



Performance Audit of the

The Illinois Power Agency - Future Energy Jobs Act

Background:

On July 21, 2020, the Legislative Audit Commission adopted Resolution Number 153 (see Appendix A), which directed the Office of the Auditor General to conduct a performance audit of the Illinois renewable portfolio standard (RPS) and the Illinois Power Agency's (IPA) management of the Renewable Energy Credit (REC) procurement process and Adjustable Block Program.

The Illinois Power Agency was established in 2007 by Public Act 95-481. The IPA is required to ensure that the procurement of power in Illinois is conducted in an ethical and transparent manner to ensure that its mission to secure power at the best prices the market will bear is not impeded. The IPA was established to serve the people of Illinois by administering electricity and renewable resources planning and procurement processes for Ameren Illinois Company (Ameren), Commonwealth Edison Company (ComEd), and MidAmerican Energy Company (MidAmerican).

Key Findings:

- Illinois has not met the percentage-based renewable energy goals identified in the Illinois Power Agency Act (Act). IPA officials stated that procured renewable energy as a percentage of the overall energy produced would be about 10 percent for 2019. However, Section 1-75(c)(1)(B) of the Illinois Power Agency Act requires the procurement of renewable energy credits to be at least 16 percent of the overall electricity produced by June 1, 2019, which suggests that the dollars may not have been maximized. According to IPA officials, the IPA had proposed in the 2018 Long-Term Renewable Resources Procurement Plan annual procurements designed to meet the percentage-based goals; however, the ICC in approving that Plan did not approve those annual procurements. That decision shifted the focus of the IPA's authorized procurements away from meeting the percentage goals and focused only on meeting the quantitative targets for new wind and solar. However, since the percentage-based goals are not being met, it likely means that future renewable energy goals will not be able to be met timely.
- There are two ways in which renewable energy projects are procured: (1) competitively and (2) through the Adjustable Block Program. Auditors concluded the process in place was both efficient and maximized the dollars spent to increase the renewable portfolio standard in Illinois for the competitive procurement process. However, auditors could not find criteria to use to determine whether funds were maximized or whether they were spent efficiently for the Adjustable Block Program.

Key Recommendations:

The audit report contains one recommendation directed to the Illinois Power Agency:

- The Illinois Power Agency should continue to work to meet the renewable energy percentage-based procurement goals required by 20 ILCS 3855/1-75(c)(1)(B).

This performance audit was conducted by the staff of the Office of the Auditor General.

Report Digest

On July 21, 2020, the Legislative Audit Commission adopted Resolution Number 153 (see Appendix A), which directed the Office of the Auditor General to conduct a performance audit of the Illinois renewable portfolio standard (RPS) and the Illinois Power Agency’s (IPA) management of the Renewable Energy Credit (REC) procurement process and Adjustable Block Program. The Resolution contained several determinations. Our assessment of these determinations is shown in **Digest Exhibit 1**. (pages 1-2)

| Digest Exhibit 1 ASSESSMENT OF AUDIT DETERMINATIONS | |
|--|--|
| Determination from Audit Resolution | Auditor Assessment |
| <i>A determination of the average price of renewable energy credits under contract entered into by electric utilities in the state since June 1, 2017.</i> | <ul style="list-style-type: none"> The prices per renewable energy credit for utility-scale wind, utility-scale solar, and Brownfield solar projects were competitively procured, while the Adjustable Block program used a base contract price for each applicant project that was determined by the project’s group, project type, project size, and the block that the project was in. (pages 23-27) |
| <i>Whether the Illinois Power Agency followed established rules and regulations during the procurement process.</i> | <ul style="list-style-type: none"> Auditors found no issues with the procurements or the procurement process. (page 18-23) |
| <i>Given that applications exceeded available Renewable Energy Credit awards by more than 20 times, how the Illinois Power Agency administratively determined the value of community solar Renewable Energy Credits.</i> | <ul style="list-style-type: none"> The prices set by the Adjustable Block Program can be reflected as a set value or as the product of a formula. The IPA worked with its procurement planning consultant (Levitan and Associates) to adapt the CREST (Cost of Renewable Energy Spreadsheet Tool) model for use in determining REC prices for community solar and distributed generation projects. (pages 24-27) |
| <i>Whether the developers of these community solar facilities are located within or outside of Illinois.</i> | <ul style="list-style-type: none"> Developers of community solar facilities are located both within and outside of Illinois; however, the projects themselves must be located in Illinois. As of October 2020, there were 67 vendors with a renewable energy credit delivery contract developing the 111 community solar projects in Illinois. For these 67 approved vendors, auditors found that 10 (15%) were headquartered in Illinois. The remaining 57 approved vendors were headquartered in 11 other states. (pages 32-33) |
| <i>If the Illinois Power Agency tracked whether the owners of the community solar facilities have changed ownership or registered in another State</i> | <ul style="list-style-type: none"> Auditors concluded that the IPA tracked changes in community solar facility ownership. (pages 33-34) |

