

September 14, 2011

Mr. Mark Pruitt
Director, Illinois Power Agency
160 N. LaSalle Street, Suite 508
Chicago, IL 60601

Mark,

The Solar Alliance is a national trade organization of thirty-three companies engaged in the manufacture, design, installation, and financing of solar electric generating products and services. The Alliance appreciates the opportunity to provide comments on the Illinois Power Agency's ("IPA") proposed draft procurement plan for 2012-2013. After thorough review, we would like to take this opportunity to comment on (1) the proposed procurement execution schedule; (2) the historical solar REC prices; (3) the Renewable Resources Budget; and (4) procurement preferences.

For the sake of convenience, we have presented section-by-section responses and suggestions keyed to the IPA proposal.

Page 7. Table C: Proposed IPA Procurement Execution Schedule.

"The Procurement Administrator has two days to submit a confidential recommendation regarding whether the low bids meet market-based benchmarks and should be accepted. The ICC then has two days to accept or reject the recommendations, and the utility then has three days to sign bilateral supply agreements with successful bidders."

The Plan also indicates that supply contracts secured through the spring 2011 procurement events will commence in June of 2011 (some contracts may be effective at a later date). These procured volumes will be in addition to those electricity supplies already secured via legacy contract sources from the swap contracts resulting from the 2007 rate settlement agreement, and the 2010 IPA procurement cycle.

The Solar Alliance notes that while these timelines are eminently reasonable for the delivery of SRECs from an existing project, they effectively foreclose on the construction of a new project. Even a relatively modest (.5 MW) solar project takes several months to move from conception to completion.

Accordingly, we recommend that, to accommodate new construction projects, the IPA provide a minimum of six months between these two events.

Page 48. Section 3.5.4 Background

The IPA provides a historical solar REC chart dating back to June 2010. The chart depicts solar REC prices declining drastically from ~\$250-300 / MWh in June 2010 to ~\$50-75 / MWh in late July 2011.

The Solar Alliance is concerned that the average solar REC prices shown do not appear to reflect actual prices in the market. In particular, reported pricing per MWh for District of Columbia, Ohio, and Delaware is ≈400 – 500% below current trading pricing.

Though no citation is provided, it appears that this data may be sourced from the auction results of an individual SREC broker who may not be experiencing pricing or volumes in line with the rest of the market. Benchmarking for the solar procurement should reflect pricing data that is more representative of historical SREC price trends. While it would be tempting to buy SRECs on the spot market or one-year contracts to take advantage of the current oversupply markets, this creates a significant price risk when markets are no longer oversupplied. Therefore, the Solar Alliance recommends the

While some SREC prices may be low due to market oversupply in certain states, prices will go up when demand and supply are in equilibrium and in under-supply situations. Therefore, the Solar Alliance suggests the IPA enter into long-term SREC contracts to lock in pricing, and hedge against this risk.

The Solar Alliance strongly suggests that to the extent PJM market prices are to be used in the benchmarking process, actual system-wide pricing from the PJM-GATS system as reported at <https://gats.pjm-eis.com/myModule/rpt/myrpt.asp?r=230> be used for PJM states, and MRETS for MISO states. The PJM-GATS system reports only the weighted average price of trades occurring for that month in a specific jurisdiction.

For further reference, these average prices are generally a mixture of long-term contracted SREC “strips” (at lower prices) and spot market trades (at significantly higher prices). Data sources for separate pricing of these long-term strips is more limited; <http://www.pplelectric.com/Business+Partners/polr-aeps/RFP+Results.htm> is an accurate source for Pennsylvania market, but close to 100% of active projects in that market have received additional subsidy of \$1 / Watt or better, and the market is significantly oversaturated, depressing REC prices below the levels that would be currently necessary for a project financed with standalone RECs. <http://www.njedcsolar.com/documents.cfm> presents the deepest public data source available for long-term strip auctions in New Jersey.

Page 49. Section 3.5.6 Recommendations.

“The IPA would establish a conservative Renewable Resources Budget for 20 years. The budget would be determined by estimating the annual portfolio requirements for the next 20 years, using current Utility Low Scenario projections to establish portfolio volumes for the first five (5) years, and then continuing those projected trends over the next 15 years. The result is a portfolio volume representing the highest level of estimated consumers switching away from the IPA portfolio.”

The Solar Alliance recognizes and appreciates that the IPA reassesses the 20-year RRB each year. The Solar Alliance recommends that the projected portfolio requirements continue to be revisited annually. Shopping rates can change, and extrapolating forward a trend for 20 years based on limited data can lead to an incorrect assessment of volume in out years. Furthermore, we recommend the IPA publish the projected shopping trend, and resulting projected MWh of required wind and solar, to ensure a transparent and competitive procurement process.

“Consistent with the Act, the IPA indicates it will apply the Rate Cap to the 20 year volumes to establish annual Renewable Resource Budgets (RRBs) for each year in the series.”

Based upon analysis included in the 2012 Draft Plan, the Ameren RRB will be \$26M for Ameren and \$52M for ComEd, and this ceiling will remain fairly consistent year over year during the life of the RPS. The highest probability of exceeding the annual budget will therefore occur in out years as the RPS requirement ramps up. This is particularly true if the IPA requires companies to submit flat bids (e.g. the bid price remains consistent over the 20 year length of the contract). To minimize this, the Solar Alliance suggests that the IPA encourage or allow shaped bids (e.g. bids that are higher in the near term and rapidly decrease in out years). To ensure an equitable comparison between projects, and different shaping that may have been assumed, the IPA should use the Net Present Value (NPV) of a bid to compare offers and select winning bids. This has the further advantage of decreasing overall costs to ratepayers by effectively leveraging the lower discount rate of the IPA as opposed to that of the renewable developers.

