

Illinois Power Agency

Stakeholder Workshop on the Fall 2022 Indexed REC Wind, Solar and Brownfield RFP

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Agenda

- **Background**
- **Discussion Items Related to Spring 2022 RFP Results and Request for Stakeholder Feedback**
- **Overview of Fall 2022 RFP Changes from Long-Term Plan Proceeding**
- **Fall 2022 Comment Process and RFP Timeline**



Background

Regulatory Background

- Public Act 102-0662 (the “Climate and Equitable Jobs Act”) was signed into law and became effective on September 15, 2021
- As mandated by Section 1-75(c)(1)(G)(iii) of the IPA Act, the IPA held a first procurement event on May 6, 2022 to procure Indexed RECs
- Additionally, the IPA developed a revision to its Long-Term Renewable Resources Procurement Plan (“2022 Long-Term Plan”) and filed this plan with the Illinois Commerce Commission (“ICC” or “Commission”) on Mar. 21, 2022.
- The Long-Term Plan was approved by the ICC on July 14, 2022 with modifications to revise certain aspects per the ICC Final Order. Once available, the IPA will file a final version of the Long-Term Plan with the ICC and post it on the Agency's website: <https://ipa.illinois.gov/energy-procurement/current-approved-plan.html>
- ICC approved two additional procurement events to be held in Fall 2022 and Summer 2023 for RECs from utility-scale wind, utility-scale solar and brownfield site photovoltaic projects

Spring 2022 Indexed REC RFP Results

- REC quantities to be procured were:
 - ◆ 2,500,000 RECs annually from New Utility-Scale Wind;
 - ◆ 2,000,000 RECs annually from New Utility-Scale Solar; and
 - ◆ 125,000 RECs annually from Brownfield Site PV projects

- The average winning bid price was \$52.43/MWh

- The targets for each of the three categories of projects in the Spring 2022 procurement event **were not met**. The selected projects include:
 - ◆ 4 utility-scale solar projects (19.90 MW, 2 projects at 100 MWs, and 274 MW)
 - ◆ 1 utility-scale wind project (200 MW)
 - ◆ 1 brownfield site PV project (4.95 MW)

Request for Stakeholder Feedback

- A stakeholder feedback process was initiated to identify and discuss barriers that may have limited participation in the Spring 2022 procurement and process improvements to facilitate participation in future procurements.
- Written comments were due on July 19th and are posted to the Agency's website: <https://ipa.illinois.gov/renewable-resources/workshop-information.html>

Request for Stakeholder Feedback Topics

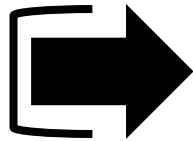
- ◆ Specific contract provisions, eligibility requirements or barriers outside of the procurement process that impacted a supplier's decision to participate
- ◆ Uncertainty in markets and how these factors impact a project's development timeline and costs (i.e. interconnection delays, supply chain issues, siting and permitting, volatility and increased price levels in energy markets)
- ◆ Feedback on preferred contract terms and opportunities through other state's utility procurements and the voluntary market
- ◆ Feedback on RPS budget concerns or other concerns stemming from issues addressed in the Long-Term Plan or the timeline for the Long-Term Plan approval
- ◆ Additional development and performance risks distinct to brownfield site PV projects, or participation barriers due to payment mechanism or the definition of brownfield projects under the Act



Overview of Comments and Discussion Items

Discussion Items

Presenters will pause throughout the presentation to allow for stakeholders to comment



Discussion items identified by the IPA and Procurement Administrator are flagged with this symbol throughout the presentation

Commenters should feel free to provide feedback on any slide and should not feel limited by discussion items identified

If you would like to make a comment or ask a question, please raise your hand and wait. We will unmute you to speak (or you can also submit your question via the chat function). You do not need to identify your affiliation or company.

Summary of Discussion Items

❖ The IPA and Procurement Administrator have identified the following topics and discussion items:

- ➡ RPS Budget
 - ◆ REC Monthly Price Calculation
- ➡ REC Delivery Requirements
- ➡ Standing Order
- ➡ Excess RECs
 - ◆ Force Majeure
 - ◆ Government Actions
 - ◆ Degradation Flexibility
 - ◆ Brownfield Definition
 - ◆ Mark-to-Market Calculation
 - ◆ Flexibility in Data Correction
- ➡ Collateral Requirement
- ➡ Benchmark and uncertainty in the market

Item 1: RPS Budget: CEJA Goals and Targets

- 25% by 2025 goal now increased to 40% by 2030 with a further target to reach 50% by 2040
 - ◆ Customer load is approximately 120 million MWH annually
 - 25% would be 30 million MWH or require 30 million RECs annually
 - 40% would be 48 million MWH/RECs

