

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 05-_____
Proposed tariffs filed pursuant to Article IX of the	:	
Public Utilities Act defining a competitive supply	:	
procurement process and, pursuant to Section	:	
16-112(a) of the Act, establishing a market value	:	
methodology to be effective post-2006; providing	:	
for Power Purchase Options and for recovery of	:	
transmission charges post-2006; and enabling	:	
subsequent restructuring of rates and unbundling	:	
of prices for bundled service pursuant to	:	
Sections 16-109A and 16-111(a) of the Act.	:	

Direct Testimony of
CHANTALE LACASSE, PH.D.
Vice President
NERA Economic Consulting

1 Q. Please state your name and business address.

2 A. My name is Chantale LaCasse. My business address is 1166 Avenue of the Americas,
3 New York, NY, 10036.

4 Q. What is your current position?

5 A. I am a Vice President with National Economic Research Associates, Inc. (NERA).

6 Q. What are the purposes of your testimony?

7 A. The purposes of my testimony are:

- 8 • To describe how multiple round auctions have come to be used in various sectors
9 including energy, and to review the benefits of such auctions in theory and in
10 practice;
- 11 • To review the regulatory background and experience in New Jersey with a
12 competitive auction process to provide Basic Generation Service for electricity
13 customers. Basic Generation Service (“BGS”) is a regulated service designed to
14 provide electricity to customers who, for whatever reason, did not arrange to
15 purchase electric supply from a competitive entity;
- 16 • To explain the role of the Auction Manager in that process;
- 17 • To review the features of the New Jersey process that have contributed to its
18 success;
- 19 • To outline the results of the New Jersey auctions that have been held to date;
- 20 • To outline the competitive auction process that is incorporated into the tariffs that
21 have been proposed in this proceeding for Illinois customers, and to express my
22 opinion about whether the proposed process incorporates the features necessary to
23 succeed.

24 **I. BACKGROUND & QUALIFICATIONS**

25 Q. Please summarize your educational and professional qualifications prior to joining
26 NERA.

27 A. I hold a B. Soc. Sc. with Honors in Economics (1983) and a B.A. with Honors in
28 Mathematics (1984) from the University of Ottawa (Canada). I hold an M.A. (1986) and
29 a Ph.D. in Economics (1991) from the University of Western Ontario (Canada). During
30 my doctoral work, I specialized in Industrial Organization, Public Finance, and Game
31 Theory. Game Theory is the technical basis for the theory of auctions. I worked under
32 the supervision of two of the most well known auction theorists at the time, R. Preston
33 McAfee and John McMillan. R. Preston McAfee is now J. Stanley Johnson Professor of
34 Business, Economics and Management at the California Institute for Technology
35 (Pasadena, CA). John McMillan is now Jonathan B. Lovelace Professor of Economics at
36 Stanford University (Palo Alto, CA).

37 For my doctoral dissertation, I developed novel game-theoretical models to
38 analyze whether market players can collude in the presence of uncertainty in their
39 economic environment. One of the models that I developed applied this general theme
40 specifically to market players participating in auctions. This work of my doctoral
41 dissertation formed the basis for one of my professional papers, which was published in
42 one of the leading economic journals, the *RAND Journal of Economics*.

43 Brock University (St. Catharines, Canada) hired me to a full-time academic
44 position before I had completed my Ph.D.. I subsequently held various full-time
45 academic positions at the University of Ottawa (Canada) and the University of Alberta
46 (Edmonton, Canada), as well as visiting positions at the University of Toronto (Canada)
47 and the Universitat Autònoma de Barcelona (Bellaterra, Spain). I received tenure in 1996
48 and I was promoted to the rank of Associate Professor in 1998. I was the primary (at
49 times the only) specialist in Game Theory in the Department where I taught and

50 conducted research. Every year I taught Game Theory and Microeconomic Theory to
51 both undergraduate and doctoral students, and I supported colleagues who did research
52 that incorporated game-theoretical concepts. I conducted original research in both
53 economic theory and economic policy. My research was grounded in game theory and it
54 included work in auctions. I published more than a dozen articles in refereed academic
55 journals, included in the *American Economic Review*, the *RAND Journal of Economics*,
56 *Games and Economic Behavior*, and *The Energy Journal*. I presented results of my
57 research at workshops and conferences, nationally and internationally, including
58 meetings of the *International Association for Energy Economics*, and meetings of the
59 *Econometric Society*. I received the John Vanderkamp Prize for the best article in
60 *Canadian Public Policy/Analyse de politiques* in the year 2000 for an article co-written
61 with two of my colleagues at the University of Ottawa.

62 On the basis of my expertise in the theory of auctions and in the implementation
63 of auctions, in 1997 I was offered the honor of holding the T.D. MacDonald Chair in
64 Industrial Economics at the Canadian Competition Bureau. The Canadian Competition
65 Bureau is the equivalent of the antitrust division at the Department of Justice. The T.D.
66 MacDonald Chair is a one-year visiting position that is offered to one outstanding
67 Canadian academic each year. The Competition Bureau at that time needed expert advice
68 before implementing Canada's first auction for spectrum licenses. (A spectrum license
69 grants to its holder the right to use certain frequencies of the electromagnetic spectrum to
70 provide a communication service, such as cell phone service.) The Canadian government
71 was considering whether to follow the lead of the United States' Federal Communication
72 Commission ("FCC"). In 1994, the FCC had started auctioning off spectrum licenses

73 and, on the advice of auction theorists such as Preston McAfee and John McMillan, the
74 FCC had used a novel auction format, called the Simultaneous Multiple Round (“SMR”)
75 auction. The Canadian government wanted advice on using a similar design and wanted
76 advice regarding enhancing any aspects of the design that could discourage collusion. As
77 holder of the T.D. MacDonald Chair, I provided advice regarding the design of Canada’s
78 then upcoming spectrum auction. I also provided advice on various antitrust matters,
79 including a competitive assessment for a merger and advice in a price-fixing case.

80 Starting in 1998, I provided consulting advice on auctions and on antitrust matters
81 on a free-lance basis. I provided additional advice to the Canadian government
82 concerning the design of the first spectrum auction. I also provided advice on antitrust
83 matters, including the draft of Canadian Intellectual Property Enforcement Guidelines. I
84 also provided bidding advice to EPCOR. In the summer of 2000, EPCOR was bidding to
85 buy Power Purchase Agreements in a Simultaneous Multiple Round Auction, similar to
86 the auction format that had been used for the sale of spectrum licenses. I provided advice
87 to develop a bidding strategy and then provided round-by-round bidding support.

88 On the basis of my expertise in the theory and implementation of auctions, I was
89 hired by NERA in 2001 to provide advice mainly to energy clients.

90 Q. Please summarize your consulting experience since you joined NERA.

91 A. My consulting experience at NERA has principally consisted of providing conceptual
92 advice on auction design, of providing detailed practical advice regarding the
93 implementation of auctions, and of managing solicitation processes. I have provided
94 advice on all aspects of auction design, including the type of auction format, the
95 information to be revealed to bidders, and the way in which winning bid prices are

96 determined. I have written detailed rules for auctions and other solicitation processes,
97 based on my expertise in the theory of auctions and on the objectives that the auction or
98 solicitation was meant to achieve. I have provided advice on the implementation of
99 auctions and the management of solicitation processes with a view to maximizing the
100 success of such auctions, including putting in place and designing bidding procedures,
101 preparing training materials for bidders, and using bidder comments to finalize
102 solicitation documents. I have managed various solicitation processes, performing bidder
103 qualification, and managing the bid submission and evaluation process.

104 More specifically, my main engagements at NERA have been as follows.

105 **First**, for each of the past four years, I have been Auction Manager for the Basic
106 Generation Service Auctions in New Jersey on behalf of the four New Jersey Electric
107 Distribution Companies, Atlantic City Electric d/b/a Conectiv Power Delivery, Jersey
108 Central Power & Light, Public Service Electric & Gas, and Rockland Electric. These
109 Auctions have involved the purchase of \$5 billion of electric supply for all default
110 customers of the state of New Jersey. I was part of the team that originally designed all
111 elements of the Auction Process, including the choice of a clock auction as the auction
112 format and the detailed rules for the auction, the Association and Confidential
113 Information Rules to ensure the independence of bidders, the design of a standard
114 contract, the selection of product as vertical tranches of full-requirements service, the rate
115 design to translate auction prices into retail rates, as well as the qualification procedures
116 and the application forms. Every year since the inception of this Auction Process in
117 2001, I have provided regulatory support to the Electric Distribution Companies
118 (“EDCs”), helping to prepare filings for the New Jersey Board of Public Utilities

119 (“Board” or “BPU”), responding to discovery, evaluating proposals from other parties for
120 changes and improvements to the process, preparing comments, and presenting testimony
121 on the benefits of the Auction Process. Every year, I have managed the New Jersey
122 Statewide Auction Process on behalf of the EDCs and the Board. I have responded to
123 bidder questions; maintained a web site to provide information to bidders including final
124 solicitation documents, rate design tools and data necessary to prepare bids; prepared and
125 led training session for bidders; prepared protocols for the review by the Board’s Auction
126 Advisor that describe how the Auction Process is run; led the process to qualify bidders;
127 trained personnel and established all systems and infrastructure necessary to run the
128 auction; administered the bidding procedures by which bids are received and processed in
129 accordance with protocols approved by the Board, and finally provided briefings and
130 reports to the Board concerning the central aspects and results of the Auction Process.
131 After each auction, I have advised the EDCs concerning potential improvements to the
132 Auction Process. I have participated in discussion with Staff and the EDCs regarding
133 these potential improvements. I assisted in developing a filing for the following year that
134 incorporated changes for the next auction.

135 **Second**, in 2004, I was retained to serve as Auction Manager for the FirstEnergy
136 Companies’ Competitive Bid Process (“CBP”) in Ohio. The Public Utility Commission
137 of Ohio (“PUCO”) had ordered the FirstEnergy Companies (“FirstEnergy”) to hold a
138 clock auction, similar to the format used in New Jersey, as a market test for the Rate
139 Stabilization Plan filed by FirstEnergy. The PUCO would have the choice between, on
140 the one hand, accepting the results of an auction to procure full-requirements service for
141 FirstEnergy’s Standard Service Offer Load (about 10,000 MW) for the period beginning

142 January 1, 2006 to December 31, 2008 and, on the other hand, rejecting the auction
143 results in which case FirstEnergy's Rate Stabilization Plan Pricing would go into effect. I
144 provided advice regarding the necessary modifications to the auction format, wrote the
145 detailed auction rules, provided advice on credit and contract issues, and designed a
146 bidding procedure tailored to the timeline and the size of the auction. I responded to
147 bidder questions; provided advice on the structure of a web site designed to provide
148 information to bidders including final solicitation documents, rate design tools and data
149 necessary to prepare bids; prepared and led a bidder information session; prepared
150 protocols for the review by the PUCO's Auction Advisor; led the process to qualify
151 bidders; trained personnel and established a bidding procedure adapted to the
152 requirements of the Ohio auction; and provided a complete factual report to the PUCO at
153 the end of the auction.

154 **Third**, in 2003, I provided advice to the Commission of Energy Regulation in
155 Ireland in their solicitation for new generation capacity. The objective was to bring at
156 least 300 MW of new capacity into operation to meet, at the earliest date achievable, a
157 capacity need anticipated for 2005. The successful bidder(s) would win the right to enter
158 into an agreement for up to ten years that provided revenue support for their generating
159 facility. I provided advice in designing a solicitation with the objective of selecting the
160 most advantageous group of generating facilities, taking into account their anticipated
161 commercial operation dates, the amount of capacity brought to market, their location, and
162 the overall revenue requirement of each plant. The solicitation was a Request for
163 Proposal ("RFP"). I provided advice on the financial qualifications that bidders had to
164 meet, on the measures that were necessary to foster competition, and on the evaluation of

165 the bids. I provided advice on drafts and on the final version of the solicitation
166 documents. I was part of the evaluation team, playing a major role in the financial
167 evaluation of bidders. Since 2004, I have also been providing similar advice to the
168 Ontario government (Canada) in their on-going solicitations for new conventional and
169 renewable capacity.

170 **Fourth**, in 2003, Jersey Central Power & Light proposed to the New Jersey Board
171 of Public Utilities a pilot program by which its residential customers could obtain green
172 energy at the Basic Generation Service price. I managed the RFP that was conducted for
173 the procurement of this green energy. I presented JCP&L's proposal at various
174 regulatory meetings. I worked with interveners to examine various alternative proposals
175 for the procurement of Green BGS and to choose the proposal that was most likely to
176 lead to a successful pilot program. I worked with JCP&L and their attorneys to finalize
177 the BGS-Green contract that the winning supplier or suppliers would sign, on issuing the
178 final solicitation documents, and on answering bidder questions. I managed the bid
179 evaluation process, including the qualification of bidders and the comparison of the bids.
180 I prepared a full factual report for the Board presenting the results of the solicitation.

