



**Borrego Solar Systems, Inc. Comments on the Illinois Power Agency's
Block 1 Lottery Strawman Proposal**

Borrego Solar Systems, Inc. (“Borrego”) appreciates the opportunity to submit comments on the Illinois Power Agency’s (“IPA”) Block 1 Lottery Strawman Proposal (“Strawman”). Borrego was formed in 1980 in Borrego Springs, California and over the last 38 years has expanded across the country, most recently into Illinois in early 2017. In the recently released 2018 GTM Research Solar Leaderboard, Borrego ranked #1 in market share in California and New York for commercial installations (including community solar), and #2 nationally. We have a long history of executing projects from development to construction to operations and maintenance and have projects in Illinois that could begin construction as soon as the Adjustable Block Program opens.

We recognize and appreciate the time and thought that went into the development of both the Long-Term Renewable Resources Plan (“LTRRP”) and the Strawman. Starting new markets is never easy, and every new market has growing pains. However, we fear that without some additional changes to the proposed Strawman we are headed for not only market confusion, but potentially market failure.

In general, Borrego does not support the lottery as it does not promote an efficient and cost-effective market. An efficient market sends clear signals with clear risks to participants, while a lottery leaves virtually everything up to chance. In the current structure there is both pre- and post-lottery chaos. There is pre-lottery chaos because participants are encouraged to throw in every project whether viable or not, with the hope that projects before them in either the Block or interconnection queue will drop out, resulting in a higher REC contract and lower interconnection costs for their project. While there is some truth to this thinking, it is not efficient from a cost or timing perspective.

There is post-lottery chaos because of the lack of concise, useable information about interconnection costs. If a project is not first or second in the interconnection queue, it is virtually impossible to know at this point what the real costs are, and therefore whether the project is viable or not. It is only after projects are restudied, which is currently proposed for post-lottery and post-switching, that a developer will know whether a project further down the interconnection queue is viable. This does not encourage participants to make rational choices. Switching further exacerbates this problem but is necessary within the lottery structure. Considering this dynamic, we encourage the IPA and InClime to consider incentives and conditions to make this process more rational, both pre- and post-lottery.

Incentivize Participants to Make Rational Choices

First, to rationalize the pre-lottery process, we encourage the IPA to consider ways to further incentivize Approved Vendors to only submit “real” projects to the program. At last count, both ComEd and Ameren had

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over 600 community solar projects in their respective interconnection queues. Not all those projects will get through the permitting process in time for the program to open, but a significant amount will. Further, in Ameren there are many counties that do not have zoning, and therefore those projects are unlikely to need a non-ministerial permit. The conclusion is that the number of projects that will be ready once the program finally opens will be significantly higher than the first Blocks can hold. However, many of those projects are of questionable viability for a number of reasons: a) the project is on a feeder or substation that is not currently feasible for distributed generation resulting in massive interconnection upgrades such that no project on that feeder or substation could reasonably move forward, though the Approved Vendor may not have all the information to know this is true; b) the project is contingent on upgrades from projects in front of it in the interconnection queue and therefore doesn't know its true costs, or the contingent costs if those projects before them drop out; or c) the project is merely a way for the developer to have another entry into the lottery. Note that these reasons are not mutually exclusive. We understand that "real" is in the eye of the beholder, but there is ample evidence that the current situation is encouraging Approved Vendors to submit projects that they have no intention or no way to build, only to get an extra ticket in the lottery.

The result of this situation is that a real project may have a 1 in 600 chance of winning a ticket for a REC contract, whereas if Approved Vendors are incentivized to only submit real projects, the chance may go down by several factors. Incentivizing Approved Vendors to put in real projects will also help the utilities post-lottery, as they may be able to clear projects out of the interconnection queue more effectively and therefore limit the projects that need to be restudied.

Specifically, we recommend the IPA considering implementing any or all the following measures:

1. Recognizing that many of the following options may give an unfair advantage to early entrants or well-capitalized market participants, Borrego believes that the following options should be coupled with a developer cap such that no Approved Vendor could receive REC contracts for more than 30% of each of the capacities of Blocks 1-3 as identified in the updated LTRPP. We also suggest this carry on into future, to yet-to-be-identified Blocks. This will require some diligence on behalf of the IPA and InClimate to make sure shell companies and affiliates aren't set up to circumvent the cap. Other states (e.g. New York) without these measures in place has resulted in gaming of both the interconnection queue and the incentive queue. These issues were resolved by staying the entire program, purging the queues, and starting over. The IPA and InClimate can avoid that outcome from the start.
2. Require Approved Vendors to post a significant pre-bid deposit that is only refundable once a project hits a certain milestone, such as signing the REC contract (and thus committing to the project collateral) or achieving mechanical completion. This deposit should be cash and can be held by the IPA or the utility. This will make participants consider whether tying up significant capital to submit questionable projects, and later to hold a Block queue position, is worthwhile. To further encourage Approved Vendors to really consider which projects to submit to the program, we also encourage the IPA to

