ComEd Comments - Illinois Power Agency's (IPA) Independent REC Pricing Review: Request for Written Comments from Stakeholders issued on March 7, 2023.

Commonwealth Edison Company ("ComEd") respectfully submits these comments in response to the Illinois Power Agency's ("IPA") Independent REC Pricing Review: Request for Written Comments from Stakeholders issued on March 7, 2023. ComEd appreciates the IPA's continued thoughtful engagement on its Long-Term Renewable Resources Procurement Plan ("LTRRPP") and the opportunity to provide comments. ComEd offers these comments to the IPA from its position as an implementer of the Renewable Portfolio Standard ("RPS") since its inception and offers its recommendations and comments from a unique "electric utility perspective" and the associated experience and analyses that ComEd has developed over these past 16 years. The Climate and Equitable Jobs Act ("CEJA") preserves the fundamental cost recovery provisions for utility RPS expenditures, therefore, ComEd is – in a very real sense – a neutral, non-financially interested party. ComEd is focused on ensuring that the LTRRPP reflects the best practices and policies that will propel the State toward achieving its decarbonized energy goals and, ultimately, a decarbonized energy future. Within these comments, ComEd will address the cost-based modeling approach, net metering credit forecasts, REC pricing adjustments, strike pricing, and the availability of data on the costs and performance of facilities. The fact that ComEd does not address a topic does not imply that ComEd agrees with the content in the Presentation and ComEd reserves the right to comment further should circumstances arise.

Cost-Based Modeling Approach to Set REC Prices (Question 1a)

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Sustainable Energy Advantage, LLC's ("SEA") Illinois ABP and ILSFA REC Pricing Design Issues, Options, and Implications presentation ("Presentation") explains that the cost-based approach, where incentive payments are provided based on total project costs less revenues, is best aligned with Illinois' policy objectives (slides 22-23). The cost-based approach determines REC prices using projected developer costs and revenues rather than the customer value represented by the renewable energy credits ("RECs"). REC's represent environmental, social, and other non-power attributes of renewable electricity generation, and are tradable instruments that allow purchasers to validly claim that the electricity used by the purchaser comes from a renewable source. The value of the non-power environmental attributes can be represented by the social cost of carbon. The IPA Act includes a social cost of carbon amount, which is currently set at $17.50 per MWh. *See* 20 ILCS 3855/1-75(d-5)(1)(B)(i).

Social cost of carbon calculations have also been released by the U.S Environmental Protection Agency, $190/ton, *see pg.* 67, https://www.epa.gov/system/files/documents/2022-11/epa_scghg_report_draft_0.pdf, $51/ton, *see pg 5,* Technical Support Document: Social Cost of Carbon, Methane, (whitehouse.gov). The $190 per ton cost of carbon translates to approximately $95 per MWh.[1] Given that the Renewable Portfolio Standard ("RPS") is compensating the owner of DG for the renewable attributes associated with the generation produced, the price paid for that attribute should not exceed the value of that attribute not compensated elsewhere such as through federal tax credits. Using a cost-based pricing approach to set the price paid for a REC, disconnects the price paid for the REC and the value of the REC to society. This method leads to an inefficient pricing mechanism resulting in delivery service

[1] Present value for a combined cycle gas turbine, which is the likely marginal unit of generation displaced by renewables (especially post- 2030 when certain fossil fuel generating units must permanently reduce all CO_2e and copollutant emissions to zero)

customers potentially overpaying or underpaying for the value provided for the REC and potentially compensating the owner for risks not related to the value of the renewable energy attributes. Pricing based on a representative social cost of carbon calculation, less any amounts already compensated through other mechanisms such as tax credits, prioritizes customer value by better aligning REC prices with the cost and benefits of the product purchased. A model based on the social cost of carbon would also simplify ABP pricing by eliminating the need to forecast and vet multiple inputs and algorithms to set the price. The table below provides an example of the proposed social cost of carbon value-based methodology discussed in these comments.