“The IPA will apply the confidential future price curve it generates and submits to the ICC to back out Long Term Power Purchase Agreements (LTPPA) cost obligations from the RRB to yield a Net Renewable Resources Budget (NRRB) for each of the future years. “

While the Solar Alliance understands the limitations placed on the IPA with its obligation to keep certain information confidential, the Solar Alliance feels all industries would benefit from more transparent price information. Therefore, it is the recommendation of the Solar Alliance that to the extent possible, the IPA provide more information on the future price curve. Since this acts essentially as the “price ceiling” over which all bids will be rejected, without a more clear idea of the price curve, development in Illinois may be limited, competition may be minimized, and costs to the ratepayer could stay higher than it otherwise might be. Instead, the Solar Alliance strongly recommends that the IPA find a way to “sanitize” and average actual bid data received in the past so that solar companies can have some insight regarding the bid ceiling. Alternatively, the IPA can choose to develop and publish a bid ceiling that is loosely based on actual bids, without violating confidentiality data.

“The IPA will factor each annual NRRB by 50% and solicit REC bids for up to the 20 year horizon using the factored NRRB as a hard budget limit.”

The Solar Alliance requests additional clarity as to the rationale for the 50% NRRB factor.

“The IPA will conduct procurements that yield a carve-out consistent contracts for solar and wind. It will invite bids for periods of up to 20 years from renewable generators (allow single year as well as multi-year bids for resources). “

It is the Solar Alliance’s opinion that 1 year bids and 20 years bids cannot be equitably compared, whether or not these bids are normalized through the use of a net present value. Instead, we recommend that a single long term (at least ten years) be used as the standard – it is the uniform experience of the industry that longer term contracts lead to lower costs in this zero-fuel-cost, capital-intensive day one financial environment of renewable energy.

Alternatively, if IPA is not comfortable with an all long-term procurement, we recommend the use of “bid buckets” within which bids are compared all and only to one another. For example, 60% would be procured under 20 year terms, 30% procured under 10 year terms, and 10% under 1 year terms.

Page 50. Preferences.

The IPA references Section 1-75 (c) (3) of the IPA Act requiring that until June 1, 2011 cost effective renewable energy resources be procured first from facilities in the State of Illinois, then from facilities located in states adjacent to Illinois, then from facilities located elsewhere, and then goes on to state that this preference has expired and will no longer apply to the specified procurement. However, elsewhere the IPA discusses the possibility of considering economic benefits to Illinois when assessing bids. .

Above all, the solar industry needs certainty on what type of projects could qualify for beneficial assessments based on Illinois economic develops, and to what extent. Therefore, the Solar Alliance recommends that the IPA provide an empirical test if it determines to allow consideration of economic benefits, ensuring projects will be able to determine whether or not they would qualify prior to submitting their procurement bids. The Solar Alliance recommends projects that are deemed eligible under the empirical test receive a 10% “bonus”.

Within the bounds of Commerce Clause concerns, the Solar Alliance recommends the IPA take into account a project’s economic benefits to Illinois when assessing bids. We recommend projects be eligible for this benefit only if it can deliver SRECs within MISO or the PJM. While we think this should be an absolute qualifier for this beneficial treatment, we further recommend that only projects connected to the distribution system should qualify for this treatment. In particular, the Solar Alliance recommends that all solar energy procured after June 1, 2011 be directly connected to the Illinois distribution system at 69 kV or less in order for that solar to qualify for any benefit based on the economic benefits it provides to Illinois. Limiting the benefits to those projects connected to the distribution system will benefit Illinois ratepayers through a) decrease power congestion, b) relieving the strain on the distribution and transmission systems, or c) reducing the need to site new high voltage interstate transmission infrastructure.

Page 50. Section 3.5.6.1 Ameren Illinois Utilities

Page 52. Section 3.5.6.2 Commonwealth Edison

The IPA notes that the statute establishes a methodology for calculating annual volumetric goals for the portfolio and establishes a Renewable Energy Resource Budget (“RRB”). The RRB will serve as a maximum cost cap for meeting those goals. Accordingly, if the cost cap is met, purchases of renewable energy resources in excess of existing contract amounts would be limited or curtailed, leaving the annual volumetric goal unmet.

The Solar Alliance believes that there is a very significant difference between ceasing to enter into new contracts and the termination of existing contracts. The former is correctable within the market, while the latter would serve to render the REC contracts with the IPA unfinanceable or nearly so – adding a significant risk premium to all contracts and/or limiting participation

significantly. We note that the IPA has reserved this treatment for purchases “in excess of existing contract amounts”, and request that the IPA reassure industry that it does not contemplate curtailable contracts with winning bidders, especially in light of the various conservative and limiting assumptions above, designed to avoid the cost cap entirely.

We thank you for your consideration of our recommendations above.

Sincerely,

A handwritten signature in cursive script, appearing to read "Carrie Cullen Hitt".

Carrie Cullen Hitt
President, The Solar Alliance
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