- Specific targets include:
 - ◆ 45 million RECs annually by 2030 from new wind or solar
 - 45% from wind, 55% from solar
 - By 2030: 20+ million RECs delivered annually from new utility-scale wind
 - ~7,000 MW of new utility-scale wind by 2030
 - By 2030: 11.6 million RECs delivered annually from new utility-scale solar
 - ~7,500 MW of new utility-scale solar by 2030

Item 1 (Con't): RPS Budget Changes via CEJA

- Rate cap increased from 2.015% of 2007 rates to 4.25% of 2009 rates
 - ◆ An increase from ~\$235 million to ~\$590 million in annual RPS collections
 - ◆ Pre-CEJA funds collected 2017 through 2021 could rollover year to year and then unspent funds refunded to customers
 - ◆ Funds now subject to 5-year rollover before reconciliation

- Indexed REC procurements feature floating RPS budget impacts
 - ◆ Budget impacts are highest when energy prices are lowest
 - But ability to roll funds over across delivery years helps mitigate impacts
 - ◆ Forward price curve used in 2023 Long-Term Plan
 - Help estimate budget impacts from Indexed REC prices based on assessment of future energy prices

- RPS Budget ABP/ILSFA REC prices feature 4% annual decline

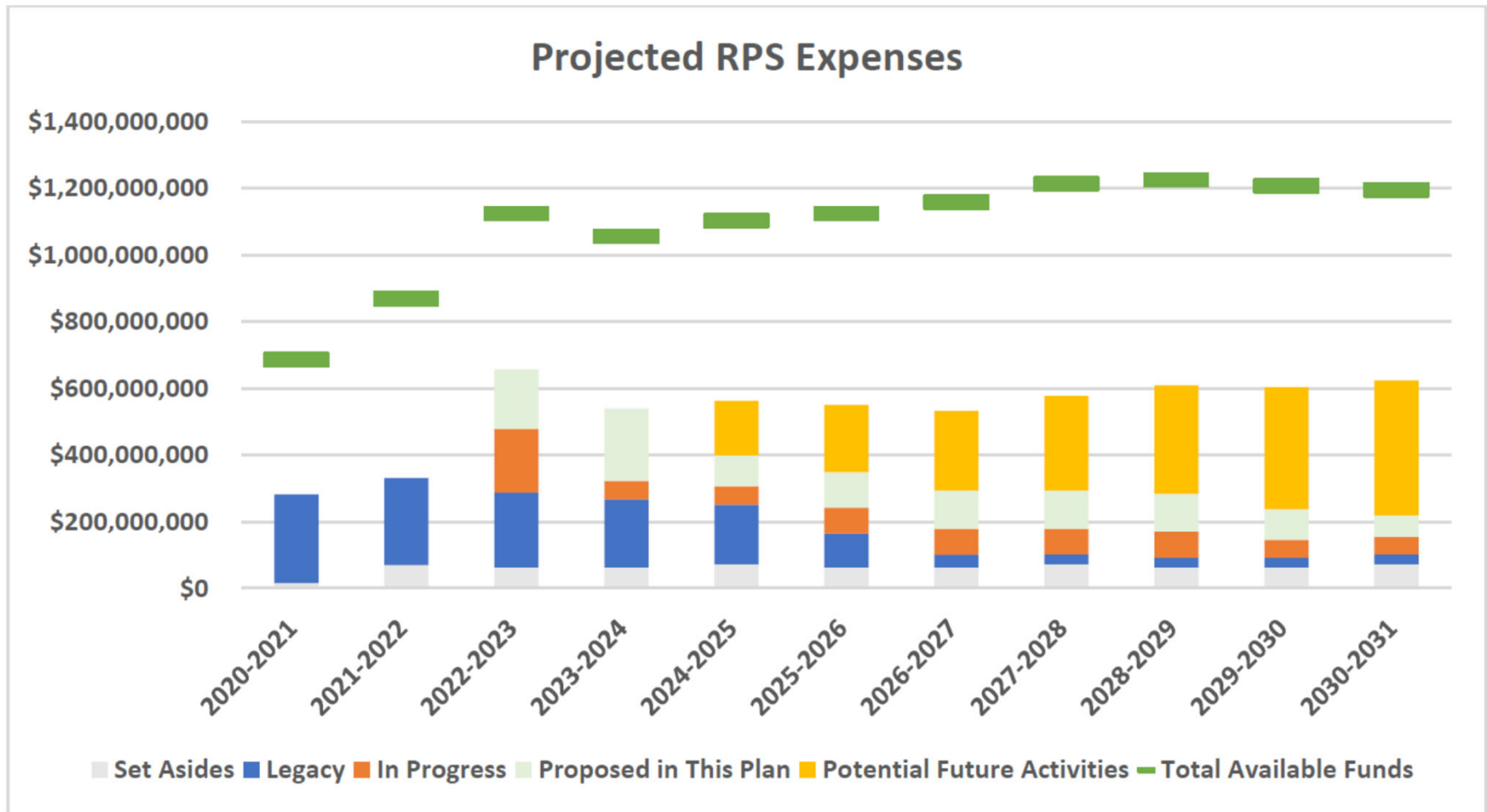
Item 1 (Con't): RPS Budget Snapshot

Table 3-11: Projected RPS Expenses (\$ millions)

Delivery Year	Legacy Programs			In Progress		Proposed in This Plan		Potential Future Activities		Set Asides	Total
	LTPPAs	2019-2020 ABP	2017-2019 Forward Procurements	2021 ABP Blocks	Subsequent Forward Procurement (Wind, Solar, & Brownfield)	2022-2023 ABP	2022-2023 Wind, Solar, & Brownfield Forward Procurements	2024-2030 ABP	2024-2030 Wind, Solar, & Brownfield Forward Procurements	Solar for All, Job Training, Admin. Expenses	Total Expenses
2020-2021	\$30.85	\$233.27	\$2.85	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$15.77	\$282.74
2021-2022	\$24.14	\$221.44	\$16.71	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$69.29	\$331.60
2022-2023	\$22.06	\$180.23	\$24.69	\$190.77	\$0.00	\$177.94	\$0.00	\$0.00	\$0.00	\$61.75	\$657.44