consider whether there should be a financial penalty or a time-out period for projects that drop out of the Block queue after the switching period. If Approved Vendors throw in non-viable projects and then drop those projects out of the Block queue after switching, perhaps they will think twice about doing so if the financial penalty is high enough. Alternatively, perhaps Approved Vendors will reconsider entering questionably-viable projects if the refund of the deposit won't come back to them for a significant period of time, perhaps even multiple years. There are nuances to think through with this option, as the intent is not to penalize real projects which may have legitimate reasons to drop out of the Block queue (e.g. a massive increase in interconnection costs), even those that don't immediately receive a REC contract, but to prevent gaming.

3. Prioritize the lottery for projects that are more “ready” than others. The lottery in general gives hope to Approved Vendors (or later projects from early-market entrants) that entered the Illinois market very late, even if their projects have high interconnection costs. These Approved Vendors/projects hope that projects in front of theirs will not receive a REC contract and drop out, thus making their project viable. This is exacerbated by switching. In many other programs, projects that were ready earlier are awarded with a contract. In fact, the initial first-come, first-served structure does just that. The delayed opening of the program ensures a lottery, and the lottery upends this process. A way to ensure some order to the chaos – both pre- and post- lottery – is to prioritize projects that are not reliant on additional information to move forward. An example of this is to weight or prioritize the lottery for projects that are either 1) first in the interconnection queue, 2) not contingent on other projects' interconnection upgrades, or 3) have early dates of application acceptance to the interconnection queue as well as early receipt of non-ministerial permits. All “ready” projects must have an executed Option and Lease Agreement (or proof of ownership of the site), not just a letter of intent, and would have to prove their place in the interconnection queue or that they are not contingent on other Approved Vendors' interconnection upgrades to move forward. These projects should be lined up in the Block queue for future Blocks before other projects, which will require the IPA to create additional groups in the lottery.
4. De-prioritize the second project on co-located sites. Co-location has benefits, many of which were articulated in the deliberation of the IPA's Long-Term Renewable Resources Plan (“LTRRP”) and are not worth repeating. However, for the specific and limited purpose of diversifying lottery results, we believe it prudent to limit the second of co-located projects from getting a priority Block queue position. Co-located projects can still participate through a final group of the lottery but should be lined up in the Block queue after all the other projects. Approved Vendors should also not be allowed to switch tickets to the second of co-located sites during the switching period. As a side note, this may negate the need for a separate co-located project price as the second of the co-located projects will by default receive a lower Block price. It should be clarified that the first co-located project receives the regular Block price, not the reduced price, as it is unclear if the second of the co-located projects would move forward.



Project Verification

To limit the possibility of gaming, we strongly recommend the IPA and InClime take the appropriate time to fully verify that projects have submitted the required information, and that there are not repeat applications for the same project. Each project should have a signed interconnection agreement, all non-ministerial permits, and site control. The LTRPP only requires proof of site control/host acknowledgement, but for community solar projects this should be strengthened so that projects must have an executed Option and Lease Agreement (or proof of site ownership). As recommended above, an executed Option and Lease Agreement should be required for “ready” projects, but in truth this should be required for all community solar projects. This is of particular concern for territories where there is no zoning or permit required to move forward. In these situations, a developer could have an eligible project with just a letter of intent and an interconnection agreement. This is not the intent or spirit of the barriers to entry outlined in the LTRPP, and we therefore encourage the IPA and InClime to clarify this for community solar projects. If the IPA and InClime need additional time after the lottery is triggered to verify that projects are indeed eligible, they should take such time. We applaud the IPA and InClime for striving to hold the lottery within 35 days of program opening, but if another few weeks is needed to verify eligible projects (especially if additional factors are included, such as readiness and co-location), then the IPA and InClime should take the time to do so. A delay in running the lottery for community solar need not delay the progress of the other market segments.

