



July 21, 2014

BY EMAIL AND REGULAR MAIL

Mr. Anthony Star
Director
Illinois Power Agency
160 North LaSalle Street
Chicago, IL 60602

Re: Illinois Power Agency Distributed Generation Request for Comments

Dear Mr. Star:

Affordable Community Energy, Inc. (“ACE”) appreciates this opportunity to present comments in connection with the Illinois Power Agency’s (the “Agency”) development of its program for the supplemental procurement of renewable energy certificates (“RECs”) pursuant to Illinois Public Act 98-0672.

ACE is a limited liability corporation and a subsidiary of Hispanic Housing Development Corporation (“HHDC”), a Chicago-based affordable housing developer with a national reputation for excellence. Established in 1975, HHDC’s mission is to stabilize Latino communities by developing, managing and investing in ventures that increase the availability of affordable housing, promote economic opportunity and enhance the quality of life for community residents. To date, HHDC has developed more than 45 projects with over 3,500 housing units, and it currently manages a portfolio of 4,300 affordable housing units serving more than 12,000 residents.

In 2012 HHDC formed ACE to design, install and finance comprehensive energy efficiency, water conservation and electricity retrofit improvements for affordable housing with two goals:

- To help to keep affordable housing affordable; and
- To reduce its impact on climate change

ACE’s first \$6.25 million project retrofit 11 of HHDC’s projects containing 1,174 units (“Phase I”). This program will result in annual energy cost savings of \$140,000, and an 857-ton



reduction in CO₂ emissions. As it relates to REC's, Phase I included the installation of 600 kW DC of solar photovoltaic production. ACE is currently finalizing an \$8.2 million Phase II project that will include another 530 kW DC of solar production.

With regard to the Agency's request issued on July 3, 2014, ACE respectfully submits the following comments:

1. *For DG between 25 kW and 2 MW in nameplate capacity, should the IPA consider holding procurements for more than one size range category? Are there other attributes that should be considered (e.g., net metering eligibility, community solar projects, residential/non-residential) in determining procurement categories?*

ACE recommends that a separate procurement event be held for a class of solar PV systems that would include both residential and community solar systems with direct current (DC) capacity ratings of <25kW. This would reflect the legislative goal of obtaining half of the RECs sourced from distributed generation from systems <25kW (20 ILCS 3855/1-56(b)). However, the DC capacities of multifamily building systems and community solar projects should be addressed in a way that recognizes their shared ownership or support. For example, a multifamily residential apartment building will usually have a larger roof area than a single-family detached home, and that roof can accommodate a solar PV system correspondingly larger than one suitable for a detached, single-family home. The same is true of community solar PV systems. If the DC capacities of multifamily or community PV systems are taken at face value, then residents in such buildings and supporting owners of such community-based systems may not be able to participate in the carve-out for <25kW systems provided for in the legislation, and therefore these residents and communities would be at a disadvantage relative to systems installed on single-family detached homes. Since the incidence of single-family ownership favors the economically advantaged and multi-family occupancy—particularly affordable housing—favors the economically less advantaged, social equity would support this approach. ACE also believes that such an allocation of a system's DC capacity rating will result in a more equitable distribution of the <25kW solar PV carve-out among urban areas, such as the City of Chicago, where multifamily buildings are more common, and suburban areas.

Therefore, ACE recommends that with respect to multifamily building PV systems and community-based projects, the DC capacity rating of such systems should be allocated among the number of apartments or community participants, as the case may be, for purposes of determining whether the RECs from the PV system are eligible for the <25kW carve-out. This would allow residential customers in multifamily buildings and community-based projects to participate in this special procurement event on an equal footing with residential customers occupying single-family detached homes. The recognition of these attributes of multifamily and community-based solar PV systems is also consistent with the goals expressed by the General Assembly in Section 16-107.5(I) of the Public Utilities Act (220 ILCS 5/16-107(I)) which provides as follows (emphasis added):



(l) Notwithstanding the definition of "eligible customer" in item (i) of subsection (b) of this Section, each electricity provider shall consider whether to allow meter aggregation for the purposes of net metering on: **(1) properties owned or leased by multiple customers that contribute to the operation of an eligible renewable electrical generating facility, such as a community-owned wind project, a community-owned biomass project, a community-owned solar project, or a community methane digester processing livestock waste from multiple sources; and (2) individual units, apartments, or properties owned or leased by multiple customers and collectively served by a common eligible renewable electrical generating facility, such as an apartment building served by photovoltaic panels on the roof.** For the purposes of this subsection (l), "meter aggregation" means the combination of reading and billing on a pro rata basis for the types of eligible customers described in this Section.

