Allocation of Adjustable Block Program Discretionary Capacity

April 3, 2019

Section 1-75(c)(1)(C)(i) of the Illinois Power Agency Act requires that the Illinois Power Agency ("IPA" or "Agency") procure a target of one million renewable energy credits ("RECs") delivered annually by the 2020-2021 delivery year through the Adjustable Block Program. As described in the IPA's Long-Term Renewable Resources Procurement Plan, the nameplate capacity required to meet this target constitutes approximately 666 MW of new photovoltaic projects. Consistent with the Illinois Commerce Commission's Order in Docket No. 17-0838, Blocks 1 through 3 of all Groups (Groups A and B, representing projects located within the MISO and PJM portions of Illinois respectively) and categories (small distributed generation ("DG") systems, large DG systems, and community solar projects) together constitute 75% of that 666 MW, with 25% of capacity (166.5 MW) withheld for the Agency to hold in reserve and allocate at its discretion.

The Adjustable Block Program opened for project applications on January 30, 2019. Since then, the initial 14-day lottery application window has passed, and the Program Administrator's review of initial project applications has been completed. While the Agency notes that uncertainty still remains about projects needing to cure any deficiencies, the outcome of the Agency's April 10, 2019 lottery process, the resulting REC prices for selected projects (especially with respect to community solar projects, which may elect small subscriber adders), and the energization timeline of those projects, the Agency feels that it presently has sufficient information for determining its allocation of discretionary capacity to the various Groups/categories under the Adjustable Block Program. This notice offers the Agency's allocation of that discretionary capacity.

PROCESS & ANALYSIS

In its November 28, 2018 Lottery Procedure (Paragraph F.2), the Agency described its proposed process for determining the allocation of discretionary capacity as follows:

> *The Agency will allocate the remaining 25% of program capacity (approximately 166.5 MW) to various Groups/categories after evaluating the results of the initial program launch to assess the available Renewable Resources Budget (accounting for commitments made from the competitive Forward Procurements for RECs from utility-scale wind, utility-scale solar, and brownfield site solar, and the funding limitations created by the end of the budget roll-over period that concludes with the 2020-2021 delivery year), demand in the various Groups/categories, any unexpected barriers to participation, or other factors related to creating a robust and diverse portfolio of projects. To the extent funding is available, the Agency will allocate the remaining capacity to the various Groups/categories as soon as practicable and will endeavor to do so prior to conducting a lottery.*

The initial 14 days of the Program featured three Group/category combinations (Group A - Community Solar, Group B - Community Solar, Group A - Large DG) each receiving applications with over 200% of Block 1 capacity, thus resulting in lotteries for each. A fourth Group/category combination (Group B - Large DG) received applications with over 100% but less than 200% of Block 1 capacity, thus not resulting

in a lottery, but has since exceeded the capacity of its first three blocks in project applications.[1] Perhaps not unexpectedly given the quantity of small DG projects required to fill a block's capacity, challenges in aggregating large numbers of small projects, and perhaps also Approved Vendors still potentially waiting on the ability to upload full batches en masse, neither Small DG Group has yet to exceed—or even approach—its Block 1 capacity.

One of the more challenging tasks faced by the Agency is assessing the expected available Renewable Resources Budgets of the utilities, which provide a cap on the amount that can be spent to support the Adjustable Block Program. This analysis must account for at least the following: existing and planned (or expected) commitments from competitive Forward Procurements for RECs from utility scale wind, utility-scale solar, and brownfield site solar; prior DG procurements; the yet-to-be-conducted Community Renewable Generation Program Forward Procurement; long-term REC contracts from years before 2017 (such as the 2010 Long-Term Power Purchase Agreements); Section 1-75(c)(1)(O) of the IPA Act's funding allocation for the Illinois Solar for All Program and required set-asides for job training; RPS administration costs; and, perhaps most importantly and as explained further below, the funding limitations created by the end of the four-year budget roll-over period that concludes with the 2020-2021 delivery year.

Section 16-108(k) of the Public Utilities Act allows the balance of the RPS rider collections starting with the 2017-2018 delivery year to roll over from year to year, allowing for the Agency to leverage funds collected during the program's initial years to meet later-paid contract obligations. However, as the Agency understands Section 16-108(k), the ability for such funds to be rolled over concludes at the end of the 2020-2021 delivery year (with any unspent funds from that four-year period refunded to customers); RPS budgeting will be on a year-to-year basis thereafter. Because the statutorily mandated REC payment structure for the Large DG and Community Solar project categories requires 20% payment on energization and the remainder ratably over the subsequent four-year period, many contractual payments from the initial and discretionary capacity of the Program will extend into and beyond the 2021-2022 delivery year. This creates a possible bottleneck for future RPS spending. While the allocation of discretionary capacity described below accounts for that bottleneck, the Agency notes that committed funding obligations could constrain the opening of additional blocks for the next several years. Given that certain projects feature higher REC prices with payment obligations structured to create greater future budget stress (in particular, full-sized community solar projects featuring 75%+ small subscriber commitments create a particular challenge for future delivery years, given the volume of committed REC deliveries at that price), the Agency's capacity allocation was made mindful of future budget impacts and the need to ensure that budget limitations are not exceeded.

