

SUPPLEMENTAL INFORMATION

This supplemental information, including the attached testimony and exhibits, presents a competitive auction procurement ("CPA") that will enable each of Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS and Illinois Power Company d/b/s AmerenIP (the "Ameren Companies") to provide reliable electric service to its customers at just and reasonable rates in the post-2006 period. The CPA process is an open one, based on a public "reverse" wholesale power auction in the extensive oversight by the Illinois Commerce Commission. It is designed to achieve stable rates and to secure the lowest price attainable in the marketplace. It takes advantage of the descending clock auction format in which the lowest priced bidder wins the right to supply power -- a proven technique that will stimulate vigorous competition among numerous suppliers to drive costs down. Implementation of this state-of-the-art supply acquisition approach will continue the progress Illinois has made since passage of the 1997 restructuring legislation and will make our state a national model for consistent, stable success with restructuring of the electric utility industry.

The CPA procurement approach that the Ameren Companies propose in this proceeding is a direct outgrowth of the Commission's Post 2006 Initiative (the "Initiative") -- a process that brought a diverse group of interested parties together to participate in an extensive series of meetings and workshops to examine the future of the electric market in Illinois, public policy issues surrounding restructuring of the electric industry, and critical questions concerning procurement of supply to serve customers in the post-2006 environment. As the Commission's Executive Summary of the effort emphasized, the Initiative involved an enormous commitment of time and resources, noting that, "[e]very significant stakeholder interest was represented in the workshop process, with the participants bringing the views of consumers, power

generators, financial intermediaries, utilities, units of government, environmental organizations and others to bear on the important topics that will shape the future of the electric industry in Illinois.” At the conclusion of the effort, the ICC Staff issued a Final Report recommending that, “[l]arge Illinois utilities that do not own significant generation resources should be encouraged to procure their electricity via a vertical tranche auction....” (ICC Staff Report at 18.)

The Ameren Companies' proposal in this proceeding follows the ICC Staff's recommendation. It calls for a “vertical” or “full requirements” auction to procure the supply needed to serve retail customers beginning on January 1, 2007. This acquisition approach is based on and reflects the work of the Initiative's Procurement Working Group (“PWG”), which reached a consensus that the ideal procurement process for the post-2006 period should have 18 characteristics. The full requirements reverse auction process proposed by the Ameren Companies has each of those characteristics, and provides benefits that are unavailable under any other acquisition approach. For that reason, it is supported by a wide group of stakeholders.

The procurement process incorporated in the Ameren Companies' tariffs and testimony is the result of an unprecedented collaborative effort that the Commission properly commended in its report to Governor Blagojevich and The Illinois General Assembly. The Ameren Companies have listened to the views of all parties, has responded to the widespread support for an open, transparent, market-based procurement approach and is pleased to be able to prepare tariffs including just such a process in this proceeding.

The Commission has a unique opportunity to realize the goals of the restructuring process. It can act to endorse a procurement system in 2007 that offers the prospect of lower rates for customers than they paid in the early 1990s. The benefits of the proposal are widely

recognized, reflecting the consensus positions of the many interested parties who participated in the Commission's post-2006 Initiative. Acting now will accomplish the remaining step that the Initiative's months of effort identified as being in the best interests of customers. It will complete the transformation of the Illinois electric marketplace and establish a foundation that will assure customers access to reasonably priced, reliable service for the indefinite future.

The Ameren Companies' filed tariffs are supported by the testimony of Warner Baxter, Executive Vice President and Chief Financial Officer of Ameren Corp., the parent of the Ameren Companies; Mr. Craig Nelson, Vice President – Strategic Initiatives of Ameren Services Company (“Ameren Services”); Mr. James Blessing, Managing Supervisor, Power Supply Acquisition in the Strategic Initiatives Department at Ameren Services; Mr. Wilbon Cooper, Manager – Rate Engineering and Analysis – Regulatory Policy and Planning of Ameren Services; Mr. Robert Mill, Director of the Regulatory Policy and Planning Department of Ameren Services; Dr. Chantale LaCasse, a Vice President with National Economic Research Associates, Inc., who is the past and current auction manager for the New Jersey auction; Mr. Johannes Pfeifenberger, a Principal and Director of The Brattle Group, an economic consulting firm; Mr. Steven Fetter, President of Regulation UnFettered, an energy advisory firm; and Mr. Robert McNamara, Vice President of Regulatory Affairs and Chief Economist for the Midwest Independent Transmission System Operator, Inc. (“MISO”).