To further support the social equity issue, ACE suggests that the Agency consider granting a preference for systems that serve low-income multi-family residential buildings and community-based systems in low-income communities. Even in more affluent communities, the economics of smaller systems (i.e., up-front costs vs. energy cost reductions, payback periods, etc.) can be very challenging. These challenges are magnified for projects in low-income areas.

2. *How should the IPA define a distributed generation system? Is size of a system defined at the inverter, at the meter, or in some other way?*

ACE suggests the use of the system's DC capacity rating for determining the size of that system.

3. *If the IPA holds separate procurements for new and existing systems, how should those terms be defined? For example, is a system under development but not in operation at the time of the procurement new or existing? If RECS procured from new systems are anticipated to be of higher value than those from existing systems, what can the IPA consider that will prevent the procurement process from having a short-term impact on project development?*

ACE recommends that the Agency not differentiate between new and existing systems in its REC procurement events. As the Agency correctly points out, defining "new" for these purposes can be difficult and will likely distort the market. For example, assume the Agency accords a preference to "new" systems, and assume that a "new" system is defined as one with its original in-service date within, say, 90 days prior to the Agency's solicitation for RECs. In that case, development of new systems will cease and not



resume until developers are sure that date has passed and they are within the class of preferred systems.

Furthermore, owners (the term “owners” referring to both owners and lessees of PV generating systems) of now-existing systems have been adversely affected by the absence of REC procurement events over the last few years due to the impact of municipal aggregation on the operation of Illinois’ renewable portfolio standard (“RPS”). Owners of existing systems in no way contributed to bringing these circumstances about; yet if the Agency implements a preference for new systems, these existing system owners will continue to be unfairly disadvantaged. Consequently, ACE recommends that the Agency not implement a preference for new over existing systems in its REC procurement events.

In the alternative, however, if the Agency does implement a preference for new systems, ACE suggests that “new” be defined to include systems placed in service within the twenty-four month period preceding the effective date of P.A. 98-0672, i.e., from July 1, 2012 forward.

4. *How long and what flexibility should the IPA allow for new systems to commence operation after the procurement event?*

All things being equal, ACE would submit a project to an auction only after the system has been designed, agreements are in place with its customers and the financing for the improvements has been secured [see also our response regarding “speculative” projects in Question 11 below]. However, once these pieces are in place it might take ACE up to 12 months to complete the installation of all of the panels across its multi-building projects. At that point, ACE and other installers are still at the mercy somewhat of the utilities to inspect and approve the installations so that they can be fully operational. For this reason, ACE would prefer at least a twelve-month period before proof of progress would be required.

5. *What are the advantages and disadvantages of REC contracts of five year terms and those of a longer duration? Please be specific by market segment/size, and between new and existing systems.*

REC’s can be a valuable revenue source that helps solar developers provide sufficient debt service coverage on the loans necessary to pay for the acquisition of the systems. Given the long paybacks for these types of investments, solar developers like ACE seek financing that is as long as possible, but at a minimum of 7 years. Accordingly, ACE suggests that the Agency consider ten-year, rather than five-year terms, for its REC purchase agreements for all market segments, systems sizes and ages



6. *What are the trade-offs between contract terms for new systems that pay for RECs as they are delivered versus contract terms that would allow for some upfront payment upon the system going into operation, but with commensurate enhanced credit requirements and clawback provisions?*

Any company in the construction business that has to purchase materials and pay mobilization costs prefers some amount of upfront payments to defray these costs. So, in general, ACE favors advance payments in some amount. And if advance payments are made to REC sellers, then clawback terms are appropriate. However, ACE is concerned that stringent credit requirements will unfairly disadvantage small businesses, particularly those like ACE that are mission-driven. For example, a large, well-established company that has good credit could offer to sell a large volume of RECs on an advance payment basis because it meets credit requirements that small mission-driven businesses may not be able to satisfy. The solution to this issue would be in making sure that the upfront payments corresponded with payments by the solar installer for materials and necessary mobilization payments to insure that there is some form of physical security behind the advance payments and evidence of a commitment on the part of the solar developer to pursue. This is the way that a commercial lender would justify a partial payment before the project is completed.

