



CGA Comments on IPA's Spring 2022 Procurement of Indexed RECs

Clean Grid Alliance ("CGA") submits these comments in response to the IPAs request for feedback on barriers that may have limited participation in the Spring 2022 procurement, and to suggest improvements to future Indexed REC procurements. CGA's comments address topics raised in IPA questions 2 through 6 and 9.¹

INTRODUCTION of CLEAN GRID ALLIANCE

Clean Grid Alliance is a not-for-profit 501(c)(3) corporation organized and existing under the laws of the State of Minnesota. Clean Grid Alliance is a collaborative organization dedicated to large-scale renewable energy resources' fair access to the wholesale electricity market throughout the Midwest. Clean Grid Alliance's Board of Directors and members are comprised of: more than thirty owners and operators of wind, solar and battery storage facilities; numerous environmental organizations; wind, battery storage and solar energy consultants; contractors that build wind, solar and battery storage facilities; clean energy advocates; and businesses providing goods and services to

¹ IPA, *Indexed REC Procurement Request for Stakeholder Feedback* (July 1, 2022).

the renewables energy industry in Illinois and across the country. Members of Clean Grid Alliance operate plants in Illinois and have projects in the PJM and MISO generation interconnection queue.

POSITION of CLEAN GRID ALLIANCE

Participation in the REC procurements will not improve unless Sellers are afforded more options for managing market and external risks. The questions posed in the Request for Stakeholder Feedback hit on a number of factors affecting risk, such as sufficiency of funds to pay for RECs over the life of the contract, uncertainty around RTO approval of generation interconnection requests, market issues to be resolved in the 2022 LTRRPP, and issues with supply chain logistics. However, there are other issues affecting bidders interests in REC procurements, such as the exact application of all the Diversity, Equity and Inclusion policies in Public Act 102-0662, whether those policies could be retroactive to the Spring 2022 procurement, the lack of transparency around the benchmark and whether all of the factors were being appropriately weighed in creating a REC benchmark price, and the lack of risk allocated to the Buyers through the contract. In addition, the Indexed REC contract is riskier than opportunities to sell RECs to corporate purchasers because of a lower risk of payment default or deferral. In addition, corporate purchasers are willing to assume risk and agree to flexible delivery terms that consequently allow a resource owner to optimize its revenue streams for a project. All of the aforementioned factors are holistically evaluated by Bidders when deciding whether to participate and submit a bid in response to the Indexed REC RFP.

The REC contract's flexibility needs to be improved so Sellers can both effectively deliver their bid quantity to the Buyers and optimize a project's revenue streams. CGA's

comments provide more details and illustrative examples on how these could be accomplished.

CLEAN GRID ALLIANCE'S RESPONSES

Below are CGA's responses to certain questions posed by the IPA. Some of the questions are shortened or paraphrased from their original form.

IPA QUESTION #2: Were there specific provisions from the contract form used in the Spring 2022 Procurement Event that presented a barrier to participation?

RESPONSE:

Low participation in the Spring RFP is not related to just one or two provisions, but was a result of systemic contract inflexibility given the state of the PJM and MISO energy markets and the U.S. economy. Each bidder weighed the risks inherent in the contract, in the energy markets and in comparison to other opportunities when deciding whether to participate in the Spring RFP. To improve participation in future procurements the contract needs increased flexibility of REC delivery, a better balance of the default risk between Buyer and Seller, and allow a Seller to optimize its project's potential revenue stream. These can be accomplished through a variety of amendments. CGA encourages the IPA to collect suggested changes via the contract development process, as it does through its usual course of business.

As noted above, it was not one specific provision that posed a barrier to participation, but a few provisions are noteworthy. Sections 9.3 and 9.4 define the amount a Buyer and Seller owe the other party in the event they default. Section 9.3 and 9.4 do not capture the true cost to the Seller of replacing this contract in the event the Buyer defaults. This shortcoming creates a potential impediment to project financing. Another troublesome provision is section 14.1. It establishes a cap on liability that varies over time. Typically, there is no cap on liability after start of REC delivery – damages are determined through a mark-to-market calculation. Section 14.1, however, inadequately compensates the Seller in

the event of a Buyer breach and poses an impediment to financing.

The IPA should revisit the suggested changes CGA proposed during the comment period for the Spring 2022 Indexed REC RFP contract. These changes were intended to ensure delivery of the bid RECs, better balance of the default risk between Buyer and Seller, and allow a Seller to optimize its project's potential revenue stream. The following are illustrative examples of such changes:

- Standing Order should be an Option for the Seller to Opt-Into;
- Seller should have flexibility to set a standing order delivery quantity;
- Adjust the definition of an Annual Quantity Shortfall – for example, failure to deliver 80% Annual Quantity over a set number of years;
- RECs delivered in excess of the Annual Quantity could be used to redress shortfalls in prior years or applied to delivery requirements of subsequent years;
- Allow a Bidder to bid a fraction of the total output of a project instead of a capped annual quantity;
- Allow Seller to stop delivery of RECs if there is insufficient funds and resume when there is sufficient funds;
- Require a Buyer to provide Performance Assurance that would pay for RECs if there is insufficient funds.

IPA QUESTION #3: Did RTO delays in processing generation interconnection requests impact your ability to bid in the Spring 2022 Indexed REC RFP?

