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ILLINOIS POWER AGENCY

Large Customer Self-Direct Renewable Portfolio Standard Compliance Program Bill Credit Rate Analysis

February 15, 2023

The Illinois Power Agency ("IPA" or "Agency") is releasing its analysis of how the bill credit rate for the Large Customer Self-direct Renewable Portfolio Standard Compliance Program ("Self-direct Program") should be calculated for the upcoming 2023-2024 program year.

The Agency seeks feedback on this analysis in anticipation of the Agency's compliance filing to the Illinois Commerce Commission at the beginning of March that will formally set the bill crediting rate. Responses are due by February 24, 2023 and should be submitted to: IPA.Contactus@Illinois.gov with the subject line: "[Responder's Name] – Stakeholder Feedback on Self-direct Program Bill Credit Rate."

Responses will be published on the IPA website. Should a commenter seek to designate any portion of its response as confidential and proprietary, that commenter should provide both public and redacted versions of its comments. Independent of that designation, if the Agency determines that a response contains confidential information that should not be disclosed, the IPA reserves the right to provide its own redactions.

Concurrent with this feedback process, the Agency will begin accepting applications for the program year on February 15, 2023, with those applications due by March 15, 2023.[1] The Agency will review applications received, request additional information if needed, and will notify eligible participants by April 15, 2023. If eligible applications exceed the program year size, the Agency will select approved applications based on the protocol outlined in Section 6.6.3 of the 2022 Long-Term Plan.

Background

Section 1-75(c)(1)(R)(4) of the IPA Act (20 ILCS 3855) provides guidance for calculating the bill credit available to approved Self-direct Program customers. Under that subparagraph, the available bill credit is "equivalent to the anticipated cost of renewable energy credit deliveries under contracts for new utility-scale wind and new utility-scale solar entered for each delivery year after the large energy customer begins retiring eligible new utility scale renewable energy credits for self-compliance," and equal to the estimated cost "that supported the annual procurement of utility-scale renewable energy credits in the prior delivery year" while not including" (i) costs associated with any contracts entered into before the delivery year in which the customer files the initial compliance report to be eligible for participation in the self-direct program, and (ii) costs associated with procuring

[1] The application form is available at: https://ipa.illinois.gov/content/dam/soi/en/web/ipa/documents/self-direct-application-form-for-2023-2024-program-year-1-feb-2023.pdf

renewable energy credits through existing and future contracts through the Adjustable Block Program, subsection (c-5) of this Section 1-75, and the Solar for All Program." This Self-direct Program credit amount is submitted annually to the Illinois Commerce Commission for approval through a compliance filing.

In light of this language, the IPA's draft Long-Term Renewable Resources Procurement Plan filed with the Illinois Commerce Commission proposed that a customer's crediting level be pegged to that customer's first year of Self-direct Program participation, with only REC delivery contract costs for utility-scale REC contracts entered into after that participation providing the universe of contracts whose costs could be credited back to customers. In its Final Order approving that Plan (Docket No. 22-0231), the Commission concluded that "it is more appropriate that a three-year rolling average of eligible utility-scale REC delivery contracts be used, consisting of the two-years prior to the year being determined and the third year being the anticipated costs" outlined in the Plan. This approach both addressed the Commission's concern that establishing the credit based on the self-direct customer's participation date "instills too much instability for Self-Direct Program participants" while also ensuring that only costs associated with utility-scale REC delivery contracts were credited.

This analysis seeks to provide additional clarity on the Self-direct Program credit calculation methodology, which specific costs are included in establishing the Self-direct Program credit calculation, and the resultant proposed Self-direct Program credit amount. Stakeholder feedback in this approach may be used to inform the IPA's March 2023 compliance filing with the Illinois Commerce Commission for formally establishing the self-direct credit amount.

2022 LONG-TERM PLAN INTERPRETATION

The IPA offered initial interpretation of the Commission's Order in its Final Plan prepared for compliance with the Commission's Order. In that Plan, the Agency outlined that given the lack of clarity around which contracts the Commission considered to be "eligible contracts," establishing a three-year rolling average required interpretative decisions. After outlining the three different possible interpretations of the Commission Order's language, the Agency ultimately settled on an interpretation through which the self-direct credit level is established by "including costs for utility-scale REC contracts *regardless of when the contracts were entered into* in calculating the costs for each of the three years." Under this approach – the most generous of the available options in establishing a self-direct credit amount – REC delivery costs associated with the utility-scale REC delivery contracts dating as far back as the 2010 Long-Term Power Purchase Agreements ("LTPPAs") are used in determining the self-direct credit amount.

This approach generally requires a look back to two years of actual expenses under utility-scale contracts and projections for the upcoming delivery year, although the timing of the self-direct filing requires some estimation around the present delivery year. Thus, in establishing the 2023-24 delivery year credit, the Agency is tasked with calculating the *actual* RPS expenditures from utility-scale REC contracts for the 2021-22 delivery year, *actual and anticipated* expenditures for the 2022-23 delivery year (as that delivery year will not yet have concluded at the time the IPA makes its compliance filing), and *anticipated* expenditures for the 2023-24 delivery year.

An interpretive decision unaddressed in the Plan content is the treatment of brownfield site photovoltaic projects. Given the Commission's reference to "eligible utility-scale REC delivery contracts," the IPA believes that costs associated with brownfield site photovoltaic projects – which technically did not participate in utility-scale wind or utility-scale solar procurement events – should be included in the calculation so long as the project qualifies as "utility-scale" (i.e., over 5 MW) under Illinois law. However, costs associated with coal-to-solar procurements would <u>not</u> qualify as those projects are funded through an entirely separate stream of collections (and not those collections authorized by Section 1-75(c)(1)(E) of the IPA Act).

