

Illinois Power Agency

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

Wednesday, February 15, 2023

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Agenda

- **Background and Overview of Comment Process**
- **Discussion Items Related to Indexed REC Procurements**

Background

Indexed REC Procurement Background

- Section 1-75(c)(1)(G)(v) of the Illinois Power Agency Act requires the utilization of an Indexed REC structure for competitive procurements of Renewable Energy Credits (“RECs”) from new utility-scale wind and new utility-scale photovoltaic projects to meet the goals of the Illinois Renewable Portfolio Standard
- Since the enactment of Public Act 102-0662 (the Climate and Equitable Jobs Act or “CEJA”) in September of 2021, the Illinois Power Agency, through its Procurement Administrator, has held two Indexed REC procurement events. The first procurement event was held on May 6, 2022, and the second was held on December 9, 2022.
- In the first procurement event, the targets for each of the three categories of projects were not met. In the second procurement event, no utility-scale wind projects were selected.
- Details on the results of these two events are provided on the following slide.

Spring and Fall 2022 Indexed REC Procurement Results

	Spring 2022	Fall 2022
Targets	<ul style="list-style-type: none"> 2,500,000 RECs annually from Utility-Scale Wind 2,000,000 RECs annually from Utility-Scale Solar 125,000 RECs annually from Brownfield Site PV projects 	<ul style="list-style-type: none"> 1,750,000 RECs annually from Utility-Scale Wind 1,000,000 RECs annually from Utility-Scale Solar 65,000 RECs annually from Brownfield Site PV projects
Average winning bid price (\$/MWh)	\$52.43/MWh	\$72.59/MWh
Project detail	<p>The selected projects include:</p> <ul style="list-style-type: none"> 4 utility-scale solar projects (19.90 MW, 2 projects at 100 MWs, and 274 MW) 1 brownfield site PV project (4.95 MW) 1 utility-scale wind project (200 MW) <p>The targets for each of the three categories of projects in the Spring 2022 procurement event were not met.</p>	<p>The selected projects include:</p> <ul style="list-style-type: none"> 7 utility-scale solar projects (125 MW, 40 MW, 35 MW, 25 MW, 15 MW, 150 MW, and 45.80 MW.) 4 brownfield site PV projects (5 MW, 3.90 MW, 2.70 MW, and 16.50MW) No wind projects were selected in the Fall 2022 procurement event.

Indexed REC Procurement – What’s Next?

- The next Indexed REC Procurement is scheduled for Summer 2023. The quantities to be procured are: 1,750,000 RECs (new utility-scale wind projects), 1,000,000 RECs (new utility-scale solar projects), and 65,000 RECs (new brownfield site photovoltaic projects)
 - ♦ May include certain changes to procurement process and requirements based on feedback received in this process
 - ♦ The IPA 2022 Long-Term Plan states that if procurement volumes are not filled, the IPA would consider holding a subsequent procurement in late 2023. More details about this procurement event would be announced in July 2023.
- The IPA will update the Long-Term Plan starting in 2023 for approval in 2024 to cover renewable energy resources procurement activities for 2024 and 2025.
 - ♦ A draft Plan will be released for stakeholder comment on August 15, 2023, starting a process that will conclude with ICC approval of the Plan in February 2024
- Legislative Changes
 - ♦ Changes to the REC procurement process may be considered by the Illinois General Assembly

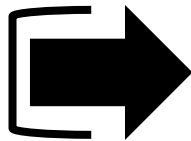
Request for Stakeholder Feedback

- The IPA and the Procurement Administrator are seeking stakeholder feedback on:
 1. barriers that may have limited participation in the procurement events held in 2022 and improvements to facilitate greater participation in future procurement events
 2. potential changes to the IPA's Long-Term Renewable Resources Procurement Plan
 3. potential changes to Illinois law that would result in the successful development of more utility-scale wind and solar projects
- Written comments were due on February 3rd. Written comments are posted to the Agency's website: <https://ipa.illinois.gov/renewable-resources/workshop-information.html>

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:

1. RPS Budget
2. Indexed REC Procurement Mechanism
3. MES Requirements
4. Collateral Requirement
5. Contract Adjustments
6. Excess and Replacement RECs
7. Shortfall Quantity Metric
8. Benchmark
9. Brownfield Projects
10. Other Items

Scope of Discussion

- ❖ The IPA and Procurement Administrator note that legislative changes may be needed to address some of the issues identified
- ❖ How can the IPA be helpful in those discussions?
- ❖ What information would you like to see from the IPA?

