

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

**COMMENTS OF THE ENVIRONMENTAL LAW & POLICY
CENTER, THE NATURAL RESOURCES DEFENSE COUNCIL,
AND VOTE SOLAR ON THE IPA REQUEST FOR FEEDBACK ON THE
FALL 2022 INDEXED REC PROCUREMENT EVENT**

February 3, 2023

The Environmental Law & Policy Center (“ELPC”), the Natural Resources Defense Council (“NRDC”), and Vote Solar (collectively the “Joint Non-Governmental Organizations” or the “Joint NGOs”) are pleased to offer these comments in response to the Illinois Power Agency’s (“IPA”) Request for Feedback on the Fall 2022 Indexed REC Procurement Event.¹

The Joint NGOs appreciate that the IPA’s Request for Feedback allows us to raise broad questions, not only about the details of the indexed REC procurement events conducted so far, but also to address broad structural issues that may be revealed by the last two procurement events. Specifically, the IPA’s request was:

The IPA and the Procurement Administrator are seeking stakeholder feedback on barriers that may have limited participation in these procurement events and are exploring improvements to facilitate greater participation in future procurement events. The Agency is interested in feedback covering not only changes to the procurement structure that the Agency can presently make for subsequent procurements, but also feedback on potential changes to the IPA’s Long-Term Renewable Resources Procurement Plan, or potential changes to Illinois law that would result in the successful development of more utility-scale wind and solar projects.²

The indexed renewable energy credit (“REC”) procurements are the central mechanisms to drive compliance with the state’s renewable energy portfolio standard (“RPS”) for utility-scale wind, utility-scale solar, and brownfield solar. Since the Climate and Equitable Jobs Act (“CEJA”) was

¹ Illinois Power Agency, Request for Feedback on the Fall 2022 Indexed REC Procurement Event, January 20, 2023.

² Indexed REC Procurement Request for Stakeholder Feedback, January 20, 2023.

enacted in 2021, the IPA has conducted two indexed REC procurement events seeking to procure utility-scale wind, utility-scale solar, and brownfield solar RECs.

The results of the first two procurement events are summarized below, along with an estimate of the number of RECs contracted (based on estimated production from successful bidders):

Event	Category	Contracted (MW)	Sought (RECs)	Contracted (Estimated RECs)	Average Contracted Cost
Spring 2022	Utility-Scale Wind	200	2,500,000	525,600	\$52.43/MWh
	Utility-Scale Solar	493.9	2,000,000	951,844	
	Brownfield	4.95	125,000	9,540	
Fall 2022	Utility-Scale Wind	0	1,750,000	0	\$72.59/MWh
	Utility-Scale Solar	435.8	1,000,000	839,874	
	Brownfield	28.1	125,000	54,154	

Joint NGOs are concerned that the procurements fell short of their targets in all three categories (significantly for wind and brownfield RECs) and that the average REC prices are higher than expected. This raises concerns about the success of procurements going forward and the impacts on the RPS budget.

Following the Spring 2022 Procurement Event, the IPA requested feedback from stakeholders. Five developers provided comments that identified a number of concerns and suggestions for improvements.³ While a number of suggestions were offered, several common themes emerged, including concerns about deliverability, the risk of RPS budget constraints resulting from future low energy prices, lack of flexibility in contract terms, assumptions of the impact of inflation, a low-benchmark price, and other issues. According to these developers, these concerns make the IPA procurement process unpalatable, especially when compared to the relative ease of securing contracts with corporate off-takers for virtual power purchase agreements.

The IPA responded to the feedback by making several adjustments to the bidding rules and contracts leading up to the Fall 2022 Procurement. Despite these adjustments, the results of the Fall 2022 procurement suggest there are lingering issues. At the same time, the dramatic increase in the volume of solar and wind projects submitted into the MISO queue for the 2022

³ Link to Comments on Spring 2022 Indexed REC Procurement.

interconnection queue cycle suggests that developer interest in new projects in Illinois is extremely strong.

The table below shows the number of megawatts of currently active generation interconnection applications in Illinois as of February 2, 2023.

Fuel	PJM	MISO	Total
Natural Gas	370	325	695
Solar	8,382	16,881	25,263
Solar; Storage	2,310	9,361	11,671
Storage	8,105	8,243	16,348
Wind	1,507	4,887	6,394
Wind; Solar	51		51
Total	20,725	39,697	60,422

Developers submitted 23.3 GW of the 39.7 GW in the MISO queue (58%) in 2022 alone. So, while the results of the IPA's REC procurements were disappointing, developers are clearly interested in the state.

