

**Vistra Corp.'s Responses to
Illinois Power Agency's
Request for Stakeholder Comments on 2023 Procurement Plan**

Vistra Corp. ("Vistra") appreciates the opportunity the Agency has provided for interested parties to submit feedback on questions related to the draft electricity procurement plan, prior to the release of the draft electricity procurement plan in August. Vistra's comments address the Agency's questions on steps that can be taken to improve wholesale market pricing signals and reduce the volatility occurring in the MISO Planning Resource Auction.

Vistra Comments on Planning Resource Auction and Sloped/Vertical Demand Curve

For the past decade, the annual *MISO State of the Market Report*, published by the MISO Independent Market Monitor ("IMM"), has included a recommendation that MISO engage with stakeholders and replace the existing vertical demand curve with a sloped demand curve. The State of the Market Reports have included detailed analysis supporting the IMM's position that a sloped demand curve would better recognize that incremental capacity above the minimum capacity requirement has value (i.e., improves reliability), and a change to a sloped demand curve would allow capacity prices to rise efficiently as capacity margins fall. What occurred during the April 2022 MISO Planning Resource Auction ("PRA") is what critics of the vertical demand curve, including the IMM have warned: The vertical demand curve does not consistently reflect true value of reliability, and results in capacity market outcomes where small increases or decreases in supply can result in large swings in PRA capacity clearing prices. In this case, the Zone 4 prices for 2022-2023 cleared at \$236.66/MW-Day compared to \$5.00/MW-Day in 2021-2022, all because of a small reduction in supply. A sloped demand curve would have reflected a much greater value of capacity in prior years, and that increased value may have prevented some resources from retiring. It would also have signaled to market participants and policy makers that capacity was becoming increasingly scarce.

Vistra agrees with the IMM that a sloped demand curve would more accurately signal the value of capacity to both new investors and existing market participants. The inconsistent price signals from the existing vertical demand curve have led to the premature retirement of thermal resources and a lack of much needed new generation in Zone 4. This is because investors do not see a reasonable expectation of recovering their costs, leading to the current reliability concerns.

Vistra Comments on Benefits of a Forward Capacity Auction for Zone 4

Vistra believes that MISO's annual PRA, which is held approximately three months prior to the planning year and only procures power for the planning year, does not provide clear, long term, price signals which are needed to attract new investments in Zone 4 and ensure existing generation

doesn't prematurely retire. From a practical perspective, resource owners and developers need to make entry and exit decisions well ahead of when the PRA is run and thus cannot use the results of the PRA to inform those entry and exit decisions. If MISO adopted a three year forward capacity auction, similar to PJM's Reliability Pricing Model, there would be more supply elasticity due to future generation investments and improvements to existing generation, contingent on the auction results. MISO resources currently have limited insight on what capacity prices will be in the future, which: 1) limits new generation and 2) leads to more retirements because of the uncertainty of future prices. In the past, when discussions on a three year forward capacity market for Zone 4 have taken place during the MISO stakeholder process, opponents of a forward capacity market argued that Zone 4 had "sufficient capacity" and that there was a "substantial surplus" of capacity in Zone 4. This is no longer the case. Unfortunately, because of that misplaced faith in a never ending "surplus" of generation, residential and commercial customers in the Ameren territory have seen their prices increase significantly. Vistra would encourage the Agency to ask MISO to further study the advantages and disadvantages of a forward capacity market.

Vistra Comments on an Illinois-only Single State ISO

Vistra cautions the Agency to be wary of an Illinois-only single state ISO. Vistra is sympathetic to the concern that MISO is not as responsive to Illinois market participants because the state's needs are unique relative to the needs of the vertically-integrated utility states.

Nonetheless, Vistra believes Illinois likely benefits on net from membership in large multi-state ISOs. For instance, the geographic diversity associated with the MISO and PJM footprints provides significant benefits, particularly as Illinois pursues an increasing amount of variable energy resource. On a relative basis, variable energy resource output changes are smoother over a wide geographic market footprint. This likely allows the ISO to procure less reserve capacity and mitigates the need to curtail variable energy resource output.

The Agency should carefully consider the many benefits of membership in a large, multi-state ISO when considering its position on an Illinois-only ISO.

Respectfully submitted,

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