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Independent REC Pricing Review:
Request for Written Comments from Stakeholders

Issued March 7, 2023: Comments due by end of day Tuesday March 28, 2023

The IPA is exploring updating the methodology/model the Agency uses to calculate REC prices, starting with the 2024-2025 program year. In the 2022 Long-Term Plan, the IPA committed to engaging an independent consultant to conduct a review of the REC pricing approach for the Illinois Shines and ILSFA programs. The Agency has engaged Sustainable Energy Advantage, LLC ("SEA") to conduct that review. SEA has been involved in the development, analysis and implementation of clean energy policies and markets, particularly throughout the Northeast United States, and has advised a wide range of state government agencies and clean energy market participants across all technologies. The report developed by SEA will be used by the Agency to develop the REC pricing methodology for the next Long-Term Plan. Stakeholder comments, in response to the prompts below and the linked presentations, will be used to inform SEA's report and are instrumental to this process.

This document requests your written comment in response to:

(1) The questions posed directly below, and

(2) The recommendations included in SEA's two stakeholder presentations, linked below.

Please submit all written comments to SEA's Cal Brown (cbrown@seadvantage.com), copying Jason Gifford (jgifford@seadvantage.com) and Jim Kennerly (jkennerly@seadvantage.com).

PLEASE NOTE: Responses will be published on the Agency's website. However, should a commenter seek to designate any portion of its response as confidential, that commenter should provide both public and redacted versions and the Agency will only post the redacted version. Independent of that designation, if the IPA or SEA determines that a response contains confidential information that should not be disclosed, it reserves the right to provide its own redactions.

Stakeholder Workshop: Tuesday March 14, 2023, 1-3pm CT

SEA will conduct a **public webinar for Illinois Shines and ILSFA stakeholders on Tuesday March 14, 2023** to discuss REC pricing policy issues, options, and implications. Please use the link below to register for the webinar.

Review of Illinois Shines and ILSFA REC Pricing Approach
Date: March 14, 2023
Time: 1pm-3pm CPT
REGISTER HERE

The webinar will include a presentation by SEA followed by an opportunity for Q&A and discussion.

Section I: REC Pricing Policy Design Issues, Options, and Implications

Please review SEA's '*Illinois ABP and SFA REC Pricing Policy Design Issues, Options, and Implications'* Presentation – especially slides 21 through 35 – and provide comments on the following recommendations:

1. "Near Term Policy Options" described on slide 32.
    a. SEA recommends continuing to use the cost-based modeling approach (and the CREST model) to set REC prices. Taking the full range of SEA recommendations into account, do you have a specific, quantifiable, alternative that balances market adoption and ratepayer cost?
    b. SEA recommends a component-specific Net Metering (NM) Credit forecast. Should the IPA forecast PV NM credits rather than use a fixed percentage annual increase? Why or why not?
    c. If the IPA pursues a component-specific NM Credit forecast, please comment on the indices you believe should apply to each NM Credit component.
    d. Should the IPA pursue a year-to-year price adjustment of REC prices based on prior year block uptake, utilizing the method described in slide 29, or pursue a different approach? If different, please be specific enough that your recommendations are actionable.
    e. Should IPA pursue the intra-year price adjustment as described in slide 31? If an alternate approach is preferred, please describe in enough detail that your recommendations are actionable.
    f. Please comment on the REC price adjustment thresholds described and recommended on Slides 30 and 31 regarding year-to-year and intra-year adjustments, respectively.
2. "Long Term Policy Options" described on slide 33. (Note: *If* legislative amendments or additions are required to implement a particular option, such options will not be included in the next long-term plan.)
    a. Based on your experience with project financing and operation, please comment on the advantage and disadvantages of a "strike price"-based approach in the context of the ABP and ILSFA programs.
3. The ILSFA recommendations described on slide 34.
    a. Please comment on the recommendations presented in Slide 34.
    b. In addition, what other ILSFA program changes do stakeholders recommend for consideration for the 2024-25 plan period?
4. Data Collection
    a. SEA recommends IPA begin to collect actual cost and performance data from all operating ABP and ILSFA projects. It may be appropriate to broaden this recommendation to include a detailed dialogue (among stakeholders, IPA, and its consultants) regarding the inputs to the annual CREST modeling. Such a dialogue would enable stakeholder participation in topics including (but not limited to):
        i. Project installed cost (and associated target cost percentile)
        ii. Risk-adjusted equity return target (by category), and
        iii. Operating expenses.

       Please comment on the advantages and disadvantages of expanding the stakeholder process to include discussion of these topics on an annual basis.

    b. Are there any other important program elements not discussed herein that you believe should be considered? If yes, please describe in detail.

Section II: Inflation Reduction Act (IRA) Changes Relevant to ABP and SFA-Eligible Projects

Please review SEA's Key Inflation Reduction Act (IRA) Changes Relevant to IL Shines and ILSFA Presentation and provide comments on the following recommendations:

5. Should the IPA adopt the "IRA Modeling Implications for ABP Program Categories" described on slides 11-19 of the IRA presentation?
6. Should the IPA adopt the "IRA Modeling Implications for Solar For All Program Categories" described on slides 20-28 of the IRA presentation?
7. Should the IPA establish REC adders for IRA bonus credit-eligible projects that may or may not align with certain public policy priorities, if claiming such bonus credits results in projects with higher REC prices than those that do not claim the credit? For examples of potential projects that could fit this description, please see slide 30 of the IRA presentation.
8. Conversely, should the IPA adjust REC prices downward for ABP and SFA projects eligible for IRA bonus credits, if claiming such bonus credits costs less than a project that is not eligible for such credits? For examples of potential projects that could fit this description, please see slide 31 of the IRA presentation.
9. Does the cost of claiming elective payment in cash of federal investment credits (a practice known more informally as "direct pay") increase prices by more than 25% (the statutory threshold for a Treasury waiver) If so, how should the IPA and its planning consultant approach the task of quantitatively benchmarking the differential for differing project blocks?
10. Is it reasonable to assume that direct pay recipients could also claim the cost of interconnection property in the basis for receiving ITC or the Clean Energy Investment Credit (CEIC)?
11. Should there be a separate REC price (or REC adder) for direct pay eligible ABP Community-Driven Community Solar projects?
12. Should there be a separate REC price for SFA Non-Profit projects owned by host customers vs. Public Facilities projects owned by host customers (since public entities can get municipal bond financing, and nonprofits cannot)?
13. Are there other REC prices that you believe should change to account for the expected approval of rules allowing direct pay?