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Anthony Star
Illinois Power Agency
160 N. LaSalle Street, Suite C-504
Chicago, IL 60601

June 27, 2017

RE: Long-Term Renewable Resources Procurement Plan

Dear Mr. Anthony Star,

Thank you for this opportunity to provide comments on the Illinois Power Agency's Long-Term Renewable Resources Procurement Plan ("Procurement Plan"). 3Degrees Group Inc. ("3Degrees") appreciates this chance to offer feedback on renewable energy procurement under the revised Illinois Renewable Portfolio Standard (RPS).

3Degrees is a leading provider of comprehensive clean energy and carbon services that enable organizations and individuals to transition towards a low-carbon economy. 3Degrees is one of the largest buyers and sellers of renewable energy credits (RECs) in the country and serves hundreds of businesses, utilities, and other load serving entities. Over the past decade, 3Degrees has worked closely with suppliers in Illinois in order to support them in meeting the state's RPS targets.

3Degrees' comments focus on three of the issue areas identified by the IPA during the May 17th workshop and within the June 6th Request for Comments.

1. Geographic Eligibility of Renewable Energy Resources

3Degrees understands and supports the rationale behind favoring renewable resources that provide co-benefits to the citizens of Illinois and promote the state's public interest¹. We look forward to the methodology that the IPA develops to determine whether an out-of-state project serves the public interest and should be eligible to provide RECs for the Illinois RPS. In creating this methodology, 3Degrees requests that the IPA ensure that it provides clear and consistent market signals in order to build a stable renewable energy market. Towards this end, 3Degrees recommends the following:

- a. The methodology should contain enough specificity that market participants can easily evaluate on their own whether a given generating unit meets the eligibility criteria. This methodology could be based on threshold levels of compliance with each criterion, a weighted scoring system based upon each criteria outlined in the law contributing towards meeting a minimum aggregate score, or a combination of the two, so long as enough clarity is provided that a generating unit is able to assess its own eligibility against the criteria.
- b. The methodology should acknowledge the benefits that broader geographic sourcing requirements and long-term regulatory stability can have on increased investments in the region. Geographic flexibility will lead to lower overall

¹ Public interest as defined at 20 ILCS 3855/1-75(c)(1)(I).

cost of compliance and decreased price volatility. Long-term stability in geographic flexibility will lead to a larger and more robust market for renewables and is important for planning, flexibility, resource diversity, and cost containment.

- c. The IPA's methodology should provide clarity on if and when price will be a contributing factor for out-of-state eligibility.

2. Meeting Percentage-Based RPS Targets

The IPA's Procurement Plan should incorporate every tool at its disposal towards meeting the percentage-based RPS targets, including maintaining an active short-term REC market. A robust short-term REC market driven by RPS regulation has been a critical component of renewable energy markets across the country. Even in states with strong preferences for in-state and long-term procurement, such as California, the RPS enables short-term REC procurement due to benefits including flexibility, cost reduction, and support for a broader, integrated renewable energy market. Fostering a short-term REC market through the inclusion of annual short-term REC procurement within the Procurement Plan will lead to lower costs of compliance, flexibility and stability in meeting RPS targets, support for the existing fleet of renewable generators in the state, and preservation of the voluntary renewable energy market ("voluntary market").

Short-term REC procurement allows regulated entities to meet RPS percentage targets in a cost-effective manner due to the flexibility and stability this option provides. In a rapidly changing energy landscape, energy efficiency improvements, technological advances, and the realities of project development uncertainties mean that flexible procurement is extremely important to ensure renewable energy procurement needs are met without wasteful spending or over-procurement. As the IPA has noted, short-term REC procurement is generally cheaper and more cost competitive than long-term procurement. Short-term REC contracts can be used to cover the difference between the number of RECs available under long term contract with the IPA and the number of RECs needed to meet the RPS target in a given year. This cost containment will allow electricity suppliers in Illinois to accurately price their products to account for the costs of RPS compliance and provides price stability to their customers.

Properly structured short-term REC procurement supports the goals of "adequate, reliable, affordable, efficient, and environmentally sustainable electricity" and of "maintain[ing] and support[ing]...renewable resources" outlined in Public Act 99-0906.² Facilities with RECs that have historically been used for compliance by Alternative Retail Electric Suppliers (ARES) have existed within a market structure that favored short-term REC procurement. Under the previous ARES RPS regime, contract terms longer than one to three years were not deemed practical given the uncertainty around ARES load in future years. It is important to continue to support these existing renewable energy facilities and use them towards meeting the state's overall RPS targets. Short-term REC procurement will support in-state and regional generators if structured around the same geographic requirements and subject to the same public interest test discussed in #1 above.

