Illinois Power Agency Long-Term Clean Energy Procurement Framework Second Stakeholder Question Set

Feedback provided by Clean Grid Alliance

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1. **What guidelines should govern the design and use of this new procurement mechanism to balance the priorities and needs identified by the state agencies with the ongoing functioning of the regional markets (including the PJM and MISO capacity markets) and Illinois's competitive retail market structure?**

The interaction between the long-term clean energy procurement (LTCEP) and wholesale and retail markets will largely follow what the IPA is procuring. If the LTCEP involves physical capacity or physical energy, the contract would need to follow PJM and MISO physical capacity requirements and there may need to be a mechanism (preferably outside of the contract) that provides benefits of the physical capacity or physical energy to ratepayers that do not receive retail service from the utility. If the LTCEP financial capacity or financial energy, the contract would need to have terms that follow industry-standard financial hedges for energy and capacity. If the LTCEP is primarily to ensure resources are built and the contract is structured as a payment on COD for placing the new clean energy resource in service and/or for ongoing availability but otherwise allows merchant participation, then there are different interactions.

Conversely, a LTCEP that creates conflict or inefficiencies in the interactions with other markets established by law, the potential for losses or delays due to those conflicts may hinder bidder participation.

2. **How should the need or procurement target of eligible resources or products be determined (i.e. stemming from need identified in IRP process or mitigation plan)?**

Illinois is an outlier in the region for reliance on capacity auctions to fill load serving entities' (LSE) planning reserve margin requirements. Utilities in other states turn to the market for a much lower percentage of their capacity portfolios – typically between 10-30%. These utilities typically either engage in a public integrated resource plan process

(IRP) (e.g. in Michigan, Indiana, Minnesota, and Missouri) or an internal corporate process (e.g. in Iowa or Wisconsin) that identifies specific capital investments needed to meet capacity and energy needs on a 20-year planning horizon. Illinois's restructured energy system does not include an adequate corollary for utility-driven capital investment on this planning horizon. This is why the tools provided by CRGA to address the findings in the 2025 Resource Adequacy Study (including this procurement mechanism) and the IRP process in Illinois are so significant.

Capacity investments under this new framework should be tied to needs identified in the 2025 Resource Adequacy Study, with future iterations based on the IRP and should complement the existing block energy and capacity and REC procurements already conducted by Illinois. The portfolio of products identified to fulfill LSE's capacity and energy requirements should include at least 10-30% of a load-serving entities' capacity requirements from these longer-term contracts as a starting point. But aligning with industry practice elsewhere and increasing this amount over time could present significant benefits to ratepayers as capacity pricing in the MISO and PJM auctions continues to experience volatility and uncertainty.

Finally, while the resource adequacy study and IRP should be used to determine the need and target capacity amounts to be procured, it is imperative that any changes to timelines or other changes to carbon reduction targets contemplated by the IPA, ICC, or other stakeholders or parties to those proceedings not bleed into this procurement framework. The text of CRGA made clear that this long-term energy and capacity procurement framework must be tied to new clean energy resources as defined by law.

3. How frequently should these procurements be conducted and what would trigger and justify a procurement event?

The 2025 Resource Adequacy study identified an immediate need to bring new resources online to address resource adequacy shortfalls in Illinois projected to occur as soon as 2029 in PJM and 2031 in MISO. Since the publication of the 2025 study, additional announcements have been made relating to the sale/transfer of natural gas resources in the ComEd zone that will result in an earlier-than expected exit of these resources from the Illinois market, which will further exacerbate the problem.[1] An initial procurement should be conducted based on this analysis to address immediate need.

[1] See, e.g., https://dairylandpower.com/dairyland-announces-acquisition-assets-illinois.

Future Procurement plans should be identified by the IRP process within the short-term action plan horizon of the IRPs (e.g., within the 3-5 years following the IRP) if resource additions are identified within that time frame.

When resource additions are identified and procurements are required, they should be held on a regular cadence, such as every year or every other year. Regularly scheduled procurements provide developers with the ability to plan and mature projects in alignment with expected procurement windows, allowing projects to be more fully de-risked prior to bidding, reducing development and execution uncertainty. In contrast, infrequent or irregular procurement opportunities may incentivize developers to advance projects prematurely to remain competitive, which can increase bid pricing as developers incorporate additional risk premiums. Predictable procurement cycles therefore support more competitive pricing and higher-quality project participation.

4. **How should the resources or products be evaluated in isolation and against one another to meet the need or procurement target described above? Respondents may consider differences in resource type, cost, contract length, or commercial operation date.**

CGA recommends the resources or products considered under this framework are evaluated according to metrics commonly used in competitively bid procurement processes conducted by regulated utilities in vertically integrated states. Building on the metrics listed above, CGA recommends the following project characteristics are considered for procurements that involve purchase of energy, capacity, or both:

- **Project feasibility**: Site control; local, state, and federal permit status; interconnection status with MISO or PJM; the planned commercial operation date ("COD") of the project; and any other key milestone dates.
- **Resource type/proposed technology:** The resource's contributions towards meeting capacity needs as demonstrated by capacity factor.
- **Cost:** A project's costs should be first compared to the cost of others within the same resource class, and then to the cost of other resource types under consideration; and production or investment tax credits, tax credit adders, and tariff risk should be assessed for each project.
- **Contract:** In addition to length, other negotiable contract terms and conditions, such as the pricing structure (i.e., fixed or escalating $/MWh) and early termination/exit conditions.
- **Other relevant criteria (additional to that proposed above):**

- Project location (i.e., inside or outside Illinois and inside or outside PJM's ComEd zone or MISO Zone 4) and benefits associated with location, such as the ability to relieve congestion and deliver energy to load centers.
- The project owner's background, including their experience developing similar resources, their experience working in Illinois, and their financial strength and creditworthiness.

5. Should there be any cost caps or other guardrails on the procurements to protect Illinois customers from increased rates? If so, please describe.

CGA does not recommend instituting a price cap on long-term capacity and energy procurements. First, the procurement framework intent is to ensure there are adequate resources available to serve Illinois ratepayers. Capacity and energy purchases made under this new procurement framework will directly offset or hedge the need of load-serving entities to purchase from the markets. Thus, pricing should be determined through an all-source RFP process that allows for competitive, market-based pricing based on available projects or resources.

Risk of exposing ratepayers to extremely steep capacity auction prices currently far outweighs the risk of layering in longer-term contracts that reflect then-current market conditions but during certain time periods may exceed short- or medium-term procurement opportunities. The purpose is to ensure availability and provide a price hedge; by their nature these products are not guaranteed to at all times be below short-term procurement opportunities (otherwise the IPA would only procure such products for utilities' entire portfolios).

In addition, capacity auctions price caps are extremely steep (e.g. MISO's seasonal auction cap is currently set at 4x CONE) and auctions are experiencing increasingly narrow margins for clearing (or in the case of PJM's 2025 auction, failure to clear entirely). Meanwhile, current projections show that auction offerings are likely to continue to decline for the foreseeable future until utilities nationwide can build enough generation and transmission to sustainably meet skyrocketing demand from data centers, electrification, and advanced manufacturing.

On the flip side, contract price caps or post-hoc price adjustments for the long-term capacity and energy procurement significantly threaten contract viability and financeability, result in lower bidder participation and higher overall bid prices as bids include additional cost related to that risk, and undermine the benefits offered by such a procurement.