2023-2024	\$17.72	\$164.56	\$24.69	\$55.15	\$0.00	\$216.36	\$0.00	\$0.00	\$0.00	\$61.78	\$540.26
2024-2025	\$17.42	\$138.66	\$24.69	\$54.90	\$0.00	\$92.72	\$0.00	\$163.41	\$0.00	\$71.74	\$563.55
2025-2026	\$11.40	\$66.07	\$24.69	\$54.75	\$24.64	\$92.19	\$14.09	\$202.02	\$0.00	\$61.70	\$551.56
2026-2027	\$8.22	\$5.56	\$24.69	\$54.61	\$24.56	\$92.00	\$23.17	\$238.66	\$0.00	\$61.72	\$533.18
2027-2028	\$4.48	\$0.00	\$24.69	\$54.47	\$24.48	\$91.81	\$23.11	\$273.74	\$9.12	\$71.75	\$577.64
2028-2029	\$4.48	\$0.00	\$24.69	\$54.32	\$24.40	\$91.62	\$23.05	\$307.31	\$18.22	\$61.81	\$609.90
2029-2030	\$4.34	\$0.00	\$24.69	\$30.16	\$24.31	\$69.87	\$22.99	\$339.45	\$26.95	\$61.82	\$604.59
2030-2031	\$4.30	\$0.00	\$24.69	\$28.16	\$24.23	\$43.15	\$22.93	\$370.21	\$35.30	\$71.86	\$624.85

Item 1 (Con't): RPS Budget Snapshot, Part 2

Figure 3-3: RPS Expenditures Compared to Annual Available Funds



Item 2: REC Delivery Requirements

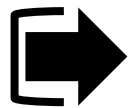
- Comments received:
 - ◆ fixed quantity vs buyer's fraction of output
 - ◆ standing order
 - ◆ replacement RECs, excess RECs
 - ◆ bespoke degradation factor
 - ◆ quantity shortfall and underperformance metric

- Key principles:
 - ◆ bid quantities are committed obligations
 - ◆ allow for flexibility to optimize and to address shortfalls
 - ◆ avoid optionality; allow indexed REC mechanism to function
 - ◆ allow for payments to be settled over a 20-year term

Item 2 (con't): Excess RECs

- Comments received:
 - ◆ Allow for use of excess RECs to fulfill annual quantity shortfall

- Key principle:
 - ◆ Avoid the optionality in the use of excess RECs, i.e. REC prices are tied to vintage of RECs. Use of excess RECs should not be influenced by whether the contract is in the money or out of the money



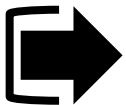
Discussion Item:

- ◆ How should excess RECs be compensated (e.g., based on vintage of RECs; what if Seller owes Buyer given Index Price exceeds Strike Price)?

