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Prologis Comments on Proposed Renewable Energy Credit Prices for 2025-2026 Program Year

About Us

Prologis is the largest logistics real estate owner globally, with over 1.2 billion square feet of warehousing and distribution space. Our large, flat rooftops have enabled us to build out commercial solar installations to serve onsite and offsite load with clean energy and battery storage, helping our customers reduce their emissions and benefitting communities by offering access to renewable energy and improved grid resilience. To-date, we have deployed over 600 MW of solar and battery storage assets across our global portfolio, with a goal of 1 GW by the end of 2025. And we have been active in Illinois' community solar program since 2022. Based on our data, experience, and expertise, we are providing the feedback below in response to IPA's Proposed REC Prices for 2025-2026 Program Year.

Introduction

Prologis appreciates the opportunity to provide feedback on the Illinois Power Agency's (IPA) proposed Renewable Energy Credit (REC) prices for the 2025-2026 program year. As a leading developer of distributed solar generation, including rooftop community solar projects in Illinois, we are deeply concerned that the proposed reductions in REC prices—exceeding 15% in key categories—fail to reflect market realities.

The methodology used in the REC Pricing Model, from which these prices are derived, contains several incorrect assumptions that underestimate costs, miscalculate incentives, and fail to account for recent federal policy changes. If left unchanged, these REC price reductions will significantly hinder future rooftop and community solar development in Illinois, undermining the state's clean energy goals and putting substantial investments at risk.

As one of the world's largest real estate owners and a community solar developer that has been subject to the program's developer cap for multiple years, Prologis is uniquely positioned to highlight the challenges the proposed REC prices would pose for building owners and rooftop solar developers. Unlocking the potential of commercial rooftops can help the state meet its renewable goals faster and without land use impacts—if the state recognizes the distinct differences between rooftop and ground-mounted solar through its policies and incentives. A one-size-fits-all approach risks favoring certain project types, reducing diversity in ownership and participation, and increasing systemic risk through overconcentration.

Feedback

1. The REC Pricing Model Fails to Reflect the Actual Lower Bill Credit Value for Community Solar
    - The draft REC Pricing Model inflates the value of credits by using full retail rates. Credits are equal to the Price to Compare, which consists of Energy and Transmission only.
    - Incorrectly using the full retail rate results in REC prices 20-30% lower than they should be, depending on system size. For example, systems of 500kW and 2000kW should receive about $60 and $48, respectively, after accounting for this change alone.

2. Key Cost Assumptions in the Model Are Outdated,Unrealistic, or Missing
    - Lease costs are underestimated
        - The Program-Specific Assumptions tab (Column D) uses lease rates that are well below market reality. Typical lease rates in Illinois range significantly higher than the ~$1,000 per acre used in the model.
        - This is especially true for rooftop leases, where building owners demand a premium to compensate for their risk to the roof membrane, the contents of the building, and the disruption to the building occupants during construction. Furthermore, lease rates are not typically fixed but, rather, escalate annually.
        - This discrepancy artificially lowers the model's projected costs, falsely justifying deeper REC cuts.
    - Equipment and Balance of Plant (BOP) Costs Are Too Low
        - The CREST Inputs tab (cells G20-21) underestimates equipment and BOP costs.
        - Interconnection costs, for example, do not reflect reality. Across dozens of projects, Prologis has observed average interconnection costs over 50% greater than those estimated in the model. These costs tend to increase over time with more solar saturation, not decrease the way technology costs might.
        - As industry reports confirm, costs have increased due to supply chain constraints, labor shortages, and inflationary pressures.
    - Community solar specific administration costs are not accounted for, including:
        - Acquiring and managing many subscribers upfront and over time, including "churn."
        - 2% utility billing fee or alternative billing costs, plus nonpayments/uncollectibles.

3. The Model Treats All Projects of the Same Size the Same
    - Capacity factors should also be differentiated by mount type (roof vs ground), not by size alone.
    - Prologis builds on rooftops, but the IPA modeling would treat its large projects the same as though they are ground-mounted solar projects, which are capable of far higher capacity factors.
    - Racking with trackers and optimal tilts is not possible on rooftops. Rooftop solar is constructed in line with the building and based on available equipment and engineering constraints. Buildings do not always line up perfectly north-south, resulting in solar project azimuths that are not at 180 degrees.
    - 25-degree tilts, as predicted in the model, are not possible on rooftops. Racking manufacturers respond to building engineering constraints, resulting in 10-degree tilts. Trackers are also not possible on a rooftop.
    - Assumed Project Useful Life in CREST Inputs exceeds the lifespan of the most common roofing membranes (15-20 years). When a roof needs to be replaced at that time, the solar system will be decommissioned, as it is not anticipated to be economically or logistically viable to uninstall, store, and reinstall old equipment.

4. The Model Does Not Account for the Reduction in ITC Utilization

- The Investment Tax Credit (ITC) utilization factor should be set to 90% rather than 100%, reflecting the fact that most projects now rely on ITC transfers, which trade at 90-93 cents/$.
- By assuming 100% utilization, the model overestimates project economics and inappropriately reduces REC prices.

5. The Model Fails to Account for Federal Policy Uncertainty

Since the previous REC Pricing Model update, several key federal policies have changed or are at risk:

- Tariffs on solar panels, components, and battery storage have increased in recent months, impacting supply chains and equipment costs.
- The ITC itself and/or bonus adders (low-income, energy communities, domestic content) may be phased out or reduced under potential federal policy shifts. We encourage the use of an intra-year REC price change if this happens.

Conclusion and Recommendations

Prologis withdrew from the waitlist over a dozen projects totaling over 17MW in the fall of 2023 because lowered REC prices could no longer support the projects as originally submitted. We are again faced with a similar, but even larger problem - with 40MW of projects waitlisted from last year set to receive much lower draft REC prices that no longer justify capital investments.

The proposed REC price reductions pose a significant threat to rooftop commercial solar development in Illinois. These reductions are based on incorrect assumptions and outdated financial models that do not reflect real-world project costs or federal policy risks.

To ensure a fair and sustainable solar market in Illinois, we strongly urge the IPA to:

1. Correct the community solar bill credit calculation to align with the ICC's Final Order.
2. Update key cost assumptions to reflect actual market conditions, including lease costs, equipment pricing, and financing rates.
3. Treat rooftop projects differently from ground-mount projects to account for their distinct characteristics.
4. Revise the ITC utilization rate to align with current market trends.
5. Incorporate federal policy uncertainty into the REC Pricing Model to avoid underestimating project costs.

We appreciate the IPA's efforts to refine the REC Pricing Model and urge the agency to make these necessary corrections to support Illinois' clean energy future. Please do not hesitate to contact Grant Klein, Manager of Community Solar Solutions, at gklein@prologis.com or 303-567- 5150, or Paul Augustine, Director of Energy Policy, at paugustine@prologis.com or 415-733-9477 for more information or to discuss further.

Respectfully submitted,

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