Item 1: RPS Budget

- IPA currently refreshing RPS budget forecast
 - ◆ Expected release in early March
 - ◆ Will include consideration of the impact of ranges of future energy prices on the cost of indexed RECs
- Observations
 - ◆ Significant energy price volatility as seen in 2022 creates challenges in forecasting future impacts of indexed REC procurements on RPS budget
 - If future energy prices are high, indexed REC prices will be low, potentially negative. This would reduce impact on available RPS funds in future years (or even increase it)
 - If future energy prices are low, indexed REC prices will be high and impact RPS funds in future years will be more significant
 - ◆ Average strike price increased between Spring and Fall 2022 procurements, what does this suggest for future strike prices?
 - ◆ Adjustable Block Program REC Prices will be updated in next Long-Term Plan and will also impact future budget assumptions

Item 1: RPS Budget

- Comments received:
 - ◆ REC prices awarded in the Spring and Fall procurements are too high and will hurt the RPS Budget
 - ◆ Allow a Seller to choose between either (i) continuing delivery of RECs and have payment for those RECs deferred to the next Delivery Year, or (ii) stop delivery of RECs and resume REC delivery at start of new Delivery Year (without triggering a default or breach) when Illinois has sufficient funds
 - ◆ Request Buyer to post collateral; no Buyer's performance assurance poses challenges in project financing
 - ◆ Requests for the IPA to provide analysis of RPS budget impacts from 2022 procurements and how these impacts would impact future procurements and RPS goals

Item 1: RPS Budget

Discussion Items

- ◆ What changes are possible without legislation that would reduce RPS budget concerns?
- ◆ What changes through legislation would solve RPS budget concerns?
- ◆ How would having a Buyers Performance Assurance work?
 - Where would this money come from?
 - Would this be from the RPS Budget?
 - How would we do this without statutory change?
 - If from the RPS budget, would this be the best use and allocation of the RPS Budget?

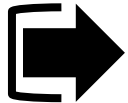
Item 2: Indexed REC Mechanism

Some Discussion Items

- ◆ For purposes of payment under the contract, a bidder currently has two choices regarding the hub for the Indexed Price, either PJM NIHUB or MISO Illinois Hub. A bidder may choose either hub regardless of where the project is sited. Is selecting between two hubs too limiting?
- ◆ Should the IPA consider a price collar in the next Long-Term Plan (for procurements starting in 2024) to reduce price volatility and budget impact?
- ◆ Should changes in legislation be considered to allow for optionality between fixed and indexed REC prices in competitive procurements?

Item 3: MES Requirements

- Comments received:
 - ◆ There is sufficient market uncertainty to impact bid prices, but not necessarily pose a barrier to participation, due to pending waiver request process and additional workforce training programs from DCEO
 - ◆ Given the current labor shortage and that the HUBs and training curricula to be taught by those HUBs are still under development, the IPA should continue to keep the MES low
 - ◆ Although committed to increasing diversity in workforces, one commenter remained concerned about available workers in southern Illinois

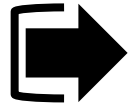


Discussion Items

- ◆ Given the definition of “equity eligible person”, are there still concerns that there might not be sufficient EEPs in southern and more rural areas of the state?
- ◆ Are the current reporting requirements a barrier? Or is it the MES itself?
- ◆ Are there any states or localities that have similar requirements? How do they measure compliance?

Item 4: Collateral Requirement

- Comments received:
 - ◆ Set the collateral requirement at a lower price and increase it at each development milestone up to a cap
 - ◆ MtM calculation for the termination payments

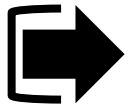


Discussion Item

- ◆ What alternative would you suggest to make projects more financeable?

