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**Comments of Ameren Energy Resources
To the Illinois Power Agency's
Draft 2012 Power Procurement Plan**

Pursuant to Section 16-111.5(d) of the Public Utilities Act, Ameren Energy Resources (“AER”) respectfully submits written comments on the 2012 Draft Procurement Plan (“Draft Plan”) of the Illinois Power Agency (IPA). AER is a subsidiary of Ameren Corporation involved in merchant generation, development, marketing via Ameren Energy Marketing, and fuels services. AER’s comments focus on two areas (1) clean coal procurement; and, (2) proposed language that AER believes will help to update and clarify some of the background information regarding two MISO issues presented in Section 2.3.1.7 of the Draft Plan dealing with risks associated with transmission costs.

Clean Coal Procurement

AER’s generating facilities include a generating unit at AER’s Meredosia Power Plant, near Jacksonville, Illinois, that was once owned by its regulated utility sibling and that has the potential, once retrofitted, to become the first full-scale oxy combustion generating unit in the world. The retrofitted plant would be part of a broader federally-backed initiative known as FutureGen 2.0 and would create as many as 1,000 temporary and 150 permanent jobs for central Illinois. AER has been working closely with the FutureGen Alliance (a non-profit organization whose mission it is to advance clean coal technology) to move the FutureGen 2.0 initiative forward toward completion.

One critical condition for the project's completion is the existence of sourcing agreements covering electricity generated by the retrofitted plant. The Illinois Power Agency Act (20 ILCS 3855) clearly contemplates that the IPA and the Illinois Commerce Commission can consider such sourcing agreements during the 2009 procurement planning process and thereafter. *See*, Section 1-75(d)(5) of the Illinois Power Agency Act. Moreover, the state has clearly set forth the goal that by January 1, 2025, 25% of the electricity used in the State shall be generated by cost-effective clean coal facilities. Section 1-75(d)(1) of the Illinois Power Agency Act. Accordingly, AER is supportive of the IPA's efforts in the Draft Plan (*See*, Section 4.1 Clean Coal) to solicit proposals from clean coal facilities that can demonstrate that they have made significant progress to meeting a commercial in-service date of December 31, 2017. If the state's ambitious clean coal portfolio goal is to be met, the IPA is right in its decision to begin soliciting proposals in its 2012 Power Procurement Plan for clean coal facilities.

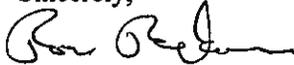
Clarifying Language Regarding Certain MISO Proceedings

In the section of the Draft Plan discussing risks associated with transmission costs (Section 2.3.1.7), the Draft Plan discusses the Midwest ISO' proposal for pre-certification of transmission paths for export transactions as well as the Midwest ISO's resource adequacy construct. AER respectfully suggests that some of information presented in this section is in need of clarification or is out of date. Accordingly, AER has prepared edits for the IPA's consideration (*See*, Attachment A) to the language in this section that AER believes will help to clarify and update the information presented.

Conclusion

AER appreciates the opportunity to provide these written comments regarding the Draft 2012 Procurement Plan. We look forward to reviewing the plan to be submitted by the IPA to the Illinois Commerce Commission and to participating along with other stakeholders as necessary in any further refinement and development of 2012 Procurement Plan.

Sincerely,



Ron Ryckman
Director, Commercial Markets
Ameren Energy Resources

2.3.1.7 Transmission Costs. The Utilities operate in separate regional transmission organization (“RTO”) markets: Ameren in MISO and ComEd in PJM. Risks associated with these markets are new transmission asset related costs, tariff rules, and the potential for cost sharing on super-regional transmission lines.

The IPA is limited in its ability to mitigate these growing risks outside of factoring them into cost modeling over the longer range horizon and seeking offsetting cost avoidance elsewhere within the Portfolio. However, transmission cost allocation is a subject of federal regulation and any changes in transmission costs will likely be borne by all customers regardless of supplier.

Midwest ISO Proposal for Pre-Certification of Transmission Paths for Export Transactions. On September 22, 2010, MISO filed proposed tariff revisions with FERC that provide an additional study option for firm “point-to-point” transmission service, to facilitate the export of generation from MISO to an external border.²² According to MISO, the proposal was in response to stakeholder comments advocating enhanced ability to export excess generation from the MISO footprint in transactions that cross MISO’s borders.²³ In MISO’s view, making additional transmission services studies available to generators will promote the use of existing generation that might otherwise be mothballed or retired, because there would be less delay and uncertainty for exporting customers in negotiating multiple, individual transactions.²⁴ Ameren [Energy Marketing](#), which intervened in the FERC proceeding to ask for more detail from MISO, contended that development of a cross-border deliverability agreement, or a common/joint capacity market, would be necessary to better facilitate cross-border transactions.²⁵ Pointing to statements from MISO that lack of a common market mechanism interferes with the sale of MISO capacity into other markets, Ameren [Energy Marketing](#) argued that FERC should direct MISO to better align its proposed studies, including its deliverability study periods, with the capacity planning years in MISO and adjoining markets.²⁶

