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Torsten Clausen, Director: Policy Division
Illinois Commerce Commission
160 N LaSalle Dr, Ste C-800
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Re: ICC MISO Zone 4 White Paper, Post-Workshop Comments

The American Petroleum Institute (API) welcomes the opportunity to submit written post-workshop comments following the release of the ICC MISO Zone 4 White Paper. We appreciated the opportunity to be engaged in the December 7th workshop and now will submit comments reflective of the conversations at the meeting and our view of the parameters that would guide a final product by the ICC.

API is a national trade association representing over 625 member companies involved in all aspects of the oil and natural gas industry. API's members include producers, refiners, suppliers, pipeline operators, and marine transporters, as well as service and supply companies that support all segments of the industry. Its members are also electricity consumers. API advances its market development priorities by working with industry, government, and customer stakeholders to promote increased demand for and continued availability of our nation's abundant natural gas resources for a cleaner and more secure energy future. As API membership spans the cycle of the oil and gas industries that are affected both by energy prices and energy marketing opportunities, we promote a consistent competitive, level playing field framework.

We would like to take this opportunity to build on the pro market positions and vantage point that we laid out in our pre-workshop written comments. Furthermore, it is important to define and expand on the need for market clarity so that generators, regardless of their fuel source, can compete on a level playing field and in a marketplace with transparent rules, liquidity, and enough of a financial certainty framework where economic assets can send and respond to market signals.

A functioning market requires stable, simple and evenly applied rules— the process by which capacity is allocated should be transparent enough to ensure that the rules are being followed and that competition is actually occurring.

While some stakeholders have dug into the details of the OMS MISO survey and provided input as to whether there is or is not a long-term reliability and a capacity shortfall in Southern Illinois, we seek to comment only on the potential follow-through of a shortfall determination. This principle would apply regardless of resource adequacy determinations. If we take the recent OMS MISO survey at face value that there are sufficient resources through 2022, then markets must ensure that plants have access to fair competition to provide capacity through 2022 and that any compensation for reliability or capacity attributes are properly applied. Investors need to have certainty through clearly defined principles that compensation and attribute recognition will be done in a stable, fuel-neutral way and that they are commensurate with benefits.

If, on the other hand, there is a resource adequacy shortfall now or in the near future, then it is critical that market design changes or policies incorporate appropriate accounting and price signals. Furthermore, any measures put in place to ensure reliability and long-term resource adequacy must not resort to ad-hoc out of market payments or policies that favor one plant or fuel type over another.

It is important not to approach resource adequacy and capacity incentives too narrowly and even consider looking beyond just the long-term capacity auction construct

Most of the conversations surrounding market-driven resource adequacy policies in Zone 4 center on building an optimal capacity market with longer time horizons. However, the unique characteristics of Zone 4 make capacity market design particularly challenging—especially in ensuring the market does not become a venue for the cost of service plants driving down prices and also not building a market with such low liquidity that it could be prone to price volatility. Furthermore, if a market for capacity is developed, then it should not be designed in a way that could keep uneconomic assets online, especially if reserve margins are healthy and resource adequacy is not in question.

Beyond parsing over the optimal designs for a capacity market, we encourage the ICC to look holistically at ways to promote adequate capacity and resources. There are programs and practices beyond a longer-term capacity auction that can help promote resource adequacy and investment in capacity. Some examples include promoting more long-term contracting for natural gas supplies and employing non-interruptible supply contracts. On-site generation or self-supply through efficient, natural gas-fired Combined Heat and Power (CHP) systems also promotes resource adequacy and reliability.

While we do not seek to endorse any particular alternative, regulators should have numerous tools and broad ideas at their disposal to craft a customized solution in Zone 4. It is also important that in light of FERC's rejection of the MISO's three year ahead auction proposal last year, that policy proposals do not lead to more regulatory delay or uncertainty that tie up investment certainty in lengthy administrative proceedings.

Building upon the marketing and contracting frameworks that can be channeled into reliability and fuel assurance tools, we encourage the ICC to also look at the upstream and midstream gas

resources in the state that are a part of the resource adequacy conversation. EIA estimates that the Illinois Central Basin has about 4.4 tcf of technically recoverable natural gas resource (1.1 in coalbed methane and 3.3 in shale).¹ Additionally, Illinois is situated in an interstate energy highway and is served by 18 interstate natural gas pipelines and two natural gas market centers.² The story of the natural gas opportunity in Illinois is one seen across the country where innovations in natural gas production and gas fired power plant technology make it well situated to provide ratepayers with affordable, clean, and flexible electricity.

As stakeholder comments and participation in the upcoming January 2018 workshop will be used in developing a set of policy recommendations, it should have a fuller accounting of resource adequacy and capacity promoting options.

Illinois wins with natural gas market development

We want to take this time to reiterate the benefits afforded to the state of Illinois from a growing natural gas industry. Our pre-workshop comments include the economic and jobs numbers specific to the state. Here we want to highlight that natural gas generation provides cleaner and more flexible energy resources. By emitting about half the CO₂ emissions as coal³ and providing responsive generation capable of quickly changing production to allow for more integration of renewable energy, it is no surprise that greenhouse gas emissions from the power sector are at record lows.

By ensuring that market changes adhere to the principles of a level playing field, natural gas powered generation can compete fairly and equitably to provide the electricity that Illinois families, businesses, and industry needs.

Sincerely,



Todd Snitchler

¹ US EIA, "Assumptions to the Annual Energy Outlook 2017, Chapter 9. Oil and Gas Supply Module. P. 135 and 137 <https://www.eia.gov/outlooks/aeo/assumptions/pdf/oilgas.pdf>

² U.S. EIA, Illinois, Profile Data, Distribution & Marketing, accessed March 7, 2017. <https://www.eia.gov/state/analysis.php?sid=IL#37>

³ US EIA, "How much carbon dioxide is produced when different fuels are burned?" <https://www.eia.gov/tools/faqs/faq.php?id=73&t=11>