Item 5: Contract Adjustments

- Comments received:
 - ◆ Flexibility to amend terms to address contract rigidity
 - ◆ Allow for a one-time price inflation adjustment at COD
 - ◆ Allow for price adjustments for extraordinary price increases during the long tenor of development and construction of projects
 - ◆ No-fault, early termination rights for developers if the developer fails to receive a specific permit or certain transmission interconnection rights by a specific date

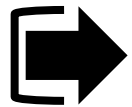


Some Discussion Items

- ◆ How could we ensure contract adjustments are only applied in justified scenarios? What are appropriate parameters for us to consider?
- ◆ Are there other state programs that provide better contract flexibility? What do they look like?
- ◆ Are there other areas of flexibility you would like us to consider?

Item 6: Excess & Replacement RECs

- Comments received:
 - ◆ Allow for use of excess RECs or replacement 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 or replacement RECs should not be influenced by whether the contract is in the money or out of the money



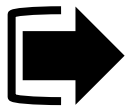
Some Discussion Items

- ◆ How should excess RECs be compensated (e.g., based on vintage of RECs; what if Seller owes Buyer given Index Price exceeds Strike Price)?
- ◆ Are there any other programs or contracts that allow for use of excess or replacement RECs? What do they look like?

Item 7: Shortfall Quantity Metric

- Comments received:
 - ◆ Adjust the Annual Quantity Shortfall so the default threshold is the failure to deliver at least 80% of the Annual Quantity over three years
 - ◆ No delivery requirements as long as RECs are unit-contingent

- 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

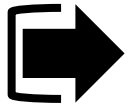


Discussion Item

- ◆ What alternative to the current model would you suggest to prevent gaming and to ensure consistent delivery?
- ◆ Are there other states or programs that have a better shortfall metric?

Item 8: Benchmark

- Comments received:
 - ◆ To the extent allowable under state law, any information on benchmark formulation for technologies would be appreciated
 - ◆ Opportunities for entities to offer third-party analysis, market reports, etc will help inform IPA's decision-making process and result in a more successful procurement event
 - ◆ Benchmark must reflect all of the external factors and state law factors affecting bid prices and it would be helpful for developers to comment on concepts that are to be considered

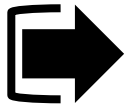


Some Discussion Items

- ◆ What changes to the benchmark development process would be beneficial to the procurement process?
- ◆ How would information on benchmark formulation impact your bid?
- ◆ Does the benchmark impact your decision to participate in the procurement events?

Item 9: Brownfield Projects

- Comments received:
 - ◆ Make additional remote offtake structures (such as commercial remote net-metering or community solar) available
 - ◆ Provide a greater degree of confidence in whether incentives will be available one or more years down the road
 - ◆ Increase the procurement targets for brownfield RECs
 - ◆ Allow for greenfield development proximal to brownfield sites to be eligible, expand definition under the Act to all property around a coal plant
 - ◆ Concerns that small scale brownfield projects may not be competitive in this category



Some Discussion Items

- ◆ Should a different payment mechanism be used for brownfield projects?
- ◆ What are the best offtake structures to support brownfield projects? How does the project size or location or other factors impact this?
- ◆ How do other procurement models better support brownfield projects? Which states support brownfield development best?

Item 10: Other Items

- Potential items for discussion:
 - ◆ Voluntary market opportunities
 - ◆ Information timeline for Procurement events
 - ◆ Separate procurement for projects that include co-located energy storage or stand-alone energy storage projects
 - ◆ Bundled REC and capacity procurement events
 - ◆ Potential barring from future participation creates compliance risk



Some Discussion Items

- ◆ Are developers more likely to pursue voluntary market opportunities? How do voluntary market opportunities differ by technology type (wind, solar, brownfield)?
- ◆ How does the frequency and timing of procurements impact your participation in the events?
- ◆ Do you have additional feedback related to potential updates to the IPA's Long-Term Plan or legislative change?
- ◆ Would it be useful to have another workshop that is focused on the upcoming Summer 2023 procurement?

**Contact: IPA.Contactus@Illinois.gov
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