

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

ILLINOIS POWER AGENCY	:	
	:	
Petition for Approval of the 2017 IPA	:	Docket No. 16-0453
Procurement Plan pursuant to Section	:	
16-111.5(d)(4) of the Public Utilities Act	:	

**RESPONSES OF THE ENVIRONMENTAL LAW & POLICY CENTER TO PARTY
OBJECTIONS/COMMENTS**

Pursuant to the Commission’s October 5, 2016 scheduling order, the Environmental Law & Policy Center (ELPC) respectfully submits its responses to other parties’ Objections to the Illinois Power Agency’s (IPA) 2017 Procurement Plan, which the IPA filed with the Illinois Commerce Commission (ICC) for consideration and approval on September 27, 2016. ELPC’s response comments will focus on the Plan’s treatment of renewable energy issues, but ELPC reserves the right to comment on other issues in its reply comments, including the Plan’s treatment of incremental energy efficiency.

As described below, ELPC believes the objections raised by the Staff of the Illinois Commerce Commission to the IPA’s plan for the procurement of distributed generation (DG) renewable energy resources demonstrate an incomplete understanding of DG market dynamics and could undermine, rather than facilitate, the effectiveness of the DG procurement. While staff raise some reasonable concerns, the IPA is the agency charged with developing a procurement plan and that has the experience of running past procurements and working with market participants and is therefore better-placed than ICC Staff to design a successful procurement. For both these reasons, ELPC respectfully urges the Commission to reject ICC Staff’s Objections to the renewable energy aspects of the IPA’s Plan and approve the IPA’s Plan for the procurement of renewable resources as submitted.

Responses to Staff of the Illinois Commerce Commission

ICC Staff presents arguments against the IPA's planned procurement of DG RECs in two separate procurement events, claiming that "doubling the number of distributed generation procurements is an expensive way to attract more bids," and further argues that the IPA should double the length of the DG REC delivery period to ten years, as a more effective means of attracting bids. (Staff of the Illinois Commerce Commission Objection at 4) While some of the issues raised by ICC Staff are reasonable, ELPC believes the IPA is better placed than ICC Staff to balance the pros and cons of various procurement approaches and design a successful procurement of renewable resources. Not only is the IPA the Agency charged with developing the procurement plan for renewable resources, it also has experience from running past procurements and has gathered feedback from effected parties that inform the approach taken to the 2017 plan for renewables procurement. Therefore, ELPC believes some deference should be granted to the IPA in its effort to make the DG procurement successful. Furthermore, ELPC believes there are some flaws in the reasoning supporting ICC staff's suggested changes to the DG procurement and will address those flaws further below.

ELPC agrees with ICC Staff that holding more than one procurement event will increase administrative costs, but strongly disagrees with the assessment that holding multiple events will "spread lackluster interest among potential suppliers even thinner." (Staff of the Illinois Commerce Commission Objection at 4) Rather, ELPC expects that holding more than one procurement event will lower barriers to entry for DG REC suppliers that are small businesses and better harmonize DG procurements with the market cycle for smaller solar DG projects.

Smaller solar DG projects have a development timeline that is far shorter than 12 months, so scheduling DG procurements no more frequently than an annual basis results in a mismatch of

supply and demand. With annual procurements, all the demand for RECs occurs in one event while the development of new DG systems supplying those RECs occurs over the course of the year. Additionally multiple procurements supports the development of the DG market by helping to foster a continuous – rather than a stop and go – market environment, providing predictability and reliability to participants. A stable and developed DG market will be better able to support participation in IPA procurement events, therefore contributing to event success. Furthermore, annual DG procurement events exacerbate the problems faced in speculative bids by those developers for whom the deposit is a barrier to entry. Small businesses with limited cash on hand may struggle to carry deposits on the books for a full year and/or be artificially limited in the number of systems for which they are able to submit bids. Thus, holding multiple procurements is an important method for increasing participation in the DG procurement and ensuring the success of procurement events. ELPC would further note that successful procurement events are the most effective way to lower per REC administrative costs by spreading fixed administrative costs among a greater number of contracted RECs.

ICC Staff offers a single argument to support the suggestion of doubling DG REC contract length: “...to the extent to which doubling the contract term to 10 years would improve the attractiveness of the contracts to potential suppliers, it seems likely that the average winning prices resulting from the procurement would be lower and the quantity purchased closer to the targets.” (Staff of the Illinois Commerce Commission at 5) While there are both merits and detriments to doubling contract length, ELPC believes that ICC Staff’s ultimate suggestion that “spending limits for each event be split equally between 5-year and 10-year contracts,” risks further complicating an already complex procurement. (Staff of the Illinois Commerce Commission at 5)

ELPC agrees with ICC Staff that longer terms can increase contract attractiveness to suppliers, all else being equal, however all else *may not* be equal in this case. Ten-year contracts spread payments out over a longer period, which may prove unattractive to suppliers that prefer to receive payments sooner. It is unclear how these competing interests would interact, but ELPC doubts that 10-year contracts would result in a meaningful increase in supplier interest and, under a worst-case scenario, could dim interest. Further, while ELPC agrees that the average winning REC price would likely be lower and the overall number of RECs procured higher, it does not follow that the number of RECs procured *per year* would be closer to the statutorily determined goal.

More importantly, ELPC believes that splitting the DG procurement between 5- and 10-year contracts will add unnecessary complexity to the procurement event that would dilute supplier interest and, potentially, increase transaction costs (both administrative and suppliers' time investment) at the margin. For this reason, ELPC recommends against splitting the DG procurement evenly between 5- and 10-year contracts.

Conclusion

As described above, the Commission should reject ICC Staff's Objections to the renewable energy aspects of the IPA's Plan in order to ensure a successful DG procurement that meets the goals of the Illinois Renewable Energy Standard at 20 ILCS 3855/1-75(c) and the Illinois Power Agency Act's requirement to procure "adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest cost over time, taking into account any benefits of price stability." (20 ILCS3855/1-5)

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Respectfully submitted,



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