To: The Illinois Power Agency, IPA.Solar@illinois.gov
Subject: IL Solar for All Working Group-Stakeholder Feedback on the REC Price Model for the 2025-2026 program year
Date: March 26, 2025
From: Members of the Illinois Solar for All Working Group

Dear Illinois Power Agency:

The Illinois Solar for All Working Group (Working Group) is pleased to deliver the enclosed comments in response to the Requests for Feedback on the Renewable Energy Credit (REC) Price Model for the 2025-2026 Program Year.

As we have in the past, the Working Group continues to advocate for a market-based approach in determining REC pricing for the ILSfA Program. While we understood the need for REC price modeling at the beginning of the program, we believe the program has matured to a point where REC pricing changes should be determined through an evaluation of the program results, rather than modeling. The model being used is opaque and absurdly complex, providing REC prices that often do not conform with common sense. With the next Long Term Renewable Resources Procurement Plan, the model should be abandoned. The Agency should address the following questions when determining what, if any, changes in REC prices are needed:

- 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 the recipients of the solar arrays' benefits achieving ownership in the subprogram?
- Are savings above the minimum requirements being passed to the recipients of the solar arrays' benefits?
- 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 new Small and Emerging Businesses, MWBEs, and EECs successfully participating in the subprogram? Are existing Small and Emerging Businesses, MWBEs, and EECs continuing to participate?
- Are the law's equity goals regarding workforce hiring being met?
- Is sufficient work being generated to provide job opportunities for individuals completing FEJA and CEJA workforce training programs?

These are the general criteria we have applied in the following comments for each of the subprograms. For some criteria, we utilized anecdotal information from our developer/installer and grassroots members, as other data are not available to us. We have also reviewed the model and include specific comments on some of the inputs.

Small Residential and Community Solar Subprograms

We have no specific comments on the proposed REC prices beyond those mentioned about the model itself below.

Large Residential Subprogram

As you know, this subprogram is woefully underutilized due in part to a REC price that does not account for the unique challenges posed by these projects. Only $5.7M has been awarded over the last seven program years - far short of the $50M+ that should be providing significant savings to renters, creating jobs, and powering small and emerging businesses. This shortcoming alone is sufficient reason to increase the REC prices for this subprogram. The model's pricing is clearly insufficient to incentivize multi-unit residential, leaving us way behind on our promise to deliver energy savings to under-resourced communities.

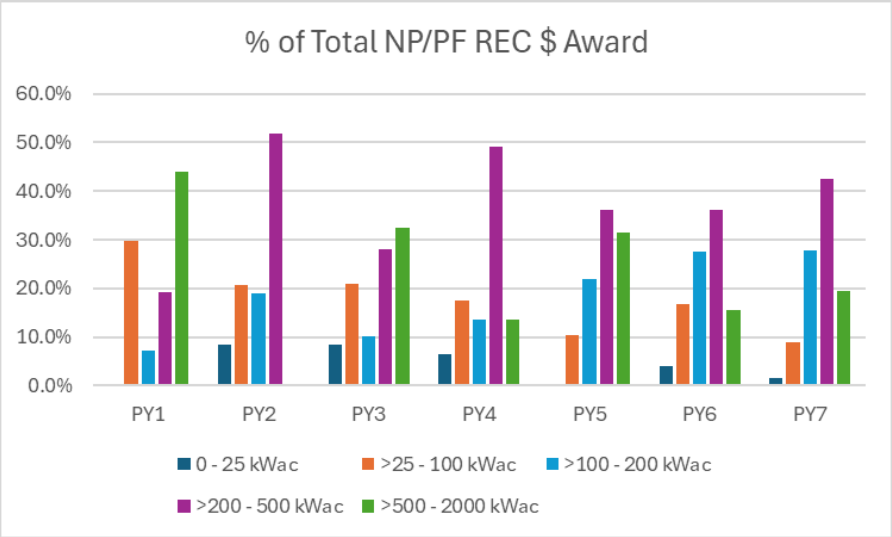
A major difficulty with this subprogram is the amount of paperwork necessary for submittal documentation of a project. Each interconnection becomes its own separate system - a single application for project P-8805-PY6 Olympic Village, a 190 kWac project, consisted of 16 interconnections, which resulted in what became essentially 16 separate applications (16 system designs, 16 shading studies, 16 sets of photos for the seven different required photo reports, 16 final one lines, etc). While a master metered building would address this issue, they just don't seem to exist, or at least are very rare. The REC prices do not account for the level of complexity with these projects. It would make more sense if the REC prices between kWac ranges were inverted, with larger projects having higher REC prices than smaller projects. Without changes to the model (e.g., getting rid of it) and an increase in these REC prices, we don't see how this subprogram will ever be well utilized.