The Commission has ample authority to approve the proposed tariffs. The Public Utilities Act charges the Commission with “promot[ing] the development of an effectively competitive electricity market that operates efficiently and is equitable to all customers.” 220 ILCS 5/16-101(d). As the Commission observed, the General Assembly “envisioned greater reliance on market forces” in the setting of just and reasonable electricity rates. Post 2006

Report at 2. One of the most important changes in the electric services industry that has occurred since (and largely in response to) the Restructuring Act is the large-scale divestiture of generation assets by utilities. *See* 220 ILCS 5/16-111(g). Following this divestiture it is critical to the Commission's mission to promote and take advantage of competitive processes in the wholesale energy market. The cost of wholesale electric power -- which utilities like the Ameren Companies now *must* procure in order to serve customers, *see* 220 ILCS 5/16-103(a) -- is necessarily a "key determinant" of retail rates. Post 2006 Report at 11. Without encroaching on FERC's exclusive authority over wholesale power transactions, the Commission is required to ensure that retail rates remain "just and reasonable." Authorizing utilities to recover the cost of power procurements made in open, competitive, fair, and carefully controlled auctions accomplishes that objective. The essence of the proposed tariffs is that market forces will determine the price of power and energy. Customers will pay only the market price of power and energy as determined by a competitive full requirements reverse auction held under the watchful eye of the Commission.

The Commission's Office of General Counsel has already indicated that the Commission has authority under the Act to approve the proposed tariffs. *See* Comments of the Commission's Office of General Counsel, Post 2006 Implementation Report at page 10. Section 16-112 of the Act explicitly empowers the Commission to determine the price of electric power and energy based on its "market value." Specifically, the Commission may approve "a tariff that has been filed by the electric utility with the Commission pursuant to Article IX of the Act and that provides for a determination of the market value for electric power and energy as a function of an exchange traded or other market traded index, options or futures contract or contracts applicable to the market in which the utility sells, and the customers in its service area buy,

electric power and energy.” Each of the Ameren Companies seeks Commission approval for a tariff, Rider MV, that determines the “market value of electric power and energy” based on the results of an open, multi-party competitive procurement auction process for standard products and contracts (as provided for in Rider MV) that, in fact, define the actual market value of power and energy in the Ameren Illinois footprint. There can be no doubt that is appropriate to determine the “market value” of electric power and energy as a function of contracts resulting from a fair and open auction for full requirements load in the Ameren Illinois footprint area in which the lowest bidder wins.

By its terms, Section 16-112(a) does not mandate a particular method for determining market value, but broadly allows a range of measures that objectively establish the market-based price for electricity in the particular market in which the utility sells and the customers in its service area buy. Any method that provides for a determination of market value as a function of an exchange traded or other market traded index, options or futures contract or contracts applicable to the utility’s retail electricity market is permitted. *See In re Commonwealth Edison*, 2001 WL 682088 (explaining that General Assembly intended “market value” in Section 16-112 to reflect the “value of power and energy at the retail level”). As applied in previous “market value” determinations under Section 112(a), *see In re Commonwealth Edison*, 2001 WL 682088, the touchstone is identifying the market value for electric power in the specific “market in which the utility sells, and the customers in its service area buy, electric power and energy.” 220 ILCS 5/16-112(a).

