

Illinois Power Agency

Stakeholder Workshop on the Summer 2025 Indexed REC Contract and Preliminary Proposal Requirements

Wednesday, April 30, 2025

Chandrika Mital, Illinois Power Agency
Rachael Bruketta, Illinois Power Agency
Benjamin Chee, NERA
Katie Orlandi, NERA



Agenda

- **Background**
 - ◆ **Regulatory Background and Updates**
 - ◆ **Inflation Adjustment Mechanism**
 - ◆ **Annual Quantity Adjustment Mechanism**

- **Discussion Items**

- **Summer 2025 Comment Process and RFP Timeline**

Background

Regulatory Background

- The IPA’s 2024 Long-Term Renewable Resources Procurement Plan (“2024 Long-Term Plan”) was approved by the Illinois Commerce Commission (“ICC” or “Commission”) with modifications on February 20, 2024
- In its Final Order, the ICC adopted the IPA’s proposed post-award workshop process described in Section 5.4.8 of the 2024 Long-Term Plan
- The IPA held five workshops from July 2024 through December 2024 to discuss challenges faced by renewable energy project developers with projects that have been selected through the Indexed REC RFP, stemming from recent volatile market conditions and changing project economics
- On February 19, 2025, the IPA filed a compliance filing with the ICC with two planned optional improvements for the Indexed REC RFP beginning with the Summer 2025 procurement event. These optional improvements are:
 1. a one-time, post-award Inflation Adjustment Mechanism; and
 2. a one-time, post-award change to the annual REC delivery quantity (“Annual Quantity Adjustment Mechanism”)

Legislative Update

- Public Act 103-1066, which amends the Public Utilities Act and Illinois Power Agency Act, was signed into law and became effective on February 20, 2025
- P.A. 103-1066 adds new Section 1-75(c)(1)(E-5) of the IPA Act stating, if for a particular delivery year, the limit on the amount of renewable energy resources to be procured, would result in an insufficient collection of funds to fully pay sellers under existing contracts executed under Sections 1-75 or 1-56 of the IPA Act, to ensure full and uninterrupted payment is made to such sellers:
 - i. If the utility has retained unspent funds, then the utility shall use those funds to remit full payment to the sellers to ensure prompt and uninterrupted payment of existing contractual obligations.
 - ii. If the unspent funds are insufficient to satisfy all existing contractual obligations, then the utility shall remit full payment to the sellers to ensure prompt and uninterrupted payment of existing contractual obligations, provided that the full costs shall be recoverable by the utility.
 - iii. The Agency shall promptly notify the Commission that existing contractual obligations are reasonably expected to exceed the maximum collection authorized for the applicable delivery year. The Agency shall also explain and confirm how the operation of items (i) and (ii) ensures that the utility will continue to make prompt and uninterrupted payment under existing contractual obligations. The Agency shall file a notice in the Commission docket approving the Agency's operative Long-Term Plan that includes the applicable delivery year.
 - iv. (ee.)The contract shall provide that, so long as at least one of: (i) the cost recovery mechanisms referenced in Section 16-108(k) and Section 16-111.5(l) of the Public Utilities Act remains in full force without limitation or (ii) the utility is otherwise authorized and or entitled to full, prompt, and uninterrupted recovery of its costs through any other mechanism, then such seller shall be entitled to full, prompt, and uninterrupted payment under the applicable contract notwithstanding the application of subparagraph (E).

Request for Stakeholder Feedback

- On April 16, 2025, the Procurement Administrator issued the Preliminary Proposal Requirements and the Draft Indexed REC Contract implementing these optional improvements
- A stakeholder feedback process was also initiated to discuss any aspect of these documents as well as three specified topics:
 - ◆ Topic 1 (Inflation Adjustment Mechanism);
 - ◆ Topic 2 (Annual Quantity Adjustment Mechanism); and
 - ◆ Topic 3 (General Feedback on Improvements)
- Written comments are due by May 7, 2025 and will be considered when finalizing the Summer 2025 Indexed REC RFP Rules and Indexed REC Contract for issuance on May 28, 2025

Inflation Adjustment Mechanism (“IAM”) Background

- Beginning with the Summer 2025 Indexed REC RFP, Bidders may choose to use the optional Strike Price Inflation Adjustment Mechanism in the Indexed REC Contract for a winning Project
- There are three (3) unique formulas to apply to each technology type: solar projects, wind projects, and hydro projects. The solar project formula applies to both utility-scale solar and brownfield site photovoltaic projects.
- Each formula includes (1) a Strike Price adjustment based on the difference in prices for component capital costs (“component cost adjustment”), and (2) a Strike Price adjustment for changes in interest rates (“interest rate adjustment”)
- The mechanism is implemented in the following documents:

