

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. \_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**CRAIG D. NELSON**

**Submitted On Behalf**

**Of**

**CENTRAL ILLINOIS LIGHT COMPANY  
CENTRAL ILLINOIS PUBLIC SERVICE COMPANY  
ILLINOIS POWER COMPANY**

**February 28, 2005**

**TABLE OF CONTENTS**

I. INTRODUCTION AND SUMMARY ..... 1

II. BACKGROUND ..... 3

III. SUMMARY OF THE AMEREN COMPANIES' PROPOSAL ..... 16

IV. BENEFITS OF THE POST-2006 PROPOSAL ..... 30

V. CONSISTENCY OF AMEREN'S PROCUREMENT PROPOSAL WITH  
FERC AFFILIATE TRANSACTION REQUIREMENTS ..... 38



25 awarded by Southern Illinois University - Edwardsville. I am a Certified Public  
26 Accountant.

27 **Q. Please describe your qualifications.**

28 A. I worked for Arthur Andersen & Co. from 1977 to 1979, when I joined Central  
29 Illinois Public Service Company as a Tax Accountant. In 1979, I was promoted  
30 to Income Tax Supervisor. I served in various tax and accounting positions until  
31 1985 when I was appointed Assistant Treasurer. In 1989, I became Treasurer and  
32 Assistant Secretary, a position I held for seven years. In 1996, I was elected Vice  
33 President of Corporate Services. After Union Electric and CIPSCO merged, I was  
34 named Vice President, Merger Coordination for Ameren Services effective  
35 December 31, 1997. In 1998, I assumed the additional responsibility of Vice  
36 President of Regulatory Planning. Effective June 1, 1999, I was appointed Vice  
37 President, Corporate Planning. Most recently, effective October 15, 2004, I was  
38 appointed Vice President, Strategic Initiatives.

39 **Q. Please describe your duties and responsibilities as Vice President, Strategic  
40 Initiatives.**

41 A. My duties and responsibilities include Ameren's business and corporate services  
42 initiative, Ameren's post-2006 initiative and power supply acquisition for  
43 Ameren's utility companies..

44 **Q. What is the purpose of your testimony?**

45 A. I am testifying on behalf of AmerenCIPS, AmerenCILCO, and AmerenIP (the  
46 "Ameren Companies" or the "Companies"). The purpose of my testimony is to  
47 present an overview of the Ameren Companies' proposed revisions to its

48 determination of market value, and how that market value will be reflected in  
49 rates at the end of the mandatory transition period. In this regard, I will discuss  
50 how the Ameren Companies propose to supply and structure their post-2006  
51 regulated electric service offerings to their remaining native load. (I will explain  
52 how current Illinois customers of AmerenUE will be affected by this proposal.)  
53 In particular, my testimony will: (1) discuss the market developments, regulatory  
54 requirements and state policy initiatives in response to which the Ameren  
55 Companies developed their market value rider and procurement proposal; (2)  
56 summarize the competitive procurement process we propose to obtain supply to  
57 full requirements service at regulated rates, how the price the Companies pay for  
58 this supply reflects market value, and how the costs of supply will be reflected in  
59 bundled retail rates; (3) summarize the benefits of our proposal; and (4) explain  
60 why our proposal also is fully consistent with federal standards governing power  
61 purchases from affiliated generation companies.

62 **II. BACKGROUND**

63 **Q. Why are the Ameren Companies filing for Commission approval of revised**  
64 **tariffs that reflect an auction-based competitive procurement approach ?**

65 A. As Mr. Warner Baxter explains in his direct testimony, we are filing our proposal  
66 for a post 2006 competitive procurement process and post 2006 retail tariff for  
67 bundled service rates in response to several interrelated market developments,  
68 regulatory requirements and state policy initiatives:

69 1. January 1, 2007 marks the statutory end of the “mandatory transition  
70 period” provided under the Electric Service Customer Choice and Rate  
71 Relief Law of 1997 (the “Customer Choice Law”), which means, among

72 other considerations, that both the restructuring-related retail rate freezes  
73 and the long-term power supply contracts of the Ameren Companies  
74 expire, recognizing as well that the Ameren Companies (with very limited  
75 exceptions) no longer own generation in Illinois;