181 **Finally**, NERA has been retained on other occasions where I have been called to
182 provide advice on auction design and implementation, most notably by the Northeast
183 ISOs (PJM, the New England ISO and the New York ISO) to provide advice on their
184 capacity market; by the Infocomm Development Agency of Singapore to provide design
185 advice for their 2G and 3G spectrum auctions; and by the Balancing Pool of Alberta
186 (Canada) to provide advice on the sale of Power Purchase Agreements that had gone
187 unsold in the 2000 auction. I have provided expert testimony on the use of sealed bid

188 auctions (RFPs) for the sale of generation assets, and on the benefits of clock auctions for
189 the procurement of supply for BGS customers.

190 Q. Other economists associated with NERA have consulted for ComEd and Exelon. If you
191 are retained to serve as Auction Manager for the auction described in your testimony,
192 what steps will be taken to ensure that your role as Auction Manager will be separate
193 from any consulting services these other economists perform for ComEd or Exelon?

194 A. First, I will perform the responsibilities as Auction Manager personally with assistance
195 from members of my team, none of whom will participate in any consulting work for
196 ComEd or Exelon. Second, NERA will put in place formal procedures separating any
197 consulting work performed for ComEd or Exelon by other NERA professionals and my
198 responsibilities as Auction Manager, and preventing the sharing of any non-public data
199 between personnel performing the two functions. Third, all retention and billing
200 arrangements for the Auction Manager assignment will be separate from any consulting
201 arrangements that may exist between ComEd or Exelon and NERA.

202 **II. OPEN AUCTIONS CAN LEAD TO**
203 **SUBSTANTIAL ECONOMIC BENEFITS**

204 Q. In describing your background, you mentioned that the FCC started to use auctions in
205 1994 to assign spectrum licenses. What was the main method used by the FCC prior to
206 1994?

207 A. Prior to Congress voting to allow the FCC to use auctions to allocate spectrum licenses,
208 the FCC mainly assigned licenses through a “beauty contest.” Telecommunications
209 companies that wanted to be considered for a spectrum license would file an application,
210 typically presenting their experience, their qualifications, and their business plan for the

211 development of the license. The FCC would hold hearings to compare the proposals and
212 choose the winners based on the quality of their proposals.

213 Q. What did you conclude prompted the change to using auctions to assign spectrum rather
214 than using administrative hearings?

215 A. The main reason was to encourage an efficient allocation of resources and an efficient use
216 of the spectrum. A decision made on the basis of comparative hearings is based on each
217 company's own description of its business plan. Allocating spectrum based solely on the
218 companies' description of their business plan means that spectrum allocation is likely to
219 be based more on appearances than on substance. The decision may well not lead to an
220 efficient allocation of spectrum.

221 In contrast, in an auction, the bidder with the best offer wins. In an auction where
222 bidders are competing (in this case) to buy spectrum licenses, the company willing to
223 make the highest bid is generally the company that expects the highest profit. In a well-
224 designed auction where all bidders participate on an equal footing, the company that can
225 use the spectrum resource most efficiently to provide services to customers is the
226 company that expects the highest profit. Companies that are less efficient have less
227 headroom to bid up the price of the license and still make a return on their investment;
228 companies that are more efficient have more headroom and can bid higher. The auction
229 likely selects the most efficient provider of services for customers.

230 It is possible that a bidder may expect high profit due to reasons other than being
231 the most efficient – reasons that include a simple miscalculation. However, an auction as
232 was proposed for spectrum licenses is likely to identify as winners the most efficient
233 providers.

234 Q. Can you please describe the auction format used by the FCC?

235 A. The auction format selected by the FCC was the Simultaneous Multiple Round Auction
236 (also called the Simultaneous Ascending Auction). This auction format is a
237 “simultaneous” auction because several related items are auctioned and sold at the same
238 time, i.e., simultaneously. For example, the auction format could be used to auction
239 multiple spectrum licenses for providing a given service (e.g., two-way paging) but in
240 various geographical locations. The auction format has multiple rounds. In a round,
241 bidders submit their bids on the licenses that they wish to acquire. The results are
242 tabulated including, for a given license, the highest bid and the identity of the bidder who
243 made the highest bid. Bidders are provided with information regarding the results of the
244 round, and are invited to better their bids in the next round. The auction ends when
245 bidders are no longer willing to better their bids, so that a single highest bidder is left for
246 each license.

247 Q. Did the FCC seek advice from auction theorists in selecting this format?

248 A. Yes, the FCC and other interested parties sought the advice of game theorists specializing
249 in auctions. Professor John McMillan (an auction theorist currently at Stanford
250 University), Professor Preston McAfee, Professor Paul Milgrom (Stanford University)
251 and Professor Robert Wilson (Stanford University) all provided advice.

252 Q. What was the basis for the recommendation to use the Simultaneous Multiple Round
253 Auction for the sale of spectrum licenses?

254 A. The recommendation was based on auction theory accepted among experts. In a multiple
255 round structure – also called an “open auction” – bidders learn by getting market
256 information during the auction and bidders can adjust their bids on that basis. The

257 additional information that bidders get during the auction reduces the uncertainty that
258 bidders face regarding the value of the licenses and regarding the competition that they
259 are facing. This reduction in uncertainty – compared to an auction with a single round or
260 with a simple two-stage structure – leads to more aggressive bidding. The prices in the
261 auction then are more competitive and better reflect the bidders’ assessment of market
262 value.

263 The recommendation to use a simultaneous auction – an auction in which all
264 available licenses to provide a given service are sold at once – was also supported by
265 economic theory. In such a structure, bidders can pursue a specific business plan that
266 would require the aggregation of particular licenses. For instance, if a bidder has plans
267 that require licenses in contiguous geographical locations, the bidder in a simultaneous
268 auction can bid for all those licenses at once, and if in the course of the auction one or
269 more of these licenses becomes too costly from that bidder’s perspective, the bidder can
270 go to a backup plan and modify the licenses that the bidder wants to pursue. Similarly,
271 the multiple-round structure and the simultaneous sale of licenses together allow bidders
272 to arbitrage away any unwarranted price differences among similar licenses, ensuring that
273 all similar licenses are valued in accordance with the market.

274 Q. Does the Simultaneous Multiple Round Auction have other advantages in your opinion?

275 A. Yes, it does. The Simultaneous Multiple Round Auction has very well-defined rules.
276 Bidders know exactly what they have to do to win, and given the bids submitted by
277 bidders over the course of the rounds, there is one way to determine who the winners are.
278 This feature of the Simultaneous Multiple Round Auction is often referred to as
279 “transparency.” Although there are many different definitions of transparency in many

280 contexts, in an auction context, a process is transparent if bidders understand and can
281 observe the process by which winners are chosen, and if bidders can understand and can
282 observe the process by which the final sale price is determined.

283 When the auction format is transparent, bidders (and others) are also likely to
284 perceive the auction format as being fair. No one bidder is advantaged in the auction
285 process by virtue of who the bidder is.

286 Q. Would you say that Simultaneous Multiple Round Auctions are now the norm for the sale
287 of spectrum?

288 A. Yes, I would. With the United States having held 53 auctions since 1994 using this
289 format (see ComEd Exhibit 4.1), and with over 20 countries also having used this format
290 (see ComEd Exhibit 4.2), the Simultaneous Multiple Round Auction format has now very
291 much become accepted.

292 Q. Was the auction format used in each of these instances exactly as it had been first
293 designed for the FCC?

294 A. No. As one would expect, practitioners and auction theorists have responded to results of
295 previous auctions to refine and improve the auction format, as well as to tailor the auction
296 formats to deal with specific circumstances and objectives.

297 There have been several innovations. One series of innovations has really
298 concentrated on simplifying the bidding for bidders and on reducing any ability that
299 bidders would have to signal their intentions to each other through the amounts of their
300 price bids. The initial innovation was to introduce “non-discretionary bid increments”:
301 instead of having bidders decide the price amount of their bids on each license, the
302 Auction Manager suggests a menu of, say, nine different prices for each license and the

303 bidder chooses from this menu the price at which it is ready to acquire the license. (The
304 FCC uses this variant almost exclusively now.)

305 The next innovation in this vein was to limit the number of suggested prices to
306 one. Bidders then just decide whether or not they are willing to accept the price
307 suggested by the Auction Manager. This variant is called “click-box” bidding. It has
308 been used in two Canadian auctions for spectrum licenses (the 24-38 GHz auction and the
309 2 GHz auction).

310 The last innovation is a clock auction, typically used for the auction of multiple
311 items that are all similar. In a clock auction, the Auction Manager suggests a price, and
312 bidders state the quantity that they want at that price. The bidding is then substantially
313 the same as it is with click-box bidding in a Simultaneous Multiple Round Auction. In
314 click-box bidding the bidder states whether it accepts a price for each unit; in a clock
315 auction the bidder states how many units it wants at that price. The result is the same.

316 Q. Do these variants of the Simultaneous Multiple Round Auction – the click-box bidding
317 variant, and the clock auction – share the advantages of the Simultaneous Multiple Round
318 Auction that you were discussing earlier?

319 A. Yes they do. All these auction formats are open auctions. They feature multiple rounds
320 so that bidders learn and can re-adjust their bids as the auction proceeds. All these
321 auction formats are simultaneous so that bidders can switch and arbitrage price
322 differences. All these auction formats are transparent – in the sense that the rules to
323 determine the final price and winners are clear – so that fairness and participation are
324 promoted.

325 Q. Have open auctions – either as Simultaneous Multiple Round Auctions or as clock
326 auctions – been used in the energy sector?

327 A. Yes, they have. Since 2000, over twenty open auctions have been conducted in the
328 energy sector around the world.

329 Q. Can you provide examples of when and where open auctions have been used in the
330 energy sector?

331 A. In the United States, the Electric Distribution Companies in New Jersey have held open
332 auctions to procure full-requirements supply for their basic generation customers in each
333 of 2002, 2003, 2004, and 2005. The FirstEnergy Companies have held one open auction
334 to test its rate stabilization plan. More than twelve open auctions have been run in Texas
335 since 2001 to sell capacity entitlements from the plants of Power Generation Companies
336 (“PGCs”) affiliated with the utilities.

337 Around the world, Électricité de France (“EdF”) uses open auctions to sell power
338 purchase arrangements and virtual power plants. EdF started using this auction method
339 in the Fall of 2001. It holds four auctions every year and has held approximately fourteen
340 auctions to date. The Department of Resource Development in Alberta (Canada) has held
341 an open auction to sell Power Purchase Arrangements in the summer of 2000.

342 Q. You testified that you had been involved in the design of solicitations that used RFPs. In
343 your opinion, do RFPs remain a common auction format for solicitations in the energy
344 sector?

345 A. In my opinion, RFPs remain a commonly used auction format for some purposes in the
346 energy sector. RFPs are standardly used for the sale of generating assets, and for the

347 procurement of new capacity. RFPs are also sometimes used for the procurement of
348 supply for default customers (as in Maryland).

349 Q. Why do RFPs remain commonly used in these circumstances?

350 A. The reason that RFPs are still used is that no one auction design is best in all
351 circumstances. The auction design chosen should be tailored to the circumstances and to
352 the objectives of the situation.

353 As I testified earlier, open auctions are most likely to provide economic benefits
354 when several related items are at auction and when bidders can be expected to benefit
355 from having the ability to revise their bids as the auction proceeds. Circumstances where
356 such benefits are important include, in my opinion, procurement of the load of default
357 customers for several distribution companies, or for several terms, or for several customer
358 segments. RFPs are most likely to provide economic benefits in the case of a single item
359 for sale where it is difficult to identify in advance the exact characteristics of the item.
360 For example, in the sale of a generating plant, there can be substantial asset-specific
361 uncertainties about physical condition, asset life, personnel costs or expansion
362 possibilities. An auction format such as an RFP, which allows bidders to submit
363 proposals that can directly address these uncertainties, can be beneficial.

364 **III. NEW JERSEY DISTRIBUTION COMPANIES HAVE**
365 **SUCCESSFULLY USED OPEN AUCTIONS TO PROCURE**
366 **LOAD FOR THEIR STANDARD OFFER CUSTOMERS**

367 **III.A. Legislative and Regulatory Background**
368 **Leading to New Jersey Auction Process**

369 Q. Please describe the legislative and regulatory background leading to the decision to
370 conduct a competitive auction to procure Basic Generation Service in New Jersey.