The availability of any additional funds to support projects *beyond* the initial 666 MW outlined in the Long-Term Plan for future block openings depends in large part on either a) the ability to leverage previously-collected alternative compliance payments held by utilities (which could potentially be handled through this Summer's Long-Term Renewable Resources Procurement Plan revision process, subject to ICC approval in December) and b) the ability to leverage previously-collected Renewable Resource Budget funds beyond the 2020-2021 delivery year (which would likely require a change in state law).

Consistent with the criteria discussed in its Lottery Procedure, the Agency has also considered demand in the various Groups/categories of the Program, any unexpected barriers to participation, and other factors related to creating a robust and diverse portfolio of projects. On this point, the Agency believes that category demand must also be understood in the context of a project's development cycle. For a community solar project, no subscribers need yet be identified at the time the project is submitted into the program; the demand exists primarily on behalf of a project developer (and perhaps also the site host in the case of a land

[1] The present status at any time of project applications in the Program can be viewed at: http://illinoisabp.com/dashboard-status.

lease given the potential revenues through lease payments). The project application is inherently more speculative,[2] and not necessarily indicative of end user (i.e., subscriber) demand.

Alternatively, the project development cycle for DG projects is fundamentally different: proposed DG projects first require Illinois residents or businesses serving as system hosts making the affirmative decision to go solar, with that system proposed to primarily offset that customer's electricity usage. This demand exists from the ground up, beginning with the demand for solar from many of the residents and businesses who are funding the Adjustable Block Program. The portfolio of Large DG projects is also significantly more diverse than that of community solar (for which the vast majority of project applications are from systems at or near 2 MW in size located in largely agrarian areas, presumably due to economies of scale and lower land costs), with Large DG project applications supporting a wide variety of residential and small business installations, public facility projects, and large commercial and industrial users in urban, suburban, and rural areas all across the State. The diversity of projects within the Large DG category has been considerable, with over 1,300 projects received ranging in size from 2 MW to 10.027 kW with a mean of 191.78 kW and a median of 25 kW, exhibiting a true variety of system sizes—and system hosts—within that category.

Perhaps most notably, Large DG systems are also expected to carry a significantly lower average REC price than community solar systems (most of which, it is expected, will seek the full 75% small subscriber REC price adder) or Small DG systems. Stated differently, each approved MW of community solar or Small DG can be expected to carry a more significant budget obligation than a comparable MW of large DG.[3] This means that greater support for Large DG through discretionary capacity allocation carries reduced future Renewable Resource Budget risk while actually resulting in *closer parity* between DG and community solar projects on a *budget* basis.

In addition, some Large DG projects have already been built and energized by residents and businesses who took the enactment of the Future Energy Jobs Act as a signal to move forward and do their part to help grow the solar energy sector in Illinois. While already-energized projects are perhaps the most deserving of support, the Agency would strongly prefer not to now introduce a new distinguishing criterion between projects (energized vs. non-energized) that was not previously announced—given that if Approved Vendors were on notice that energized projects would receive preferential treatment, perhaps more projects would have been submitted as energized. The Agency strongly believes that failing to accommodate both projects that have been energized and the commitments of others who have planned their own specific DG projects is not consistent with its charge in administering the Adjustable Block Program to the benefit of Illinois residents and businesses.

In sum, the Agency believes that future budget risk and achieving a robust and diverse portfolio of projects is best supported by a proportionately larger allocation to the Large DG category, including supporting all Large DG projects submitted during the first 14 days after the Program's opening. While the Agency acknowledges and appreciates the significant developer interest in additional community solar projects(and makes a substantial discretionary capacity allocation to community solar, as described below), it must also acknowledge the difference between developer demand versus the established demands of Illinois residents

[2] Indeed, the Agency has observed developers attempting to obtain permitting for community solar projects with no actual intent that the project ever be developed: https://www.pjstar.com/news/20181021/marshall-county-hearing-shines-spotlight-on-solar-lottery-program.

[3] While projects may ultimately not achieve their anticipated small subscriber levels, for budgeting purposes, the Agency must assume that those levels will be met.

and businesses who have actively chosen to go solar under the expectation that support would be available inherent in DG applications.

DISCRETIONARY CAPACITY ALLOCATION

Given its analysis above, the Agency has allocated the remaining Adjustable Block Program capacity in a manner which it believes best accommodates the considerations applicable to its allocation. Those discretionary allocations for each Group/category are shown in the table below; all projects selected using discretionary capacity will receive Block 4 pricing.

