Illinois Solar Energy Association

September 15, 2014

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

RE: COMMENTS OF THE ILLINOIS SOLAR ENERGY ASSOCIATION REGARDING THE IPA'S DISTRIBUTED GENERATION PROCUREMENT PLAN

Dear Director Star,

The Illinois Solar Energy Association (ISEA) respectfully submits the following comments in response to the Illinois Power Agency's (IPA) 2015 Draft Procurement Plan. As the IPA notes in its 2014 Annual Report, the Illinois Renewable Portfolio Standard (RPS) has enabled significant job creation and economic development opportunities as well as environmental benefits for the State of Illinois. ISEA wishes to further encourage a flourishing renewable energy economy within the State and is confident that, structured appropriately, this procurement can take steps towards that goal. *Annual Report: The Costs and Benefits of Renewable Resource Procurement In Illinois Under the Illinois Power Agency and Illinois Public Utilities Acts, Illinois Power Agency*, p. 3, Mar. 31, 2014. It is our recommendation that the IPA closely coordinate the purchase of Solar Renewable Energy Credits (SRECs) between the Regular Procurement and Special Procurement processes. In addition, we agree with ELPC that the basic premise for both programs include the following:

1. The IPA should strive to develop a program for the procurement of renewable energy resources that is simple, transparent, predictable, and equitable. ISEA strongly supports the development of large scale utility solar projects, as well as DG projects, in order ensure the greatest economic and job benefits to the state. Complex legislation has created barriers for new installers and developers to enter the Illinois market, resulting in limited industry growth. Lack of market participants has hindered broad adoption of solar in Illinois, inhibiting the potential the state has for new projects. Therefore, it is important that the Agency create a program that can be both easily understood and implemented in order to achieve its goals.

2. In order to avoid "boom-and-bust" cycles the IPA should strive to learn from states that have utilized this financial tool. ISEA recommends that the IPA focus its efforts on the long term goals of the program and not limit the amount of renewable resources to annual benchmarks, if cost-effective DG resources are available for purchase and funds are available to cover those contracts.

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As demonstrated in Table 8.1 and 8.2, the RRB continues to expand year after year and there will be a growing shortfall of solar targets, particularly when it comes to SREC requirements. It may be challenging or impossible for the IPA to meet these requirements in future years in a cost effective manner if only the minimum number of RECs are purchased as opposed to exhausting the available budget each year. ISEA believes this approach will assist the state in avoiding potential curtailments through the development of all potential and cost effective projects. Offering the long term contracts that aggregators will require to enter into agreements with system owners will ensure this outcome.

3. New renewable energy systems will enable the state to meet its goal of clean energy production by 2025. Therefore, an emphasis should be on new versus existing systems whenever possible, encouraging resource diversity, advancing price competition and price stability, promoting investment and development, and avoiding the need for new generation, transmission, and distribution infrastructure. Not doing so will inhibit the growth of private investment and the development of a diverse, mature and sustainable renewable energy industry in Illinois.

4. Measures need to be taken to reduce speculative or "phantom" projects. The IPA will want to consider: a) requiring a refundable, per-kW deposit with the bid or in order to reserve a standard offer contract, b) requiring site control proof prior to acceptance, whether through a competitive or standard offer process, c) requiring intermediate steps such as proof of interconnection acceptance, d) requiring systems to be registered with PJM-GATs or M-RETS for tracking and retirement purposes, e) making payments only after systems have been energized and RECs tracked, eliminating a "take and run" scenario, and f) determining a waitlist for each size group, and a clear process for developers to determine where their projects are in the line.

5. Lastly, the IPA should coordinate its long-term procurement strategy under the current plan with its parallel plans to use funds in the RERF for renewable energy procurement. ISEA recommends that the IPA outline its RERF plans in more detail in order to ensure a more open exchange into renewable energy procurement strategy in Illinois.

Renewable Resources Budget (RRB) funds:

Table 8.1 and 8.2 of the Draft Plan suggest that there is an unmet obligation to procure up to 80,000 Renewable Energy Credits, amounting to approximately $9 million. The Draft Plan outlines a single year procurement, commenting on the concern that issues in past years have resulted in a curtailment of RECs and that the uncertainty in load distribution between the EUs and ARES supplies will be difficult to manage and predict. The ISEA believes, however, that single year procurement will not

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result in the addition of new renewable energy assets and that these funds will ultimately be spent on existing systems that have unallocated RECs either in-state or, more likely, across the country, which is not an effective use of state ratepayer dollars. The ISEA recommends that the IPA conduct a DG procurement that requires a minimum of 5-year contracts, attracting investors and system developers to enter the market and build new systems that will ultimately assist the state in achieving the 2025 year RPS goals.

These 5-year DG SREC contracts could be paid through an up-front rebate with appropriate claw-back provisions for non-performance. The IPA should also explore other methods for creating more budget stability, including the possibility of having ComEd and Ameren escrow the portion of this year's RRB necessary to cover future contractual payments, instead of relying on future year budgets. We understand this could lead to the procurement of fewer DG SRECs using the 2015-2016 funds, but the SRECs actually procured would be linked to the development of new projects, which would further the state's renewable energy goals and lead to longer-term price stability.

