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Via e-Mail
Mr. Torsten Clausen
Director of Policy
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, Illinois 60601
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Re: ICC Workshop – Resource Adequacy in MISO Zone 4

Dear Mr. Clausen,

Rockland Capital ("Rockland") applauds the efforts of the Illinois Commerce Commission ("ICC") to evaluate and consider opportunities to address the structural challenges associated with maintaining resource adequacy in the portion of Illinois located in the Midcontinent Independent System Operator ("MISO") territory. Rockland concurs with the concerns that MISO expressed in its recent letter to Governor Rauner. MISO's resource adequacy construct, the Planning Resource Auction ("PRA"), is currently unfit to sustain Illinois' merchant generators. MISO's energy and capacity markets were purpose-built to facilitate efficient sharing of excess resources between the vertically integrated utilities that continue to supply over 90 percent of MISO's customers in every state except for Illinois. As a result, it is not designed to provide a source of revenue capable of sustaining merchant generators and is even less functional as a means of encouraging investment in new facilities that will be needed in the future. Changes are needed to ensure that Illinois' customers and economy continue to benefit from reliable, in-state energy resources.

Rockland welcomes the opportunity to engage in this informed and thoughtful process and encourages the ICC to diligently pursue viable enhancements to Illinois' energy economy such as expanding the existing Illinois Power Agency's existing energy procurement program. As contemplated by the ICC's whitepaper on MISO Zone 4, the establishment of a procurement mechanism would send a strong signal to investors that Illinois is an attractive place to remain and to put capital to work.

Description of Rockland Capital

Rockland Capital is a private equity firm founded in 2003 that focuses on the acquisition, optimization, and development of generation assets throughout the North American power sector. With over $700 million in capital currently under management, Rockland pursues targeted investment opportunities throughout the national wholesale power market landscape. Currently, Rockland's affiliates own and manage approximately 1,800 MW of merchant generation capacity within the state of Illinois, and over 1,100 MW in the MISO portion of the state. All of Rockland's affiliated capacity is fueled by natural gas.

The Solutions Contemplated in the ICC's Whitepaper Can Effectively Remedy Resource Adequacy Concerns.

Rockland praises the ICC's investigation into ways to address the revenue adequacy challenges impacting long-term resource adequacy in MISO Zone 4. This effort aligns with MISO's stated preference for "state solutions" to local resource adequacy needs over structural changes to its markets. As the only fully deregulated jurisdiction within the MISO footprint, the need to ensure that competitive processes provide sufficient revenues to sustain merchant generation resources is unique to Illinois. Generation resources in the remainder of MISO are generally fully compensated through the traditional cost-of-service rates provided to each state's vertically integrated, regulated utilities. Adopting properly structured energy policies that promote efficient investment in in-state resources can correct this incongruity while maximizing the other efficiencies that MISO provides.

MISO's Resource Adequacy is not Designed to Sustain Investment in Merchant Generation Assets

MISO's PRA capacity market is designed to be a "mutual insurance pool" that provides an opportunity for traditional regulated utilities to balance their ratepayers' capacity needs and the generation portfolio. Because load and generation portfolios often are not perfectly matched, utilities with excess capacity can offer it into MISO's market for purchase by those that may be slightly short of their need. However, like any insurance product, the Resource Adequacy Construct was never intended to serve as a vital revenue stream needed to sustain generation investment. That function was and still is accomplished through traditional cost-of-service rates.

As a result, resources located in regulated jurisdictions often offer their capacity in the PRA at very low prices—often even $0.00/MW-day—because those resources are supported by ratepayers outside of the PRA construct. Since those subsidized resources are offered at low levels that are not reflective of the cost to provide capacity, there is the effect of price suppression on the whole market. Resources in competitive areas like Illinois are not properly valued or compensated.[1] This distortion causes inappropriate signals for merchant resources to exit the MISO market and Zone 4, even though these resources are generally more cost effective and needed to maintain reliability.