371 A. In January 1999, the New Jersey legislature passed the Electric Discount and Energy
372 Competition Act (“EDECA” or “the Act”), which was signed into law on February 9,
373 1999. EDECA provided that all New Jersey retail electric customers could select their
374 electric supplier starting on August 1, 1999. EDECA also established Basic Generation
375 Service as a regulated service designed to provide electricity to customers who, for
376 whatever reason, did not arrange to purchase electric supply from a competitive entity.
377 (In New Jersey, competitive entities offering unregulated retail generation service are
378 referred to as Third Party Suppliers or “TPS”s.) EDECA established a transition period
379 lasting four years and starting on August 1, 1999. During the transition period, BGS rates
380 were frozen. EDECA provided that, after the transition, BGS rates were to be market-
381 priced.

382 For the first three years of the transition, each EDC was required to continue to
383 provide BGS to its customers. The EDCs all settled on restructuring plans that involved
384 divesting generation through asset sales to an unrelated entity or through transfers to an
385 unregulated affiliate. The retail rates for BGS were fixed for all four years to realize the
386 electric discounts specified in EDECA. The four EDCs used a variety of means to supply
387 BGS customers during the first three years, ranging from a full-requirements contract
388 with an affiliate that owned transferred generation capacity, to a variety of market
389 purchases of energy, capacity and other hedging instruments. The EDCs that relied on
390 market purchases built up substantial deferred accounts that represented the excess of
391 power acquisition costs over revenues from the fixed BGS rates. The EDCs were entitled
392 to recovery of these deferred amounts under the terms of the relevant settlements.

393 EDECA specified that no later than three years after the starting date of retail
394 competition, the Board was to issue a decision as to whether to make available to electric
395 suppliers the opportunity to provide Basic Generation Service on a competitive basis.
396 EDECA and the settlements reached by the EDCs in their restructuring cases
397 contemplated that a competitive bid process would potentially be used to select BGS
398 suppliers.

399 On June 6, 2001, the Board directed the four EDCs to file specific proposals to
400 implement a competitive procurement process for BGS to be provided during the fourth
401 year of the transition period established by the Act. The fourth year of the transition was
402 from August 1, 2002 to July 31, 2003.

403 On June 29, 2001, the four EDCs filed a joint proposal to use a single statewide
404 auction process to procure supply for the BGS load of all four EDCs. That proposal was
405 the subject of substantial discovery and other parties were invited to comment on the
406 EDCs' proposal and submit alternative proposals. After conducting a hearing and
407 reviewing comments from all interested parties parties, the Board in December of 2001
408 approved a single statewide Auction Process for BGS to be held in February of 2002. As
409 retail BGS rates were fixed for the fourth year of the transition period, there was a need to
410 establish the market price for BGS for that year in isolation so that any difference
411 between that year's costs and fixed rates could be deferred for later reconciliation. The
412 supply period was only one year.

413 In June or July of each succeeding year, the EDCs have, in compliance with the
414 Board's directives, filed a proposal to procure supply for their BGS customers. Each
415 year, the EDCs have proposed a statewide auction process to procure supply

416 simultaneously for all BGS load in the state. Each year, the Board has requested alternate
417 proposals from other parties, or suggestions for improvements to the past year's process.
418 Discovery has been served every year, and every year the Board solicits comments from
419 all interested parties, and the Board holds a hearing process. Considering the entire
420 record in the proceeding, the Board then has made a decision in the late Fall of each year.
421 The Board has authorized each year a statewide auction to be held in February.

422 Q. After the first year, how did the auction process change?

423 A. The first major difference between the process for the first auction in February 2002 and
424 the auction processes in subsequent years is that, starting with the second process in
425 February 2003, there have been two auctions instead of one.

426 One auction is to procure supply for all but the larger commercial and industrial
427 customers. The supply period for this auction (the BGS-FP auction, "FP" for fixed-price)
428 is three years. The procurement is made on a rolling basis so that one-third of the state's
429 BGS-FP load is up for auction each year. The other auction, (the BGS-CIEP auction,
430 "CIEP" for Commercial and Industrial Pricing) is to procure supply for the larger
431 commercial and industrial customers. CIEP service is a real time energy price service.
432 The supply period for this auction is one year.

433 The second major difference with the 2002 auction is that starting with the 2003
434 auctions, the results of the BGS auctions are the basis for establishing retail BGS rates (in
435 the first year the retail rates were frozen).

436 **III.B. The Goals of the New Jersey BGS Auctions**

437 Q. What is your understanding of the goals of the statewide auction process in New Jersey?

438 A. Based on my involvement in the design and implementation of the BGS auction process,
439 I believe that the EDCs had the following goals for the auction proposals that they
440 offered:

441 1. To obtain reliable supply on behalf of BGS customers at prices consistent with
442 market conditions. EDECA specified that the prices charged for the regulated
443 BGS service should reflect the market. The EDCs were interested in
444 implementing an auction process that resulted in prices reflective of market
445 conditions.

446 2. To encourage maximum participation by establishing a fair and transparent
447 competitive process. The process should be transparent in terms of the
448 requirements for participation, the supply contract, the retail rates that will result
449 from the auction, and the manner in which final auction prices are determined and
450 the manner in which winners emerge at the auction. The process should be fair in
451 terms of providing timely and equal access to information for all bidders.

452 3. To allocate supply responsibility efficiently over the multiple products in the
453 auction. An efficient allocation of supply helps to ensure that prices are best
454 reflective of market, so that any market perceptions regarding differences in
455 serving various products are reflected in the prices.

456 4. To have competitive entities take, manage and price BGS risks. BGS is a price-
457 risk management service where competitive entities assemble supply components
458 in the competitive wholesale market, assess and price these risks. This ensures
459 that customers obtain the full benefits of wholesale competition by opening the
460 price-risk management function to competitive discipline and removing any

461 inefficiencies of regulation from a service (portfolio and price-risk management)
462 that has vigorous competition.

463 5. To implement a process for BGS pricing that encouraged the development of and
464 efficient working of retail energy markets. This means pricing BGS at market
465 rates in order to encourage the development of efficient retail competition. BGS
466 rates should reflect class, seasonal and time-of-day market differences in order to
467 encourage efficient consumption and conservation decisions, and in order to
468 minimize non-productive customer switching in response to rate design
469 inefficiencies.

470 6. To design a flexible process. A flexible process is one that can accommodate
471 future refinements without radical overhaul.

472 7. To minimize customer confusion. The procurement of BGS should, to the extent
473 possible, present customers who stay on EDC service with the same type of
474 bundled retail rate and billing as they had experienced previously.

475 8. To preserve the financial integrity of the EDCs. BGS costs and revenues can
476 exceed 50% of total EDC cost and revenue. BGS costs are an order of magnitude
477 greater than EDC earnings. The EDCs earn no profit from BGS and thus could
478 not afford to take on such risk. It was imperative that the BGS process protect the
479 financial integrity of the EDCs.

480 Q. Why, in your opinion, are the goals of the New Jersey process relevant to this
481 proceeding?

482 A. The New Jersey process is an example of an auction process to procure supply for default
483 customers that is considered a success by the regulator, by the distribution companies and

484 by bidders. It is necessary to examine and understand the goals of the process to
485 understand how the process was designed and how all elements of the process work
486 together. All features of the proposal were designed to work in concert with each other
487 and to support the goals of the process.

488 **III.C. The Elements of an Auction Process**

489 Q. What are, in general, the elements of an auction process that will be important to
490 determining its success?

491 A. There eight elements of an auction process that can be together essential to determining
492 its success. I will briefly summarize these elements.

- 493 1. **Product design.** The product design fully describes what is being procured at the
494 auction. It includes a description of the obligations of the supplier upon winning,
495 the allocation of risks to the supplier, the term of supply, the customers or load
496 being supplied, etc. Product design is ultimately fully described in the supplier
497 contract.
- 498 2. **Auction format.** The auction format is the way in which bids will be solicited
499 and accepted, the way in which bids will be processed, the way a clearing price
500 will be determined and the way in which winners will emerge.
- 501 3. **Bidder interface.** The bidder interface is the way in which bidders are provided
502 with information about the auction process, the way in which data is disseminated
503 and the way in which the auction opportunity is promoted.
- 504 4. **Qualification requirements.** These are the procedures for qualifying bidders to
505 participate in the auction.

- 506 5. **Rate Design.** The rate design parameters specify how the auction results will be
507 translated into retail rates.
- 508 6. **Competitive safeguards.** These are the procedures and features of the auction
509 process that promote competition at the auction.
- 510 7. **Regulatory Involvement.** This describes the role played by the regulator and
511 other parties in the process.
- 512 8. **Cost recovery assurances.** This is a description of the assurances sought from
513 the regulators with respect to cost recovery for supply procured to serve BGS
514 customers.

515 **III.D. The Key Decision on the Elements of the New Jersey Process**

516 Q. Are you able to describe the decisions that were made with respect to these elements for
517 the New Jersey Auction Process and how each of these decisions was important to the
518 success of the auction process?

519 A. Yes.

520 Q. Please address the decisions made with respect to the first element, the **Product Design**,
521 as it relates to the BGS-FP Auction.

522 A. With respect to the first element, several key decisions were made.

523 **First**, the decision was made to have winning suppliers provide full-requirements
524 service. This meant that the BGS suppliers would supply all components of BGS supply,
525 including capacity, energy, transmission, and ancillary services. BGS suppliers would
526 fulfill wholesale market credit requirements, and would take, manage and price, all
527 volume risks including those from weather and customer migration. In return for
528 supplying full-requirements service, suppliers would be paid for each kWh of BGS

529 energy delivered to the wholesale meter. Suppliers would be paid as a function of the
530 auction price, being paid the auction price times a summer factor reflecting higher
531 summer costs from June to September (e.g., the summer factor could be 1.2) and the
532 suppliers would be paid the auction price times a winter factor reflecting lower winter
533 costs for the remaining months (e.g., the winter factor could be 0.9).

534 The decision for the product to be full-requirements service supported many of
535 the goals.

- 536 • The full-requirements product directly contributes to fulfilling the goal of having
537 competitive entities take, manage and price BGS risks. The full-requirements
538 product places price-risk management responsibility in the hands of competitive
539 entities that were best suited to take, manage, and price these risks. This would
540 ensure that customers receive for these services a price that was disciplined by
541 competitive forces. This would also help assure that these services can be
542 provided as efficiently as possible, with each supplier free to hedge or meet
543 requirements in any way that it chose, rather than being limited by regulatory
544 review.

- 545 • The full-requirements product contributes to the goal of maximizing participation.
546 It expands the base of potential competitors, including financial players and
547 marketers and traders without an asset base in PJM. Those entities are able to use
548 specialized skills in price-risk management to assemble wholesale portfolios and
549 compete in the auction. ComEd Exhibits 4.3 and 4.4 summarize the participation
550 in the auction and document the fact that participation has not been limited to
551 portfolio owners in PJM, but has instead included a broad base of suppliers,
552 including marketers and traders, and financial players.

- 553 • A full-requirements product also contributes to the goal of minimizing customer
554 confusion and encouraging efficient retail markets. Customer confusion is
555 minimized in that a fixed price is obtained for customers so that customers can
556 reasonably budget for energy usage.

- 557 • The full-requirements product also contributes to the goal of encouraging efficient
558 retail markets. The price against which customers will evaluate competitive
559 offers, the BGS price, is established and known in advance. Furthermore, it is set
560 at a market level that includes all wholesale supply costs and risks.

561 **Second**, the decision was made to determine the BGS supplier responsibility on
562 the basis of “tranches”, where each tranche represents a fixed percentage of the total BGS

563 load requirement for an EDC. The percentage of BGS load corresponding to one tranche
564 was chosen so that one tranche would be about 100 MW of peak load assuming normal
565 conditions and no migration. A supplier then bids to win a certain number of tranches,
566 which translates to a set percentage of the total BGS load requirement.

567 The decision for suppliers to be responsible for a percentage of the BGS load
568 requirements (and thus to be responsible for a percentage of the requirements for all
569 customers) supported the goals of the process.

- 570 • This decision avoided customer confusion. Customers are not assigned to a BGS
571 supplier, but continue to maintain a commercial relationship for BGS with the
572 EDC. Customers are informed that a variety of suppliers are responsible for BGS
573 supply, but are not switched to another supplier. In the New Jersey context,
574 where there was considerable backlash over “slamming” in the context of
575 telephone deregulation, this is an important consideration.
- 576 • This decision contributed to maximizing participation. Potential suppliers did not
577 have to establish the infrastructure necessary to establish a retail relationship with
578 customers, and did not have to take collection risk. Requiring a retail relationship
579 would have limited the ability of some market players to participate in the
580 auction.