Exhibit G to the draft Indexed REC contract	This exhibit provides the three (3) formulas and details regarding the adjustment calculation.
Section 2.7 of the draft Indexed REC contract	This section describes how the adjustment is tied to a specific project development milestone and provides details related to determining and verifying this date has been reached.
Paragraphs 2.17 and 2.18 of the Preliminary Proposal Requirements	These paragraphs explain the procedure to evaluate bids that opt in to the IAM with bids that opt out of the IAM in a procurement event using a Forecast Factor.

Overview of Adjustment Calculation

- The inflation adjustment mechanism aims to reduce risk and cost in bids related to uncertainty in changes in project costs tied to inflation between the point of contract award and when the developer expends the cost
- Based on a formula, the strike price will be adjusted up or down based on the rate of change in prices of component costs and interest rates. This indexing approach will pick up on more drivers than inflation that impact prices, including tariffs (drives prices up) and technological changes (drives prices down).
- For each component, the initial values for $Index_t$ would be calculated based on a simple average of recent data for a relevant Bureau of Labor Statistics (BLS) index. These initial values would be available to bidders prior to the Bid Date.
- For each component, the final values of $Index_f$ would be calculated based the same BLS index using a simple average of recent data at the time of Financial Closing Date for the Project
- The Strike Price adjustment is proposed to be capped at the absolute value of 15% of the strike price offered and selected during the procurement event

Proposed Formula for Solar Projects

The Strike Price will be adjusted according to the following formula for a **Utility-Scale Solar Project** or a **Brownfield Site Photovoltaic Project**:

$$Bid_{adj} = Bid * \left[\left(0.85 * \left(\left[0.35 * \frac{PPI_f}{PPI_t} \right] + \left[0.26 * \frac{Const_f}{Const_t} \right] + \left[0.22 * \frac{EME_f}{EME_t} \right] + \left[0.14 * \frac{Steel_f}{Steel_t} \right] + 0.03 \right) + 0.15 \right) + (0.035 * [interest_f - interest_t]) \right]$$

The Strike Price adjustment (increase or decrease) is limited to 15% of bid

Indices selected:

Component	Frequency	Data Source
Construction (Const); Unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Final demand construction, not seasonally adjusted. Data Series WPUFD43
Electrical Machinery and Equipment (EME); unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Machinery and equipment-Electrical machinery and equipment, not seasonally adjusted. Data Series WPU117
PPI; unitless*	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for All commodities, not seasonally adjusted. Data Series WPU00000000
Steel; unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Metals and metal products-Steel mill products, not seasonally adjusted. Data Series WPU1017
Interest Rate; percent per annum	Daily	Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, not seasonally adjusted. Data series DGS10

* PPI index is currently proposed in place of an index for solar modules. The Procurement Administrator is seeking comments from stakeholders on a public historical index that can be used to measure change in module costs.

Proposed Formula for Wind Projects

The Strike Price will be adjusted according to the following formula for a **Utility-Scale Wind Project**:

$$Bid_{adj} = Bid * \left[\left(0.80 * \left(\left[0.22 * \frac{Const_f}{Const_t} \right] + \left[0.37 * \frac{EME_f}{EME_t} \right] + \left[0.19 * \frac{Steel_f}{Steel_t} \right] + \left[0.14 * \frac{Turbine_f}{Turbine_t} \right] + \left[0.07 * \frac{Cement_f}{Cement_t} \right] + 0.01 \right) + 0.20 \right] + (0.035 * [interest_f - interest_t])$$

The Strike Price adjustment (increase or decrease) is limited to 15% of bid

Indices selected:

Component	Frequency	Data Source
Cement; unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Nonmetallic mineral products-Cement, hydraulic, not seasonally adjusted. Data series WPU1322
Construction (Const); unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Final demand construction, not seasonally adjusted. Data Series WPUFD43
Electrical Machinery and Equipment (EME); unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Machinery and equipment-Electrical machinery and equipment, not seasonally adjusted. Data Series WPU117
Steel; unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Metals and metal products-Steel mill products, not seasonally adjusted. Data Series WPU1017
Turbine; unitless	Monthly	U.S. Bureau of Labor Statistics. PPI Commodity data for Machinery and equipment-Parts & accessories for turbines, turbine generators, and turbine generator sets, not seasonally adjusted. Data series WPU119801
Interest Rate; percent per annum	Daily	Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, not seasonally adjusted. Data series DGS10