Tranche-specific forward contracts to supply power in the future at fixed prices, obtained in the market defined by the competitive bidding of the vertical tranche auction described in Rider MV, satisfy the “market value” determination methods in Section 16-112(a). Of necessity,

the auction mechanism generates contracts “applicable to the market in which a utility sells, and the customers in its service area buy, electric power and energy.” 220 ILCS 5/16-112(a). Under the auction process, the Ameren Companies divide their actual combined bundled retail electricity load obligation into tranches; the lowest bidder for a given tranche is selected for the contract. Thus, the “applicab[ility]” of the resulting power supply contracts to the Ameren Companies' retail market could not be more direct. The auction process is set forth in a tariff filed pursuant to Article IX, just as envisioned in the statute, and thereby will be subjected to extensive review and control by the Commission to ensure that the process is objective, transparent, fair and wholly independent of the Ameren Companies.

Under Section 16-110 of the Act, the market value determined pursuant to Section 16-112 will establish post-transition period power purchase option prices. The proposed tariffs provide that the same market value be the basis for a restructuring and unbundling of the prices to be charged to the Ameren Companies' retail customers for electric power and energy after the mandatory transition period expires. Section 16-109A of the Act expressly authorizes the Commission to approve such a restructuring and unbundling of prices, providing that “the Commission shall have the authority to investigate the need for, and to require, the restructuring or unbundling of prices for tariffed services, other than delivery services, offered by an electric utility.”

The Act also contemplates the use of the market value of power and energy determined under Section 16-112 as the basis for the price of power and energy charged to bundled service customers. Section 16-111(i) provides that:

In determining the justness and reasonableness of the electric power and energy component of an electric utility's rates for tariffed services subsequent to the mandatory transition period and prior to the time that the provision of such electric power and energy is declared competitive, the Commission shall consider the extent to which the

electric utility's tariffed rates for such component for each customer class exceed the market value determined pursuant to Section 16-112....

The Ameren Companies' tariffs propose what Section 16-112 endorses -- that customers in the post-mandatory transition period in Illinois pay a price for electric power and energy that is determined in accordance with one of the statutory methods for establishing market value. No alternative method for establishing the unbundled price of electric power and energy could more closely adhere to the letter and spirit of the Act than the proposed process.

In addition to the specific provisions of Article XVI, the Commission has broad authority to approve the Ameren Companies' tariffs under Article IX of the Act. Although the primary mechanism for setting rates has been a general rate case in which a utility submits data regarding its operating costs for a "test year," with base rates being set in absolute dollar terms that encompass all such costs and provide for a fair rate of return, *see Business & Professional People*, 146 Ill. 2d at 237-38, the Commission has never been confined to that method. Rather, it may permit a utility to adjust rates to recover unique, fluctuating, or unexpected costs pursuant to a pre-determined process, outside of a general rate case, even though the exact amounts of such costs cannot be determined at the time the rate recovery mechanism is approved.

In *City of Chicago v. Illinois Commerce Comm'n*, 13 Ill.2d 607, 611 (1958), the Illinois Supreme Court explicitly recognized that "it is clear that the statutory authority to approve rate schedules embraces more than the authority to approve rates fixed in terms of dollars and cents," as is done in a general ratemaking case and that an adjustment mechanism can provide a more "accurate and efficient" means than a general rate case for tracking costs and matching them with rates. *Citizens Utility Board v. ICC*, 166 Ill. 2d 111, 139 (1995).

The Commission and courts have endorsed such mechanisms in a variety of contexts. *See Citizens Utility Board*, 166 Ill. 2d at 133 (upholding recovery of "coal tar clean up

expenditures” through a flexible “rider” mechanism, which the Court described as a mechanism that could “increase a rate, allowing the utility to recover the cost as it is incurred, alleviating the delay of waiting until the utility files a general rate case to recover expenses”); *City of Chicago v. ICC*, 281 Ill. App. 3d 617, 627-28 (1st. Dist. 1996) (upholding rider recovery of utility municipal franchise fees); *In re Illinois Power Co.*, No. 04-1294, 2004 WL 2208508, at *47 (ICC Sept. 22, 2004) (approving automatic adjustment clause for 90% of asbestos-litigation costs). Nor are they necessarily confined to situations involving “unexpected, volatile or fluctuating” costs. *See City of Chicago*, 281 Ill. App. 3d at 627-628 (local franchise fees). The Commission also has approved other rates that have been based simply on formulas utilizing objective data, including wholesale market price data. With respect to ComEd, these rate mechanisms have included “real time” pricing rates, the Rider PPO, and the Rates IPP and ISS.

