To: Illinois Power Agency, ipa.contactus@illinois.gov
From: Members of the Renewables and Decarbonization Subcommittees, IL Clean Jobs Coalition
Re: Illinois Power Agency Requests Stakeholder Feedback for 2024 Long-Term Plan Development - REC Pricing
Date: June 29, 2023

Introduction

The Renewables and Decarbonization Subcommittees were convened to help implement CEJA as envisioned by the Illinois Clean Jobs Coalition (ICJC). Our focus includes renewable programs and procurements, with a particular interest in ensuring the IPA helps facilitate the attainment of the state's renewable portfolio standards while also meeting its equity goals. The ICJC is made up of hundreds of environmental advocacy organizations, businesses, community leaders, consumer advocates, environmental justice groups, and faith-based and student organizations working together to improve public health and the environment, protect consumers, and create equitable, clean jobs across the state.

The below-signed Commenters from the Renewables and Decarbonization Subcommittees thank the IPA for an opportunity to provide input on revising the Long-Term Renewable Resources Procurement Plan (LTRRPP). These sets of responses correspond to the IPA's requests for input, due on June 29, 2023.

Signatories:

A Just Harvest
Central IL Healthy Community Alliance
Central Road Energy
Clean Power Lake County
Climate Reality Chicago Metro
Faith in Place
Metro East Green Alliance
Illinois Environmental Council
Sierra Club Illinois
Vote Solar

REC Price Calculation Methodology for Illinois Shines and Illinois Solar for All

TOPIC 1: SEA Recommendations 1 and 2: Continue to use the Cost-Based Approach to Annual Incentive-Setting

Background

Excerpt from Recommendation 1:
"ABP and ILSFA require a high degree of incentive differentiation by project type….The cost-based approach also supports Illinois' desire to create a long-term, stable solar industry within the state by providing price signals on an annual basis and transparency into, – plus the opportunity to participate in, the price-setting process. This review recommends the continued use of a cost-based approach, with REC prices reset each year."

Excerpt from Recommendation 2:
"This independent review concludes that a DCF model is the preferred tool for calculating the revenue requirement for each ABP and ILSFA project category. Recovery factor analyses…are not sufficiently precise, particularly with respect to their treatment of tax benefits, which regularly comprise 50% (or more) of renewable energy project value on an NPV basis."

Question

1.Based on this recommendation, the Agency is planning to continue to use the CREST model developed by the National Renewable Energy Laboratory as the core of the approach for determining RECprices. In particular, the Agency values the transparency that using CREST provides stakeholders. Do You have any concerns with the continued use of the CREST model, or have a proposal for different cost-based model to be utilized?

Answer: In previous comments by the CJC Renewables group and by members of the workgroup, we have advocated for a market-based approach in determining REC pricing, which could include modeling but should not be based solely on those results. We continue to believe that the program has matured to a point where REC pricing changes should be driven more by the evaluation of previous years' outcomes than cost-based modeling.

TOPIC 4: Recommendation 5: Establish and Implement Criteria for a Deployment-Based Adjustment to Annual Cost-Based Pricing Estimates

Background

Excerpt from Recommendation 5:
"Per Recommendation 1, we advise continuing to recalculate REC prices annually. In addition, we recommend policymakers consider the potential benefits of allowing a post-processing

adjustment (i.e., an adjustment to the REC price after the initial, annual calculation has been made) based on the level of program participation in the prior year. Participation would be defined by the total capacity associated with applications received in a given program year and measured on a category-specific basis. For an adjustment to occur, participation would need to fall either above or below a threshold relative to the annual category-specific target. This recommendation is intended to fulfill stakeholders' request for inclusion of a market-based mechanism within the REC price setting process....

"SEA recommends that if 75% to 150% of the target capacity is enrolled, then no adjustment would occur. Thus, in a year in which a given category was fully enrolled and had a waitlist equal to another 49% of block capacity, the REC pricing would nonetheless be considered as still remaining within a reasonable range, and would not be subject to adjustment. On the other hand, if the waitlist represents many multiples (e.g., 300% or 400%) of the block allocation, then the following year's REC price would be adjusted downward on the assumption that there are more than enough cost-effective projects to fulfill program objectives at a slightly lower REC price. Table 5 summarizes the recommended year-to-year REC price adjustments and associated market conditions, as applicable to all ABP and ILSFA categories."

Table 5: Recommended Year-to-Year REC Price Adjustments and Associated Market Conditions

Market Condition	Recommended Price Adjustment
<25% of block capacity has been awarded at end of prior program year	Cost-based REC price for the following year is automatically increased by 10% of the block-specific revenue requirement
25% to <50% of block capacity has been awarded at end of prior program year	Cost-based REC price for the following year is automatically increased by 7.5% of the block-specific revenue requirement
50% to 75% of block capacity has been awarded at end of prior program year	Cost-based REC price for the following year is automatically increased by 5% of the block-specific revenue requirement
>75% to 100% of block capacity has been awarded at end of prior program year	No REC price adjustment
If "Waitlisted Capacity" is 50% to 100% on top of the Program Year Block Size	Cost-based REC price for the following year is automatically decreased by 5% of the block-specific revenue requirement
If "Waitlisted Capacity" is >100% on top of Program Year Block Size	Cost-based REC price for the following year is automatically decreased by 10% of the block-specific revenue requirement

Of equal *importance is the methodology for making the adjustment itself. This review discusses two possible approaches – the revenue requirement approach and the REC price approach. In the revenue requirement approach, the REC price would be adjusted as a percentage of the project's total levelized cost of energy (LCOE). This approach provides a direct link between the cost of the project and the REC price. For example, if the category-specific LCOE was modeled*

at $150/MWh and the initial calculated REC price was $40, then if 60% of the prior year block was filled there would be a positive adjustment of $7.50/MWh (i.e., 5% of the LCOE). Under this set of conditions, the adjusted REC price for the following program year would be $47.50.