Proposed Formula for Hydro Projects

The Strike Price will be adjusted according to the following formula for a **Hydropower Project**:

$$Bid_{adj} = Bid * \left[\left(\left[0.80 * \frac{CPI_f}{CPI_t} \right] + 0.20 \right) + \left(0.035 * [interest_f - interest_t] \right) \right]$$

The Strike Price adjustment (increase or decrease) is limited to 15% of bid

Indices selected:

Component	Frequency	Data Source
CPI; unitless	Monthly	U.S. Bureau of Labor Statistics. All items in U.S. city average, all urban consumers, not seasonally adjusted. Data series CUURO000SA0
Interest Rate; percent per annum	Daily	Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, not seasonally adjusted. Data series DGS10

Considerations

Additional considerations that were accounted for when developing the formulas include but are not limited to:

- The formulas are not meant to absolve the developer of all risks related to potential price changes or to shift an unreasonable amount of risk to ratepayers. Developers should continue to be incentivized to manage risk efficiently, such as employing efficient sourcing strategies for hard costs.
- The formulas should not neutralize the competitive advantage of developers that may have more in-depth market knowledge.
- It's recognized that there may not be a uniform way to account for some costs that may be outside of the developer's control.
- The adjustment may take place many years from the commission bid approval date and the formula must remain relevant to project development. It is not meant to adjust for short-term risks.
- The formulas should not be so granular that they are not applicable to a range of projects that may be proposed in the RFP.

Bid Evaluation

- If a Bidder is electing to opt into the IAM, the Bid will be called an “**Opt-in Bid.**” If the Bidder is electing to not opt into the IAM, the Bid will be called a “**Opt-out Bid.**” Opt-in Bids and Opt-out Bids for a technology will be evaluated together up to a single target in a procurement event.
- To compare Opt-in Bids to Opt-out Bids on an apples-to-apples basis, the Procurement Administrator would first apply a **Forecast Factor** (by technology) to the Opt-in Bid
- The Forecast Factor is proposed to be the expected percent change in the Strike Price of an Opt-in Bid if the Strike Price adjustment (Financial Closing Date for the Project) were to be made 30 months from the Commission Bid Approval Date
 - ◆ 30 months was selected as a reasonable assumption for bid evaluation based on typical development timelines for wind, solar and hydropower projects
- It is proposed that the Forecast Factor by technology that would be used for bid evaluation will be provided to bidders at least one week prior to the Bid Date
 - ◆ Bidders will have until the Bid Date to decide whether they are electing to submit an Opt-in Bid or an Opt-out Bid for the Project and therefore would be able to consider the Forecast Factor when making this determination

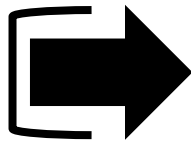
Annual Quantity Adjustment Mechanism

- Beginning with the Summer 2025 Indexed REC RFP, Bidders will have the ability to request a one-time adjustment of its REC delivery obligation under the Indexed REC Contract for a winning Project in limited circumstances that result in a significant reduction to the Nameplate Capacity or Project's generation output. The allowed circumstances are:
 - a) changes to the land area being considered for the Project;
 - b) interconnection costs increase;
 - c) transmission upgrade or reconfiguration costs increase; or
 - d) changes in availability of Project's construction materials.
- The request for adjustment is subject to approval by the IPA and considered on a case-by-case basis upon a demonstration of good cause by Seller to the satisfaction of the IPA at its sole discretion. Any request must be made prior to the start of the Project's construction.
- **Section 2.6** of the draft Indexed REC contract provides additional details on this mechanism, including describing that the adjustment only allows for a reduction in the delivery obligation, not an increase

Discussion Items

Discussion Items

Presenters will pause throughout the presentation to allow for stakeholders to comment



Topics and discussion items identified by the IPA and Procurement Administrator are flagged with this symbol throughout the presentation

Commenters should feel free to provide feedback on any slide and should not feel limited by discussion items identified

If you would like to make a comment or ask a question, please raise your hand and wait. We will unmute you to speak (or you can also submit your question via the chat function). You do not need to identify your affiliation or company.