76 2. As a condition to its acquisition of AmerenCILCO, Ameren Corp.  
77 committed to work with the Commission Staff to develop a competitive  
78 procurement process for the supply of the native load of AmerenCILCO  
79 and AmerenCIPS;

80 3. The regional wholesale market structure continues to evolve successfully,  
81 and provides a meaningful opportunity to implement a highly transparent,  
82 competitive procurement process;

83 4. The Federal Energy Regulatory Commission (“FERC”) has imposed  
84 increasingly stringent conditions on how utilities can purchase power from  
85 affiliated generation companies, which makes it less likely that  
86 distribution companies can simply turn to their affiliates for supply as they  
87 could and did in the past; and

88 5. Substantial guidance was provided through the Commission’s Post 2006  
89 Initiative, our additional discussions with stakeholders and outside experts,  
90 and the review of other restructured states’ experience with addressing  
91 similar procurement and ratemaking challenges.

92           A.     *The Statutory End of the Transition Period*

93    **Q.     Please explain in more detail the implications of the Customer Choice Law**  
94           **and how the end of its statutory “transition period” affects the rates and**  
95           **supply contracts of the Ameren Companies.**

96    A.     The Customer Choice Law initiated: (1) the opportunity for customers to purchase  
97           power from the supplier of their choice; (2) a restructuring of the State’s electric  
98           power industry; and (3) a transition toward delivery service unbundling and  
99           greater reliance on market forces to determine how electric power and energy  
100          would be provided to retail customers who remain with the utility. As the  
101          Commission’s recent report on its Post 2006 Initiative to Governor Blagojevich  
102          explains, the Customer Choice Law’s transition to market forces resulted in  
103          “dramatic and positive changes” that have occurred in the industry:

- 104                   •     “Residential customers have benefited from one of the largest and  
105                           longest rate reductions, and today are paying 20% less than they  
106                           paid for electricity in 1994. The total savings statewide are  
107                           estimated to be 3.5 billion dollars.
- 108                   •     Many new entities have entered Illinois to compete for electric  
109                           supply. Customers have been given the power of choice, and have  
110                           selected these alternative retail electric suppliers (‘ARES’).
- 111                   •     Many industrial and commercial customers have realized  
112                           significant savings from selecting the Power Purchase Option  
113                           (‘PPO’) or an ARES; some indicate that these savings have helped  
114                           them to keep their business in Illinois rather than move to a lower  
115                           cost state.
- 116                   •     Statewide service reliability has improved dramatically.
- 117                   •     Over 9000 MWs of new generation has been built in Illinois by  
118                           private investors. These investors, and not customers, have  
119                           mustered the capital to build these plants and have borne the risk of  
120                           cost overruns as well as the potential of uneconomic results in  
121                           stranded costs.

122                   •       Illinois utilities have restructured operations by divesting  
123                               generation, and have become more productive and efficient in  
124                               order to face the emerging competitive marketplace.”<sup>1</sup>

125           Illinois now approaches the end of its first phase of restructuring. In particular,  
126           January 1, 2007 specifically marks: (1) the end of the “transition charges”  
127           imposed on unbundled retail rates of several Illinois utilities; (2) the end of the  
128           rate freeze for bundled retail service that was imposed on all major utilities; and  
129           (3) the end of the long-term supply contracts that most Illinois utilities entered  
130           into when, consistent with the Customer Choice Law’s requirements and/or  
131           Illinois Commerce Commission (“Commission”) rules, they sold or spun off their  
132           generating assets as part of the restructuring process. The resulting challenges  
133           include the post-2006 replacement of expiring power purchase contracts that  
134           currently supply the utilities’ regulated service options, the structure of these  
135           regulated retail service options after 2006, and the nature of utilities’ post-2006  
136           service obligations.

137                   In response to these challenges, the Ameren Companies’ current filing  
138                   specifically addresses: (1) how they will procure power for their regulated service  
139                   offerings to achieve the lowest possible, most competitive price; (2) how their  
140                   bundled retail rates will be structured to result in stable but market-based prices;  
141                   and (3) how they will recover their prudently-incurred, market-based procurement  
142                   costs fairly from each customer class. I will discuss each of these items in Section  
143                   III of my testimony.