Item 2 (con't) : Standing Order

- Comments received:
 - ♦ The irrevocable standing order should be an option rather than a mandatory requirement
 - ♦ The contract should introduce buyer's fraction to allow the Seller to fully utilize RECs generated by the project

- Key principles:
 - ♦ bid quantities are committed obligations
 - ♦ avoid the possibility of gaming where Seller chooses whether to deliver the RECs or not based on which direction payment flows

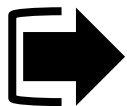


Discussion Item

- ♦ What alternative would you suggest to prevent gaming without a standing order and to ensure consistent delivery?

Item 3: Collateral Requirement

- Comments received:
 - ◆ Allow for reduction of collateral requirement per REC
 - ◆ Request Buyer to post collateral to achieve bilateral credit



Discussion Item

Item 4: Other Items??

- Potential items for discussion:
 - ◆ Balance of default risk between Buyer and Seller
 - ◆ Force Majeure
 - ◆ Extensions
 - ◆ Data Correction for REC Monthly Price calculations
 - ◆ Cure Periods and Remedies
 - ◆ Regulatorily Continuing and Government Action
 - ◆ PWA and PLA requirements

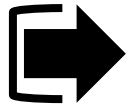
 Are there other topics not yet covered?

Item 5: Benchmark

- As required by the Act, Benchmarks must be kept confidential
 - ◆ RECs procured cannot exceed benchmarks based on market prices for like products in the region; shall reflect development, financing, or related costs resulting from requirements imposed through other provisions of State law; if price benchmarks for like products in the region are not available, the procurement administrator shall establish price benchmarks based on publicly available data on regional technology costs and expected current and future regional energy prices
- The request for feedback posed questions regarding uncertainty in markets and how these factors impact a project's development timeline and costs (i.e. interconnection delays, supply chain issues, siting and permitting, volatility and increased price levels in energy markets)
 - ◆ Commenters explained how these factors lead to increased costs, increased risks, difficulty in pricing bids, and tightness in REC supply
 - ◆ Commenters state that the contract must have flexibility in start of delivery date and the benchmark must account for these costs and risks
- On the next slide, we will open the floor to commenters who would like to further describe how factors in the market are driving bid pricing uncertainty, higher costs and risks

Item 5 (cont.): Uncertainty in Markets

- Commenters described bid pricing uncertainty, higher costs, and risks due to:



National and regional drivers

- MISO and PJM interconnection process delays in completing studies
- Rising Inflation
- Federal regulation and policy (i.e. Department of Commerce circumvention probe, tariff uncertainty, federal tax treatment)
- Supply chain challenges related to delivery of materials and equipment and exposure to increasing costs
- Energy market volatility

Illinois drivers

- Siting/Permitting challenges
- Labor Shortages
- Project labor agreements and minimum equity standards, and the development of the pool of equity eligible contractors
- RPS Budget (i.e. risk of non-payment)



Overview of Fall 2022 RFP Changes from Long-Term Plan Proceeding

Minimum Equity Standard Requirement

- Section 1-75(c-10) of the IPA Act establishes **Minimum Equity Standard** (“MES”) that apply to competitive procurements
- For winning Projects in this Fall 2022 RFP, the MES is 10%, which means at least 10% of the “project workforce” must be done by “equity eligible persons or equity eligible contractors” (definitions are provided on next slide)
- MES of **10% will be fixed** throughout the life of the contract and is related to all construction work under the contract starting on the contract effective date:
 - ◆ For projects that have already been energized, there is no MES
 - ◆ If construction is ongoing or has not yet begun, the MES requirement is 10% starting from the date the contract is executed
- Reporting requirements and reporting schedule will be described in the draft contract. The compliance plan will reflect the Seller’s preliminary plan to meet the minimum equity standard
 - ◆ A first compliance plan due within 30 days of ICC decision on RFP results

Relevant Minimum Equity Standard Definitions

- “Project workforce” is defined as “Employees, contractors and their employees, and subcontractors and their employees whose job duties are directly required by or substantially related to the development, construction, and operation of the project that is participating in the IPA-administered programs and procurements under Section 1-75(c) of the IPA Act. This shall include both project installation workforce and workforce in administrative, sales, marketing, and technical roles where those workers’ duties are directly related to the project and only if those workers are located in Illinois.”