Alternative Compliance Payment (ACP) funds:

The IPA developed 3 potential options for managing the procurement process within this segment of funds. ISEA has commented below on each of those directly but in general is in favor of a blended version of Options 2 & 3. Legally, multiple DG fuel types are eligible for consideration and it is the ISEA position that as the IPA is currently oversubscribed for Wind resources that the focus for this annual procurement be on solar photovoltaic resources. Procurements in future years should re-evaluate this position taking the EU and ARES RPS progress on previously defined requirements into consideration.

In July 2014, the ISEA submitted suggestions that the $30 million Special Procurement focus primarily on **new** assets as it is our interpretation that the ultimate goal for this procurement is to spur new development of DG solar. In an effort to coordinate the Special Procurement and Regular Procurement, the ISEA further recommends that the IPA utilize the $13M Regular Procurement ACP budget to purchase SRECs from both existing and new systems. As noted in the Special Procurement comments, a competitive RFP would be issued for the procurement of DG >25kW to 2,000kW systems. All <25kW arrays would be sold through a Third Party Administrator and pricing would be based on a scalar resulting from the competitive bid process for larger systems. It is possible that future procurement years consider multiple aggregators but simplicity during the initial year of DG procurement is key to an effective and streamlined process. Learning's from this offering could influence future procurements but it is our recommendation that the initial offering be as simple and transparent as possible to ensure a successful basis from which to grow and expand. These guidelines and subsequent pricing should be mirrored in the Special Procurement process to ensure that individuals are not choosing between the two procurements but are treated fairly and equitably regardless of the source of funding.

As existing DG Solar, particularly <25kW systems, are likely to have available SRECs the IPA should carve out a separate category for procurement of these assets. Existing systems would be defined as

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those developed after EY2009 when the RPS goals began. It is our opinion that these SRECs will have contributed to the overall goal of 25% clean energy by 2025 and therefore should be counted and allowed to participate in the SREC procurement program. The use of Declining Blocks as well as clearly defined scalers would be used to value each segment as described below. Essentially, existing systems would receive the lowest REC price as those assets have already been developed and the remainder of the ACP funds would then go toward new systems. It is believed that the state has approximately 14 MW of installed DG Solar and many of these RECs have been allocated to other programs and jurisdictions. Any eligible unallocated system should be allowed to participate and the IPA could look at the following categories and declining blocks:

- New >25kW to 2,000kW systems - would be accepted through a competitive bid for a 5-year contract in minimum 1MW blocks. As the range between 25kW - 2,000kW is rather large and the economics will vary greatly for larger systems, the IPA should deal with a segmentation within this category of 25kW - 399kW and 400kW - 2MW. The IPA can ensure a diverse range of commercial and industrial projects by subdividing the >25kW category into 2 separate procurement segments.

- New <25kW systems - managed by a Third Party Administrator in a minimum 1MW block with a declining scale to avoid "boom-bust" impact as well as creating a predictable, cost effective goal for new development. Pricing would be based on a scalar from the >25kW program and contracts would be managed by a Third Party Administrator. Pricing for these systems would potentially lag slightly behind the RFP process but the ISEA does not feel this will have any chilling effect on system development as both new and existing systems would be eligible for these funds and so the timing for pricing, although important, would not be adversely impacted.

- Existing DG systems - with a scalar to reduce the value of these SRECs commensurate with the value of new SRECs.

The ISEA has commented specifically on the 3 specific options proposed in the Regular Procurement Draft.

Option 1: Full Competitive Procurement

In this scenario, the IPA would conduct a competitive procurement of 1 MW blocks of DG resources, in much the same way it conducts procurements for other RECs. The ISEA is concerned about the complexity this would create both in terms of pricing, contract solicitation and the availability to procure 1MW from <25kW systems. We fear this model will be incredibly complex in Year 1 for a young industry and may be too much too soon. It would also be impossible to do a standard offer or a declining block for small systems and therefore does not work well for DG procurement. Excessive complexity could have a chilling effect on the market, resulting in less solar development. Further, this model could potentially limit the development of smaller systems as there are no unique goals for

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<25kW, 25kW - 399kW, 400kW - 2,000kW as discussed in the ISEA Special Procurement recommendations.

Option 2: 2013 Plan Model

This model would allow for a competitive RFP for large systems (25 kW- 2MW), which would then trigger a scalar that would create a standard offer for <25 kW systems. The ISEA is concerned that this model, like Option 1, could be confusing to manage and does not ensure that the goals for <25kW will be easy to obtain or manage. As there are great differences in pricing for systems between 25kW - 2MW, this range will likely not result in either the most cost effective procurement or the greatest diversity in system sizing which we believe limit the potential for job creation and economic benefits in local communities as a result. If this model were to be explored further, we believe that separate benchmarks for new and existing systems as well as size-related categories would be needed in order to maximize procurement results.

Option 3: Program Administrator as Aggregator

In this scenario there would be one aggregator for each utility, with a standard offer for every product, with the price determined by applying a scalar to the average price of SRECs procured with monies from the RRB. The ISEA agrees in part, as previously discussed, with this recommendation. We modified this recommendation for those systems >25kW to 2,000kW as we do not believe commercial systems need a standard offer, and instead can participate in a normal competitive RFP process. We also feel pricing for <25kW systems should be based on the competitive procurement for the larger systems and not on the SRECs procured with monies from the RRB.

Respectfully submitted on behalf of the Illinois Solar Energy Association,

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