Summary of Discussion Items

❖ The IPA and Procurement Administrator have identified the following topics and discussion items:

➡ Cost Component Adjustment

➡ Adjustment Date

➡ Interest Rate Adjustment

➡ Evaluation Procedure

➡ Indices Selected

➡ Annual Quantity Adjustment
Mechanism

➡ Adjustment Cap

➡ RPS Budget

Item 1: Component Cost Adjustment

It is proposed that a portion of the Strike Price representative of typical capital expenditure (**85% for solar projects** and **80% for wind and hydro projects**) would be adjusted based on publicly available commodity indices for component costs.

For the formulas related to **wind and solar**:

- ◆ The typical capital expenditure (%) and the proposed weighting of the component parts were estimated based on publicly available cost breakdowns from NREL.

For the formula related to **hydropower**:

- ◆ A single metric CPI adjustment is proposed due to the wide range of project types. Although there may be common costs across these projects to index, it is expected that the weighting across the varying projects may vary widely.



Discussion Items:

- Please provide feedback on the percentage of the Strike Price that would be adjusted.
- Please provide feedback on the weights used across the various indices in the formulas.
- Anything else?

Item 2: Interest Rate Adjustment

It is proposed that the entirety of the Strike Price would be increased (or decreased) to reflect changes in interest rates. For each of the three technologies it is proposed that a **1.00%** change in interest rates would lead to a **3.50%** adjustment in the Strike Price.

Discussion Items:

- Please provide any feedback on the interest rate adjustment (i.e. the percentage change due to a change in interest rates).
- Anything else?

Item 3: Indices/Forecast

In order to measure the rate of change in prices of component costs and interest rates, the Procurement Administrator has selected publicly available price indices that are expected to track the capital component costs identified in the formulas from the **Bureau of Labor Statistics**.

For all of the historical indices selected, a forecast is available from Moody's Analytics that would be used to calculate the Forecast Factor used in bid evaluation for each technology.

Discussion Items:

- Please provide any feedback on the indices selected.
- Is there a historical index that can be used to measure the change in the cost of solar modules that would be appropriate to use in the solar formula? If not, is PPI by Commodity: All Commodities an appropriate proxy?
- Anything else?

Item 4: Adjustment Cap

No Strike Price adjustment shall exceed the **absolute value of 15%** of the bid price as offered by Seller through the RFP.

The 15% symmetrical adjustment cap is meant to recognize that there should be risk sharing with ratepayers and would also enable more accurate budget estimation for purposes of setting procurement targets.

Discussion Items:

- Is a 15% symmetrical adjustment cap reasonable?
- Anything else?

Item 5: Adjustment Date

Section 2.7 of the draft Indexed REC contract describes that the adjustment is tied to a specific project milestone and is proposed to take place **after the “Financial Closing Date”**.

If the actual Financial Closing Date for the Project occurs **less than 6 months** from the Commission Bid Approval Date, the Project is not eligible for the Inflation Adjustment Mechanism.

If the Financial Closing Date occurs **4 years after** the date for Commission Bid Approval Date, then data used for calculating the final set of data for purposes of the Strike Price adjustment calculation shall be based on data from the 43rd - 48th full calendar month after the Commission Bid Approval Date.



Discussion Items:

- It is proposed that the adjustment would take place at the Financial Closing Date for the project.
 - ♦ Do you agree with the definition of “Financial Closing Date” (: the date that the “closing” of the debt financing commitment with respect to the Project has been achieved, regardless of whether the equity financing commitment has been achieved or not.)
 - ♦ Is this the most appropriate milestone to use for the timing of the Strike Price adjustment? If not, what is a more appropriate milestone?
 - ♦ What is the most appropriate documentation to require for purposes of verifying the Financial Closing Date?
 - ♦ Do you foresee challenges with verifying the Financial Closing Date as defined in the draft Indexed REC Contract? If so, please explain.
- Is it reasonable to have a four-year bound on the amount of time for the adjustment?
- Anything else?

Item 6: Evaluation Procedure

Opt-in Bids and Opt-out Bids for a technology will be evaluated together up to a single target in a procurement event by applying a Forecast Factor to the Opt-in Bids.

It is proposed that the Forecast Factor (by technology) will be provided to bidders at least one week prior to the Bid Date, so Bidders can consider the Forecast Factor when deciding whether to submit an Opt-in or Opt-out Bid for the Project.



