changing nature of the interconnection queue. By way of background, the ability of a distributed energy resource (“DER”) to interconnect to the distribution system is limited by available hosting capacity at the location of the proposed interconnection and at the time of the proposed interconnection. Because the interconnection rules require that the utility assign 100% of the interconnection costs to each individual project (83 Ill. Admin Code Parts 466 & 467), costs are assigned based on the queue position of the project and are not shared. As a result, a project with the first queue position may require certain upgrades to the distribution system while the project in the second queue position may not (and the reverse may also be true). Moreover, every time the projects in the queue change (*e.g.*, a project withdraws or a project moves forward), the utility must perform “restudies” to re-estimate interconnection costs. This fluidity of the queue leads to substantial unpredictability, and the cost estimates identified in an IA can thus become irrelevant as the queue changes. This issue is further exacerbated when projects in the queue linger in a holding pattern while awaiting an award of an ABP contract.

For these reasons, ComEd recommends that the IPA not include the requirement that an executed interconnection agreement be included with an application. Reducing the number of interconnection applications from uncertain projects facilitates orderly processing of interconnection requests and protects the rights of interconnection customers who wish to proceed.

**V. Chapter 8: Illinois Solar for All – Energy Efficiency Programs and Community Action Agencies (Sec. 8.8.3)**

With respect to the Draft Plan’s request for feedback regarding coordination between the Illinois Solar for All Program and utility energy efficiency programs (Draft Plan at 240-241),

ComEd looks forward to working with the IPA and other stakeholders to explore and identify opportunities for coordination and referrals between the programs.

**VI. Chapter 9: Consumer Protections – Standard Disclosure Form Requirements (Sec. 9.5)**

Regarding the standard disclosures, ComEd recommends that an additional disclosure be included related to the impact of an owner or operator of distributed generation electing a distributed generation rebate under Section 16-107.6 of the PUA. Because the Clean Energy Law no longer requires that the recipient of the rebate be a retail customer, the rebate can be requested by, and remitted directly to, the owner or operator of a system leased by the retail customer. While this election and payment may be made independent of the underlying retail customer, this election nonetheless requires that the rate applicable to the system (and the retail customer) be switched from full retail rate net metering to a rate reflecting the netting of energy only. To ensure that this rate change (and its financial impacts) are disclosed to the impacted retail customers upfront, ComEd recommends that a customer disclosure be added to this effect.

**VII. Diversity, Equity, and Inclusion (Sec. 10)**

ComEd applauds the IPA on its robust and faithful implementation of the Clean Energy Law's Diversity, Equity, and Inclusion programs and initiatives, which appear to be optimized to encourage participating projects to utilize a diverse and equitable workforce. Regarding the IPA's specific request for feedback on the proposed minimum equity standards under the new Equity Accountability System (Draft Plan at 300), ComEd supports the 10% minimum as a starting point for DY2023-2024, which will increase to 12% for DY2024-2025. ComEd appreciates the IPA's slower initial rate of increase to afford the solar industry time to prepare for these standards, and trusts that the IPA's future minimum goals will rise in step to meet the 30% minimum standard applicable to DY2030-2031.

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