7. *What elements may be necessary to include in clawback provisions to ensure that Agency, ratepayer, and stakeholder interests are properly protected?*

See comments in Item 6, above.

8. *What are the perceived risks that developers, property owners, lending institutions, utilities, utility ratepayers, and other stakeholders may be exposed to as a consequence of the IPA entering into REC procurement contracts with terms of more than 5 years?*

Once a solar system is installed there is very little required—either in terms of capital or maintenance—to keep it running. This makes it highly unlikely that a system once installed would not continue to produce the electricity that it is designed to produce. (The biggest risk is that from year-to-year the amount of sunshine may vary from the average, but this is not a risk that can or should be managed.)

9. *What credit requirements may be appropriate for aggregators and other counterparties (i.e., self-aggregating system owners)? Should these requirements vary based on REC portfolio size and system size? If so, how?*

The credit requirements established for aggregators should not be so onerous that only larger businesses can participate and small, mission-driven businesses are shut out of the procurement process.



10. *Are there timing considerations other than those related to DCEO rebates, state and federal tax incentives that the IPA should consider?*

No comment.

11. *If aggregators are allowed to bid speculatively (e.g., not all projects in their aggregation identified at the time of bidding), what would be a reasonable length of time for aggregators to be given to provide evidence of viable projects, and what provisions should be considered to reallocate quantities of RECS to other aggregators if an aggregator is not able to verify progress on project development?*

ACE assumes that by “speculative” the agency is referring to RECs the source of which the bidder has not identified at the time of the bid. ACE does not contemplate making speculative bids; as mentioned in the answer to Question 6 above, ACE would not submit projects until the project had been fully designed and funding was in place.

ACE is concerned that truly speculative projects might present another opportunity that would benefit large or moneyed organizations that could use their superior financials to “lock up” significant volumes of REC’s to the detriment of smaller mission-driven enterprises.

12. *What additional provisions, if any, should be included to allow entities to be their own aggregator?*

The Agency may consider whether self-aggregators should have a minimum capacity, such as 100kW. This will avoid the problem that the aggregator role was intended to alleviate, namely, the additional administrative burden of processing numerous smaller purchases.

13. *Given the framework of the Illinois RPS and provisions of the new Section 1-56(i), what models from other states should the IPA consider? Are there aspects of other state's models that the IPA should be aware of to avoid, and why?*

No comment.

14. *Should the IPA consider tracking RECS using systems other than PJM-GATS and M-RETS?*

Using PJM-GATS may present administrative issues. PJM-GATS will track small systems, but when last checked, PJM-GATS required that a system be certified as a renewable energy system by the applicable state’s utility commission. We understand that the Illinois Commerce Commission does not provide this type of certification. The Ohio



utility commission previously expressed a willingness to certify Illinois systems on presentation of appropriate evidence. Clearly, there's something anomalous about Illinois solar PV system owners having to go out of state to get a certification to enable them to participate in an Illinois REC procurement event.

15. *Are there policies and procedures for tracking DG RECS (e.g., system certification) that need updating under current M-RETS and PJM-GATS frameworks?*

As mentioned in Item 14, above, it would be worthwhile to explore whether PJM would accept evidence of a bona fide renewable generation system that would satisfy a state utility commission. This would avoid Illinois system owners having to rely on the utility commissions of other states in order to enroll in PJM-GATS.

If other, comparable tracking services are available, ACE suggests that the Agency consider those alternatives.

16. *Participants in our June 12th workshop included project developers, solar installers, both local and national businesses, utilities, trade associations, environmental organizations, consumer advocacy groups, and state agencies. Are there additional entities (or categories of entities) that should be engaged in this process?*

No comment.

Sincerely,

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