581 **Third**, the decision was made to have a standard supplier contract used auction-
582 wide. During the regulatory review of the Auction Process, suppliers have an opportunity
583 to comment on the contract and the Board makes the final decision on contract terms.
584 After the Board has made its decision, the contract terms are non-negotiable. The
585 prospective bidders must accept the contract terms before they are qualified for the
586 auction.

587 The standard contract serves to further several of the goals of the process.

- 588 • The use of a standard contract promotes the transparency of the process and
589 encourages participation. All bidders know the terms under which supply will be
590 provided because the terms are standardized and are set forth in an agreement that
591 is made available in advance of the auction. Given that all prospective bidders
592 accept these terms before the auction, and given that, as we will explain below, all

593 prospective bidders are required to meet the same standard qualification
594 requirements, bids can be compared strictly on a price basis. The determination
595 of the final price and of the winners at the auction can then be made in a
596 transparent way through the auction format, also as discussed below.

- 597 • A standard contract is also an essential item for ensuring fairness and for
598 maximizing participation in the auction.

599 **Fourth**, the decision was made to procure the load on a rolling three-year basis.
600 This means that each year, the EDCs procure one-third of their load for a three year
601 supply period. This decision promotes the goal of providing market-based prices for
602 customers, while shielding smaller customers from the possible volatility of the short-
603 term market.

604 Q. Can you please describe the decisions that were made with respect to the second key
605 element, the **Auction Format**?

606 A. In New Jersey, a clock auction format was selected. The clock auction format is a
607 multiple round, open and simultaneous auction.

608 The clock auction used in New Jersey can be described as follows. In round 1 of
609 the auction, bidders bid by specifying the number of tranches they are willing for supply
610 for each of the EDC at the prices for round 1. There is one price announced for each
611 EDC. The Auction Manager tabulates the bids from all bidders, calculating the amount
612 of supply bid for each EDC. If there are more tranches bid than are needed for an EDC,
613 the price for that EDC will tick down in the next round. The Auction Manager
614 announces the prices for the next round to the bidders, along with an indication of the
615 excess supply in the auction. Bidders are given time to consider this information, and
616 then the next round begins. In the next round, bidders bid at the new prices announced by
617 the Auction Manager. Bidders state how many tranches of each EDC that they wish to

618 supply at the going prices for the round. Bidders may, in response to the new prices in
619 the round, reduce (but cannot increase) the number of tranches that they are bidding in
620 total across all EDCs. If a bidder reduces the number of tranches bid in total, the bidder
621 provides an exit price, which is the last and best offer on the tranche being withdrawn
622 from the auction. Bidders may, in response to the new prices in the round, switch their
623 bids from one EDC to another, reducing the tranches bid on one EDC while increasing
624 the number of tranches bid on another.

625 The auction rules are designed to ensure that, if at any time during the auction, the
626 loads of all EDCs are fully subscribed (i.e., for each EDC there are sufficient bids to
627 serve its load), then the load of all EDCs will be fully subscribed at the end of the
628 auction. There are specific rules that ensure that this is the case. First, if the price for an
629 EDC does not change from one round to the next, bidders cannot rescind their offers by
630 reducing the number of tranches bid for that EDC. Bids at a price are firm offers to
631 supply; if the price does not change, the offer must be held. Second, if the price for an
632 EDC does change and a bidder requests to switch out of that EDC or to withdraw
633 tranches from that EDC, and if that request would result in the EDC being
634 undersubscribed, then the request can be denied. If a request to switch out or to withdraw
635 tranches is denied, enough tranches are retained to ensure that the EDC remains fully
636 subscribed. The tranches are retained at the price at which the bidder is willing to bid
637 them (either an exit price if the tranche is withdrawn, or the last price at which the
638 tranche was bid if the bidder had requested a switch).

639 The auction generally ends when the total number of tranches bid equals the
640 number of tranches being purchased. Because the auction ends when bidders are no

641 longer willing to better their offers, the bidders who do win at the end of the auction are
642 those that are willing to serve the load at the lowest prices.

643 A detailed set of rules comprising dozens of pages sets forth the procedures.
644 These rules are part of the Competitive Procurement Process Auction Manual that has
645 been filed in this proceeding. The auction format chosen furthers several goals.

- 646 • The clock auction format is transparent and maximizes participation. Bidders can
647 clearly understand how the final auction price is determined and how winning
648 bidders emerge. The fact that the format does not advantage established players
649 can encourage smaller or newer bidders to participate.
- 650 • The clock auction format is an open auction. As I testified above, this kind of
651 auction format decreases the uncertainty faced by bidders. As an auction format
652 that provides feedback to bidders, this auction format is an effective means of
653 eliciting the best bids when all bidders are evaluating a common market
654 opportunity, which is the case here. By seeing how other bidders in the aggregate
655 are responding, an individual bidder can adjust its bidding strategy and may well
656 be willing to better its offer while it would not have had that opportunity in a
657 sealed bid process. This auction format is particularly well suited to eliciting the
658 best bids in this context.
- 659 • The clock auction is a simultaneous auction. As I testified above, procurement of
660 different products simultaneously in a single auction process leads to the efficient
661 allocation of the supply responsibility over these different products. As bidders
662 can observe relative prices and switch their bids, those that can most efficiently
663 supply a product will be able to win tranches of that product. This auction format
664 is particularly well suited to obtaining prices that are reflective of market
665 conditions.
- 666 • The clock auction is inherently a flexible auction format. It can accommodate, in
667 one simultaneous auction, products of different terms, products for different
668 EDCs, or products for different customers segments. The clock auction is an
669 essential element of preserving the flexibility of the process and of
670 accommodating future refinements.
- 671 • The clock auction also helps ensure that all products are subscribed, even if there
672 are several small products that may not have attracted as much interest on their
673 own. In the clock auction format, all products can be put at auction at once so
674 that the broadest range of interest is attracted to the auction, and invited to bid
675 even on smaller products. As the price tick down, if a smaller product's price
676 remains high for a time, it will attract bids and its price too will tick down.

677 Of all these ways in which the auction format contributes to the success of the
678 auction process, I believe the main strengths of the clock auction are the following. First,
679 the clock auction provides feedback and information to bidders, which encourages the
680 best bids. Second, the transparency of the process encourages high participation and
681 competitive prices. Finally, the format allows for multiple products to be procured
682 simultaneously leading to prices that are reflective of market conditions.

683 Q. Can you please describe the decisions that were made with respect to the third key
684 element, the **Bidder Interface**?

685 A. The decision was made that the Auction Manager would be the clearing house for all
686 bidder inquiries, information requests and comments. The Auction Manager would
687 provide timely and fair access to information for all bidders.

688 More specifically, the Auction Manager establishes a web site and obtains from
689 the EDCs the data and documents required by bidders to assess the auction opportunity.
690 The Auction Manager conducts bidder information sessions to promote the auction. The
691 Auction Manager informs potential bidders of regulatory developments. The Auction
692 Manager assists with understanding application requirements and bidding procedures.
693 Finally, the Auction Manager responds to all bidder queries. The EDCs do not directly
694 respond to any bidder inquiries and instead refer all questions and comments to the
695 Auction Manager. The Auction Manager may require the assistance of EDC personnel to
696 respond to some of the inquiries; for example, a bidder inquiry could relate to the method
697 used to obtain data posted to the web site. Even if this is the case, the Auction Manager
698 obtains a response from the EDC and relays this response to the bidder.

699 Using the Auction Manager as a “clearing house” for all bidder inquiries and all
700 bidder requests for information furthers the goals of the process.

701 • The Auction Manager providing the bidder interface promotes the fairness of the
702 process. All potential bidders receive identical treatment, which helps to
703 encourage maximum participation.

704 • The Auction Manager, in providing the bidder interface, evaluates the information
705 provided and assesses the needs and information requirements of bidders. The
706 Auction Manager is responsible to strive for all necessary information to be
707 provided, which should decrease uncertainty for bidders and encourage the best
708 bids.

709 Q. Can you please describe the decisions that were made with respect to the fourth key
710 element, the **Qualification Requirements**?

711 A. With respect to this fourth element, the following key decisions were made.

712 **First**, all applicants are required to accept the terms of the standard contract and
713 the auction rules. Bidders cannot qualify for the auction without having accepted those
714 governing documents. This decision furthers the goal of having a fair and transparent
715 process.

716 **Second**, the qualification requirements ensure that, should the bidder come to win
717 at the auction, it will be able to meet all the requirements of the supply contract. To the
718 extent possible, the bidder is asked to show that it already meets, or that it will be able to
719 meet by the start of the supply period, any requirement imposed by the contract, such as
720 credit requirements, or any licensing requirement. This decision furthers the goals of
721 having a fair process and of maximizing participation. In my opinion, these requirements
722 are essential to all bidders participating on an equal basis and to enabling a price-driven
723 comparison of the bids. This also permits a quick evaluation and rapid execution of

724 supply contracts, thereby reducing any option premium, and ensuring that the auction
725 elicits the best bids.

726 **Third**, the application process is in two parts. This allows a list of bidders to be
727 established (after Part 1) so that each bidder can certify that it does not have any
728 agreement with another bidder that would harm the competitiveness of the auction. This
729 decision works hand in hand with the competitive safeguards presented below and is
730 essential to ensure that the prices produced at the auction are competitive.

731 Q. Can you please describe the decisions that were made with respect to the fifth key
732 element, the **Rate Design**?

733 A. The New Jersey Auction Process has a pre-established rate design methodology. The
734 New Jersey EDCs file and the Board approves formulae for converting the auction prices
735 to retail BGS rates. Hence, for any auction clearing price, the retail rates that will prevail
736 for BGS service are known in advance of the auction. This serves several important
737 goals. It helps to elicit the best possible bids by enabling bidders to make a reasonable
738 evaluation of the potential for migration and to make bids that reflect an analysis of this
739 risk. Second, it contributes to the development of efficient energy markets by ensuring
740 that retail prices reflect auction results and thereby the market.

741 The specific rate design methodology used in New Jersey translates auction prices
742 into retail rates that are seasonal and sometimes vary by time of day. This specific
743 feature further contributes to the goals by encouraging efficient consumption and
744 conservation decisions. Shaping prices seasonally also lessens the incentive that could
745 exist to game the BGS offering by seasonal switching.

746 Q. Can you please describe the decisions that were made with respect to the sixth key
747 element, the **Competitive Safeguards**?

748 A. The sixth element is the set of **Competitive Safeguards**. Several such safeguards are
749 incorporated into the New Jersey process. All such safeguards serve the goal of
750 maximizing the competitiveness of the auction, and of obtaining supply for BGS
751 customers at prices that are competitive and reflective of market conditions. The
752 safeguards are as follows.

753 **First**, a load cap limits the number of tranches of each product that a single bidder
754 can bid and win in the auction. This limits the influence that any one bidder can have on
755 the results of the auction. The load cap also limits the EDC's exposure to any one
756 particular supplier, and thus reduces credit risk to the EDC.

757 **Second**, Association and Confidential Information Rules ensure the independence
758 of bidders. Strict confidentiality requirements prevent collusion among bidders and
759 prevent any one bidder from gaining advantage in the auction through better information
760 about its competitors.

761 **Third**, the auction rules allow the Auction Manager to reduce the auction volume
762 purchased at auction if this becomes necessary to have a competitive bidding
763 environment. The guidelines that are followed to cut back the volume are approved by
764 the Board. Any supply not procured at auction would be procured through PJM-
765 administered markets. This helps to maximize participation at the auction as prospective
766 bidders know that their only opportunity to serve BGS load is to participate in the
767 auction. This in turn ensures that the prices that result from the auction are the result of
768 competition and are reflective of the market.

769 It is important here to distinguish between competition in the auction and
770 competition in the wholesale markets for capacity and energy. The competitive
771 safeguards discussed here are in place to ensure a competitive auction. The participants
772 in the auction access wholesale markets to acquire components of full-requirements
773 supply, mainly capacity and energy. The PJM market for capacity and energy is under
774 the jurisdiction of the FERC. PJM has a market monitor who reports to the FERC. PJM
775 has various monitoring and mitigation procedures including those designed to mitigate
776 market power in load pockets. PJM has several active forward markets where power is
777 traded. The Board started with the premise that these wholesale markets were
778 competitive and that competitive wholesale markets were the source of supply inputs for
779 bidders in the auction. The competitive safeguards are aimed at ensuring that any
780 benefits from wholesale competition can be brought to the retail customer through
781 competition in the auction.

782 Q. Can you describe the decisions that were made with respect to the seventh key element,
783 the **Regulatory Involvement**?