Discussion Items:

- Please provide any feedback on the evaluation procedure described today and provided in Paragraph 2.18 of the Preliminary Proposal Requirements.
- An alternative option to evaluating Opt-in Bids and Opt-out Bids together would be to either:
 - ◆ Have separate procurement events for Opt-in and Opt-out Bids (i.e. only Opt-in Bids are submitted in procurement events held in the Summer and only Opt-out Bids are submitted in Fall procurement events held in the Fall); or
 - ◆ use separate targets for Opt-in Bids and Opt-out Bids in a procurement event.
- Is one of these alternative options preferred over the proposed approach? Why or why not?
- Anything else?

Item 7: Annual Quantity Adjustment Mechanism

Beginning with this Summer 2025 Indexed REC RFP, Bidders will have the ability to request a one-time adjustment of its REC delivery obligation under the Indexed REC Contract for a winning Project in limited circumstances that result in a significant reduction to the Nameplate Capacity or Project's generation output. The circumstances in which the Seller may request a one-time adjustment of its delivery obligation are:

- a) Changes to land area being considered for the project;
- b) Interconnection costs increase;
- c) Transmission upgrade or reconfiguration costs increase; and
- d) Changes in availability of Project's construction materials.



Discussion Items:

- Should there be a restriction on the maximum allowable delivery obligation reduction? If so, what amount is reasonable (e.g., 15% reduction of the initial annual quantity)? Please explain.
- Anything else?

Item 8: Public Act 103-1066/RPS Budget

P.A. 103-1066 makes several changes to the Illinois Power Agency Act including ensuring full and uninterrupted payment is made to sellers under existing contracts, even if there is insufficient collection of funds for that delivery year.

It is proposed that Section 5.4 related to cost recovery will reflect the updated Section 1-75(c)(1)(E-5) in the IPA Act. “...*The contract shall provide that, so long as at least one of: (i) the cost recovery mechanisms referenced in subsection (k) of Section 16-108(k) and subsection (l) of Section 16-111.5 of the Public Utilities Act remains in full force without limitation or (ii) the utility is otherwise authorized and or entitled to full, prompt, and uninterrupted recovery of its costs through any other mechanism, then such seller shall be entitled to full, prompt, and uninterrupted payment under the applicable contract notwithstanding the application of this subparagraph (E).*”



Discussion Items:

- Has the passage of Public Act 103-1066 increased your confidence in the certainty of Buyer meeting payment obligations?
- Does this increase the likelihood of your participation in future procurement events?
- Does this better rebalance the profile of risk that is perceived in the Indexed REC contract?

Language to be added to Section 5.4

5.4 Nothing in this Agreement shall require Buyer to advance any payment or pay any amounts that exceed the actual amount of revenues anticipated to be collected by Buyer under paragraph (6) of subsection (c) of Section 1-75 of the IPA Act (20 ILCS 3855) and subsection (k) of Section 16-108 of the Public Utilities Act (220 ILCS 5) inclusive of eligible funds collected in prior years and alternative compliance payments for use by Buyer (the "Available Funds")... ..

Buyer is allowed to recover all costs and other amounts incurred under the Agreement from its customers pursuant to a pass-through tariff that is authorized by Section 16-111.5(l) of the Illinois Public Utilities Act (220 ILCS 5/16-111.5(l)) and approved by the ICC.

Notwithstanding anything to the contrary, as provided by Section 1-75(c)(1)(E-5) of the IPA Act, so long as at least one of: (i) the cost recovery mechanisms referenced in subsection (k) of Section 16-108 and subsection (l) of Section 16-111.5 of the Public Utilities Act remains in full force without limitation or (ii) Buyer is otherwise authorized and or entitled to full, prompt, and uninterrupted recovery of its costs through any other mechanism, then Seller shall be entitled to full, prompt, and uninterrupted payment under this Agreement.

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Upcoming Summer 2025 RFP Timeline

Summer 2025 RFP Timeline

Monday	Tuesday	Wednesday	Thursday	Friday
Apr 28	29	Stakeholder Workshop 30	May 1	2
5	6	Comments Due 7	8	9
Weeks of May 12 – May 16 and May 19 - May 23				
26	27	Final Contract and RFP Documents Posted Webcast 28	29	30
Week of Jun 01 – Jun 06				
Part 1 Window Opens Jun 9	10	11	12	13
Week of Jun 16 – Jun 27				
Part 1 Date 30	Jul 1	2	3	4
7	8	9	10	Part 1 Notification Date 11
Part 2 Window Opens 14	15	16	17	18
21	22	Part 2 Date 23	24	25
28	29	Bidder Training 30	31	Bid Date Aug 1

The complete calendar for the Summer 2025 RFP process is posted to the procurement website.

Questions?

Contact: Illinois-RFP@nera.com