

November 30, 2017

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Dear Mr. Clausen:

Sierra Club hereby submits these preliminary comments on the Illinois Commerce Commission's ("ICC") proposed stakeholder process to evaluate resource adequacy needs in Zone 4 of the Midcontinent Independent System Operator ("MISO") service territory, which encompasses most of central and southern Illinois. We appreciate the opportunity, here and in future workshops, to assist the ICC in determining whether there are unaddressed resource adequacy needs that require Illinois action to resolve. As these comments demonstrate, and as Sierra Club has previously demonstrated in a recent Federal Energy Regulatory Commission ("FERC") proceeding in which MISO's proposal to radically revamp the market was rejected by FERC, MISO has not demonstrated a resource adequacy shortfall that warrants making changes to Illinois's capacity procurement that could increase electricity rates for central and southern Illinois ratepayers.

Furthermore, because several ongoing developments could impact Illinois's energy markets and resource adequacy projections in the next several months, Sierra Club urges the ICC to wait we have a better picture of what actual needs will be over the next few years before proceeding here. Specifically, we do not believe that a workshop is necessary on December 7, and would support beginning the workshops and comment process no earlier than with the currently scheduled January 16 workshop.

I. MISO Has Not Demonstrated that Illinois Faces a Resource Adequacy Shortfall

The ICC's White Paper, published together with its proposed series of workshops, identifies a letter from MISO to Governor Rauner as among the key motivations for hosting the proposed workshops.¹ It also mentions that MISO's attempts to address its resource adequacy concerns in Zone 4 did not begin with its advocacy in Illinois: on November 1, 2016, following through on a process that began in March of 2016, MISO filed a proposed "Competitive Resource Solution" (the "CRS Proposal") at FERC, which would have bifurcated Zone 4's capacity markets to ensure certain recovery levels for Illinois-based capacity providers. In that proceeding, in which Sierra Club protested the CRS Proposal, MISO made many of the same arguments it is now making here, and failed to convince FERC that the problem was serious enough to warrant immediate action along the lines MISO had proposed.

FERC was not pressured to approve MISO's proposal because the proposal responded to a problem that does not yet exist, and may never exist. MISO is wrong that any sort of fix is needed, because its interpretation of resource adequacy projections is overly conservative; it underestimates the ability of existing programs to prevent capacity shortfalls; and it ignores other tools MISO has available to respond to and address any potential shortfalls that may arise.

A. OMS-MISO Survey Results Do Not Indicate Any Possibility of Future Resource Adequacy Needs

MISO's primary basis for anticipating a near-term resource adequacy shortfall in its FERC filing was the OMS-MISO Resource Adequacy Survey conducted in 2016 ("2016 OMS-MISO Survey"). That survey included some scenarios where MISO failed to maintain overall resource adequacy through 2021, and MISO focused entirely on its own worst-case scenarios. This excessively pessimistic outlook was proven incorrect when, only one year later, the OMS-

¹ These comments do not include citations, because they are intended to be preliminary, and therefore strictly narrative. Sierra Club anticipates providing full citations in future comments after the workshops commence.

MISO Resource Adequacy Survey conducted in 2017 (“2017 OMS-MISO Survey”) projected only surpluses in Zone 4 both in 2018 and in 2022, five years away.

The OMS-MISO survey is of course an imperfect predictor of actual capacity needs, as the ICC itself has noted. But historically, the bulk of the uncertainty with these projections has been one directional—that is, most of the uncertainty came from ignored scenarios in which there was more, not less, resource adequacy in Zone 4. This is because MISO has a demonstrated history of focusing exclusively on the worst-case scenario for all cases in its filing. The 2017 OMS-MISO Survey changed some of those assumptions, most notably finally ending a process in which the OMS-MISO survey would overstate load growth year after year, and as a result of that and developments resulting from passage of the Future Energy Jobs Act (“FEJA”), that survey now projects a surplus. But rather than taking MISO at face value when it questions the reliability of its own survey, the ICC should evaluate the survey’s accuracy by examining each of that survey’s several assumptions, and what impact those assumptions have on the projection, on an individual basis.