In the REC price approach, the triggering parameters and adjustment factors would be the same, but the percentage change would be based on the calculated REC price rather than LCOE. This approach might be slightly simpler to explain, but it does not require any less analysis to execute. The REC price approach also dilutes the connection between the REC price adjustment and the assumed cost of the project. As a matter of design, the REC price approach will always result in smaller adjustments than the revenue requirement approach.

This review recommends the revenue requirement approach, to maintain a logical connection between the cost of the project and the REC price adjustment. If smaller adjustments are preferred, this can nonetheless be achieved within the revenue requirement approach by changing the adjustment percentages in Table 5 as part of the Long-Term Plan development process. It is worth repeating that as the accuracy of annual cost-based REC price setting improves, program enrollment will more closely align with block size and the need for year-to-year adjustments will decrease. In addition, this recommendation can be augmented to include policymaker review and stakeholder comment steps."

Questions

1.Do you agree that there should be market-based condition REC price adjustments for each new program year in addition to annual updating of inputs into the REC Pricing Model?

Answer: Yes. We believe that market-based condition adjustments are badly needed to address the dramatic under-subscription in the current public schools program. As discussed above in response to Chapter 7, Topic 6, there are cost-based reasons that justify such revisions, but the automatic adjustments based on market conditions provide more predictability and transparency.

2.Are the proposed market-based condition thresholds appropriate for triggering additional adjustments to REC price for a new program year?

Answer: We believe the market-based condition thresholds proposed are appropriate.

3. Should there be an additional stakeholder process prior to making these adjustments, rather than having them automatically applied, and if so, what would be recommended considerations and processes?

Answer: The REC price annual adjustment already provides for the opportunity to comment on the following year's REC prices. That should be sufficient.

TOPIC 5: Adjustments to ABP/ILSFA in Response to Inflation Reduction Act of 2022

Background

Excerpt from Recommendation 6:
"Passage of the Inflation Reduction Act presents both opportunities and challenges for DG programs like ABP and ILSFA. Overall, the IRA should lower the after-tax levelized costs of DG projects, thereby increasing the cost-effectiveness of the ABP and ILSFA programs on a per MW basis. However, the new base/bonus structure for the ITC presents far more possible permutations of potential ITC percentage values than in program years prior to the IRA that can be claimed by a given project. These permutations present both methodological and policy questions for the implementation of cost-based programs like the ABP and ILSFA..... We [SEA] recommend that the IPA require modeling of at least some permutations of bonus ITC values for projects. We [SEA] believe that given the budget-based nature of the program, incorporating bonus credit values into modeled projects where appropriate would result in more deployed resources per dollar of incentive available, all other factors held equal."

***"Policy Alignment:** SEA recommends that the IPA, where possible, align program definitions and requirements with the eligibility criteria of relevant ITC bonuses. For instance, the domestic content sections of the IRA permit a business taxpayer to receive a bonus 10% of the absolute value of the ITC for meeting certain thresholds for the iron, steel, or other manufactured products in projects. If all DG projects are required to make good faith efforts to qualify for the bonus, up to the 25% cost cap, the bonus could be assumed for all projects without biasing results towards projects that do or do not qualify for the bonus. We note that further federal guidance on domestic content requirements is forthcoming, which may elucidate the incremental costs of the meeting the domestic content thresholds, and thus whether it would be economical for projects to claim, but we note this as an illustrative example."*

Questions

2. Should Illinois Solar for All REC prices be adjusted to include accounting for some or all of the 20%"Low Income Economic Benefit" bonus and/or the 10% "Located in a Low-Income Community" bonus? If yes, should there be a shared benefit of these bonuses, for example incorporating 50% of the value into the REC Pricing Model, allowing the participant to retain a portion of the benefit?

Answer: No. We understand these to be allocated tax credits that will be subject to a competitive allocation process.

TOPIC 6: Community Solar Subscriber Acquisition and Maintenance Costs

Background

The current REC Pricing Model includes a $14.82/REC adder to account for the costs associated with managing small subscribers. This value was the midpoint value derived from a 2018 GTM report on community solar costs (See Section 7.5.6 of the 2022 Long-Term Plan). The GTM Report provided a range between $0.18 and $0.60 per Watt and the Agency converted that into a value per REC. This value was also similar to a $15.00 adder used in Minnesota for projects energized in 2019 or 2020.

Questions

1. How have costs changed given the maturation of community solar over the past several years including the emergence of web-based subscription services? Can you cite or provide any more recent studies to support your observations? How will the new option for consolidating billing for community solar subscriptions, impact community solar subscription management costs?

Answer: According to a major ILSfA community solar developer that will also own and operate the projects, customer acquisition costs have not decreased, “We are in the middle of getting quotes right now for these subscription services. We have seen no drop in costs from the quotes we've gotten. Signing up ILSFA customers is very hard to do online, it requires significant in-person time, and phone time for staff. And while consolidated billing will make things easier, the utilities are charging significant fees for the service.” Another community solar company noted that customer acquisition costs have actually gone up.