784 A. The seventh element is the **Regulatory Involvement**. The Board is intimately involved
785 in the process.

786 **First**, as I have testified, the Board approves the auction process in advance in a
787 proceeding in which all interested parties may participate. The Board approves final
788 auction documents. This serves the critical function of giving the regulator a full
789 opportunity to review and approve the process in advance.

790 **Second**, although the Board does not manage the auction, the Board monitors the
791 auction process closely through the work of its staff and through the work of an Auction

792 Advisor. The Auction Advisor (called “Board Advisor” in New Jersey) is a consultant
793 for the Board specializing in auctions and with expertise in energy markets. The Auction
794 Advisor provides advice to the Board and Board Staff regarding all auction rules and
795 protocols regulating the conduct of the auction.

796 **Third**, the Auction Manager, Auction Advisor, and Board Staff all agree on
797 auction protocols that specify how the application process, the bidder interface, and the
798 auction itself will be managed. This ensures that detailed procedures for the conduct of
799 the auction are set out in advance, and are authorized by Board Staff and its consultants.

800 **Fourth**, the Auction Manager provides to Board Staff and the Auction Advisor all
801 the information that they require to monitor the process, including updates on bidder
802 interest, application results, and bidder concerns. The Auction Manager prepares an
803 interim report for the Board after the Part 2 Applications. At the end of the auctions, the
804 Auction Manager prepares a full factual report regarding the auctions and the process.
805 The Board evaluates the auctions based on the degree of competition and the degree to
806 which the auctions were conducted as authorized. The Board commits to approve or
807 reject the auction results within two business days of the close of the auctions.

808 The involvement of the Board furthers the goals in two ways. First, the Board’s
809 involvement provides additional assurance of a transparent process, attracting bidders.
810 Second, the approval of the auction results by the Board gives winning bidder’s
811 confidence that the regulator is supportive of the auction and will ensure that the EDCs
812 are in a position to perform under the contract.

813 Q. Please describe the decisions that were made with respect to the last key element, **Cost**
814 **Recovery Assurances.**

815 A. In New Jersey, the Board approves the retail rates that will result from the auction. These
816 rates include a reconciliation clause that ensures that revenues billed to BGS customers
817 equal payments to BGS suppliers. The approval of the auction process and the auction
818 results constitute a finding of prudence.

819 The Board also approves as prudent and reasonable the contingency plans of each
820 EDC for cases where supply for BGS customers does not come through the auction. As I
821 testified earlier, the Board approves the EDCs' contingency plan of procuring supply
822 through PJM-administered markets when there is a volume cutback in the auction to
823 ensure a competitive bidding environment. The Board also approves the EDCs'
824 contingency plans in case of supplier default. Although details vary among the EDCs,
825 the EDCs plan to offer the tranches to other winners, or to bid out those tranches as
826 quickly as possible, or to supply the tranches from PJM-administered markets and from
827 their Committed Supply. The action taken would depend on when the default occurred;
828 for example, if supplier default occurred before the supply period, the EDC would most
829 likely offer the tranches to other winners, while if supplier default occurred close to the
830 end of the supply period, the EDC would be more likely to use PJM-administered market
831 and retain Committed Supply to serve the tranches.

832 The contingency plans are designed to ensure that prospective bidders see the
833 auction as their only opportunity to serve BGS load, which helps maximize participation.
834 The *a priori* rate design and prudence determinations provide substantial assurance of
835 cost recovery. This furthers the goal of maintaining the financial integrity of the EDCs.
836 This helps to obtain lower prices in the auction as it provides assurance that the EDCs
837 will be able to perform under the auction contract.

838 Q. Do you believe that the New Jersey Auction Process has successfully met its goals?

839 A. Yes. The auctions have all been successful at procuring the full volume. Each auction
840 has attracted more interest and the auctions have become increasingly competitive. The
841 auctions have demonstrated that many entities are able and eager to assemble products in
842 the competitive wholesale market and provide price-risk management services. The
843 winners have been a mix of entities that include generation assets owners, energy based
844 trading and marketing firms, and major financial players. The auctions have
845 demonstrated that the process works, and that the auctions attract a competitive field of
846 bidders resulting in many winners and competitive prices that are reflective of the market.
847 Please see ComEd Exhibit 4.5 and 4.6 that describe the results of the BGS Auctions.

848 **IV. THE ILLINOIS AUCTION PROPOSAL FOR COMED LOAD**

849 Q. Are you aware of the proposal by ComEd to use an auction process to procure supply for
850 its customers that have not chosen a Retail Electric Supplier (“RES”)?

851 A. Yes. I have reviewed the elements of the Illinois Auction Proposal as reflected in the
852 tariffs that are the subject of this proceeding, as well as in the Competitive Procurement
853 Process Auction Manual that ComEd has filed as an exhibit to testimony in this
854 proceeding (ComEd Ex. 3.4), and the direct testimony of William McNeil and the panel
855 of Lawrence Alongi and Paul Crumrine (ComEd Exs. 3.0 and 7.0, respectively).

856 Q. How can you best describe the elements of the Illinois Auction Proposal?

857 A. I would structure my description by referring to the eight key elements of an auction
858 process that I identified earlier in my testimony when discussing the New Jersey BGS
859 auction.

860 Q. Please present your understanding of the **product design**, first describing your
861 understanding of the customers for which supply is procured in the auction and the load
862 segments that suppliers will bid on?

863 A. Starting on January 2, 2007 ComEd's retail customers who have not chosen a RES will
864 be on one of two types of service: a fixed-price service or a real-time pricing service.
865 Residential and commercial customers under 1 MW of demand (who are not certain types
866 of self-generators) have a fixed-price service as their primary option, but can voluntarily
867 elect a real-time pricing service. If such a customer is served by a RES and chooses to
868 return to ComEd's bundled service after January 2, 2007, the customer will return to
869 fixed-price service but will be required to stay for one year. Some larger commercial and
870 industrial customers can also elect to take service on a fixed-price basis. These are larger
871 commercial and industrial customers who have a demand of 1MW or over and who are
872 eligible to take electric service under a rate that has not been declared competitive. To
873 take service on a fixed-price basis, these customers must affirmatively elect this service
874 and must commit to staying on this service for one year. This election would occur
875 within 30 days of ComEd filing the retail rates to the ICC following the conclusion of a
876 successful auction. Without such an election, or without a choice to be served by a RES,
877 these customers default to the real-time pricing service offered by ComEd. These
878 customers, if they return to bundled service with ComEd after January 2, 2007, will be on
879 a real-time pricing service until the next sign-up window. Finally, larger commercial and
880 industrial customers whose electric service rate has been declared competitive still have
881 one service option from ComEd, which is a real-time pricing service.

882 The load at auction is divided into three segments: (1) CPP-A load, which
883 includes large commercial and industrial customers who are eligible to take electric
884 service under a rate that has not been declared competitive and who will have elected a
885 fixed-price service within the election window that will follow the auction; (2) CPP-B
886 load, which includes the load of residential and smaller commercial customers who have
887 not elected a real-time pricing service and who are not self-generating customers; and
888 (3) CPP-H load, which includes the load of all remaining customers taking bundled
889 service from ComEd, including larger customers whose electric service rate has been
890 declared competitive, large commercial and industrial customers who are eligible to take
891 electric service under a rate that has not been declared competitive but who have not
892 elected a fixed-price service; returning large commercial and industrial customers; and
893 smaller customers who voluntarily elect real-time pricing, and self-generating customers.
894 The definitions of these load groups for rate-making purposes is addressed in Rider CPP
895 and in the direct testimony of Messrs. Alongi and Crumrine (ComEd Ex. 7.0).

896 There will be a CPP Auction to procure supply for the CPP-A load and CPP-B
897 load. ComEd intends to procure supply for the third, hourly segment on PJM-
898 administered markets. This plan is contingent on PJM having implemented its RPM
899 proposal or another construct so that ComEd could purchase capacity efficiently from
900 PJM-administered markets. If this does not occur, ComEd would procure supply for its
901 customers through a second auction, the CPP-H Auction.

902 In each Auction, the load for a segment (CPP-A, CPP-B and CPP-H) will be
903 divided into a number of tranches. In each segment, a tranche will account for a given
904 percentage of the load. For example, if there are 15 tranches of CPP-A load, a tranche

905 will account for 6.67% of the load (100% divided by 15). As I testified above, the
906 number of tranches for each segment will be set so that the peak demand of each tranche,
907 if all customers who can take the services associated with that segment do take them, is
908 roughly 100 MW. These 100 MWs will include customers currently served by RESs and
909 customers that may default to a class of service other than their primary service.

910 Thus, for the CPP-A segment, this means that the number of tranches will be set
911 so that if all large commercial and industrial customers 1 MW or over who are eligible to
912 take a fixed-price service – including those large commercial and industrial customers
913 served by a RES before the auction – do sign up for ComEd’s fixed-price service, the size
914 of the tranche at auction will be approximately 100 MW of peak demand. For the CPP-B
915 segment, this means that the number of tranches will be set so that if no residential or
916 smaller commercial customer with demand under 1 MW voluntarily elects real-time
917 pricing service, and if none of these customers are served by a RES, the size of the
918 tranche at auction will be approximately 100 MW. For the CPP-H load group, this means
919 that the number of tranches will be set so that the size of the tranche at auction will be
920 approximately 100 MW of peak demand when: 1) all larger customers whose electric
921 service rate has been declared competitive take service from ComEd; 2) all large
922 commercial and industrial customers who are eligible to take electric service under a rate
923 that has not been declared competitive fail to elect a fixed-price service and fail to elect a
924 RES; and 3) smaller customers who have voluntarily elected real-time pricing continue to
925 take this service.

926 Q. Could you please describe the terms associated with the tranches at auction?

927 A. In the first CPP Auction, the supply period for CPP-A tranches will be from January 1,
928 2007 to May 31, 2008. In subsequent CPP Auctions, the supply period will be one year
929 from June 1 of one year to May 31 of the next year, to be harmonized with the PJM
930 planning period.

931 For CPP-B tranches, ComEd proposes a rolling procurement of blended terms.
932 Every year, ComEd would procure 40% of the requirements of these customers, and it
933 would procure supply to meet these requirements on a blend of one-year, three-year and
934 five-year supply periods. To achieve this term structure, ComEd proposes five supply
935 periods for CPP-B tranches in the first CPP Auction. The supply periods would all start
936 on January 1, 2007 and would end on May 31 of 2008, 2009, 2010, 2011, and 2012. The
937 percentages of total tranches procured for each term are provided in the Table 1 of
938 ComEd Exhibit 4.7. This proposal for the first auction would mean that supply for 60%
939 of the CPP-B load would be under contract beyond June 1, 2008 and that supply will
940 need to be procured for 40% of the CPP-B load in the second (and in all subsequent) CPP
941 Auctions.

942 In subsequent auctions, ComEd proposes three supply periods for CPP-B
943 tranches: a five-year supply period, a three-year supply period, and a one-year supply
944 period. Half of the tranches procured in a given auction, representing 20% of the total
945 requirements of residential and smaller commercial customers, would be procured on a
946 three-year basis. The majority of the remainder (three-quarters of the remainder or 15%
947 of the total requirements of these customers) would be procured on a one-year basis.
948 Remaining tranches (representing 5% of the total requirements of these customers) would

949 be procured for a five-year term. This term structure is presented as Table 2 in ComEd
950 Exhibit 4.7.

951 If the CPP-H Auction is needed, the supply period in the first auction for CPP-H
952 tranches will be from January 1, 2007 to May 31, 2008. In subsequent CPP-H Auctions,
953 the supply period will be one year from June 1 of one year to May 31 of the next year, to
954 be harmonized with the PJM planning period.

955 Q. Could you please present your understanding of the product design, next referring to the
956 supplier contracts?

957 A. Suppliers who have registered for the CPP Auction will bid to win the right to provide
958 full requirements electric supply for a portion of one or more of the load segments at
959 auction (CPP-A or CPP-B), for one or more supply periods. Suppliers who have
960 registered for the CPP-H Auction will bid to win the right to provide full requirements
961 electric supply for a portion of the CPP-H load for the one supply period. All bidders
962 who win the right to serve one segment and who become a supplier for that segment will,
963 upon the auction being successful, sign the same standard contract. The CPP-A Supplier
964 Forward Contract (“CPP-A Contract”), the CPP-B Supplier Forward Contract (“CPP-B
965 Contract”), and the CPP-H Supplier Forward Contract (“CPP-H Contract”) are filed in
966 this proceeding.