The Plan outlines the following example for the credit calculation:

> Thus, if the volumetric RPS charge authorized by Section 1-75(c)(1)(E) was 1 cent per kilowatt hour, and anticipated qualifying contract costs constituted 10% of the RPS expenditures across those three years, then the applicable self-direct credit would be calculated as 0.1 cents per kilowatt hour. That crediting level would then be applied to the entirety of that customer's load so long as that customer was retiring the qualifying percentage of RECs (at least 40% of load); for additional REC retirements *beyond* 40%, the law does not contemplate an adjustment in crediting rate and the customer would continue to be able to claim the environmental benefits of that renewable energy usage.

Under the example above, both utility-scale REC expenditures over three years (numerator) *and RPS collections over three years* (denominator) are aggregated, with the resulting value being a percentage. That percentage is multiplied against the per kwh RPS collections charge assessed to retail customers to produce a per kWh self-credit credit value.

<u>SELF-DIRECT CREDIT CALCULATION FOR 2023-2024 DELIVERY YEAR</u>

Under this methodology, the following costs are included in the Self-direct Program credit calculation:

> *2010 Long-Term Power Purchase Agreements*
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> Bundled REC + energy contracts entered into in 2010 to facilitate the development of new utility-scale renewable energy generation (primarily large wind farms); only the REC portion of the expense (the imputed REC price) is calculated as a drawdown from the RPS budget, with the energy price embedded into the rate paid by default supply customers.

Initial Forward Procurements (utility-scale wind, utility-scale solar)

Authorized by then-Section 1-75(c)(1)(G)(i)-(ii) of the IPA Act, these procurements were intended to support the development of new utility-scale wind and solar projects prior to the Commission's authorization of the IPA's Long-Term Renewable Resources Procurement Plan through 15-year REC delivery contracts paid upon REC deliveries being actually made and invoiced monthly.

Other Forward Procurements (utility-scale wind, utility-scale solar, brownfield site photovoltaics)

Authorized primarily by the ICC's Order approving the IPA's Original Long-Term Renewable Resources Procurement Plan in Docket No. 17-0838, these procurements were intended to support the development of new utility-scale wind and solar projects, and new brownfield site photovoltaic projects, to meet future years' Section 1-75(c)(1)(C) new project REC delivery targets. As with the initial forward procurements, these procurements feature 15-year REC delivery contracts with payments made upon delivery.

While the IPA has conducted two utility-scale procurements since the passage of Public Act 102-0662, it does not anticipate costs from the contracts entered into through those procurements to impact the RPS budget in the 2022-23 or 2023-24 delivery years. Projects generally take between three and five years from REC delivery contract award to project energization, and both procurements were conducted across the 2022 calendar year.

Preliminary Bill Credit Calculations

Based on the analysis provided above, the Agency's preliminary calculation of the bill credit for each utility is as follows:

Ameren Illinois Company

	2021-2022 Actual Costs	2022-2023 Actual Costs (June – Jan)	2022-2023 Anticipated Costs (Feb – May)	2022-2023 Total Anticipated Costs	2023-2024 Anticipated Costs	Total Costs
2010 LTPPAs	$5,554,000			$4,842,000	$3,401,000	$13,797,000
2017-2019 Forward Procurements	$3,209,402	$2551,987	$1,822,848	$4,374,835	$6,678,903	$14,263,140
(A): Total cost	$8,763,402	$2,551,987		$9,216,835	$10,079,903	$28,060,140
(B): Annual RPS Collections	$129,499,575			$160,483,342	$159,798,619	$449,781,537
(C): Cost (A) /Collections (B)						6.24%
(D): RPS Rate						$5.0248/MWH
Bill Credit: (C)*(D)						**$0.313478/MWH**

Commonwealth Edison Company

	2021-2022 Actual Costs	2022-2023 Actual Costs (June – Jan)	2022-2023 Anticipated Costs (Feb – May)	2022-2023 Total Anticipated Costs	2023-2024 Anticipated Costs	Total Costs
2010 LTPPAs	$18,588,255	$17,220,345		$14,320,007	$14,320,007	$47,228,270
2017-2019 Forward Procurements	$8,251,385	$7,960,798	$5,686,285	$11,941,198	$14,048,924	$34,241,507
(A): Total cost	$26,839,640	$25,181,143		$26,261,205	$28,368,932	$81,469,777
(B): Annual RPS Collections	$334,084,828			$425,587,002	$427,796,091	$1,187,467,921
(C): Cost (A) /Collections (B)						6.86%
(D): RPS Rate						$4.5755/MWH
Bill Credit: (C)*(D)						**$0.313916/MWH**

In developing this analysis, the Agency relied on data from the previous procurement events, the RPS budget contained in the 2022 Long-Term Plan, and actual costs provided by Ameren Illinois Company and Commonwealth Edison Company. Prices and quantities related to individual projects is confidential under Section 16-111.5(h) of the Public Utilities Act, thus the information contained herein is provided in aggregate. For the 2017-2019 Forward Procurements, the 2022-2023 delivery year costs for February through May have been extrapolated from the June through January actual costs. For the 2023-2024 delivery year, costs were based on the contracted REC volumes multiplied by the contract prices, accounting for the attrition of REC from projects selected in the procurement events that have not, and will not, be energized. 2010 LTPPA anticipated costs were based upon contracted volumes and the applicable imputed REC price.