	Levelized Compensation ($/MWh)			
	Social Cost of Carbon	Air Quality Benefits	Compensated Value (ITC)	Remaning Value
ABP				
Community Solar				
2,000 kW	$95	$4	$41	$58
5,000 kW	$95	$4	$39	$60
DG Systems				
10 kW	$95	$4	$69	$30
25 kW	$95	$4	$47	$52
100 kW	$95	$4	$47	$52
200 kW	$95	$4	$43	$55
500 kW	$95	$4	$41	$58
2,000 kW	$95	$4	$38	$61
5,000 kW	$95	$4	$32	$66

Notwithstanding the discussion above, the cost-based model, if so chosen, can be improved by revising the cost of capital assumptions to better reflect the impact of REC contracts and its correlation to revenue certainty and risk mitigation, s*ee* Presentation slides 15-16). The presentation explains that Illinois' current administratively managed, cost-based rate-setting process is likely to align renewable energy project costs and REC price incentives relatively effectively. *See* Presentation, slide 23. ComEd

respectfully disagrees with this conclusion. As a part of the rate-setting process, regulators evaluate capital costs and approve rates of return on debt and equity. Fairly priced equity returns correlate to the risk associated of the investment (e.g. higher equity returns for higher risks, lower returns for lower risk). The current REC pricing model provides for equity returns of approximately 12-14%, an amount significantly higher than the equity returns for regulated utilities which are significantly lower. Cost-based REC pricing models reduce project risk and cost of capital assumptions should be adjusted downward to account for the increased certainty and reduced risk.

Component-Specific (NM) Credit forecast (Question 1b)

ComEd agrees with SEA's recommendation for a component-specific Net Metering ("NM") Credit forecast. Such a forecast should be based on the market price of energy and inflated over the life of the project. ComEd notes that as early as January 1, 2025, all NM credits will be correlated to the price of retail energy supply. *See* 220 ILCS 16-107.5(n).

REC Price Adjustment Thresholds (Question 1f)

Option 1 *(See* Presentation, Slide 29*),* automatic adjustments based on the project's calculated revenue requirement, aligns with a cost-based REC pricing methodology. However, a 10% adjustment based on revenue requirement appears to be quite significant. Option 2 *(See* Presentation, Slide 30*),* automatic adjustment based on a percentage of REC price better aligns with a value-based REC pricing model. The Presentation contains identical adjustments for Options 1 and 2. A revenue requirement basis, holding the adjustment percentage steady, will inherently result in a larger price adjustment than a percentage of REC price basis. Due to this, the adjustments percentages should not be symmetrical for Options 1 and 2.

Strike-Price Based Approach (Question 2a)

Competitive bidding provides the most effective price. As noted above, the cost-based approach sets a price for a DG to be economically viable but does not reflect the true value of the REC purchased by the utilities on behalf of their customers which is best represented by the social cost of carbon or other environmental factors created by a reliance on fossil fuel generation. Should the cost-based pricing models proceed, so long as assumptions for cost of capital are lower, a strike-price approach, with appropriate equity returns, provide a hedge against energy price volatility, result in additional project revenue certainty and provide additional value to Illinois customers. As detailed in the Presentation, a strike-price approach provides a total $/MWh revenue guarantee. This guarantee lowers project risk and should be reflected in prices. ComEd notes that a strike-price approach however is more difficult to administer, particularly if payments are made upfront. Energy prices fluctuate and upfront payments under a strike-price approach will require funds to be exchanged between the seller and buyer after the initial payment.

Should a strike-price based approach be pursued, no price floor should be specified (Option 4, *See* Presentation, Slide 26). As explained in the Presentation, this creates a true contract for differences. Carbon Mitigation Credit pricing, a component of CEJA, uses the no price floor pricing approach. *See 20 ILCS* 3855/1-75(d-10)(3)(C)(iii). The zero-floor approach reduces customer risk by acting as a hedge against high energy prices. The zero-floor approach, however, could result in seller payments to the buyer and create a barrier to adoption.

Data Collection – Actual Cost and Performance Data (Question 4a)

SEA recommends that the IPA begin collecting actual cost and performance data from all operating ABP and ILSFA projects. If this recommendation is adopted, ComEd requests that aggregated, non-project specific, data be provided to stakeholders. Such data will provide additional transparency and put stakeholders in a better position to provide informed input on future revisions to the LTRRPP.

ComEd thanks the IPA and its independent consultant, Sustainable Energy Advantage, LLC, for its continued engagement in the REC pricing review process.