

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

State Policies and Wholesale Markets Operated by ISO Docket No. AD17-11-000
New England Inc., New York Independent System
Operator, Inc., and PJM Interconnection, L.L.C.

**PRECONFERENCE STATEMENT OF CHAIRMAN BRIEN J. SHEAHAN,
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Commissioners, FERC staff, and fellow panelists – thank you for the opportunity to participate in this Technical Conference regarding the intersection of state energy policy and wholesale electricity markets.¹ I am encouraged by FERC’s willingness to engage and collaborate with states and other stakeholders. Discussions such as these can help bring together people from all vantage points in the energy industry; to both articulate and listen to a range of perspectives on the challenges we all face as the resource markets continue to evolve, and help shape policies that further state policy goals and encourage competitive wholesale markets.

Illinois has a long history of progressive leadership in energy policy. In 1997, Illinois became one of only a handful of states to restructure its electric markets through the Illinois Electric Service Customer Choice and Rate Relief Law of 1997. Pursuant to this law, Illinois maintained electricity distribution as a fully regulated utility service. Utilities owning transmission facilities were required to join independent regional transmission operators (RTOs), which became responsible for control and planning of transmission. Vertically integrated utilities were permitted to sell their generation plants to independent companies or transfer them to affiliates to participate in the wholesale market. Taken together, these initiatives created a source of supply and operating conditions to facilitate retail competition for electric supply service in Illinois.

As Illinois’ electricity markets evolved, so too did the State’s environmental energy policies. The Illinois Renewable Portfolio Standard requires electric utilities to annually procure a percentage of their retail load from cost-effective renewable energy resources. Between June 1, 2017 and May 31, 2022, the average annual percentage target for Illinois’ Renewable Portfolio

¹ The views and opinions I express in this statement and provide as a panelist are my personal beliefs and opinions, which do not necessarily reflect the official policy or position of Illinois Commerce Commission (ICC), any of its other Commissioners or the State of Illinois. Further, as ICC Chairman, I may be called on to decide matters involving some of the issues presented by the topics discussed at this conference. To the extent any questions implicate issues that may arise in future cases before the ICC, it would not be appropriate for me to answer or otherwise comment. Finally, the ICC is currently engaged in litigation pending in the federal district court in Chicago. To the extent my answers to specific questions would implicate issues related to this litigation, I am unable to comment.

Standard is 16%. Similarly, the Illinois Energy Efficiency Portfolio Standard requires utilities to adopt cost-effective energy efficiency and demand-response measures to reduce delivery load. Utilities subject to Illinois Energy Efficiency Portfolio Standard have achieved a cumulative persisting annual savings of 6.6% from energy efficiency measures and programs implemented during the period beginning January 1, 2012 and ending December 31, 2017. Illinois is not alone in adopting environmental policies. At the end of 2016, twenty-nine states had some form of Renewable Portfolio Standard.² Several states, including nine northeast and Mid-Atlantic States participating in the Regional Greenhouse Gas Initiative, have implemented emissions budget trading programs addressing carbon dioxide and other Greenhouse Gas Emissions (GHG).³ Illinois' energy related environmental policies, like those of many states, coexist with the state's restructured retail markets and the federally regulated wholesale markets.

Policymakers and courts have "long recognized the role of the States as laboratories for devising solutions to difficult legal problems." *Arizona State Legislature v. Arizona Indep. Redistricting Comm'n*, 135 S. Ct. 2652, 2673 (2015) (citation omitted). This principle applies with greater force here, where a state seeks to protect the health and well-being of its citizens from environmental pollutants. In 2014, Illinois was faced with the real possibility that one or more of its nuclear generation facilities would close. In response, the General Assembly requested multiple state agencies, including the Illinois Commerce Commission and the Illinois Power Agency, to evaluate the impacts resulting from the premature closing of Illinois' nuclear generation facilities. The study included an analysis of the impacts on retail rates, grid reliability and capacity, GHG, and the local economy.⁴ As part of the study, Illinois asked PJM to study the impacts of premature retirements of Illinois nuclear power plants. After completing its analysis in 2015, PJM concluded that if only the Quad Cities nuclear plant closed, CO₂ emissions in Illinois would increase by 2.6-3.1 million tons and by 6.1-7.2 million tons across the entire PJM system on an annual basis.⁵

² National Conference of State Legislatures, State Renewable Portfolio Standards and Goals, December 28, 2016. <http://www.ncsl.org/research/energy/renewable-portfolio-standards.aspx>.

³ <https://www.rggi.org/>

⁴ Potential Nuclear Plant Closings in Illinois, January 5, 2016. <https://www.icc.illinois.gov/downloads/public/HR1146%20Report.pdf>

⁵ Potential Nuclear Plant Closings in Illinois, Appendix (PJM Response to Illinois Commerce Commission Request to Analyze the Impact of Various Illinois Nuclear Power Plant Retirements, October 21, 2014) at pages 9-11, tables 2-4. Also see <https://www.pjm.com/~media/committees-groups/committees/teac/20150107/20150107-pjm-response-to-icc-request-to-analyze-the-impact-of-nuclear-retirements.ashx>

In December 2016, Illinois enacted the Future Energy Jobs Act (FEJA), PA 99-0906⁶, which takes effect June 1, 2017. This legislation is designed to, among other things:

- A. Encourage the adoption of renewable energy resources including cost-effective distributed energy resources and technologies;
- B. Update Illinois' energy efficiency standard to incorporate and optimize measures enabled by the smart grid and to provide incentives to achieve energy savings goals; and
- C. Preserve existing and promote new zero-emission electricity generation.

The adoption of FEJA, and its Zero Emissions Standard (ZES) provisions in particular, are a continuation of the initiatives undertaken by Illinois to take into account events and circumstances affecting the state's electricity industry.

As demonstrated by Illinois' investigation into the impact of premature nuclear facility closures and the passage of FEJA, state governments are well-suited to address matters that arise within their borders as part of a comprehensive energy policy, while still respecting complementary federal and state regulatory authority. Cross border effects do not necessarily conflict with other state or federal policies, and in fact provide benefits such as the reduced emission of CO₂ and other air pollutants.

Illinois supports regional market design modifications that either complement or enhance state policy initiatives. Because RTOs have unique insight into broader regional systems, they will continue to play an important role in helping to ensure resource adequacy. RTOs could leverage their unique position to help implement state environmental policies. For example, RTOs could commit to a portfolio of resources in a capacity market or dispatch resources in an energy market based upon economic optimization principles that also take into account state environmental preferences. Any such process must of course respect a state's reserved power to protect the health and welfare of its citizens.

Because states should retain the ability to implement energy policy within their borders, FERC should adopt a policy that requires RTO energy and capacity market designers and operators to account for state energy policies. A hybrid approach, enabling some state policies to be achieved through operation of the regional markets and others to be achieved through state-by-state actions, would represent a reasonable path forward. I look forward to collaborating with the Commission in this regard.

⁶ See Enrolled Bill at <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0906.pdf>