Ameren Illinois' Pre-Workshop Comments on Energy Resource Adequacy

Ameren Illinois Company d/b/a Ameren Illinois (Ameren Illinois) respectfully submits the following in response to the Illinois Commerce Commission's (Commission) request for pre-workshop comments on the topic of Energy Resource Adequacy within MISO Zone 4. Ameren Illinois compliments the Commission and the Governor's Office on their leadership in convening workshops on this important topic and looks forward to participating in the workshops. Ameren Illinois believes the important products of this workshop process will be a thorough documentation of the various parties' positions on the issue, the supporting arguments for those positions, and a strategy for Illinois to pursue in the future.

Identifying the overall problem:

A key step in arriving at an optimal solution to any problem is to first identify the problem itself. Over the past couple of years, there has been significant dialog on this topic starting with the policy sessions held by the Commission in late 2015, continuing with the negotiation around and General Assembly's consideration of the Future Energy Jobs Act, and most recently during a joint hearing of the House and Senate Energy Committees on HB4141 and SB2250. Throughout this two-year period, Ameren Illinois has heard a wide range of opinions on the issue ranging from resource adequacy is an immediate concern to resource adequacy is not a concern at all. Ameren Illinois has been an active stakeholder in each of these important policy dialogs and has consistently stated our point of view that long-term resource adequacy is a concern within MISO Zone 4 that will need to be addressed at some point. However, Ameren Illinois also acknowledges that there are sufficient resources in the market today and sufficient resources are forecasted to be available in the market in the next 3-5 years. Thus, the problem identified is mid- and long-term (3+ years) resource adequacy in MISO Zone 4.

Turning to the whitepaper on Resource Adequacy in MISO Zone 4, Ameren Illinois appreciates the effort that went into its development. The document provides considerable background on the topic and then identifies four possible policy options the State of Illinois might consider moving forward. The remainder of Ameren Illinois comments within this document will focus on clarifications we seek and our preliminary thoughts regarding the policy options to be discussed in the upcoming Commission workshops.

Clarifications:

- Pages 2-3: Do the new generation resources listed reflect only signed Generation Interconnection Agreements (GIAs)? If so, we would note that the 2017 MISO OMS-Survey additionally included a portion of projects in various phases of study (Definitive Planning Phase or DPP). For the 2018 MISO OMS-Survey, MISO has proposed a modification to the manner in which it includes a portion of DPP, but the survey will continue to include 100% of GIAs and a portion of DPP under study. If the data referenced represents only the data for signed GIAs, the data may underestimate the new capacity installed in MISO Zone 4.

- Page 12: Tentative parameters associated with the 2018/2019 MISO Planning Resource Auction (PRA) are listed as 7,265 MWs for the Local Clearing Requirement (LCR), 6,278 MWs for the Capacity Import Limit (CIL), and 4,280 MWs for the Capacity Export Limit (CEL). Ameren Illinois is not sure of the source of this data, but notes that materials presented at the October 10, 2017
meeting of the MISO Loss of Load Expectations Working Group indicate the following potential values pending updated demand forecasts and exports: LCR of 5,383 MWs, CIL of 6,278 MWs, and CEL of 4,280 MWs. Also noteworthy, the Planning Resource Margin Requirement (PRMR) has not yet been published, and the PRMR is a critical parameter for the PRA.

- Page 16: The white paper mentions that the Future Energy Jobs Act (FEJA) should drive the growth of Illinois renewables and EE, while also providing stability for the Clinton nuclear plant through the implementation of the Zero Emission Standard (ZES). An additional consideration not referenced in the white paper, nor necessarily driven by FEJA, is the emergence of DR in Zone 4. Within the last year, hundreds of MWs of DR capacity within Zone 4 have been registered with MISO and this allows the DR capacity eligibility to participate in the PRA or bilateral markets.

- Page 19: The whitepaper states that "for the June 1, 2018 through May 31, 2019 delivery year, Ameren Illinois' eligible retail load is forecasted to be only 36% of the overall load in Ameren Illinois' service territory". We have reviewed the 36% calculation and believe it represents a ratio of eligible retail load compared to all load that has yet to be competitively declared (i.e. total load for residential, small commercial and street lighting). For comparison purposes, the forecasted eligible retail load accounts for less than 20% of the total retail load, which in addition to residential, small commercial and street lighting, also includes load for large commercial and industrial customers.

Comments on the Four Policy Options:

The first policy option included in the whitepaper is to "Continue to rely on existing competitive forces and market structures". Under this option, Illinois would continue to rely on the basic market structures that exist today, namely the MISO PRA along with the MISO energy and ancillary services markets, to ensure resource adequacy. The whitepaper description suggests that modest, market-based modifications could be made to these markets to compensate beneficial generator attributes and valuable grid services. While Ameren Illinois generally supports the consideration of modifications to the MISO markets to improve price formation, we believe it is unlikely modest tweaks to the market structure will be sufficient to ensure resource adequacy in the future.

The second policy option outlined is "Impose additional capacity requirements on load serving entities". Under this option, the whitepaper suggests various actions that could be taken to increase the forward procurement of capacity in advance of the MISO PRA.