since being awarded Renewable Energy Credits under the program.

Whether the Illinois Power Agency is able to demonstrate that the funds awarded under the program are being spent efficiently and that the vendors receiving contract awards are being fully vetted.

- Auditors could not find criteria to use to determine whether funds were maximized or whether they were spent efficiently for the **Adjustable Block Program**. IPA has an extensive vendor approval process and auditors reviewed this process and found no issues. (pages 38-47)

Whether the Illinois Power Agency is maximizing the use of these dollars to increase the Renewable Portfolio Standard for the State of Illinois.

- Auditors concluded the process in place was both efficient and maximized the dollars spent to increase the renewable portfolio standard in Illinois for the **competitive procurement process**. (38-47)

What factors the Illinois Power Agency used when selecting winning developers related to community and rooftop solar.

- IPA has an extensive vendor approval process. Vendors are required to renew their certification once a year. The process used to approve vendors include the factors used when selecting vendors for community and rooftop solar. (pages 38-47)

Whether there are any rules in the procurement process that ensure diverse companies are being utilized for solar development projects.

- There are rules and provisions designed to ensure that small, downstate vendors, as well as minority and women-owned businesses are not discriminated against when being selected for projects. Additionally, Section 1-75(c)(7) of the Illinois Power Agency Act contains a requirement that REC procurements conducted by the IPA shall provide employment opportunities for all segments of the population and workforce, including minority and female-owned business enterprises. This provision also prohibits discrimination based on race or socioeconomic status, consistent with State and federal law. (pages 35-37)

Source: OAG assessment of the audit determinations contained in Legislative Audit Commission Resolution Number 153.

Background

The Illinois Power Agency was established in 2007 by Public Act 95-481. The IPA is required to ensure that the procurement of power in Illinois is conducted in an ethical and transparent manner to ensure that its mission to secure power at the best prices the market will bear is not impeded. The IPA was established to serve the people of Illinois by administering electricity and renewable resources planning and procurement processes for Ameren Illinois Company (Ameren), Commonwealth Edison Company (ComEd), and MidAmerican Energy Company (MidAmerican).

During the audit period, the IPA was comprised of 10 employees. The Director has been in the position since March 2013. The IPA also contracts with multiple

vendors (NERA, Levitan, InClimate, Elevate, and Apprise) who help with administrating the programs and procurements. (page 3)

State Agencies Involved in Electricity and Renewable Resources Procurement in Illinois

The IPA prepares electricity procurement plans on an annual basis. For renewable energy resources, the IPA developed a Long-Term Renewable Resources Procurement Plan in 2017-2018; that plan is required to be updated on a biennial basis, with initial planning and stakeholder feedback activities. The Illinois Commerce Commission (ICC) is the State agency tasked by law with regulating Illinois electric utilities and approving the IPA's Long-Term Renewable Resources Procurement Plan. (pages 4-7)

Energy in Illinois

According to the U.S. Energy Information Administration, Illinois is the fifth-largest energy-consuming state in the nation. The State's largest energy-consuming end-use sector is industry. It also notes that Illinois is the 3rd largest "net electricity exporter," with about one-fifth of the power generated being sent to other states. Since 2001, nuclear and coal together have produced as much as 97 percent of the total electricity generated in the mid-2000s dropping to 79 percent in 2019. While nuclear electricity generated in Illinois has increased since 2001, electricity generation from coal has declined as a percent of the total energy output by more than 50 percent, from 45 percent in 2001 to 22 percent in 2019. (pages 7-8)