967 The CPP-A, the CPP-B, and the CPP-H Contracts describe the obligations of the
968 CPP-A supplier, the CPP-B supplier, and the CPP-H supplier respectively. A supplier for
969 any of these segments provides full requirements electric supply, including energy and
970 capacity, ancillary services and any other services as may be required by PJM, to supply
971 the portion of load in the segment corresponding to the number of tranches won in the

972 segment. For example, a supplier who has won 3 of a hypothetical 15 tranches of CPP-A
973 load serves 20% (3/15) of the full requirements needs of all large commercial and
974 industrial customer who are eligible to take electric service under a rate that has not been
975 declared competitive and who have elected a fixed-price service with ComEd. The
976 Contracts explain that ComEd will provide Network Integration Transmission Service. A
977 supplier will have obtained all necessary regulatory approvals and certifications required
978 to perform this function, including being a Market Buyer and a Market Seller in PJM.

979 The CPP-A, the CPP-B, and the CPP-H Contracts also describe the payments to
980 the CPP-A supplier, the CPP-B supplier, and the CPP-H supplier respectively. The CPP-
981 A or CPP-B supplier receive the final price for its tranches as determined at the auction
982 times a seasonal factor. (The price of CPP-A tranches may be different from the price of
983 CPP-B tranches, and the price of CPP-B tranches for one supply period may be different
984 from the price of CPP-B tranches for another supply period). The seasonal factor will be
985 larger than 1 in the summer to account for higher costs, while it will be lower in non-
986 summer months to account for lower costs. The CPP-H supplier receives the final price
987 of the CPP-H Auction for its tranches, paid on the capacity obligation basis, and receives
988 the local hourly spot market price for energy delivered.

989 Q. What is your understanding of the auction design in the Illinois Auction Proposal?

990 A. The Illinois Auction Proposal uses a clock auction format for each auction for ComEd
991 customers. This is essentially the same as the format used in New Jersey.

992 In the CPP Auction, all products are procured at once. CPP-A load and CPP-B
993 load are different products in the auction, and the different supply periods of CPP-B load
994 are also different products in the auction. The auction will have multiple rounds. In each

995 round, bidders state how many tranches they wish to supply of each product. At the end
996 of each round, if more tranches are bid than are needed for a given product, then the price
997 of that product “ticks down”. This process continues until, generally speaking, the
998 amount bid is just enough for the number of tranches to be procured.

999 In the CPP-H Auction, there is one product, namely CPP-H load for a one-year
1000 supply period (with five months added for the first auction). This auction, if held, would
1001 also have multiple rounds, and bidders would state each round how many tranches of
1002 CPP-H load that they want to supply. The price would tick down as long as there is
1003 excess supply and the process would end when the amount bid is just sufficient to meet
1004 the need.

1005 ComEd Exhibit 4.8 provides an illustrative two-round example of how the clock
1006 auction works for the CPP Auction in the Illinois auction proposal. In the first round, the
1007 Auction Manager will announce prices for each product. There are six products: the
1008 CPP-A load for a 17-month supply period, the CPP-B load for a 17-month supply period,
1009 the CPP-B load for a 29-month supply period, the CPP-B load for 41-month period, the
1010 CPP-B load for a 53-month period, and the CPP-B load for a 65-month period. (This is
1011 for the first auction; in subsequent auctions there would be four products, a one-year
1012 CPP-A product, a one-year CPP-B product, a three-year CPP-B product and a five-year
1013 CPP-B product). Bidders bid by stating how many tranches of each product they wish to
1014 serve of each of the products at the prices for round 1. At the end of the bidding in round
1015 1, the Auction Manager calculates the number of tranches bid for each product. If there
1016 are more tranches bid than are needed for a product, the price for that product ticks down
1017 in round 2. In general, the greater is the excess supply on a product, the greater will be

1018 the tick down in the price. This is illustrated in the example displayed as ComEd Exhibit
1019 4.8. In this example, the prices for all products tick down except the price for CPP-B 41-
1020 months.

1021 This does not mean that the auction ends for the CPP-B 41-month product as it
1022 would be anticipated that, as prices on other products tick down while the price of the
1023 CPP-B 41-month product stays at \$77.00/MWh, bidders would switch to the CPP-B 41-
1024 month product from other products in the CPP Auction (but not from the product in the
1025 CPP-H Auction as there is no switching across the two auctions). The prices for the
1026 CPP-A product and the CPP-B 29-month product tick down the most as they are
1027 oversupplied by the widest margins. Once the bidding has ended and the calculations are
1028 made, the Auction Manager announces the prices for round 2 to the bidders, along with
1029 an indication of the excess supply in the auction. (ComEd Exhibit 4.9 presents
1030 schematically how a round proceeds). Bidders are given time to consider this
1031 information, and then the next bidding window begins. In the next bidding phase, bidders
1032 bid at the new prices announced by the Auction Manager. Bidders state how many
1033 tranches of each product that they wish to supply at the going prices for the round.
1034 Bidders may, in response to the new prices in the round, reduce (but cannot increase) the
1035 number of tranches that they are bidding in total. Bidders may, in response to the new
1036 prices in the round, switch their bids from one product to another product, by reducing
1037 the tranches bid on one or more of these products while increasing the number of
1038 tranches bid on one or more others. The example in ComEd Exhibit 4.8 presents a
1039 situation where bidders have switched into the higher priced CPP-B 41-month, CPP-B
1040 53-month and CPP-B 65-month products from other products. Bidders have also reduced

1041 their number of tranches bid in the real-time pricing segment in response to the decrease
1042 in price (the total number of tranches bid is 282 tranches in round 1 and 277 tranches in
1043 round 2).

1044 The auction generally ends when the total number of tranches bid equals the
1045 number of tranches being procured. The bidders with bids remaining at the end of the
1046 auction reveal themselves to be the suppliers willing to bid at the lowest prices, and they
1047 are the winning bidders.

1048 Just as is the case in the New Jersey BGS Auctions, the auction rules are designed
1049 to mitigate the possibility that any one product would not be fully subscribed.
1050 Furthermore, the auction rules ensure that, if at any time during the auction, all products
1051 are fully subscribed, then the load of all products will be fully subscribed at the end of the
1052 auction. ComEd has filed a detailed set of rules in this proceeding; they are included as
1053 the Competitive Procurement Process Auction Manual (ComEd Ex. 3.4).

1054 Q. Please describe your understanding of the bidder interface in the Illinois Auction
1055 Proposal.

1056 A. The bidder interface is the way in which bidders are provided with information about the
1057 auction process, the way in which data are disseminated, and the way in which the
1058 auction opportunity is promoted.

1059 My understanding is that the Illinois Auction Proposal calls for ComEd to engage
1060 an Auction Manager that will serve as the main point of contact for bidders. In providing
1061 the bidder interface, the Auction Manager will be responsible for:

- 1062 • Maintaining a web site dedicated to the CPP and CPP-H Auctions that will
1063 provide all needed documents, announcements of events and deadlines, as well as
1064 all load data to bidders;

- 1065 • Answering bidder questions and posting questions and answers received to the
1066 auction web site;
- 1067 • Providing technical help to bidders with respect to the Auction rules and the
1068 bidding procedures, including drafting manuals and information packages;
- 1069 • Leading bidder training and bidder information sessions;
- 1070 • Receiving and processing applications to participate in the auction; and
- 1071 • Managing the bidding procedure during the auctions.

1072 Q. Please describe your understanding of the qualification requirements in the Illinois
1073 Auction Proposal.

1074 A. The qualification requirements are the procedures and standards for qualifying bidders to
1075 participate in the auction. The qualification requirements of the Illinois Auction Proposal
1076 are generally set forth in the Competitive Procurement Process Auction Manual filed in
1077 this proceeding. Details of the qualification requirements would be provided to bidders
1078 and would be embodied in the application forms. These applications forms would be
1079 finalized no later than six weeks before the auction is held.

1080 Generally, my understanding is that the application process is in two parts. A
1081 Part 1 Application requires prospective bidders:

- 1082 • To show that they are members of PJM in good standing or that they will become
1083 PJM members by the start of the supply period;
- 1084 • To certify that they have no impediments to meeting other requirements or
1085 authorizations required by the Supplier Forward Contracts;
- 1086 • To provide financial information for an assessment of their creditworthiness;
- 1087 • To agree to comply with the Auction Rules of the auction for which they are
1088 applying;
- 1089 • To agree that if they win at the auction, they will demonstrate compliance with
1090 the creditworthiness requirements set forth in the Supplier Forward Contract
1091 within a short period of time.

1092 A prospective bidder who succeeds in the Part 1 Application process becomes a
1093 Qualified Bidder. Each Qualified Bidder in an auction receives a list of all Qualified
1094 Bidders for that auction. Each Qualified Bidder uses this list for the purposes of making,
1095 in their Part 2 Application, a number of certifications required by the Association and
1096 Confidential Information Rules. These rules, discussed further below, ensure that bidders
1097 are bidding independently, minimize the possibility that a bidder will hold information
1098 relevant to a competitor's bid, and minimize any opportunity for coordination among
1099 bidders.

1100 A Qualified Bidder can (but is not required to) submit a Part 2 Application. In the
1101 Part 2 Application, a Qualified Bidder must:

- 1102 • make a number of certifications regarding associations, to ensure that the
1103 Qualified Bidder is bidding independently of other parties in the auction for which
1104 the bidder is qualified and to ensure the confidentiality of information regarding
1105 the auction;
- 1106 • submit an indicative offer. In the CPP Auction, an indicative offer is a maximum
1107 number of tranches that the Qualified Bidder is interested in serving across all
1108 products in the auction. Qualified Bidders also indicate a preliminary interest in
1109 each product in the auction. In the CPP-H Auction, an indicative offer is a
1110 maximum number of tranches of CPP-H load that the Qualified bidder is
1111 interested in serving;
- 1112 • submit a financial guarantee in proportion to the indicative offer.

1113 If its Part 2 Application is accepted, a Qualified Bidder becomes a Registered
1114 Bidder. Each Registered Bidder for an auction is provided a list of Registered Bidders in
1115 that auction as well as the total initial eligibility for that auction. The total initial
1116 eligibility is the maximum number of tranches that could be bid in the first round of the
1117 auction. Financial guarantees posted with the Part 2 Application remain in full force until
1118 the conclusion of the auction.

1119 Q. Please describe your understanding of the rate design in the Illinois Auction Proposal.

1120 A. The rate design specifies how the final auction prices are converted into retail rates for
1121 each customer supply group, as these are defined in the tariff filed in this proceeding.

1122 ComEd proposes to establish 10 customer supply groups in total. Seven of these
1123 customer supply groups, including the residential customer group, would be served by
1124 CPP-B suppliers. CPP-A suppliers serve the customers who have elected to be on a
1125 fixed-price service for a year within the Very Large Load Customer Group. CPP-H
1126 suppliers serve primarily the customers taking service from ComEd in the remaining two
1127 customer supply groups, namely the Self-Generating Customer Group and the
1128 Competitively Declared Customer Group. CPP-H suppliers also serve any residential or
1129 smaller business customer who voluntarily elects real-time pricing, as well as customers
1130 within the Very Large Load Group who default to real-time pricing.

1131 The retail rates for customer supply groups vary by season and sometimes by time
1132 of day.

1133 For the blended segment (CPP-B), all rates for commodity supply are in ¢/kWh .
1134 The rate for a customer supply group is obtained by multiplying an *average auction price*
1135 by a *ratio* specific to the customer supply group, to the season (summer or non-summer),
1136 and if applicable to the time of day (peak or off-peak). The *average auction price* takes
1137 into account the prices of the various supply periods of the CPP-B tranches. The *ratio* is
1138 computed to take into account the overall supply cost of the group relative to the supply
1139 cost of the segment based on each group's load shape, and also to take into account an
1140 estimated cost associated with the propensity of the group to migrate to a RES. For
1141 example, if the ratio for residential customers in the summer is 1.2, taking into account

1142 the overall supply cost of residential customers, the overall supply cost for the CPP-B
1143 segment, and taking into account that there is very little migration in that group, and if the
1144 weighted average auction price is \$50/MWh, then the summer retail rate for commodity
1145 supply for residential customers would 6.0¢/kWh (1.2 x \$50/MWh converted to ¢/kWh).

1146 The final auction price for the CPP-A tranches, appropriately shaped seasonally
1147 and by time of day, directly determines the CPP-A retail rates. The process is simpler
1148 because there is a single customer supply group load shape, which means that the factors
1149 need only reflect seasonality and time of day. The process is simpler also because in this
1150 segment, there is a single supply period of one year for CPP-A tranches, which means
1151 that there is no need to average several auction prices.

1152 The final auction price for CPP-H Auction, if that auction is held, would provide
1153 for a fixed charge for CPP-H customers that would represent the cost of capacity and
1154 ancillary services. CPP-H customers would, in addition, pay the real-time local marginal
1155 price for energy including an adjustment for losses.