As we understand it, incorporation of monitoring/energy allocation equipment such as SolShare, would potentially make these projects much more feasible. REC pricing should account for the cost of purchasing and installing this type of equipment. We need REC pricing that accounts for the cost of installing monitoring/energy allocation equipment like the SolShare solution. This cost has been estimated at roughly $.50/watt for equipment purchase and installation costs. The REC model does not take these costs into account.

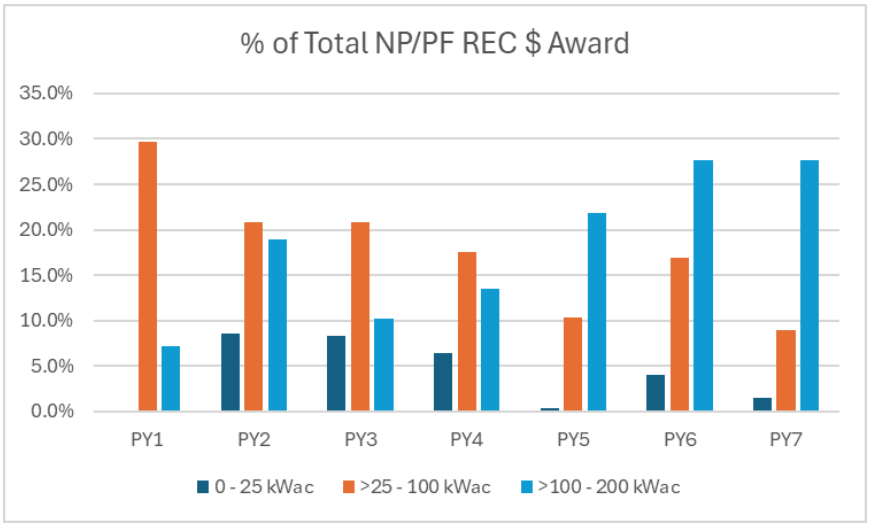
Non-Profit/Public Facilities Subprogram

From PY2 through PY5, this subprogram was oversubscribed. The program was able to implement scoring criteria that rewarded those projects that best fulfilled the goals of the program with REC contracts. For PY6 and, likely, PY7, the subprogram has failed to utilize the available budgets. We feel there are a number of reasons for this but the most impactful include increased subprogram REC budgets, lower REC prices, and increased difficulty in developing projects.

We believe REC prices at project sizes <100 kWac have been lowered too much. The program data demonstrates this. Below is a graph showing the percent of the total NP/PF REC awards by REC Price divisions for each of the program years (PY).[1] The largest NP/PF project to date is 1.1 MWac with only eight projects larger than 500 kWac of the 176 projects (4.6%) that have been awarded REC contracts.