Types of Renewable Energy Projects

There are two ways in which renewable energy projects are procured: (1) competitively and (2) through the Adjustable Block Program. Competitive procurements are processes where many sellers offer RECs from their proposed wind and solar projects at competitive prices in sealed-bid, pay-as-bid procurement processes with bids selected on the basis of price. These projects include utility-scale wind, solar, and Brownfield solar. Adjustable Block projects are based on transparent, administratively set prices and on open enrollment and include community and distributed solar. **Digest Exhibit 2** lists the type of project, the procurement method, the annual cost, and the weighted average price per REC. (pages 16-17)

Digest Exhibit 2
TYPE AND COST OF RENEWABLE ENERGY PROJECTS PROCURED PER THE FUTURE ENERGY JOBS ACT
 June 1, 2017 – August 31, 2020

| Type of Project | Definition | Procurement Method | Annualized 15 Year Cost | Weighted Average Price per REC |
|---------------------------------|--|--------------------------|---------------------------|--------------------------------|
| Utility-Scale Wind (>2,000 kW) | an electric generating facility that generates electricity using wind | Competitive | \$9,857,488 | \$3.35 |
| Utility-Scale Solar (>2,000 kW) | an electric generating facility that generates electricity using photovoltaic cells | Competitive | \$14,990,471 | \$5.07 |
| Brownfield Solar | renewable energy sited on land that has been or is perceived to be polluted and is now underused | Competitive | ¹ | \$58.10 |
| Community Solar (≤2,000 kW) | an electric generating facility that is powered by solar cells or panels and is interconnected at the distribution system level of an electric utility | Adjustable Block Program | \$21,271,305 ² | \$47.56 ³ |
| Distributed Solar (≤10 kW) | renewable energy devices that are primarily used to offset that customer's electricity load | Adjustable Block Program | \$7,823,117 ² | \$76.46 |
| Distributed Solar (>10 kW) | renewable energy devices that are primarily used to offset that customer's electricity load | Adjustable Block Program | \$20,660,383 ² | \$45.71 |

¹ Since there were only two Brownfield contracts, the exact annual contracted RECs and cost are confidential.

² The annualized cost does not reflect the front-loaded payment schedule for these project types, even though renewable energy credits are delivered over 15 years. Thus, the impacts on annual RPS budgets are greater than these totals across the prepayment period.

³ This does not include the community solar incentive for small subscriber participation which ranges from \$0 to \$32.65 per renewable energy credit.

Source: Information provided by the IPA.

Managing and Administering the Renewable Energy Credit Procurement Process

Section 16-111.5 Subsections (e) through (i) of the Public Utilities Act (220 ILCS 5) outlines the requirements for the competitive procurement of renewable energy credits (the IPA is exempt from the Illinois Procurement Code when conducting these procurements). This process is where sellers offer renewable energy credits from their proposed wind and solar projects at competitive prices in sealed-bid, pay-as-bid procurement processes with bids selected on the basis of price. No issues were identified with the procurements or the procurement process. (pages 18-23)

Prices for Renewable Energy Credits

The prices per renewable energy credit for utility-scale wind, utility-scale solar, and Brownfield solar projects were competitively procured following the guidelines delineated in the Long-Term Renewable Resources Procurement Plan. The prices per renewable energy credit for community solar and distributive generation solar projects were administratively determined through the Adjustable Block Program.

Since the passage of the Future Energy Jobs Act, the IPA has competitively procured 21 contracts for utility-scale wind, utility-scale solar, and Brownfield solar. The annual cost of these contracts was approximately \$28 million. These contracts are 15 years in length. According to the data provided by the IPA, there have been 18,281 contracts processed through the Adjustable Block Program for an annual total cost of \$54 million for 1,069,960 renewable energy credits. These contracts are also for 15 years. (pages 23-27)

Managing and Administering the Adjustable Block Program

The IPA's Long-Term Renewable Resources Procurement Plan described in detail how the prices for each block in the Adjustable Block Program were determined. The base contract price for each applicant project was determined by the project's group, project type, project size, and the block that the project was in. The IPA worked with its procurement planning consultant (Levitan and Associates) to adapt the CREST (Cost of Renewable Energy Spreadsheet Tool) model for use in determining REC prices for community solar and distributed generation projects. The CREST model is an economic cash flow model developed by the U.S. Department of Energy National Renewable Energy Laboratory. It takes various inputs for solar projects such as hard costs, tax policies, depreciation rates, expected rate of return, etc., and uses those inputs to determine a levelized cost of energy over a period of time.