1156 It is my understanding that ComEd is aiming to provide all necessary information
1157 to potential bidders concerning how auction prices are translated into retail rates in
1158 advance of the auction, including a calculating tool that displays the rates for each
1159 customer supply group that would result from prices in the auction.

1160 Q. Please describe your understanding of the competitive safeguards in the Illinois Auction
1161 Proposal.

1162 A. Competitive safeguards are features of the auction process that limit the scope for anti-
1163 competitive behavior, with the view to maximizing the competitiveness of the auction.

1164 The Illinois Auction Proposal includes the following competitive safeguards.

1165 The first competitive safeguard is a provision of the Competitive Procurement
1166 Process Auction Manual filed in this proceeding that the Auction Manager can cut back
1167 the volume purchased through the auction if this is necessary to ensure a competitive
1168 bidding environment. Any volume cut back from the auction would be procured through
1169 PJM-administered markets. This ensures that suppliers do not have the opportunity to
1170 obtain a fixed-price contract to serve ComEd load unless they participate in the auction.
1171 This measure is a safety net that addresses concerns that, if participation is lower than
1172 expected, this could result in prices that are not competitive.

1173 The second competitive safeguard is a load cap that is specific to each auction.
1174 This measure limits the influence that any one bidder can have on the results of the
1175 auction.

1176 ComEd proposes that the load cap for the CPP Auction be set at 50%. This
1177 means that no one bidder can bid or win more than 50% of the tranches of the CPP
1178 Auction. However, because the load cap is auction-specific but not product-specific, a
1179 bidder could bid on more than 50% of a given product. For example, a bidder could bid
1180 on all tranches of the CPP-B 65-month product, but on all products combined, a bidder
1181 could not bid on more than 50% of the tranches. ComEd proposes a 50% load cap for the
1182 CPP-H Auction as well.

1183 ComEd has included as part of its Competitive Procurement Process Auction
1184 Manual filed in this proceeding and as part of its tariff detailed Association and
1185 Confidential Information Rules. The Association and Confidential Information Rules
1186 proposed are those that have been used in New Jersey for the past four years. These rules
1187 would apply separately to each of ComEd's auction. These rules are managed through

1188 the qualification process and aim to minimize the possibility of anti-competitive or
1189 collusive behavior, and to minimize the possibility that a bidder will have better
1190 information than another about its competitors. Violations of some of these rules would
1191 also be a violation of antitrust laws; although in that sense some of the rules appear
1192 redundant, they still serve as a focused reminder to auction participants of requirements
1193 for competitive behavior.

1194 Q. Please describe your understanding of the regulatory involvement in the Illinois Auction
1195 Proposal.

1196 A. My understanding is that ComEd will want the ICC Staff to be intimately involved in the
1197 process, and will want an Auction Advisor to help the ICC and the ICC Staff monitor and
1198 evaluate the results of the auction. ComEd is also proposing a post-auction process that
1199 would provide an open forum for the continued improvement of the competitive
1200 procurement rules and methods.

1201 Specifically, my understanding is that, should the ICC accept the Illinois Auction
1202 Proposal as specified in the Competitive Procurement Process tariff, the roles of the ICC
1203 and ICC Staff, the role of the Auction Advisor, the role of ComEd, and the role of the
1204 Auction Manager retained by ComEd would be as follows:

- 1205 • The ICC and ICC Staff will:
 - 1206 ○ Keep apprised of the results of the qualification procedure, and the progress
1207 of the procurement process through briefings by the Auction Manager;
 - 1208 ○ Work with the Auction Advisor to review protocols for the implementation of
1209 the auctions and to monitor progress;
 - 1210 ○ Conduct a prompt, post-auction review and determine whether to provide a
1211 written notification to ComEd concerning the auction, which would trigger
1212 certain contingency provisions under the tariff;

- 1213 ○ Convene the workshops of the post-auction review process.
- 1214 ● The Auction Advisor, retained by the ICC, will:
 - 1215 ○ Provide expert advice on issues related to policy matters, auction design, rules
 - 1216 and protocols for the conduct of the auctions;
 - 1217 ○ Provide feedback and suggestions to the Auction Manager related to the
 - 1218 conduct of the auctions;
 - 1219 ○ Submit a confidential report to the ICC concerning the conduct and results of
 - 1220 the auctions;
 - 1221 ○ Submit a public report that includes an assessment of the auction.
- 1222 ● ComEd will:
 - 1223 ○ Retain an Auction Manager to administer the auction;
 - 1224 ○ Support the Auction Manager in promoting the auction opportunity;
 - 1225 ○ Supply data and other key information to the Auction Manager that suppliers
 - 1226 would use to prepare their bids and that will be made available to bidders
 - 1227 through the web site maintained by the Auction Manager;
 - 1228 ○ Draft the Competitive Procurement Process Auction Manual in coordination
 - 1229 with the Auction Manager;
 - 1230 ○ Provide follow-up technical support to the Auction Manager in response to
 - 1231 specific questions received by bidders with respect to the data and Supplier
 - 1232 Forward Contracts;
 - 1233 ○ Review and approve financial qualifications in the Part 1 Application;
 - 1234 ○ Execute the CPP Contracts on behalf of their customers;
 - 1235 ○ Participate in the post-auction review process.
- 1236 ● The Auction Manager will:
 - 1237 ○ Provide the interface with bidders, including serving as a clearing house for
 - 1238 all bidder inquiries and comments, providing information to bidders about the
 - 1239 auction opportunity, holding bidder information sessions, and training bidders
 - 1240 in the auction procedures;
 - 1241 ○ Maintain a web site for the dissemination of auction information;
 - 1242 ○ Develop Application Forms and manage the qualification and registration of
 - 1243 bidders;

- 1244 ○ Develop protocols for the conduct of the auctions, obtain feedback from the
1245 Auction Advisor regarding these protocols and integrate the feedback for the
1246 success of the auctions;
- 1247 ○ Provide real-time briefings to other interested stakeholders on the progress of
1248 the auction process;
- 1249 ○ Review and resolve any issues arising over associations with the Auction
1250 Advisor;
- 1251 ○ Administer the bidding procedures and make round-by-round decisions
1252 regarding auction parameters;
- 1253 ○ Provide briefings to the ICC and ICC Staff regarding the results of the
1254 application process;
- 1255 ○ Provide to the ICC a confidential report reviewing the auction results;
- 1256 ○ Provide a focused public report for the purposes of stimulating the open forum
1257 to discuss improvements during the post-auction review process;
- 1258 ○ Participate in the post-auction review process.

1259 My understanding is that the post-auction process would proceed as follows.
1260 Once the Auction Manager and the Auction Advisor have issued their public reports,
1261 which should occur by the first day of the supply period, the ICC Executive Director
1262 would assign a convener for workshops to be held regarding the procurement process.
1263 The post-auction process would last 60 days and would include workshops aimed at
1264 reviewing the reports from the Auction Manager and Auction Advisor, discussing the
1265 auction results, and identifying possible improvements to the process. The convener
1266 would provide a report on the workshop process and highlight improvements that have
1267 been proposed and areas of consensus. This process could directly lead to improvements
1268 being implemented without recourse to a formal docket or a request for investigation,
1269 although these options would still be available to the ICC and other parties in the
1270 proceeding.

1271 Q. Please describe your understanding of the cost recovery assurances in the Illinois Auction
1272 Proposal.

1273 A. My understanding is that ComEd is asking the ICC to deem the acquisition of supply
1274 through the auctions to be prudent as long as the ICC concludes that no grounds exist for
1275 the ICC to itself initiate an investigation or other formal proceeding under the Public
1276 Utilities Act concerning the auctions. ComEd is asking the ICC to approve the essential
1277 elements of the process, including the rate design, the use of a clock auction, the
1278 definition of the products, and some provisions of the contracts, as a part of this filing.

1279 My understanding is that ComEd is also asking the ICC to approve ComEd's
1280 contingency plans. As I testified earlier, in case of a volume cutback, ComEd intends to
1281 procure supply in PJM-administered markets for one year and then to add the unfilled
1282 tranches to the next auction. Also, in case of supplier default, ComEd is proposing the
1283 following contingency plans.

- 1284 • When there are 120 or fewer days left in the supply period for the tranches on
1285 which the supplier has defaulted, ComEd intends to procure replacement supply
1286 in PJM-administered markets.
- 1287 • When there are more than 120 days left in the supply period for tranches on which
1288 the supplier has defaulted, ComEd intends to bid out these tranches using a
1289 competitive process. If the load at issue is sufficiently small (fewer than 30 CPP
1290 tranches) then ComEd is proposing a relatively quick process to procure
1291 replacement supply in the form of a simple RFP. If the load at issue is larger (30
1292 CPP tranches or more), then ComEd would hold a clock auction. Although this
1293 clock auction would be on an accelerated basis, it would be expected to take
1294 longer than an RFP.

1295 V. **THE ILLINOIS AUCTION PROPOSAL MEETS ITS OBJECTIVES**

1296 Q. What are the objectives of the Illinois Auction Proposal?

1297 A. The Illinois Auction Proposal aims for a successful auction, namely one that:

- 1298 • Obtains reliable supply for its customers at competitive market prices, i.e., at
1299 prices that are the result of competition and that are reflective of market
1300 conditions;
- 1301 • Provides protection to small customers from the volatility of short-term market
1302 fluctuations;
- 1303 • Provides information to all prospective bidders and promotes the participation of
1304 all market participants on a fair and equal basis;
- 1305 • Provides reasonable protection against anti-competitive behavior;
- 1306 • Provides an objective and clear method for determining winning suppliers and
1307 final auction prices;
- 1308 • Provides for ICC involvement and oversight of the process;
- 1309 • Provides for continuous and open communications with all interested
1310 stakeholders.

1311 Q. Do you believe that the Illinois Auction Proposal in general meets these objectives?

1312 A. In my opinion, yes, it does.

1313 Q. Please explain why you believe that the Illinois Auction Proposal meets its objectives
1314 elaborate, considering the product design incorporated into the Proposal.

1315 A. The Illinois Auction Proposal on product design specifies that ComEd will provide
1316 Network Integration Transmission Service and that the CPP supplier will supply all other
1317 components of full requirements electric supply for ComEd's customers. The CPP
1318 supplier will provide energy and capacity, including ancillary services and any other
1319 services as may be required by PJM, to supply the portion of the segment of CPP load
1320 corresponding to the number of tranches it has won. The CPP supplier will manage all

1321 risks associated with serving this load, including volumetric risk, migration risk and
1322 congestion costs.

1323 This aspect of the proposal promotes the objective of obtaining supply at prices
1324 that are the result of competition and that are consistent with market conditions. The full-
1325 requirements product places price-risk management responsibility in the hands of
1326 competitive entities that are best suited to take, manage, and price these risks. A broad
1327 range of entities can be expected to be able to supply this product, including financial
1328 players and marketers and traders. Customers will receive for these services a price that
1329 is disciplined by competitive forces.

1330 The Illinois Auction Proposal on product design specifies that the CPP supplier
1331 responsibility will be determined on the basis of “tranches”, where each tranche
1332 represents a fixed percentage of the requirement of load in the segment (CPP-A, CPP-B
1333 or CPP-H). The percentage of load corresponding to one tranche is chosen so that one
1334 tranche would be about 100 MW of peak load. The size of this tranche is small enough
1335 that there will be an adequate number of tranches for each product. The size of the
1336 tranche is also small enough to facilitate participation of smaller suppliers. The fact that
1337 the division of the load into tranches means that customers are not assigned to CPP
1338 suppliers is important to promoting participation of suppliers in the auction. Potential
1339 suppliers will not have to establish the infrastructure necessary to establish a retail
1340 relationship with customers, will not have to take collection risk, and will not have to
1341 account for these costs in their bids.

1342 The Illinois Auction Proposal incorporates a standard Supplier Forward Contract
1343 and prospective suppliers will be required to agree to the terms of the contract as a

1344 condition for qualifying for the auction. This feature of the proposal is central to the
1345 transparency of the process and to the ability of the process to treat all bidders on a fair
1346 and equal basis. All prospective bidders will know the terms because they are
1347 standardized and because the Auction Manager will have made the final documents
1348 available to them before they apply for the auction. Given that all bidders for each
1349 auction bid on the same terms and all fulfill the same qualification requirements for that
1350 auction, the processing and evaluation of the bids can proceed on a price-basis only using
1351 the proposed clock auction format.

1352 The Illinois Auction Proposal offers a one-year fixed-price service to some large
1353 commercial and industrial customers with a demand of 1MW or over. This promotes the
1354 objective of getting supplies at competitive prices and yet be stable over the term. These
1355 auction prices can then be appropriately reflected into retail rates.