The lack of certainty in the price signals produced by MISO's market also puts planned resource development at risk. The ICC Whitepaper on Zone 4 notes MISO's interconnection queue includes nearly 4,400 MWs of installed capacity that could be developed in Illinois, mostly delivered from wind and solar resources. However, those investments are not certain to materialize without sufficient revenue. Addressing resource adequacy concerns will improve the chances that these investments are realized.

Moreover, wind resources in MISO are provided with a capacity factor of only 15.6% due to the intermittent nature of output and the inability to control their underlying fuel source.[2] This means that for every 100 MW of installed

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[1] The clearing price paid to resources in LRZ 4 that participated in the 2017/2018 Planning Resource Auction was $1.50/MW-day.

[2] Midcontinent ISO, *MISO Planning Year 2017-2018 Loss of Load Expectation Study Report*, Oct. 19, 2017, at 22, *available at* https://www.misoenergy.org/Library/Repository/Study/LOLE/2018%20LOLE%20Study%20Report.pdf. See also, MISO Business Practice Manual 11 – Resource Adequacy, Section 4.2.3.3.

capacity from a wind resource, MISO will allow 15.6 MW to contribute to satisfying reliability requirements. To put that in context, investors would need to develop approximately 3,205 MW of wind generation to replace the 500 MW Wood River generation asset that Dynegy recently announced would retire. This comparison shows that substantially more investment will be needed if a portion of Illinois' existing generators retire.

A Threat to Reliability and Not a "Coal Bailout"

Just as regulated utilities would be forced to exit the market if they were not allowed to recover their costs and earn a reasonable return on their investments into generation assets, merchant generators will be forced to exit the market in Illinois absent market reforms. While Zone 4 may be able to avoid reliability shortfalls in the immediate term, Illinois will become dependent on excess generation from vertically integrated utilities in its neighboring MISO states to maintain reliability. Future reliability will only be achieved if other state commissions allow their utilities to recover costs from ratepayers in those other states to ensure reliability for the ratepayers in Illinois.

The issue is not due to a large amount of coal fired generation in Illinois. Much of the natural gas fired generation in Zone 4 will also be uneconomic and forced to retire. Without reforms, certain types of natural gas generation would be candidates for relocation to markets where merchant generators have an opportunity to recover their costs. Rockland is one of several investors in the North American power space that has completed or is in the process of moving natural gas turbines from areas where competitive generators are not valued to areas with functional markets.[3] Rockland will actively consider such options for some of its southern Illinois fleet absent changes that provide a level playing field for merchant generators.

Energy Policies like Expanding the Existing IPA Capacity Procurement Program Promote Investment in Illinois' Merchant Resources

The record supporting a need to address the market design and structural issues with Illinois' energy economy is robust. Rockland is encouraged by and supportive of the ICC's efforts to investigate and evaluate these important issues. Of the potential options posed in the ICC's whitepaper, Rockland believes that expanding existing capacity procurement programs offers an opportunity to address these current challenges. A procurement mechanism that is technology neutral and competitive could incent efficient investment in local energy resources while maximizing value to ratepayers and ensuring reliability.

In addition to expansion of the existing IPA capacity procurement process, the Commission should also consider further improvements to the process by providing a single clearing price for each auction as well as multi-year procurement. A three-year forward procurement is used in the PJM portion of the state and was advocated by MISO in their attempt to adjust their capacity construct to one capable of supporting merchant generators. These types of enhancements will create the proper pricing signals to incentivize the lowest cost, in-state generators to participate in the market—whether they be existing projects or new greenfield development fueled by coal, natural gas, or renewable sources.

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[3] A multi-entity partnership including Rockland Capital recently completed the relocation of the New Albany Power Facility from Union, Mississippi to the area of southeast Texas near Bacliff.

Competitive market forces have resulted in a significant decrease in the cost of electricity and have pushed resources to operate more reliably and efficiently. Rockland again welcomes the opportunity to engage the ICC in discussions at the upcoming workshops and appreciates the opportunity to submit comments in advance.

Respectfully submitted,

Shane Litts

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