

To: Illinois Power Agency
From: The Environmental Law & Policy Center and Vote Solar
Date: July 19, 2021
Subject: Response to July 2021 LTRRPP Workshop #1 Follow-Up Request for Comments

The Environmental Law and Policy Center (ELPC) and Vote Solar (VS) appreciate the opportunity to comment ahead of the Illinois Power Agency's (IPA or Agency) development of its second draft update to the Long Term Renewable Resources Procurement Plan (Plan).

This is a difficult time to update the Plan. The renewables budget is over extended such that no new renewable procurements are expected within the immediate two-year planning horizon. At the same time, legislative proposals that would not only rejuvenate the budget, but also substantially alter and expand renewables procurement are on the table. Developing a Plan under either scenario creates unique challenges, and both together create a particularly difficult task.

In this context, ELPC/VS strive as much as possible to respond to these requests for comments following the IPA workshops, not only with specifics relevant to the update of the existing Plan, but with bigger picture concepts and principles that the IPA should consider under any future renewable procurement scenario.

For this first request for comments, we focus particularly on the question of resource adequacy. ELPC/VS believe Illinois' current procurement strategy places undue risk on Illinois ratepayers by failing to enter into long-term capacity hedges. Furthermore, as the lowest cost hedges would almost certainly come from renewable resources, this strategy also misses an opportunity for the procurement of lower or even no cost resources to meet resource adequacy goals and also to meet renewables goals. Ultimately, ELPC/VS support lowering both risks and costs to ratepayers by developing a resource adequacy framework that provides some assurance to customers and state policymakers that electricity procured can meet customer loads reliably over the long-term.

Response to Question 3

While utility-scale procurements are for RECs only and not energy or capacity, are there considerations that could be added into the procurement process to value how new utility-scale projects could contribute to resource adequacy? For example, should procurements have quantity targets separated by RTO? Should the assessment of project eligibility in procurements include requirements related how the project will contribute to resource adequacy/maintaining reliability? [Slide 41]

The conclusions of the workshop and comment process conducted by the ICC in 2017-2018 on resource adequacy in MISO Zone 4 at the request of then-Governor Rauner inform ELPC/VS response. Governor Rauner's request was prompted by Dynegy's (the then-owner of a significant portion of the southern Illinois merchant coal fleet) suggestion that it was considering

retiring many plants located in MISO Zone 4. Since that time, retirement dates have been set for most of the coal-fired plants in the state.

While resource adequacy is an important issue that should continue to be proactively addressed, the procurements under the long-term renewable resources procurement plan are not an effective substitute for a long-term resource adequacy assurance process. While REC procurements may be included in a future resource adequacy process, it should be considered in the context of a broader framework that can address the full range of energy reliability and resource adequacy requirements.

Illinois' status as a competitive retail electric supply state complicates the ability of the state to implement and enforce a meaningful resource adequacy regime. In addition, as currently configured, the market provides no long term-price stability for consumers.¹ In the early part of the 2010's, the long and consistent drop in natural gas prices resulted in energy price declines. In that environment, entities that had signed long-term energy and capacity supply agreements found themselves in above market contracts. Today, because capacity prices are low and available in the PJM and MISO and the threat of customers switching suppliers from year to year is significant, retail electric suppliers (and the IPA procuring energy for default ComEd and Ameren load) do not currently procure long-term energy and capacity contracts. These issues and the problems that they create were considered in the 2017/2018 workshop and comment process and some useful suggestions were made in the final staff report that Illinois should consider more closely.

The development of REC markets for utility scale renewables (along with the production tax credits for wind) has partially offset the advantages that fossil generation has in a short-term market that has been dominated by generation that pre-dates the capacity markets or by "low capital cost/high marginal cost" natural gas units. However, these mechanisms for incentivizing investment in renewables depend on customers paying more to get the renewables. Solar and wind have declined in cost to the point that they are now the cheapest form of new energy and capacity. Even since Illinois last looked at the question of resource adequacy in 2017/2018, our neighbors in states with vertically integrated utilities conducting long-term integrated resource plans are consistently finding renewables are not just environmentally preferable but also economically preferable for both the companies and customers.²

The question that Illinois should be asking is not just about resource adequacy in MISO Zone 4. Rather, Illinois should be asking how we can create a resource adequacy construct consistent with competitive retail electric markets that will send appropriate medium- to long-term capacity price signals that would translate to increased renewables development. ELPC/VS anticipate that this would require the development of some long-term resource adequacy requirements.

¹ Most retail supply contracts available to residential or small commercial customers are for 6-12 months. Some extend to 24 months.

² Consumers Energy, NIPSCO, Vectren, WE Energies, and Xcel Energy have all taken significant steps in recent years to accelerate fossil retirements in order to build new renewables.

In conclusion, ELPC/VS support revisiting the current resource adequacy framework (or the lack thereof) and developing one that provides some assurance to customers and state policymakers that electricity procured can meet customer loads reliably for the long-term.