RESPONSE:

The contract's flexibility on the start of delivery date was a beneficial feature of the IREC contract; however, the uncertainty and delays in the RTO interconnection queues continue to contribute to the tightness of REC supply and will likely do so for the next few years. For example, it is CGA's understanding that wind or solar projects now entering the PJM queue will not have their affected system studies completed until 2027. This provision may need to be modified to reflect changes in PJM or MISO's interconnection queue processes that affect timing for attaining a system impact study and a generation interconnection agreement.

IPA QUESTION #4: Did supply chain issues impact your ability to bid in the Spring 2022 Indexed REC RFP?

RESPONSE:

There are a number of issues within the U.S. economy that large-scale renewable resource developers are monitoring, particularly the logistics for delivery of materials and equipment. Supply chain issues affect the overall cost of a wind or solar project, therefore, it needs to be accounted for in the development of the benchmark price for the Indexed REC. The benchmark price for REC procurements is confidential. The lack of transparency around the REC benchmark price and how it was developed raises the question as to whether the supply chain issues affecting delivery of wind and solar components were (and will be) reasonably accounted for in development of the REC benchmark price. REC benchmark prices developed for future procurements will have to account for more factors than the Spring procurement, such as Project Labor Agreements, and compliance with Minimum Equity Standards. Bidders need some assurance that the REC benchmark price is reasonable given the state of the market and U.S. economy.

During times of energy market volatility or U.S. economy volatility, the IPA cannot wholly rely on market reports or prior prices of similar REC products to develop the REC benchmark price. Market pricing reports, such as WoodMac, NREL, EIA, or other similar reports, are based on historical prices and do not account for the changing market dynamics affecting the cost of erecting new wind or solar resources. Therefore, the IPA needs to signal to the industry that the factors used to establish the REC benchmark price are timely, relevant, and account for factors impacting the cost of projects bidding into that RFP. If the REC benchmark price is not accounting for all market factors affecting a wind or solar project's costs, the REC benchmark price will be unreasonably low and incorrectly exclude rational and reasonable bids.

There is no transparency around the development of the REC benchmark price which makes large-scale renewable developers more circumspect of the competitive REC procurement. The REC benchmark price is confidential, however, that does not prevent the IPA from sharing information that would indicate that all of the appropriate factors are being considered. For example, it would be useful if the IPA provided a list of sources,

reports, products, studies, etc., it relied upon in establishing “a market price[] for like products in the region,” or would contact bidders to inform them that their bid exceeded the benchmark. These types of actions would provide some transparency around whether the benchmark is reasonable, and would maintain the confidentiality of the benchmark price. Providing additional transparency would assure bidders that the REC benchmark price is reasonable, would encourage bidder participation, and ultimately result in a better outcome for future procurements.

IPA QUESTION #5: Perspectives related to siting, permitting and interconnection.

RESPONSE:

As REC demand increases over time, there will likely be a need for statewide permitting reform to ensure there will be sufficient large-scale wind and solar projects to generate RECs to meet the Illinois RPS REC targets and the REC requirements in corporate customer’s sustainability plans. In addition, some large-scale renewable resource developers are looking to neighboring states for development opportunities to avoid uncertainties affecting Illinois-based projects; uncertainties related to implementation of project labor agreements and minimum equity standards, and the development of the pool of equity eligible contractors.

IPA QUESTION #6: Do P.A. 102-0662 amendments to section 16-108(k) adequately mitigate non-payment risks or do you perceive the statutory budget constraint to be an obstacle to participation in the Indexed REC RFP?

RESPONSE:

Despite the supply of RPS Funds and the ability to rollover unspent funds for up to 5 years, large-scale renewable resource developers are dissuaded by the actions the IPA has taken in the past ten years. Actions in which the IPA curtailed contracts (Delivery Year 2013-2014 and 2014-2015), and requested ICC approval of a deferment of REC payments in Delivery Year 2021-2022 to the next delivery year. These actions highlight the continued risk of having an RPS Budget. Additionally, the opportunity to sell RECs to a corporate purchaser, in which there is a low probability of default on the contract, makes the IPA’s

RPS budget look even less appealing and riskier.

Moreover, it is unclear how much weight to place in the IPAs forecast of available RPS Funds (see LTRRPP Fig. 3-3), given that a long-term forward price curve for Indexed RECs was not used in the preparation of the 2022 LTRRPP. CGA anticipates that subsequent forecasts of available RPS Funds will improve when the long-term forward price curve is used.

IPA QUESTION #9: Are there opportunities in the voluntary market in Illinois or other states that are more preferable than the Indexed REC RFP?

RESPONSE:

Corporations with sustainability or renewable energy goals are investing in new wind and solar projects. Typically, these companies have REC goals for 2025 or 2030 that are driving current investment into utility-scale renewable resources installed in Illinois. Corporations are not bound by the same procurement requirements as a governmentally managed procurement. In addition, corporate REC purchasers are willing to negotiate a contract. These contracts allow the wind/solar developer to insert provisions that enable them to both effectively deliver their bid quantity to the corporate customers and optimize a project's revenue streams by adding secondary REC purchasers/off-takers.

CONCLUSION

Participation in the Indexed REC procurements will not improve unless the REC contract affords Sellers more options for managing market and external risks. CGA's comments provide substantive and illustrative examples of changes to the Indexed REC contract to increase participation in future Indexed REC RFPs and increase the supply of wind and solar resources in the state.

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