- Section 1-10 of the IPA Act as amended by P.A. 102-0662 defines “equity eligible persons” or “eligible persons” as:
 1. graduates or current or former participants in the Clean Jobs Workforce Network Program, Clean Energy Contractor Incubator Program, Illinois Climate Works Pre-apprentice Program, Returning Residents Clean Jobs Training Program, or the Clean Energy Primes Contractor Accelerator Program, and the solar training pipeline and multicultural jobs program;
 2. persons who are graduates of or currently enrolled in the foster care system;
 3. persons who were formerly incarcerated; and
 4. persons whose primary residence is in an equity eligible investment community.

Relevant Minimum Equity Standard Definitions

Equity investment eligible communities are defined as

- 1) R3 Areas as established pursuant to the Cannabis Regulation and Tax Act, and
- 2) Environmental Justice Communities as established through Illinois Solar for All Program.

For maps and address lookup tools for these two areas see:

<https://r3.illinois.gov/eligibility>

<https://www.illinoissfa.com/environmental-justice-communities/>

Bid Evaluation Priority

The evaluation procedure and requirements to qualify for prioritization will be described in the draft RFP documents.

- **MES Prioritization:** The bid evaluation procedure **this Fall 2022 will include a prioritization for Projects that commit to meeting a % standard above the 10% Minimum Equity Standard.** For each 10% commitment above the MES, the strike price submitted in the bid will be adjusted down on a sliding scale for purposes of ranking and selecting winning Projects. The procedure is fully specified in Long-Term Plan Section 5.4.3
- **ETCG Prioritization:** As described in Section 5.4.3 of the Long-Term Plan, under new subparagraph (P) of Section 1-75(c)(1), the Agency must optimize the procurement of RECs from utility-scale projects located in communities eligible to receive Energy Transition Community Grants. Section 5.4.3 describes a bid evaluation procedure to prioritize such projects. This grant program will be administered by the Illinois Department of Commerce and Economic Opportunity and under current expected timelines will not be implemented until much later in 2022. Thus, **this prioritization will not be implemented in this Fall 2022 Indexed REC RFP.**

Changes Related to PWA and PLA

- Prevailing Wage Act requirements for adjacent state projects:
 - ◆ For projects located in an *adjacent state* that have published prevailing wages, such prevailing wages should be used to comply with Illinois Prevailing Wage Act requirements
 - ◆ For projects located in a locality in an adjacent state where there is *no governing prevailing wage schedule*, the federal Davis-Bacon rates should be used to comply with Illinois Prevailing Wage Act requirements

- Project Labor Agreement provisions:
 - ◆ PLA must be filed within **60 days prior to the start of construction (or prior to bid submission if construction has begun)**
 - ◆ PLA includes five required elements. The fifth element is “provisions for minorities and women, as defined under the Business Enterprise for Minorities, Women, and Persons with Disabilities Act, setting forth goals for apprenticeship hours to be performed by minorities and women and setting forth goals for total hours to be performed by underrepresented minorities and women”
 - Seller may comply with this requirement by providing **a description of the efforts Seller will take or has taken to achieve such goals, including recruitment of minorities and women into apprenticeship roles**

Penalties for Voluntary Default or Misrepresentations

- As approved by the Commission, an entity that voluntarily defaults on a contract for economic reasons (e.g., voluntary default on an Indexed REC contract because the developer elects to sell its RECs to another buyer under circumstances within that developer's control) or misrepresents their eligibility to participate in a procurement event will be suspended from participating in future RFPs
 - ◆ Two-year suspension from participation in future procurement events
 - ◆ Possible ban on an entity's eligibility to receive state-administered incentive funding if IPA determines the entity acted in bad faith in providing erroneous information as part of its submittal, engaged in fraud, or otherwise knowingly made material misrepresentations to the Procurement Administrator



Fall 2022 RFP Timeline

Upcoming Contract Development Timeline

Monday	Tuesday	Wednesday	Thursday	Friday
Aug 1	Stakeholder Workshop 2 Today	3	4	5
8	9	10	11	Draft Contract and Draft Preliminary Proposal Requirements Posted Comment Process Begins
Weeks of Aug 15 – Aug 19				
Aug 22	23	24	25	26 Comments Due
Week of Aug 29 – Sep 02				
Sep 5	6	7	8	9 Second Draft Contract and Draft RFP Documents Posted Second Round Comment Process Begins
Week of Sep 12 – Sep 16				
19	20	21	22	23 Second Draft Contract Comments due
Week of Sep 26 – Sep 30				
Oct 3	4	5	6	7 Final Contract and RFP Documents Posted

The complete calendar for the Fall 2022 RFP process will be posted to the procurement website this week and an announcement will be sent to registrants. The process to qualify a project for participation will start in mid-October and bids will be due on December 9th.

Contact: Illinois-RFP@nera.com