FERC conditionally agreed to accept MISO’s proposal, but agreed with Ameren [Energy Marketing](#) and others that more detail was needed in MISO’s tariffs.²⁷ The Commission agreed that facilitating export transactions to the MISO border will provide benefits to market participants, but rejected Ameren’s [Energy Marketing’s](#) notion of a joint market agreement between PJM and MISO if any changes to the existing Joint Operating Agreement between the two RTOs were needed.²⁸ MISO was further directed to adjust its proposed annual review to ensure that generators seeking to export will have an accurate assessment of the amount of capacity available on pre-certified paths, to avoid overselling transmission service.²⁹

Changes in transmission pathways for excess generation will affect not only transmission planning, and supply/capacity prices, but [could also will](#) affect generation investment in the MISO region.

While this proposal does not impact any existing variable directly, it could impact the prices of generation across the seam that exists between PJM and MISO, the economics of cross-border prices, and possibly prices within the RTOs. These effects could affect the prices that the IPA pays for power and energy. The effects will need to be monitored closely, as the true impact is likely directly related to the criteria developed for final implementation ([e.g whether a joint capacity zone is created or how capacity portability will work](#)).

Midwest Independent Transmission System Operator, Inc. Resource Adequacy Construct. Over the past several years MISO has undertaken a “resource adequacy planning” process to examine the ways in which it ensures that adequate electricity resources are available for use at all times on the MISO system. Beginning in 2009, MISO has used the threat of financial penalties on load serving entities (“LSEs”) who do not demonstrate to MISO that they have procured adequate resources based on an annual Loss of Load Expectations (“LOLE”) study.³⁰ The resulting resource adequacy requirement is expressed as a “Planning Reserve Margin” (“PRM”) in excess of the forecasted system [non](#)-coincident peak. Each year LSEs submit an annual resource plan that specifies what planning resource credits (“PRCs”) will be used to meet the reserve margin for any given month. Planning resources generally fall into two categories: capacity resources (such as internal and external generation and demand response resources) and load modifying resources (such as demand resources that respond to prices and behind-the-meter-generation). Demand response resources are dispatched on the supply side of the market like generators; load modifying resources are allowed to participate as price-responsive demand and would be treated on the demand side of the market.³¹

In 2009, FERC examined MISO’s long-term resource adequacy plan, and in February 2009 FERC required MISO to develop a permanent approach to address congestion that limits aggregate deliverability and to examine whether a locational capacity requirement would be needed to ensure reliability.³² The Commission ordered MISO to evaluate a locational capacity approach to addressing the deliverability issue, like those used in PJM, ISO New England and the California Independent System Operator.³³ Over the course of 2009, MISO met with stakeholders, who could not agree on the best approach to resolving the issue, and who, in MISO’s opinion, did not offer much support for adopting the local capacity requirements used by other regional transmission operators.³⁴ MISO concluded that its existing tariffs were sufficient to address any congestion issues that might limit deliverability, and filed its conclusions before FERC. MISO also concluded that its system-wide planning reserve margin approach was sufficient to maintain reliability, based on MISO’s loss of load expectations (“LOLE”) studies.³⁵ Several generators intervened to contest MISO’s conclusions. Among them was Ameren [Services Company on behalf of the Ameren companies](#) which requested a substantive explanation and information on how MISO would provide sufficient data concerning congestion and import-constrained zones within the MISO footprint to enable market participants to provide solutions to aggregate deliverability problems.³⁶ MISO responded to such concerns by noting its planning process shows no upcoming issues related to the delivery of planning resources through 2018.³⁷ MISO further maintained that locational capacity requirements are not appropriate for the MISO area and would only add uncertainty while not improving

reliability.³⁸ Any approach based on locational capacity, MISO argued, would be inconsistent with the “energy-only resource adequacy” construct MISO had previously adopted.³⁹

FERC, however, concluded differently. MISO’s compliance filing was rejected, because it did not identify a permanent approach to address congestion that limits deliverability in the resource adequacy markets.⁴⁰ FERC had expected MISO to use as a starting point the market mechanisms utilized by other RTOs – mechanisms such as locational pricing and locational market rules that provide incentives for market participants to obtain sufficient local resources to secure reliability.⁴¹ The Commission determined that the existing LOLE and other study processes were not sufficient, and that for MISO and its stakeholders to fail to develop market mechanisms that address locational resource adequacy simply because “market participants desire a more convenient auction tool” than approaches used by other RTOs would sacrifice long-term locational reliability.⁴² The Commission directed MISO to develop a plan that allows auction planning credits and locational market mechanisms, which would coexist in MISO’s resource adequacy plan.⁴³

As a result, over the past two years, MISO has been working to develop a plan along the lines directed by the FERC. ~~begun moving towards a forward capacity market, akin to structures in place in PJM and other eastern regional transmission organizations, to satisfy requirements imposed by FERC related to locational resource adequacy and reliability.~~ On July 20, 2011, MISO filed with FERC its enhanced resource adequacy construct.⁴⁴ –The key components of MISO’s approach are similar to centralized resource planning,⁴⁴ including:

- Establishing system planning reserve requirements with zonal definitions based on planning studies;
- Using annual coincident peak demand forecasts from LSEs and (for retail choice states) electric distribution companies;
- Qualifying planning resources on a five one-year forward basis; and
- Recognizing those resources approved by state integrated resource planning resources.