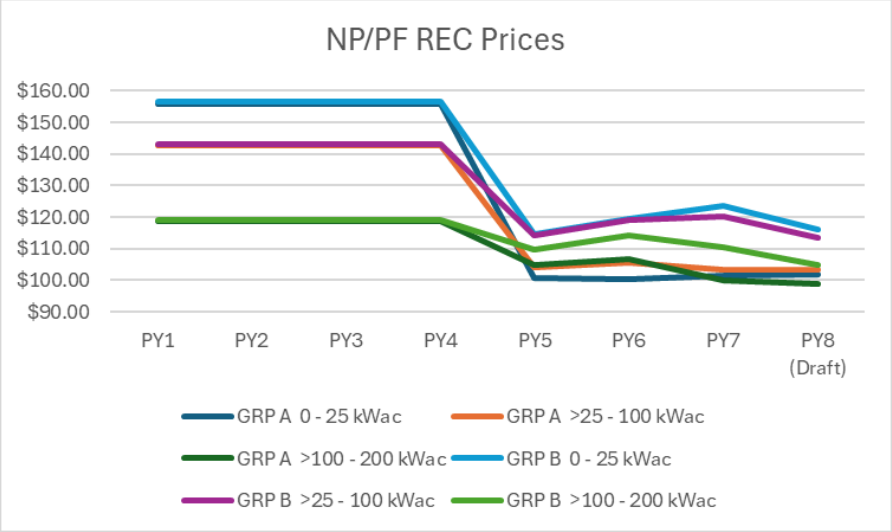


We are more concerned with the projects at the lower end of the size ranges. As shown in the following graph, prior to PY5, the percent of total NP/PF REC awards in the >100 - 200 kWac range was exceeded by the percent of total NP/PF REC awards in the 0 - 100 kWac range by a healthy margin (no less than 150%). In PY5, this changed. From PY5 through March 3, 2025 of PY7, the percent total of NP/PF REC awards in the 0 - 100 kWac range averaged approximately 50% of the percent total of NP/PF REC awards in the >100 - 200 kWac range.

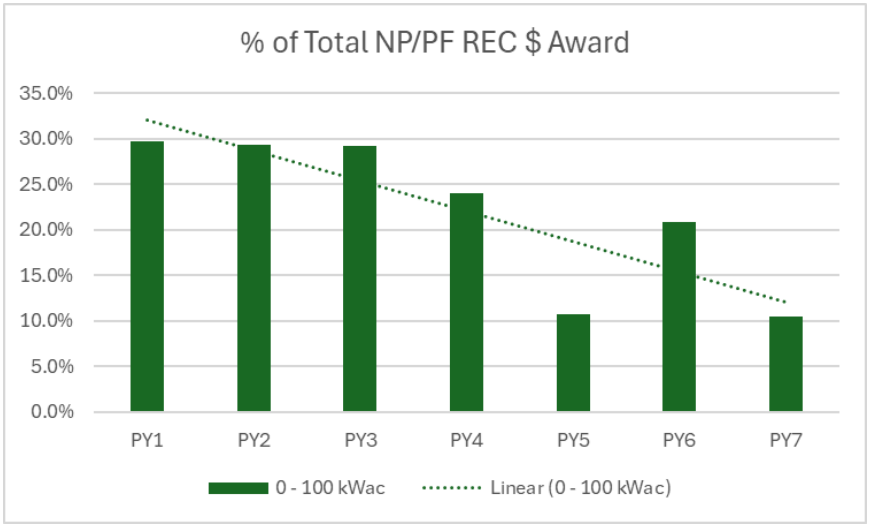


[1] Data were taken from the Approved Projects Reports #2 and #3 found at https://www.illinoissfa.com/resource-library/ and are reported as current through March 3, 2025

These changes directly correlate with the drastic change in REC prices that occurred between PY4 and PY5, especially for the 0 - 25 kWac and >25 - 100 kWac project size catagories. Group A saw a 35% and 27% drop in REC prices for 0 - 25 kWac and >25 - 100 kWac projects , respectively. Group B saw a 27% and 20% drop in REC prices for 0 - 25 kWac and >25 - 100 kWac projects, respectively. Oddly, the Group A and B REC prices for the >100 - 200 kw sized projects dropped by only 12% and 8%. No REC prices below two MWac dropped by more than 5% while REC prices actually increased for two of the larger project size ranges in Group B and one in Group A.[2]



The REC prices have since lingered near or at these lowered prices. Unsurprisingly, the percent of total NP/PF REC awards in the 0 - 100 kWac range has trended lower as shown below.