Section 2(a) of the whitepaper suggests increasing the amount of forward energy and capacity procured for Ameren Illinois' eligible retail customers could provide additional resource adequacy assurances in MISO Zone 4. While Ameren Illinois acknowledges that such an approach has the potential to modestly enhance resource adequacy, such an approach could also result in adverse impacts on the price eligible retail customers pay for supply and potentially lead to volatile switching to or from Alternative Retail Electric Suppliers (ARES). The Illinois Power Agency (IPA) currently considers many factors when determining the appropriate quantity of energy and capacity to be procured for eligible retail customers. One key factor is switching risk, the risk that customers will switch to or away from Ameren Illinois eligible retail load in the future. Increasing the amount of energy and capacity procured on behalf of the eligible retail customers could result in switching away from Ameren Illinois supply if the IPA
procurement prices are higher than the prices available from ARES or the spot market. The resulting excess supply would then be sold through the MISO markets at prices lower than those procured by the IPA. Conversely, if the prices paid through IPA procurements are lower than those offered by ARES or the spot market, customers could leave their ARES and return to Ameren Illinois supply. The resulting shortfall of supply would then be procured through the MISO markets at prices higher than the spot market. The point is that volatile switching can cause price swings to customers, which may be detrimental to retail competition. Historically, the uncertainty of future eligible retail load due to switching has limited the term of forward IPA hedging for both energy and capacity to no more than three years.

In order to illustrate the potential cost of forward hedging capacity, the whitepaper references the IPA hedged price of $143.20/MW-Day for 2017/2018 compared to the PRA price of $1.50/MW-Day. While true, the whitepaper does not reference the opposite occurrence in 2015/2016 when the PRA was $150/MW-Day and hedging did not occur, nor reference the 2016/2017 result when the PRA price could have been much higher under a scenario where the IPA did not hedge. With more historical context from 2015/2016 and 2016/2017, it is clear that the PRA has been extremely volatile in recent years and this is largely due to steepness of the supply offer curve. Specifically, the supply offer curve is flat until all price takers are considered, and then the curve tends to get steep as other generators make PRA offers at increasing prices. Ameren Illinois’ informal comments made in advance of the IPA’s 2018 procurement plan being submitted to the Commission (Docket 17-0392) have more information about the volatility of prior PRAs, the impact of the steep supply offer curve, and the impact the decision regarding whether the IPA hedges can have on the PRA price.

Section 2(b) of the whitepaper suggests the use of Fixed Resource Adequacy Plans (FRAP) to increase resource adequacy. Section 2(b)(i) discusses a process in which ARES would be required to submit FRAPs to MISO to demonstrate that they have procured sufficient resources in advance of the MISO planning resource auction. Ameren Illinois sees two potential issues with such an approach. First, it is not clear how switching risk would be addressed as load serving entities would be required to procure capacity in advance of the MISO PRA at one price (the bilateral market price) while any changes in load served due to switching would be priced at a different price (the MISO PRA price). Second, it is not clear that requiring ARES to submit FRAPs would materially improve long-term resource adequacy. Under the MISO rules, FRAPs are due only a few weeks prior to the planning year. While this process would advance the goal of identifying any shortfall of resources slightly, it would not identify it sufficiently in advance to allow time to take corrective actions, nor would it address resource adequacy multiple years into the future.

Section 2(b)(ii) discusses an IPA FRAP procurement process whereby the IPA would procure multi-year capacity for ARES load. Ameren Illinois interprets this section to be proposing a long-term process very similar to what is included in HB4141 and SB2250. Ameren Illinois believes such a long-term planning and procurement process could be a viable solution to ensure long-term resource adequacy. However, unless MISO projections of Zone 4 excess supply over the next few years change materially, we do not believe near term implementation is warranted.

The third policy option discusses the possibility of creating a Resource Adequacy Portfolio Standard via new legislation. Under this option, the Legislature could provide compensation to resources that enhance resource adequacy in a manner similar to the ZES in FEJA.
Further clarification is necessary on this option before Ameren Illinois can provide detailed comments. For example, it would be beneficial to clarify the definition of "eligible resources," whether eligible resources would be limited to "at risk" assets, and what constitutes an "at risk" asset. In addition, similar to ZES, any proposal would need to ensure the long-term operation of the eligible resources that receive benefit from the process. Finally, the parties should consider whether this proposal would create a scenario where one set of "at risk" resources receives benefit only to create a new set of "at risk" resources.

The fourth policy option is for Illinois to encourage or require utilities to change their Regional Transmission Organization (RTO) participation. The whitepaper correctly explains that utilities are provided RTO choice under current legislation, and therefore any requirement to change RTO participation would require legislative change. The whitepaper also correctly implies that such reconfigurations come with cost.

Ameren Illinois believes that reconfiguring RTO participation does not necessarily guarantee long-term resource adequacy for downstate Illinois. Further, the costs of reconfiguration would likely be substantial. In addition to the RTO exit fees identified in the whitepaper, Ameren Illinois customers would continue to be responsible for transmission projects in MISO in addition to transmission projects in PJM. They would also likely see cost increases related to differences in the energy and capacity markets of PJM compared to MISO.

Conclusion

Ameren Illinois appreciates the work of the Commission and the Governor's Office on this important topic. While we do not see any immediate need for a long term resource adequacy solution, history suggests that the energy markets often change quickly, and therefore, it is appropriate to refine alternatives now and pursue implementation over time where warranted. We look forward to participating in the upcoming workshops and hearing the input of the various interested stakeholders.