1356 The Illinois Auction Proposal specified that for smaller customers, mainly
1357 residential and commercial, the CPP Auction would procure supply in a blended term
1358 structure. Every year the auction would procure supply for 40% of the CPP-B load for a
1359 mix of one-year, three-year and five-year supply periods. The experience in New Jersey
1360 suggests there is likely to be high participation in an auction with a mix of terms. The
1361 experience in New Jersey also shows that interest is high for contracts of three years and I
1362 believe that this interest will extend to longer contracts such as the one proposed by
1363 ComEd.

1364 The blend of terms and the rolling nature of the procurement structure promote
1365 two separate and often conflicting goals. The procurement structure promotes the goal of
1366 providing prices for customers that are competitive and reflective of market; but it also

1367 promotes the goal of providing protection from the volatility of short-term market
1368 fluctuations to smaller customers that may not have as many options for supply. By
1369 limiting the amount procured each year to 40%, and thereby limiting the amount of load
1370 exposed to given market conditions, the term structure protects smaller customers from
1371 the volatility of short-term market fluctuations.

1372 Q. The Illinois Auction Proposal on term structure, with a mix of three different supply
1373 periods, is different from the New Jersey auction, which uses a rolling three-year term. Is
1374 it your opinion that a rolling three-year term is not essential to the success of the auction
1375 process?

1376 A. That is correct. In my opinion, the Illinois Auction Proposal need not be identical to the
1377 New Jersey Auction Process to achieve success. The auctions should be tailored to the
1378 applicable goals and market conditions.

1379 In this case, both the Illinois Auction Proposal and the New Jersey process
1380 promote protection of smaller customers from short-term market fluctuations through a
1381 rolling procurement structure that only procures a fraction of the load each year. Both the
1382 Illinois auction proposal and the New Jersey promote high participation in an auction
1383 with a mix of terms, including contracts of three years for which interest is high.

1384 I believe that both term structures can meet the objectives and that uniformity in
1385 this dimension is not necessary to ensure success.

1386 Q. You testified earlier that the Illinois Auction Proposal has the elements for a successful
1387 auction. Can you now explain how the auction format relates to that conclusion?

1388 A. The auction format in the Illinois Auction Proposal is essentially the same as the auction
1389 format used in New Jersey. The way in which participants bid, the way in which bids are

1390 processed, and the way in which the volume needed is met through the auction are
1391 identical. My remarks regarding the benefits of the auction format for New Jersey are
1392 therefore also relevant for the Illinois auction proposal.

1393 To summarize, those advantages are the following:

- 1394 • The clock auction format, as an open auction, is an effective way of eliciting the
1395 best bids when all bidders are evaluating a common market opportunity so as to
1396 get competitive prices consistent with the market;
- 1397 • The clock auction, as a simultaneous auction, can be expected to lead to the
1398 efficient allocation of the supply responsibility over ComEd's different products;
- 1399 • The auction format is ideally suited to the procurement of different products such
1400 as is the case in the CPP Auction;
- 1401 • The auction format maximizes the possibility that each and every one of these
1402 products will be fully subscribed;
- 1403 • The final rules will be well specified and the bidders will be able to clearly
1404 understand how the final auction prices are determined and how winning bidders
1405 emerge;
- 1406 • The auction format does not advantage established players and enables
1407 prospective bidders to participate on a fair and equal basis.

1408 Q. Please elaborate on your statement that the Illinois Auction Proposal has the elements for
1409 a successful auction by considering the bidder interface, the qualification requirements,
1410 and the regulatory involvement.

1411 A. The Illinois Auction Proposal promotes the equal and fair treatment of bidders through
1412 these elements of the proposal. Specifically:

- 1413 • ComEd proposes that the Auction Manager disseminate the information required
1414 by bidders through a web site and through information sessions;
- 1415 • The Illinois Auction Proposal foresees that the Auction Manager will manage the
1416 bidder interface;
- 1417 • The Illinois Auction Proposal foresees that the Auction Manager manages the
1418 qualification and registration of bidders, with the assistance of ComEd for the

1419 assessment of creditworthiness and the assistance of the Auction Advisor for
1420 association issues;

1421 • The Illinois Auction Proposal foresees a close involvement from the ICC, the ICC
1422 Staff and the Auction Advisor;

1423 • The Illinois Auction Proposal requires all applicants to accept the terms of the
1424 standard contract and the auction rules before the auction so that all compete on
1425 the same terms;

1426 • The Illinois Auction Proposal requires all applicants to make a number of
1427 certifications regarding associations and confidential information so that bidders
1428 bid independently and the confidentiality of the process is protected;

1429 • The Illinois Auction Proposal foresees an on-going process involving all
1430 stakeholders that promotes clear communication and an organized strategy to
1431 gather feedback and to continue improving the process.

1432 These certifications required in the application process regarding associations and
1433 confidential information also further the objective of competitive prices, as I explain
1434 below.

1435 Q. Please explain how the proposed rate design relates to your testimony that the Illinois
1436 Auction Proposal has the elements for a successful auction.

1437 A. The Illinois Auction Proposal ensures that the market-based prices obtained in the
1438 auctions will be reflected in retail rates. This feature of the proposal, together with the
1439 rolling term structure for smaller customers, ensures that rates are market-based while
1440 providing protection to small customers from the volatility of short-term market
1441 fluctuations.

1442 The Proposal specifies that, before the auctions, bidders will be able to tell the
1443 retail rates that will prevail for any given auction price. Bidders will be able to
1444 reasonably evaluate the potential for migration and to make bids that reflect an analysis
1445 of this risk. This should help elicit the best bids in the auction.

1446 Q. Please elaborate on your statement that the Illinois Auction Proposal has the elements for
1447 a successful auction by considering the competitive safeguards of the proposal.

1448 A. The Illinois Auction Proposal includes provisions that the Auction Manager can cut back
1449 the volume purchased through the auctions. This measure is a safety net and ensures that,
1450 for the portion of the load that will be procured at auction, prices are the result of
1451 competition. Appropriately, the contingency plan included in the Illinois Auction
1452 Proposal ensures that bidders do not have an opportunity to contract with ComEd to serve
1453 load except through the auction.

1454 The Illinois Auction Proposal includes Association and Confidential Information
1455 Rules that are essentially the same as in the New Jersey auction. As such they are
1456 designed specifically for the auction format to ensure that the scope for anti-competitive
1457 behavior is minimized. The Association and Confidential Information Rules are
1458 managed through the qualification process. They serve as a necessary limitation on
1459 behavior and their administration through the qualification process serves as a reminder
1460 for bidders of their obligations. The associations and confidential information measures
1461 are sufficient and should promote a competitive result at the auction.

1462 ComEd's Illinois auction proposal includes an auction-specific load cap of 50%.
1463 The load is specified in ComEd's proposed tariff filed in this proceeding and as such
1464 would be a stable component of the competitive process. I will then first assess and
1465 mainly focus on whether the load cap can provide needed discipline in the typical CPP
1466 Auction, namely the CPP Auction that would occur in the second and subsequent years.

1467 On the basis of the numbers I have reviewed, in the typical auction, there will be
1468 40% of the CPP-B load (65 tranches) in the CPP Auction and 100% of the CPP-A load

1469 (24 tranches) in the CPP Auction, for a total of approximately 89 tranches. A load cap of
1470 50% would mean that there would be approximately a limit of 45 tranches that a bidder
1471 could bid and win in future auctions.

1472 In my opinion, this limit would be unlikely to constrain or limit the participation
1473 of marketers and financial players who form the bulk of the anticipated bidding pool.
1474 These entities, in my opinion, are unlikely to have business plans that would incorporate
1475 exposure to these auction products in excess of these amounts. To the extent that some of
1476 these entities would wish to participate at lower levels, this load cap may not completely
1477 eliminate these entities' ability to over-represent their interest; however, I believe that a
1478 load cap at this level would impose the needed discipline on a bidder's ability to do so.
1479 This discipline means that the Auction Manager is likely to set the volume in the CPP
1480 Auction on the basis of reasonably reliable information.

1481 As I testified earlier, competitive safeguards are needed in part to curb the
1482 influence that any one bidder can have on the results of the auction. Competitive
1483 safeguards can serve to limit a bidder's ability to withdraw tranches profitably, which in
1484 turn prevents the bidder from closing the auction unilaterally at prices higher than would
1485 otherwise have been the case. There are potentially two instruments that can be used to
1486 limit a bidder's ability to withdraw tranches profitably. The first instrument is the load
1487 cap: lowering the amount of supply offered by a single bidder lowers the profitability of
1488 withdrawing supply. In the extreme, if a bidder bids a single tranche, the bidder cannot
1489 withdraw that tranche and profit from doing so, as the bidder could no longer win at the
1490 auction. The second instrument is the information provided to bidders: restricting
1491 information regarding excess supply in the auction means that the benefit – and therefore

1492 the profitability – of withdrawing tranches becomes uncertain. However, restricting
1493 information in this way can also hamper the ability of bidders to learn and revise their
1494 bids on the basis of market information, which is one of the key benefits of an open
1495 auction format. Bidders in a clock auction will rely on the fact that they are provided with
1496 information that relates the going prices to the amount of excess supply in the auction.

1497 In my opinion, the combination proposed by ComEd of a 50% load cap in the
1498 typical auction can strike the right balance when coupled with limiting information
1499 regarding the remaining excess supply when bidding nears its conclusion. This
1500 combination should be effective in limiting the influence of a bidder or a small group of
1501 bidders on the auction results while providing information to bidders on a round-to-round
1502 basis to enable bidders to revise their bids and learn on the basis of the information
1503 available to them.

1504 In the first auction, on the basis of the numbers I have reviewed, a load cap of
1505 50% in the CPP Auction corresponds to a limit of 92 tranches. This limit is generous.
1506 However, to the extent that there is a necessity and a benefit to setting a load cap that will
1507 consistently apply to auctions conducted under the CPP tariff, the consideration that the
1508 load cap strikes a good balance in the typical auction should be the focus of the
1509 evaluation. In the first year, limiting information to bidders in the latter stages of the
1510 auction will be the main instrument that could be used to limit a bidder's ability to
1511 withdraw tranches profitably.

1512 Q. Do you believe that a load cap that is auction-wide, as included in the Illinois Auction
1513 Proposal, can be as effective as a load cap that is product-specific, as is used in the BGS-
1514 FP Auction in New Jersey?

1515 A. Yes, I do. The BGS-FP Auction in New Jersey has product-specific load caps but the
1516 BGS-CIEP Auction in New Jersey, which procures supply for customers on an hourly
1517 service, has an auction-wide load cap. There is experience with both types of load caps
1518 and this experience suggests that both can be effective. The product-specific load cap
1519 was indicated in the New Jersey BGS-FP Auction because each product represents the
1520 load for a given EDC and each EDC wanted to diversify its exposure to default risk by
1521 ensuring that it would have at least three winning suppliers.

1522 Q. Do you believe that the level of the load cap in New Jersey – set roughly at a third – must
1523 be maintained in the Illinois Auction Proposal to ensure the effectiveness of the
1524 competitive safeguards and the success of the auctions?

1525 A. No. I do not believe that there is a single level for the load cap that will ensure the
1526 effectiveness of the competitive safeguards and the success of an auction. Setting a load
1527 cap is a question of balance. A higher load cap has the potential benefit of providing
1528 additional opportunities for some entities to bid in a greater amount of supply, but it has
1529 the potential cost of increasing the ability of bidders to withdraw supply profitably, and
1530 of affecting the reliability of the information that the Auction Manager uses to set the
1531 volume.

1532 Q. Please elaborate on your statement that the Illinois Auction Proposal has the elements for
1533 a successful auction by specifically considering the contingency plans in the Proposal.

1534 A. I have already explained how the contingency plan in the case of a volume cutback
1535 supports the goals. The contingency plans specify that ComEd would either get
1536 replacement supply from the PJM-administered markets or bid out the tranches by an
1537 appropriate procurement process. These contingency plans mirror the plans approved for

1538 the EDCs in New Jersey, except that the Illinois Auction Proposal makes a specific
1539 proposal on the manner in which tranches will be bid out depending on the number of
1540 defaulted tranches.

1541 These contingency plans are designed to ensure that prospective bidders see the
1542 auction as their only opportunity to serve ComEd's customers, which helps maximize
1543 participation. The fact that ComEd is asking the ICC to approve these contingency plans
1544 is important to ComEd's financial integrity. This helps to obtain lower prices in the
1545 auction as it provides assurance that ComEd will be able to perform under the auction
1546 contracts. Furthermore, the fact that the contingency plans are designed to provide
1547 replacement supply on an expedited basis further protects customers from the possible
1548 volatility of short-term markets.

1549 Q. Does this complete your direct testimony?

1550 A. Yes.