Further, we highly encourage the IPA to have a No Tolerance policy for gaming. If a developer puts in an application for a 2 MW rooftop community solar project and can’t prove that the rooftop can hold 2 MW, thereby providing evidence that the developer only put in the project to get an extra ticket, that developer should be banned from the Adjustable Block Program. Similarly, any gaming of the co-location rules should result in the Approved Vendor being banned from participating in the program and forfeiture of any deposits. This is not the intent of the law. We understand there may be a fine line distinguishing a “gamed” project and a project that currently has high interconnection but may someday be viable. We nonetheless suggest the IPA do the necessary due diligence to weed out the blatantly bad actors.

Clarify Project Switching

It has been suggested that eliminating switching may also make Approved Vendors think about whether they want to submit certain projects into the process. That may have merit but eliminating switching also hurts viable projects because there are legitimate reasons for Approved Vendors to want to switch their viable projects around, even Block to Block. With the lottery, switching is essential. And there are other ways to incentivize Approved Vendors to think twice about which projects to submit.

We do have several issues or ask for clarification on switching in the following ways:

1. The Strawman suggests that Approved Vendors would be able to switch “non-selected” projects with “selected” projects. However, why can’t Approved Vendors reassign their entire portfolio of eligible projects within the appropriate Group and within the given timeframe? It may help the economics of projects to allow Approved Vendors to switch a Block 1 project with a Block 3 project and vice versa, so long as both projects meet the same subscription intention. The Block 3 project may have a higher interconnection cost than the Block 1 project, and it does no harm to allow those projects to switch. Further, for “non-selected” projects, it may be beneficial for Approved Vendors to move projects around in the waiting list to better the economics. Approved Vendors will want to line up their most viable projects that did not immediately receive a REC contract in anticipation of additional Blocks opening in the future. It is a mistake to believe that Approved Vendors will abandon all their development that doesn’t immediately get a contract, and we see no further harm in allowing Approved Vendors to consider their entire applicable portfolio. This will encourage the long-term commitment by Approved Vendors to the state and their projects along with affected project stakeholders.
2. IPA needs to clarify that switching projects means switching projects in between specific Block queue spots, not switching and then having the switched-out project fall to the back of the Block queue. There was some confusion after the webinar about this issue. As articulated in the point above, we believe Approved Vendors essentially win Block queue positions and should be able to move their entire portfolio between those given positions, as well as throughout their waitlist positions, during the given timeframe without giving up any of their Block queue/waitlist positions. Again, so long as those listed projects were all submitted within the same 14-day timeframe and stay within the same Group.

The lack of true interconnection information does make it difficult for Approved Vendors to make completely rational switching decisions, so there will still be some unavoidable post-lottery chaos even if pre-lottery strategies are employed. It should be noted that interconnection costs are high, even for projects that are first in the interconnection queue, so it is not merely a problem of volume. We do not expect to receive better or additional information about interconnection before the program opens, so the risk is on Approved Vendors when they switch projects, particularly if there is a potential to forfeit all or part of a pre-bid deposit.

Affiliates

We support the ability of an Approved Vendor to switch projects within its discreet portfolio. We do believe there will be attempts at gaming of this situation, particularly if additional conditions or caps are employed. We therefore suggest that the IPA and InClime be vigilant to such gaming and penalize Approved Vendors that game the system by creating shell companies, Approved Vendors, or multiple affiliates.



Privacy

We respectfully disagree with the IPA and InClimate's decision to release project specific information after the lottery. We do not believe that addresses of projects ever need to be released, but certainly it should not be released until after switching has finished. Releasing this information will only add to the post-lottery chaos.

Additional Capacity Allocation

We agree with the Joint Solar Parties and individual trade associations that the intent of the Joint Solar Parties suggestion was not to withhold the additional capacity indefinitely, but rather to immediately give it to the market segment(s) that have clearly demonstrated the most demand. This could be accomplished after the lottery is triggered for any given category. The IPA could look to see the overall demand in each category and appropriately allocate the remaining capacity by increasing Block 3 and adding a Block 4, where appropriate and warranted. Doing so will help alleviate some of the potential post-lottery chaos associated with interconnection queues, as more projects will have the certainty of a REC contract and will be able to confidently make interconnection payments.

Reply Period

Finally, we encourage the IPA and InClimate to allow a short, limited reply period. We do not want to delay the Program Opening. In fact, we'd love for the program to open sooner. But this process is too important to not get another chance to offer comments. To that end, we encourage a very short time period for replies, and a requirement that replies are limited to discussion topics addressed in initial comments.

In conclusion, we reiterate our recognition of the thought and effort that went into drafting the Strawman and the LTRRP. And we appreciate the opportunity to respectfully submit these comments. We believe the Illinois solar market can be successful, and that companies like ours will be justified in our commitment to Illinois.

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