Joint NGOs are also concerned about the prices of indexed RECs in the 2022 procurement events. For example, the estimated 840,000 utility-scale solar indexed RECs procured at an average contracted strike price of \$72.59/REC in the Fall 2022 procurement could represent a significant portion of the total RPS budget if energy prices revert to the 5-year average locational marginal price for the Northern Illinois Hub of \$33.31/MWh. For delivery beginning in 2027, those 840,000 RECs with a \$72.59 strike price and energy prices of \$33.31/MWh would cost the RPS budget \$39.28/REC for a total of \$32,995,200.00 per year for the 20-year terms of the contract. This tranche could represent as much as 5.5% of the entire RPS budget while providing only about 1.7% of the total estimated 48.5 million RECs/year required annually to meet RPS goals in 2030. If this trend continues, this would be an unsustainable level of spending for utility-scale RECs that is inconsistent with achieving our RPS goals.

The IPA's Request for Feedback and the upcoming February 15, 2023, workshop are initial steps to identify barriers to further procurements, but they may not be enough. The Illinois Power Agency should consider a technical conference to more thoroughly understand the structural barriers that are preventing successful procurements and how best to address them. A technical

conference should include wholesale market participants that can address the viability of markets for gray energy (energy that does not have clean energy attributes), electricity market experts including academics, retail electric suppliers, renewable project finance experts, renewable energy supply chain experts, developers, consumer advocates, environmental justice community representatives, renewables industry advocates, and environmental advocates.

In addition to holding a technical conference, we have enumerated below a list of questions that will help determine what improvements can be made and what issues may need to be addressed.

1. Is there a structural problem with the indexed REC procurement in a restructured energy market like Illinois?
2. How many years from procurement to energization is the IPA assuming? Is it the IPA's understanding that projects bidding to deliver in the timeframe specified in the procurements (Planning Year 2025/2026 (PY 25/26) for the Spring 2022 event and Planning Year 27/28 for the Fall Event) had to already be in the regional transmission organizations ("RTO") interconnection queues to meet those timelines?
3. What assumptions is the IPA making about the deliverability of projects in early stages of the RTO queues? Would longer time horizons on the initial REC delivery enable greater participation?
4. Are market participants concerned about the RPS funding to participate in the procurement?
5. Are there key contracting requirements that are preventing developers from bidding in, especially when compared to contracts with private off-takers?
6. Is there a market for energy without clean energy attributes (i.e. gray energy)? How are developers dealing with the gray energy in the long-term market? Is there a bilateral market for third parties to contract for gray energy?
7. How is capacity being valued and monetized?
8. Do developers need bundled contracts?
9. Can IPA detail the budget impacts of the last two procurements? How much of the RPS budget will the 2022 procurements consume in the years 2025 through 2045?

10. If indexed REC prices were the same going forward and locational market pricing reverted to 5-year average prices, how much could the IPA contract for? How far would we be from achieving RPS goals for 2030? 2035?
11. In light of the capacity shortfall in the most recent MISO planning reserve auction for Zone 4 (central and southern Illinois), what is or should be the interaction between indexed REC procurements and the state's role in ensuring resource adequacy going forward?

Ultimately, there are a number of interconnected issues that must be considered together to ensure the success of not only the state's renewable energy goals but also to ensure reliable and affordable service. Illinois faces a different set of challenges than neighboring states with vertically integrated utilities. Still, the evidence from recent integrated resource plans in the Midwest shows that the rapid clean energy transition of large electric systems is both technically and economically achievable. Our goal should be to ensure that the market (developers and energy suppliers) delivers just, safe, reliable, and affordable service to Illinois residents.

We thank the IPA for examining this issue and soliciting feedback. We look forward to working with the Agency going forward.

Respectfully Submitted,

/s/ William Kenworthy
William Kenworthy
Senior Regulatory Director, Midwest
Vote Solar
Will@votesolar.org

/s/ Bradley Klein
Bradley Klein
Senior Attorney
Environmental Law & Policy Center
BKlein@elpc.org

/s/ Elizabeth Toba Pearlman
Elizabeth Toba Pearlman
Senior Attorney and Renewables Advocate
Natural Resources Defense Council
tpearlman@nrdc.org