Group	**Small DG**	**Large DG**	**Community Solar**
Group A	0 MW	91.5 MW	12 MW
Group B	0 MW	33 MW	30 MW

In making these allocations, the Agency has decided to ensure that all approved Group A - Large DG projects that applied to the Program during the initial 14 day application window are accommodated through the discretionary capacity allocation—without having to distinguish between energized and not yet energized projects. With 49.5 MW of capacity allocated to Blocks 1-3 in Group A – Large DG, that requires approximately 83.5 MW of discretionary capacity.[4] While the Agency understands that this results in geographic imbalance (at least relative to the Agency's initial proportions for allocation), the Group A - Large DG projects supported through this allocation have established demand from Illinois residents and businesses, should contribute to a robust and diverse portfolio of projects, and will create reduced budget stress in the future years of the Adjustable Block Program. As stated in Section 6.3 of the Long-Term Renewable Resources Procurement Plan, while the Agency and the Program Administrator will endeavor to allocate REC contracts within the utility service territory where the project is located, "that will not always be possible." As supporting applicant Large DG systems for the reasons outlined above is not possible without having some Group A projects featuring ComEd as the contractual counterparty, there will be some Group A projects resulting in a contract between the Approved Vendor and ComEd.

By allocating 91.5 MW of additional capacity to Group A - Large DG, approximately 8 MW of additional Category capacity will be available to support additional applicant projects in Group A - Large DG received after February 13, 2019, 12:00 PM.

As referenced above, there will be a lottery for the Group A - Large DG category among projects having applied within the first 14 days. Projects selected via the lottery (totaling 49.5 MW of capacity) will receive Block 1 or Block 3 prices (depending on their lottery selection ordinal ranking). The remaining projects not selected in the lottery and placed into the allocated discretionary capacity will receive Block 4 pricing. Projects that applied after the initial 14-day period will also receive Block 4 pricing, up through the exhaustion (after considering projects in chronological order of application) of the total allocated capacity in Group A - Large DG (141 MW).

For Group B – Large DG, the Agency is allocating an additional 33 MW of discretionary capacity to support the growing demand for that Group/category.[5] The Agency believes this allocation will help support additional projects within a popular market segment (one which has now surpassed its first three blocks in

[4] 133 MW of Group A – Large DG project applications were received during the initial 14 days. The Agency notes that some projects may be withdrawn, or fail to cure application deficiencies, so the final quantity of Group A – Large DG projects that applied during the first 14 days and are approved will likely be less than the amount described here.
[5] As of April 2, 2019, with applications received for Group B - Large DG since February 13th, 12:00 PM, approximately 5.5 MW of this 33 MW discretionary allocation is accounted for through received project applications.

project applications received) while creating reduced budget stress given relatively low average REC prices while contributing to a robust and diverse portfolio of projects. Consistent with the Agency's March 22, 2019 announcement regarding Group B - Large DG, all approved applications received by April 5, 2019, up to an aggregate cap of 117 MW (the sum of Blocks 1-3), will receive Block 1 (if the application was received within the first 14 days) or Block 2 (if the application was received thereafter, but before the 117 MW aggregate cap was met) pricing. It is expected that Block 3 will be skipped because a cumulative 117 MW will have been received when Block 2 closes on April 5th. Block 4 will then open through this allocation of discretionary capacity, with project applications received by April 5th but above 117 MW allocated first based on the order of application, and then project applications received after April 5th allocated next—but in no event to exceed a cumulative total of 150 MW in Group B - Large DG.

With community solar applications of 940 MW for Group A and 864 MW for Group B, no allocation of discretionary capacity could possibly accommodate all—or even a substantial portion of—applicant projects. Nevertheless, in recognition of that level of developer interest, the Agency will allocate an amount equivalent to 25% of the original Blocks 1-3 allocations to each Community Solar Group (taking into account rounding and adjustments to recognize the typical 2 MW size of community solar projects). The Agency believes this allocation will help support the significant interest in community solar project development, while also protecting the Renewable Resources Budget given the higher expected REC prices resulting from those projects. Following the selection of projects to receive Blocks 1-3 capacity for Group A - Community Solar and Group B - Community Solar projects via the respective lotteries, the discretionary capacity (at Block 4 pricing) will be allocated based on projects' rank orders in the respective lottery waitlists.

With respect to Small DG projects, project applications received to date have been, by capacity, far lower than with other categories. While this may be in part due to the barriers described above, the Agency believes that Small DG program demand received to date has been insufficient to warrant allocation of discretionary capacity. In addition to the comparatively low interest in the Small DG category shown to date in relation to the other Program categories, substantial allocation to this category could create a budgetary constraint, as the REC prices for Large DG projects are significantly lower than those for Small DG.

Additionally, the Agency notes that there are several legislative proposals now being considered in Springfield that would impact the available budget for the Adjustable Block Program (and potentially other renewable energy procurements). Should such legislation be enacted, and depending on what that legislation ultimately authorizes, the Agency could also revisit allocations to the Adjustable Block Program and may be able to open additional blocks sooner than would be possible under existing law (and its resultant budget constraints).

The Agency and the Program Administrator appreciate the hard work and significant commitment of resources provided by Approved Vendors and other parties in preparing the project applications received during the Program's launch. The Adjustable Block Program has received unprecedented interest and will result in the development of massive amounts of new solar generation across Illinois. While we understand that not every stakeholder will agree with this allocation of discretionary capacity, it is the product of attempting to balance competing concerns against the backdrop of a limited budget as described above. Not all applicant projects can be supported in the Program's first phase, and we hope to support many additional projects in future years.