

**Adjustable Block Program REC Pricing Update  
Request for Stakeholder Feedback**

**November 23, 2020**

The initial Long-Term Renewable Resources Procurement Plan (“Long-Term Plan”) contained a schedule of Renewable Energy Credit (“REC”) prices for the Adjustable Block Program developed based on NREL’s CREST model and included a provision that REC prices would decline 4% between blocks. The Agency’s [Revised Long-Term Plan](#), approved by the Illinois Commerce Commission (“ICC”) in Docket No. 19-0995 on February 18, 2020, generally maintained the initial Long-Term Plan’s REC pricing approach.<sup>1</sup>

In its Order approving the Revised Long-Term Plan, the ICC made several determinations regarding REC Pricing. First, the ICC requested that the IPA “consider lowering the Block 5 price any amount up to its discretionary power to reduce prices 25% without Commission approval” as authorized through Section 1-75(c)(1)(M) of the IPA Act, a process for which the law seeks that “stakeholder feedback” be considered. Second, the ICC stated that, “[f]or prices, the IPA must recognize market signals rather than solely relying on its cost modeling approach,” and that “[p]rior to the next plan update filing, the IPA must meet with parties in an attempt to narrow the issues presented consistent with the findings the Commission has made herein.”<sup>2</sup> This Request for Stakeholder Feedback on an Adjustable Block Program REC Pricing Update is the Agency’s first step in addressing those determinations.

**Responses to this Request for Stakeholder Feedback should be submitted to the IPA by December 21, 2020 by emailing written responses to [IPA.Solar@illinois.gov](mailto:IPA.Solar@illinois.gov) with the subject “Responses to REC Pricing Feedback Request.”**

All responses will be posted to the Adjustable Block Program website. In general, responses will be made public and published on the ABP’s website (<https://illinoisabp.com/>). However, should a commenter seek to designate any portion of its response as confidential, that commenter should provide both public and redacted versions of its comments.

The Agency expects that it will then hold stakeholder virtual workshops to discuss the written stakeholder feedback received and release proposed revised REC Prices for additional feedback (including written comments and one or more workshops) prior to finalization. The Agency will

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<sup>1</sup> See Section 6.4 of the Long-Term Plan for REC Prices. Detailed information describing the methodology used to determine REC prices can be found in Appendix D, and spreadsheet models can be found in Appendices E-1 to E-5. See: <https://www2.illinois.gov/sites/ipa/Pages/2018-Long-Term-Renewable-Appendices.aspx>

<sup>2</sup> ICC Docket No. 19-0995, Final Order dated February 18, 2020 at 46-47.

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also hold additional feedback processes to develop the REC Pricing approach contained in the next Revised Long-Term Plan.

### **STAKEHOLDER FEEDBACK QUESTIONS**

The questions listed below are separated by 1) shorter-term considerations for potential opening of new blocks of capacity, and 2) longer-term considerations about the Agency's approach to REC Pricing that could be included in the next Revised Long-Term Plan.

#### **Block 4/5 Pricing**

While opening of additional blocks of capacity in 2021 for the Adjustable Block Program (Blocks 5 for Community Solar and Large Distributed Generation, and Block 4 for Small Distributed Generation) would require legislative action to revise the Renewable Portfolio Standard funding formula, the Agency desires to gather stakeholder input to be prepared to open those blocks with potentially revised REC prices (other than the scheduled 4% price decline) should such legislation be enacted. These changes would be more limited in scope than a wholesale update to the REC Pricing model and would have to be no more than a 25% change from the planned REC prices (to allow changes to be made without requiring approval by the ICC).

Concurrent to this request for stakeholder feedback the Agency is also releasing a request for stakeholder feedback on the project selection process for community solar project to select community solar projects for 50% of the available community solar capacity that would diversify the types of community solar projects developed in Illinois. For the purpose of this request for feedback stakeholders should comment separately on REC pricing for projects that would be selected off the community solar waitlists and REC pricing for those more diverse type community solar projects.

#### ***Distributed Generation***

1. Should the Agency maintain the current 4% price decline between blocks?
  - a. Are there different considerations for the Small DG and Large DG categories?
  - b. If the 4% price decline is maintained would the resulting REC prices appropriately reflect current market conditions such as the level of the Investment Tax Credit, net metering credits, and interconnection costs?
2. Rather than implementing a 4% price decline, should the Agency maintain the current REC pricing model (based on the NREL CREST model as described in Appendix D of the Long-Term Plan) but update inputs such as capital costs, operations and maintenance costs, financing assumptions, net metering values?
3. Are there other market-based signals that would better inform setting REC Prices for Block 4 (Small DG) and Block 5 (Large DG)?