The Ameren Companies' tariffs address precisely the type of cost that has been found appropriate for a special, pre-approved mechanism permitting utilities to adjust rates to recover justifiable, but presently unknown, expenditures. Utilities that no longer own generation assets must purchase wholesale energy to meet their retail service obligations. The cost of that energy cannot be known in advance (particularly if, as the General Assembly required, the “justness and reasonableness” of that cost is tied to its “market value,” 220 ILCS 5/16-112(a)). At the same time, utilities clearly are entitled to recover the cost of the very electricity that its retail customers use. The question facing the Commission, then, is how to limit utilities’ discretion and adequately protect consumers. The auction process incorporated in the Ameren Companies' tariffs thoroughly constrains such discretion by specifying exactly how wholesale power shall be procured, including by requiring that the lowest bid for a retail “tranche” be selected. Thus,

ratepayers necessarily are protected, while the Ameren Companies are ensured nothing more than recovery of their actual energy costs.

The Ameren Companies' proposed tariffs have effective dates of April __, 2005. Notwithstanding those effective dates, the Ameren Companies request that the Commission act promptly to suspend these tariffs under Section 9-201 of the Act and conduct an Article IX contested ratemaking proceeding in order to assure interested parties the opportunity to be heard.

List of Accompanying Exhibits

<u>Resp. Ex. No.</u>	<u>Description</u>
1.0	Direct Testimony of Warner L. Baxter
2.0	Direct Testimony of Craig D. Nelson
3.0	Direct Testimony of James C. Blessing
3.1	BGS-FP Supplier Forward Contract
3.2	BGS-LFP Supplier Forward Contract
3.3	BGS-LRTP Supplier Forward Contract
4.0	Direct Testimony of Robert J. Mill
4.1	Market Value Tariff (Rider MV)
5.0	Direct Testimony of Wilbon L. Cooper
5.1	Rider BGS – Basic Generation Service and Rider BGS-L – Basic Generation Service – Large
5.2	Rider RTP – Real Time Pricing and Rider RTP-L – Real Time Pricing Large
5.3	Rate Translation Prism Spreadsheet
5.4	Map of Service Classifications to Expected Post-2006 DS, TS, and BGS/RTP Applications
5.5	Prism Diagram
6.0	Direct Testimony of Dr. Chantale LaCasse
6.1	List of Countries Using Auction to Sell Spectrum
6.2	List of FCC Simultaneous Multiple Round Auctions
6.3	New Jersey BGS-FP Auction Suppliers by Year (Quantity)
6.4	New Jersey BGS-FP Auction Suppliers by Year (Entities)

- 6.5 New Jersey 2002 BGS-FP Auction Results
- 6.6 New Jersey 2003-04 BGS-FP Auction Results
- 6.7 Clock Auction Process Chart
- 6.8 Round Progression Diagram
- 6.9 Competitive Procurement Auction Rules
- 7.0 Direct Testimony of Johannes Pfeifenberger
- 7.1 Qualifications of Johannes Pfeifenberger
- 7.2 Article - “Keeping up with Retail Access? Developments in U.S. Restructuring and Resource Procurement for Regulated Retail Service”
- 8.0 Direct Testimony of Steven Fetter
- 8.1 Qualifications of Steven Fetter
- 8.2 Excerpt from Power Supply Contract
- 8.3 S&P Report: “‘Buy Versus Build’: Debt Aspects of Purchased-Power Agreements”
- 8.4 Presentation: “Fitch Global Power Methodology and Criteria – Debt-Like Obligations and Contracts Other Than Funded Debt.”
- 9.0 Direct Testimony of Ronald McNamara