

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 00-0007**

**PREPARED DIRECT TESTIMONY OF DAVID W. HASTINGS**

**FEBRUARY 25, 2000**

1 1. Q. Please state your name, business address and present position.

2 A. My name is David W. Hastings. My business address is 500 South 27<sup>th</sup> Street,  
3 Decatur, Illinois, 62525. I am currently employed in the Business Development  
4 Services Group for Illinois Power Company ("Illinois Power", "IP" or the  
5 "Company").

6 2. Q. Please state your educational background and professional experience.

7 A. I graduated from Southern Illinois University with a Bachelor of Science Degree  
8 in Business Economics in 1992. I graduated from Illinois State University in May  
9 of 1998 with a Masters of Science Degree in Economics. Since December of  
10 1997, I have been employed by Illinois Power as a Business Associate in the  
11 Costing and Economic Services Section of the Company's Regulatory Services  
12 Department, as well as a Commodity Structures and Retail Risk Specialist in the  
13 Company's Customer Solutions Department. Over the course of the time I have  
14 been with the Company, I have been responsible for performing a wide variety of  
15 cost, revenue, and economic analyses for various departments within the  
16 Company, as well as assisting in the development of the Illinois Power Transition  
17 Charge Tariff. Additionally, I have been responsible for commodity structuring,  
18 pricing, and the creation of retail risk profiles for large-scale retail electricity  
19 transactions.

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20 3. Q. What are your responsibilities in your present position?

21 A. I am in part responsible for management of the Neutral Fact Finder (“NFF”)  
22 contract reporting process including the collection and management of the data  
23 that will go into Illinois Power’s NFF reportable contract summaries.

24 Additionally I am responsible for performing various internal economic analyses  
25 as well as serving on a team supporting the revenue and margin forecasting  
26 process for the Company.

27 4. Q. In addition to IP Exhibit 1.1, are you sponsoring any other exhibits?

28 A. Yes, I am also sponsoring Exhibit 1.2 which is described later in this testimony.

29 5. Q. What is the purpose of your prepared testimony?

30 A. The purposes of my prepared testimony are 1) to state Illinois Power’s views on  
31 the unbundling portion of the requirements within, the NFF contract reporting  
32 process; and 2) to illustrate the bias in determining market values utilizing an  
33 unbundling process which incorporates last year’s NFF value.

34 6. Q. Can you describe the unbundling requirements as presented in the Instructions for  
35 Completing Contract Summary Form and Worksheets?

36 A. The instructions for completing the contract summary forms for submitting the  
37 reportable contracts to the NFF for the determination of 2001 market values  
38 require the unbundling of bundled service contract prices. Basically, this process  
39 involves the subtraction of Delivery Service (including Transition) charges, as set  
40 forth in each Utility’s tariffs, from the bundled service contract price.

41 7. Q. What concerns do you hold in regards to this unbundling process?

42 A. I am concerned where the unbundling calculation derives the market value as the  
43 residual amount remaining after subtracting Delivery Service Revenues (including  
44 Transition Charges) from the bundled contract price. In short, such a process  
45 creates an unavoidable bias to the NFF determination of market value utilized in  
46 the unbundling calculation itself, thus perpetuating the prior NFF value because  
47 the current determination of the NFF market value would be dependent upon the  
48 prior year's determination.

49 8. Q. Can you provide an illustration of this problem?

50 A. IP Exhibit 1.2 provides a hypothetical example, applicable to any reporting party  
51 who has a bundled contract that did not use a market value to set the bundled rate.  
52 Part A of Ex. 1.2 presents an example of how the transition charge would be  
53 calculated as a prelude to unbundling the bundled contract given the current  
54 instructions. Part B presents the results of the unbundling calculation itself. The  
55 residual amount in part B will always be at or near the prior year's NFF reported  
56 'value (slight differences might occur due to slight differences in the starting  
57 contract price). Thus, it can be seen that if the unbundling process is used to  
58 derive market value in this way, a bias to the prior year's determination of market  
59 value is unavoidable.

60 9. Q. What does this lead you to conclude?

61 A. I conclude that the determination of market values in the above manner will never  
62 be free from the historical determinations of market value made by the prior NFF.  
63 Any staleness in the previous determination are perpetuated in future years.

64 10. Q. Can this problem be resolved?

65 A. Yes, but only for contracts where a specific assumption of market price was used  
66 to set the bundled rate. For contracts where a specific assumption of market price  
67 was made, the problem is solved through the use of 2 items:

68 1. The actual market forwards used in the negotiation process for each  
69 contract.

70 2. The customer's actual usage used in the negotiation process for each  
71 contract.

72 These two items can be easily utilized to derive market valuation based on actual  
73 market values used in the negotiation process, rather than the prior year's NFF  
74 report. The circularity and resulting bias is eliminated. For contracts where no  
75 assumption of market price was made, the market forwards set forth in item #1 do  
76 not exist. The best recourse for eliminating this problem would be to eliminate the  
77 contracts from consideration since including them would perpetuate the prior  
78 year's NFF value rather than present an independent view of next year's price.

79 11. Q. Would it be possible to verify that parties are properly categorizing their contracts  
80 in light of your proposal?

81 A. Yes. Reporting entities are subject to ICC audit in regard to facilitating such  
82 verification.

83 12. Q. Does this conclude your prepared direct testimony?

84 A. Yes, it does.

**Illinois Power Company  
Derivation of Market Value for Retail Contract**

Unbundling Example

A) Transition Charge Estimation Process

5.0 Base Revenue  
0.4 Delivery Service Revenues  
3.0 [ NFF ] market value from latest NFF report  
1.6 Lost Revenue  
0.5 Mitigation Amount  
1.1 Transition Charge

B) Determination of Market Value

4.5 Retail Contract Price  
0.4 Delivery Service Revenues  
1.1 Transition Charge  
3.0 \*Market Value

\* Residual Amount Based on Predetermined [ NFF ] Market Values