² Public Act 99-0906. (p.18 -19). Available at:
<http://www.ilga.gov/legislation/publicacts/99/PDF/099-0906.pdf>.

An active short-term market will also lead to more development in the region by supporting the voluntary market. The voluntary market is made up of millions of individuals and businesses who seek to purchase renewable energy above and beyond state mandates. In 2015, this market supported over 77 million MWh of renewable energy.³ Voluntary market participants prefer new, local facilities, but generally purchase on a short-term basis. Enabling a robust short-term market within the RPS will support this market and bring more demand for new renewables into the Illinois market. Furthermore, an active short-term market can provide price signals to the market and inform investment decisions about longer term procurement. On the other hand, if all new projects are tied up in long-term procurement, it removes newer facilities from the voluntary market and requires that these purchasers turn to other neighboring markets for their procurement.

3. Clarity Around a Definition of Generating Units Whose Costs are Recovered Through Regulated Rates

3Degrees would like to highlight the importance of providing a definition as soon as possible regarding what it means for a generating unit to have its costs recovered through regulated rates.

The ICC Emergency Rulemaking for ARES compliance with the RPS⁴, affecting the current compliance period, went into effect on June 1, 2017. These rules include a provision that as part of annual compliance an ARES must submit “a certification that RECs used for compliance for the compliance period were not produced by facilities whose costs were being recovered through rates regulated by a state or states on or after January 1, 2017.”⁵ However, the IPA’s Procurement Plan where the scope of rate recovery will be defined is not projected to be finalized until Q4 of 2017. The lack of definitive criteria regarding implementation of this rule means that ARES are under obligation to comply with rules that are undefined, creating undue regulatory burden.

The clearest indication of how this might be defined has been provided within the IPA’s Frequently Asked Questions (FAQ) for the June Wind and Solar Request for Proposal (RFP).⁶ The IPA states that it believes this requirement was intended to prohibit RECs from facilities approved by a state’s PUC or other regulatory authority in a proceeding to set regulated utility rates. 3Degrees supports a definition limited to facilities that are utility-owned and have been approved by a state’s PUC or other regulatory authority, as this ensures that a regulated entity is not selling RECs to the IPA for which it is also recouping the costs from its own customers. A definition broader in scope would unduly exclude facilities in the region that have not committed their RECs to another entity and that have an expectation of revenue through the sale of RECs into compliance markets. A

³ O’Shaughnessy, E., et al. (October 2016). *Status and Trends in the U.S. Voluntary Green Power Market (2015 Data)*. National Renewable Energy Laboratory. (p.3) Available at: <http://www.nrel.gov/docs/fy17osti/67147.pdf>

⁴ Available at: <https://www.icc.illinois.gov/docket/CaseDetails.aspx?no=17-0267>.

⁵ Emergency Rulemaking: Appendix 1: 83 Ill. Adm. Code 455.120 (b)(4). Available at: <https://www.icc.illinois.gov/docket/files.aspx?no=17-0267&docId=253714>.

⁶ See “Q: What does the project requirement of “NOT a generating unit whose costs are being recovered through rates regulated by Illinois or other state(s)” mean?” at https://www.ipa-energyrfp.com/faqs/#ws_faq.



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broader definition would be challenging to implement and would be detrimental to the ability of Illinois to meet its renewable energy targets by unnecessarily restricting the pool of eligible resources. Should the IPA move forward with a definition in line with the one provided within the Wind and Solar RFP FAQ, 3Degrees requests that the IPA specifically address the situation where a utility receives approval from a regulator to sign a PPA for the electricity generation from a renewable energy facility but not the RECs associated with that generation.

Once the IPA creates a final definition for this rule, enforcement and implementation should be aided by the IPA so as to expedite clarity in the market. We have heard that the IPA intends to place the onus of proving eligibility under this rule on generating unit owners themselves. 3Degrees believes a better system would be for the IPA to clarify the standard by which eligibility will be measured, and then work with the ICC to determine whether or not an existing Illinois-eligible facility meets the criteria. These steps should be taken as soon as possible, as waiting until the Procurement Plan is finalized will leave ARES in regulatory uncertainty for at least half of the compliance period.

3Degrees welcomes the opportunity to discuss the above comments in further detail. Please do not hesitate to reach out with any questions, comments, or requests for further information.

Sincerely,

Maya Kelty
Regulatory Affairs Manager