November 30th, 2017

Torsten Clausen, Director: Policy Division
Illinois Commerce Commission
160 N LaSalle Dr, Ste C-800
Chicago, Illinois 60601

Re: ICC MISO Zone 4 White Paper, Pre-Workshop Comments

The American Petroleum Institute (API) welcomes the opportunity to submit written pre-workshop comments following the release of the ICC MISO Zone 4 White Paper.

API is a national trade association representing more than 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. 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.

API would like to use this opportunity to reiterate our pro-market principles that generators ought to be able to compete on a level playing field to ensure grid reliability, access and affordability, cleaner air, and continued innovation in the energy landscape.

We agree with the principles set forth in the Illinois Public Utilities Act Section 101A that “A competitive wholesale and retail market must benefit all Illinois citizens. The Illinois Commerce Commission should act to promote the development of an effectively competitive electricity market that operates efficiently and is equitable to all consumers…” As Illinois’s regulators move forward in stakeholder engagement in addressing challenges in MISO Zone 4, we look forward to continued constructive engagement to promote adherence to competitive market principles.

Any potential movement towards a market structure that unduly hinders the ability to develop natural gas-fired generation or generation powered by any fuel leads to a slippery slope where subsidies beget even more subsidies. Investment in new, cleaner burning, natural gas-fired

1Illinois Public Utilities Act, 220 ILCS, 5/16-101A, 
generation is particularly harmed by subsidies and other distortions in competitive markets in MISO Zone 4 as these plants are primarily new market entrants.

We agree there are areas of market challenges in MISO Zone 4 that need to be addressed to realize the principles of competitive markets, reliability, cleaner air, and investment certainty. Looking ahead to the December 7th workshop at the ICC, we offer preliminary comments to help advance and frame the conversation;

**Broad, unwarranted subsidies for one fuel source profoundly affects all other sources and can make their revenues unnecessarily less stable**

The marketplace should continue to be the venue for incentivizing necessary investment in the electric power system. To the extent that there are inefficiencies, the right place to address these is in market rules and to stick to a level playing field framework. The markets can be highly complex and developing reforms requires careful and deliberate adjustments—these need to be approached with a scalpel rather than an ax.

As such, we believe that creation of a Resource Adequacy Portfolio Standard, as outlined in option 3 of the “Policy Options” (Section IX), is essentially a subsidy for the generators who were excluded from the ZES/FEJA process. The answer to existing subsidies, like the ZES, is not to create more subsidies—this tears apart the foundation of the marketplace. The answer, on the contrary, is allowing for more competition and resource neutrality in an environment that provides the right amount of certainty to spur investment.

Proposed solutions that require additional government intervention or mandates may have some limited success in the short run, but their impact will come at a cost. By creating a competitive framework where Illinois’ growing natural gas industry can support the full supply chain (E&P, mid-stream and power generation) the economic impacts are multiplied and achieve better, more efficient outcomes than subsidies provide.

**While we are agnostic about in which RTO/ISO a state participates, the opportunity for all fuels to compete for market share on an equal basis is the policy goal API supports**

By permitting Zone 4 to move to PJM, if it is the will of participants, capacity could be compensated at a level that is competitive, transparent (capacity charge not baked into the cost of service rates), and could result in price signals for new merchant plants to invest when the market economics warrant. Presently there is less incentive to invest in gas-fired generation when competing against the cost of service based quasi-capacity procurement. Looking to the experiences in Pennsylvania and Ohio may show how natural gas development leads to natural-gas fired generation due to minimal transportation costs and low cost of natural gas supplies, even on a firm, fixed contract basis. We are non-proscriptive as to whether Zone 4 remains in
MISO or moves to PJM but we believe that adherence to market principles means that no one entity should have veto power over market movements.

**Illinois wins with natural gas market development**

The natural gas industry in Illinois is already helping the state realize significant economic, jobs, and environmental objectives. Using 2015 economic and labor data, ICF estimates that the natural gas industry supports about 150,000 direct, indirect, and induced jobs in Illinois. These jobs translate to roughly $9 billion in labor wages and about $20 billion in economic value add.²

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. API looks forward to continuing to engage throughout the process as a stakeholder as the ICC staff works to develop proposals to address structural challenges in the MISO Zone 4 market.

Sincerely,

Todd Snitchler

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