Energy efficiency and price responsive demand are being pursued in parallel with this planning effort, and will be included as planning resources when measurement and verification details have been determined.⁴⁵

MISO proposes to establish seven local resource zones, with capacity requirements met with planning resources located within each zone or from outside the zone if transmission capacity is sufficient. Within each zone, local clearing requirements will be put in place, along with capacity import and export limits, which will be established for each zone. LSEs will meet those requirements through participation in the annual Planning Resource Auction.” The auction would be conducted as a single round, sealed bid auction, similar to

~~that used by MISO for the MISO Day Ahead market. will use a declining price auction procedure to determine capacity clearing prices for each local zone and to establish competitive capacity prices, which will settle on a daily basis.~~⁴⁶

MISO has integrated demand resources that operate as supplemental capacity on peak days into its planning. Demand resources, demand response resources and behind-the-meter generation contributed more than 8500 MW of unforced capacity during the peak month of June 2008 – making up 6.8% of all planning resources.⁴⁷ This would put MISO on a par with other RTOs who integrate demand response and energy efficiency into their supply or capacity markets. For example, for the 2012/2013 planning year, demand response and energy efficiency represented 5.9% of the total committed resources in PJM and 7.8% in ISO New England; the share of capacity from the demand side in NY ISO was 6.4% for the summer of 2009.

If MISO does establish a working capacity market, the resulting financial incentives to invest in demand response resources should create new products and increasing amounts of demand response activities aimed at lowering peak demand.

²² *In Re Midwest Independent Transmission System Operator, Inc.*, FERC Docket No. ER10-2869-000, Order Feb. 17, 2011 (“Export Transmission Order”).

²³ Export Transmission Order at 2.

²⁴ *Id.* at 2-3.

²⁵ *Id.* at 4.

²⁶ *Id.* at 5.

²⁷ *Id.* at 10.

²⁸ *Id.* at 11.

²⁹ *Id.*

³⁰ “Midwest ISO’s Resource Adequacy Construct: An Evaluation of Market Design Elements,” The Brattle Group, January 19, 2010.

³¹ *Id.* at 19.

³² *In Re Midwest Independent Transmission System Operator, Inc.*, Order on Compliance Filing (“Compliance Filing Order”) FERC Docket ER08-394-024, June 8, 2010.

³³ Compliance Filing Order at 2.

³⁴ *Id.* at 3.

³⁵ *Id.*

³⁶ *Id.* at 4.

³⁷ *Id.* at 6.

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.* at 7.

⁴¹ *Id.*, noting that if MISO had believed its existing tariffs were sufficient to address any congestion issues, MISO could have – and should have – requested rehearing of that Commission order.

⁴² Compliance Filing Order at 8.

⁴³ *Id.*; FERC clarified in an order on April 27, 2011 that MISO should evaluate locational capacity approaches along with any other approaches, to address the aggregate deliverability issue in the MISO footprint.

⁴⁴ ~~“Midwest ISO Resource Adequacy Enhancements Proposal,” Todd P. Hillman, Supply Adequacy Working Group, December 9, 2010, FERC Docket No. ER11-4081-000.~~

⁴⁵ “Midwest ISO Resource Adequacy Proposal for 2013/2014 Planning Year,” Supply Adequacy Working Group, February 17, 2011.

⁴⁶ MISO has noted that an open issue in its planning process is the creation of hedging mechanisms for new capacity positions with firm transmission service. Feb. 17, 2011 presentation at 16.

⁴⁷ Energy efficiency is not included in the supply side for MISO, as it has been in forward capacity markets such as PJM and ISO New England. Brattle Report at 27. Both systems count energy efficiency as a supply resource for two reasons – first, doing so allows third-party providers of energy efficiency services to capture the peak-reducing value of their projects. Second, it ensures the peak-reducing value of the measure is recognized in a timely manner, rather than waiting to observe the effects on load, then incorporating the effects in the following forward auction for delivery three years later. There is no threat of such lags in MISO, where the resource adequacy requirement is months, not years, ahead.

⁴⁸ *In Re Midwest Independent Transmission System Operator, Inc.*, FERC Docket No. ER11-1991-000, Order Feb. 28, 2011 (“Dispatchable Intermittent Resources Order”).

⁴⁹ Dispatchable Intermittent Resources Order at 2.

⁵⁰ *Id.* at 3, 5.

⁵¹ *Id.* at 5.

⁵² *Id.*

⁵³ *Id.* at 32.

⁵⁴ *Id.* at 42.