In order to participate in the program, vendor applications were first subjected to the review and approval of the program administrator (InClime, Inc.), and only approved vendors could have projects in the program. Vendor approval was based on various legal and regulatory requirements regarding both the vendor itself and its owners. Along with the requirements that needed to be met by the vendor, the vendor also had to provide support showing that the installer it intended to use met legal and regulatory requirements. In addition, technical specifications and documentation supporting that the vendor/developer was contractually bound to the project were required for each individual project. (pages 24-31)

Community Solar Project Developers

Developers of community solar facilities are located both within and outside of Illinois; however, the projects themselves must be located in Illinois. Of the 406 total approved vendors, 67 have renewable energy credit delivery contracts for community solar projects.

Based on data provided by the IPA, auditors concluded that the IPA tracked changes in community solar facility ownership. At the time of ICC approval, there were 34 approved vendors with a renewable energy credit delivery contract developing 111 community solar projects in Illinois. For these 34 approved vendors, auditors found that five (15%) were headquartered in Illinois. The remaining 29 approved vendors were headquartered in 14 other states. Information from IPA showed the original 34 vendors sold projects to other vendors, and as of October 2020, there were now 67 vendors with a renewable energy credit delivery contract developing the 111 community solar projects in Illinois. For these 67 approved vendors, auditors found that 10 (15%) were headquartered in Illinois. The remaining 57 approved vendors were headquartered in 11 other states. (pages 32-34)

Diverse Solar Development Companies

There are rules and provisions designed to ensure that small, downstate vendors, as well as minority and women-owned businesses are not discriminated against when being selected for projects. Additionally, Section 1-75(c)(7) of the Illinois Power Agency Act contains a requirement that REC procurements conducted by the IPA shall provide employment opportunities for all segments of the population and workforce, including minority and female-owned business enterprises. This provision also prohibits discrimination based on race or socioeconomic status, consistent with State and federal law. (pages 35-37)

Efficiency and Maximization of Funds Awarded and Vendor Vetting

Auditors found that the IPA, the ICC, and their contractual program administrators and monitors operate the program in accordance with the Illinois Power Agency Act and the Long-Term Renewable Resources Procurement Plan. Auditors concluded the process in place was both efficient and maximized the dollars spent to increase the renewable portfolio standard in Illinois for the competitive procurement process. However, auditors could not find criteria to use to determine whether funds were maximized or whether they were spent efficiently for the Adjustable Block Program. While criteria could not be identified, the process of determining renewable energy credit prices for the Adjustable Block Program was subject to a public comment process and litigated proceeding before the ICC as required by the law, and the IPA's prices utilized were consistent with the Illinois Commerce Commission's Order. Therefore, prices for RECs were determined through extensive regulatory proceedings.

Illinois has not met the percentage-based renewable energy goals identified in the Illinois Power Agency Act. IPA officials stated that procured renewable energy as a percentage of the overall energy produced would be about 10 percent for 2019. However, Section 1-75(c)(1)(B) requires the procurement of renewable energy credits to be at least 16 percent of the overall electricity produced by June 1, 2019, which suggests that the dollars may not have been maximized. According to IPA officials, the IPA had proposed in the 2018 Long-Term Renewable Resources Procurement Plan annual procurements designed to meet

the percentage-based goals; however, the ICC in approving that Plan did not approve those annual procurements. That decision shifted the focus of the IPA’s authorized procurements away from meeting the percentage goals and focused only on meeting the quantitative targets for new wind and solar. However, since the percentage-based goals are not being met, it likely means that future renewable energy goals will not be able to be met timely. Auditors recommended that the Illinois Power Agency should continue to work to meet the renewable energy percentage-based procurement goals required by 20 ILCS 3855/1-75(c)(1)(B).

IPA has an extensive vendor approval process. Vendors are required to renew their certification once a year. The process used to approve vendors include the same factors used when selecting vendors for community and rooftop solar. During the annual financial audits of the IPA, auditors reviewed this process and found no issues. (pages 38-47)

Audit Recommendations

The audit report contains one recommendation directed to the Illinois Power Agency. The IPA agreed with the recommendation. The complete response from the IPA is included in this report as Appendix C.

This performance audit was conducted by the staff of the Office of the Auditor General.

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

This report is transmitted in accordance with Sections 3-14 and 3-15 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:SAW