For Example: Long-term energy and capacity contracts for default load

One proposal that is related to the resource adequacy issues is the opportunity for the IPA to procure long-term capacity and energy contracts to serve a portion of ComEd and Ameren's default load through long-term contracts. While not in the scope of the Long-Term Renewable Resources Procurement Plan update, it would provide some baseline assurance of long-term price stability and could provide a hedge against future price volatility. These long-term contracts could help provide price stability during severe weather events.

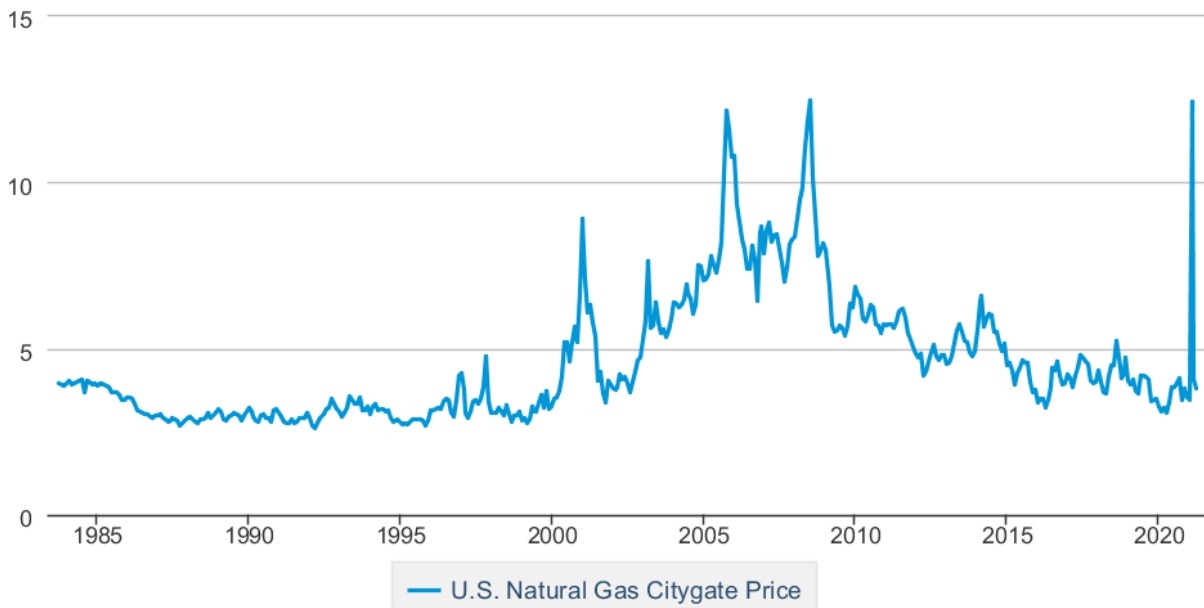
As noted above, while Illinois has enjoyed the impacts of nearly continuously declining energy prices for a number of years, the February 2020 weather event that dramatically affected Texas also impacted the larger natural gas markets, creating price spikes. During the storm, natural gas generators experienced price spikes not observed for over a decade. Those price spikes can be even more painful as the electric generation sector has become increasingly dependent on natural gas. Compounding the problems in Texas during the storm was natural gas deliverability, because well-heads froze and (as recently revealed) some natural gas delivery systems experienced electricity disruptions, creating a spiraling cycle of failures. While we have become accustomed to declining prices thanks to the availability of relatively cheap natural gas, this should serve as a reminder that natural gas is a highly volatile commodity.

Retail electric customers in Illinois are particularly susceptible to price spikes, because they do not have access to any price hedge beyond the relatively short laddering strategy, reaching out for a mere three years, in which IPA currently engages. In light of the uncertainty and volatility of natural gas prices, it would behoove the IPA to investigate the potential hedging available through the procurement of energy and capacity through long-term renewables contracts.

While ELPC/VS are not necessarily advocating for this proposal, we do believe it and others should be considered in order to assure Illinois ratepayers resource adequacy and price stability over the long-term. Based on our observations of competitive prices in other states, an energy and capacity procurement strategy that included long-term contracts in which RECs are surrendered could lead to a lower total cost (energy + capacity + RECs). The only way to know would be to solicit actual bids from an RFP in a coordinated or consolidated procurement process.

U.S. Natural Gas Citygate Price

Dollars per Thousand Cubic Feet



 Source: U.S. Energy Information Administration

Response to Question 4

Chapter 4 of the Long-Term Plan describes the approach to applying the statutorily mandated public interest criteria found in Section 1-75(c)(1)(I) of the IPA Act to the eligibility of RECs from projects located in states adjacent to Illinois. The approach includes a rubric for scoring those criteria as well as the minimum required score to be eligible. Should changes be made to this approach, and if so, what changes? And why would those changes better meet the statutory intent? [See Slides 42/3]

ELPC/VS do not believe the Long-Term Renewables Resources Procurement Plan's approach to applying the IPA Act's public interest criteria for the eligibility of RECs from projects located in states adjacent to Illinois warrants updating. The current process appropriately considers each of the public interest criteria specified in Section 1-75(c)(1)(I) of the IPA Act. Furthermore it is our understanding based on participation in IPA workshops that there have been multiple adjacent state bidders into IPA REC auctions and at least one successful adjacent state project. ELPC/VS see no need to update a process that appears to be working at this time.