[2] Oddly, the REC prices have been lower for the Group A 0 - 25 kWac range than those of the Group A >25 - 100 kWac since PY5.

As shown below, a deeper dive into the data shows that the REC price drops between PY4 and PY5 have impacted the number of projects and appear to have steered the remaining projects towards the higher end of the project size range, especially in the >25 - 100 kWac range.

The data supports our contention that projects less than 60 kWac tend to not be financially feasible. We have heard from our grassroots educator members and other advocates that many potential nonprofits and public facility projects in rural communities throughout Illinois are smaller in size and, as such, are not financially feasible at the current REC prices. The Working Group believes that smaller projects drive employment and provide a launching ground for small and emerging businesses.

We expect the proposed lowered REC prices proposed for PY8 will exacerbate the trend towards larger projects and result in unspent funds in the program. The Working Group believes a reasonable target would be for 0-100 kWac projects to consume at least 30% of the total NP/PF subprogram budget. We ask that the PY8 REC prices be increased to levels halfway between PY7 and those of PY4 for project size ranges equal to or less than 100 kWac

and be held steady for those project size ranges greater than 100 kWac. These can be readily achieved through manipulation of the "Program Adjustment Factors" in the model.

Illinois Shines - Public Schools Category

We remain concerned about lack of uptake in the Adjustable Block Program's Public Schools category (currently 0 MW allocated out of a total block capacity of 144.97 MW). If the current REC prices cannot support development at Public Schools in affluent communities, there is no hope for solar development in this category for those public schools in income eligible or environmental justice communities. A decrease in REC prices is not warranted: we urge the Agency to re-examine and significantly increase the Public Schools category REC prices, especially for Tier 1 and Tier 2 schools. The Agency should consider allowing Public Schools to be eligible for the NP/PF subprogram of ILSFA once again should this program continue to flounder.

Model Inputs

The Working Group comments specific to the model input updates implemented by the Agency are presented below.

Interest rate on construction financing
The interest rate was decreased from 8% to 6% to purportedly align with the interest rate on term debt. Balance Solar, the longest tenured and largest (by amount of non-community solar projects) financing company in ILSfA, cannot access construction loans below 10% with some as much as 12%. The interest rates on their long term debt range from 8-10%. Approved Vendors within the IL Solar for All Working Group would welcome an introduction from Energy and Environmental Economics to the companies offering 6% construction loans.

Target After-Tax Equity Internal Rate of Return ("IRR")
We note that Solar for All IRR values were modified "to better align with current market expectations" as such: DG from 12% to 9%, ILSFA Community Solar from 14% to 10%, and Non-profit & Public Facility from 12% to 9%. Unfortunately, an IRR approach overlooks risk and uncertainty and assumes fixed cash flows, which is not necessarily the case for small developers and financiers. Real-world factors like market changes (with change being the only constant on the "solar coaster") or delays can impact returns. IRR also fails to take into account positive and negative cash flows, which can result in more than one IRR. For example, operating expenses are often greater than the income from the sale of the electricity payments, especially on smaller projects, resulting in a negative cash flow. These IRR numbers also assume access to capital that is not available to some of the solar developers that operate within ILSfA, in particular, small and emerging businesses. The IRR also fails to factor in the greater difficulty associated with the project pipeline for these project types. We ask that the IRR be increased to at least 15% for projects equal to or below 100 kWac and to at least 12% for projects greater than 100 kWac.

Signatories include:

Central Road Energy LLC
ARF Solar
A Just Harvest
Vote Solar
Citizens Utility Board
Greenlink Solar Solutions, Inc.
Contemporary Contracting LLC DBA SunSent Solar
360 Electric Heating & Cooling
Balance Solar LLC