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4. How can responding to market-based signals best be incorporated into a pricing regime “designed to provide a transparent schedule of prices and quantities to enable the photovoltaic market to scale up and for renewable energy credit prices to adjust at a predictable rate over time”? How should the Agency understand “market signals” necessitating price changes for Small DG blocks given the slower pace of blocks being filled necessitated by the volume of projects required to fill blocks?
  5. Are there any other considerations that should inform the Agency’s approach to REC pricing for new DG blocks?

### *Community Solar*

6. For community solar projects selected off of the existing ordinal community solar waitlists, should REC prices be adjusted? If so, how?
  - a. Should the 4% price decline be maintained for Block 5?
  - b. Similar to Distributed Generation, are there updates to inputs to the REC Pricing model that should be considered? Does the assumption of 20% savings for subscribers contained in the REC Pricing model accurately reflect market conditions?
  - c. Are there other market-based signals that could be used for setting REC prices?
  - d. Are there adjustments to the small subscriber adder that should be considered to better reflect actual market experience on the cost of acquiring and maintaining subscribers? (Note that the small subscriber adder levels could be adjusted, but changing the incentive level categories [25-50% or 50% and over small subscribers] would require a revision to the Long-Term Plan.)
  - e. Are there any other pricing considerations that should be taken into account?
7. For community solar projects selected to increase the diversity of community solar project types, additional questions include:
  - a. Do the REC price differentials for smaller sized projects (e.g., adjustments for sizes less than 500 kW) properly reflect the additional costs likely to be incurred by those projects?
  - b. Are there different considerations for updating the small subscriber adder for these projects given that they may utilize different subscriber acquisition models or may be drawing from a smaller pool of potential subscribers? If so, how should prices be adjusted to reflect these differences?
  - c. Should adjustments be made for the potentially higher costs associated with developing projects in more urbanized areas where site acquisition and other costs may be higher? If so, how should those adjustments be incorporated and what should be used to define urban versus rural areas?
  - d. Are there other considerations to be considered for the REC prices for this category of community solar projects?

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### Revised Long-Term Plan

The Agency will begin the process of updating the Long-Term Plan in 2021, with the expected release of a draft Revised Plan for stakeholder feedback on August 15, 2021. That draft Revised Plan will provide the Agency and stakeholders the opportunity to take a fresh look at REC prices for the Adjustable Block Program.

8. Should the Agency maintain an approach of predetermined price changes between blocks? If so, should the size of blocks be changed? How would that impact the price change between blocks? Alternatively, should blocks be based on a time period (e.g., annual or semi-annual blocks) rather than capacity to be filled?
9. The REC Prices in the Initial and Revised Long-Term Plans were developed using a model based on the NREL CREST Model, which is a cost-based build-up of expected project costs and revenues.
  - a. Should the Agency continue to use a cost-based approach for REC prices? Or should the Agency move towards a market-based approach such as indexing prices to REC prices from competitive procurements, or based on other market observations?
  - b. If using a cost-based approach, are there models other than CREST that the Agency should consider using for determining REC prices?
  - c. If continuing to utilize the CREST model, are there specific changes to the model design or inputs that should be considered?
  - d. If using a market-based approach, what methodology would you recommend for establishing REC prices? Given differences in state law and policy, can or should prices from other markets be utilized? Besides the IPA's competitive procurements, what other market observations could be utilized?
  - e. Should the approach to determining REC prices for distributed generation and community solar remain the same? If not, how should the two be different?
10. The current REC Pricing Model for Large DG (and community solar) creates a series of price buckets, 10-25 kW, 25-100 kW, 100-200 kW, 200-500 kW, 500-2,000 kW.
  - a. Do these accurately scale prices to the economics of different project sizes? Should these categories instead be adjusted? If so, how?
  - b. Are the specific differences between residential and non-residential projects that should be considered? If so, what definitions should be used to determine residential versus non-residential projects, especially in mixed use situations like farms, live/work spaces, and home based businesses.

The Agency also welcomes any suggestions and recommendations on REC Prices that may not be reflected in these questions.