Furthermore, the ICC should remember that the survey projects a capacity surplus of 400 MW in 2022, even if the worst case projections in that survey all come to pass. In other words, in order for there to be a real resource adequacy need by 2022, each of the following must occur:

- 1) The OMS-MISO Survey understates resource adequacy needs by at least 400 MW;
- 2) Every resource that MISO counts as a “low certainty” resource because it may be “at risk of retirement” in fact retires;
- 3) All new capacity provider projects that are in the “Definitive Planning Phase” of the MISO queue never connect to the grid;
- 4) No additional generation in the queue that is not as far along in the approval process comes online.
- 5) In particular, renewable energy resources in Illinois fail to meaningfully develop, despite passage of the FEJA, which is expected to incent the construction of over 6 GW of new wind and solar power between now and 2025; and

6) No new transmission projects are placed in service to increase the supply of capacity to Zone 4 from across the MISO footprint;

As Sierra Club intends to explain in more detail as these workshops proceed, each of these events deviates significantly from what can reasonably be expected to occur based on historical data and the expected development of energy markets.

II. The Existing Markets Are Set Up to Prevent Shortfalls

The ICC should also remember that even if the OMS-MISO survey dramatically understated resource adequacy needs, MISO still has two market tools that it uses to ensure resource adequacy in retail access Zones: the Planning Resource Auction (PRA) and bilateral capacity markets.

Although it has been maligned in recent years, the PRA has been successful since its inception in obtaining more than sufficient capacity to meet demand, and the most recent auction is no exception: the 2017/2018 Planning Reserve Auction results show an excess of capacity (total offers submitted including FRAP exceeded the PRMR by more than 5,000 MW); and show actual imports into Zone 4 were significantly less than the Capacity Import Limit available (771 of a possible 5,815 MW were imported to Zone 4). The PRA clearing price was only \$1.50 for the 2017/2018 auction, but if several at-risk plants retire before new replacement capacity is in service, or if the capacity offerings in MISO Zones are “tight”, prices will go up; if new, lower cost generation resources come online and/or less generation retires, prices will go down. Furthermore, even with retirement of all Zone 4 resources above the \$25 conduct threshold (which are probably the highest risks for retirement), there would still be an almost 5,000 MW surplus, without even considering the possibility of increasing capacity imports by over 5,000 additional MW. In short, no evidence has yet been presented that the PRA will fail to ensure resource adequacy as long as it continues to function as designed.

III. Recent Developments May Impact the Resource Adequacy Discussion

Even to the extent the ICC believes there may be an issue, it should postpone the start of its proposed workshop schedule because several outstanding events may impact the resource adequacy discussion in a way that is hard to predict. Most notably, Vistra recently acquired and/or merged with Dynegy, after paying \$1.7 billion in a transaction that will create a new company worth \$20 billion with \$5.5 billion in excess capital. The transaction is not yet finalized, and won't be until at least April of 2018, but it could have significant impacts on the new company's plans for the coal fleet owned by Dynegy in Southern Illinois. It is difficult to predict what those impacts might be, and so ICC should delay action until it has a better sense of those impacts and proceed accordingly.

Federal regulatory developments may also profoundly impact the existing energy and capacity markets in a way that could moot or undermine any ICC-proposed action. On September 28, 2017, the Department of Energy ("DOE") submitted a Notice of Proposed Rulemaking in which it directed FERC to implement a plan to financially reward power producers that store 90 days' worth of fuel onsite—a category that only includes nuclear and coal-burning power plants. The proposal further mandates that FERC work to implement this plan by December 11. If FERC approves such a plan, even if it takes a substantially different form than that suggested by the DOE, it could upend Illinois's, and MISO's energy markets dramatically. Suggesting a course of action before we know more what to expect from FERC (and by extension, the DOE) would be a waste of ICC's, and the various stakeholders', time.

Finally, the passage of FEJA last year already has had and will continue to have a large impact on Illinois's energy markets. The 2017-2018 OMS-MISO survey already showed some of that impact in how profoundly it differed from the 2016-2017 OMS-MISO Survey, but as the

Act is further implemented, it could (and is expected to) dramatically increase build-out of renewable electricity resources, which will further affect MISO's resource adequacy projections. The more time that is given for this process to unfold, the more informed the ICC can be before it makes any policy recommendation to Governor Rauner or the Illinois legislature.

IV. CONCLUSION

As a result, and for the reasons discussed above, Sierra Club does not recommend that the ICC suggest any course of action that could materially impact energy markets and raise electricity prices until a timely resource adequacy need actually becomes apparent. With respect to the proposed process, Sierra club respectfully requests that the ICC postpone the currently scheduled December 7 workshop and instead begin its series of workshops to address the existence and urgency of resource adequacy needs at the earliest on January 16, 2018.

Sincerely,



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