---

<sup>1</sup> Final Report of the Illinois Commerce Commission’s Post 2006-Initiative to Governor Rod. R. Blagojevich and the Illinois General Assembly, December 2004, p. 1.

144 **B. *Ameren's Central Illinois Light Company Commitment ("CILCO***  
145 ***Commitment")***

146 **Q. Please explain the nature of Ameren Corp.'s CILCO commitment.**

147 A. As a condition to its 2002 acquisition of CILCORP Inc., the parent of Central  
148 Illinois Light Company (now d/b/a AmerenCILCO), Ameren Corp. committed to  
149 work with the Commission Staff to develop a competitive procurement process  
150 for supply of the native load of AmerenCILCO and AmerenCIPS subsequent to  
151 the December 31, 2006 expiration of their supply arrangements with Ameren  
152 generation and marketing affiliates.<sup>2</sup> (Ameren Corp. had not yet acquired  
153 AmerenIP.) In making the commitment to utilize a competitive procurement  
154 process, Ameren Corp. also agreed to cause AmerenCILCO and AmerenCIPS to  
155 seek approval from the Commission for such a procurement process, which would  
156 exclude sole supplier arrangements unless specifically authorized by the  
157 Commission.

158 **Q. What has Ameren Corp. done to comply with this commitment?**

159 A. To satisfy its CILCO commitment, Ameren Corp. started to meet with Staff to  
160 explore options for a competitive procurement process in late 2003. In early  
161 2004, Ameren Corp. integrated its efforts under the CILCO commitment with the  
162 Commission's Post 2006 Initiative and has developed a procurement proposal that  
163 is consistent with the recommendations received from Staff, the Post 2006  
164 process, and additional stakeholder meetings. As I will explain, the Ameren

---

<sup>2</sup> Ameren's RFP commitment is set out in Section F of Appendix A to the Commission's order in Case 02-0428, December 4, 2002. Consistent with the Commission's restructuring policies and orders, supply arrangements of CIPS and CILCO with Ameren generation and marketing affiliates will expire on December 31, 2006.

165 Companies have developed a proposal consistent with the provisions of the  
166 Customer Choice Law that cap power costs as a function of market value (*i.e.*,  
167 Sec. 16-111(i)).

168 **Q. Is the Ameren Companies' proposed procurement process consistent with**  
169 **the CILCO Commitment?**

170 A. Yes. The Ameren Companies have developed a competitive procurement process  
171 for Commission approval as required under the conditions imposed on the CILCO  
172 acquisition. However, in developing its proposal, the Companies have taken into  
173 account two important developments. First, retail choice has reduced the demand  
174 for the Ameren Companies' regulated supply offerings (e.g., "bundled service")<sup>3</sup>  
175 and is expected to continue to reduce the scope of the utilities' power  
176 procurement needs as additional customers switch from regulated service to  
177 alternative retail suppliers. As the Commission's electric switching statistics  
178 show, consistent with the experience in other retail access states, ARES have  
179 made significant inroads in the supply of Illinois retail electric customers,  
180 particular in the large customer segment.<sup>4</sup> For example, as of December 2004, a  
181 total of 32% of the MWh load of large commercial and industrial customers in the  
182 AmerenCIPS service area were served by registered RES (including Ameren  
183 Energy Marketing Company ("AEM")). For AmerenIP, 48% of large customers'

---

<sup>3</sup> The term "bundled service" generally is used in the context of the Ameren Companies' current or post-2006 obligation to provide customers with regulated service options that include both the generation and wires portions of retail supply. Today these regulated service options typically include the utilities' bundled service, a power purchase option, and interim supply service among others.

<sup>4</sup> See "Electric Switching Statistics" as posted at <http://www.icc.state.il.us/cc/switchstats.aspx>.

184 December 2004 load was served directly by alternative retail suppliers.<sup>5</sup>  
185 Although the utilities remain the supplier of last resort for all retail customers  
186 served through their distribution system, the successful introduction of retail  
187 access has reduced, and is expected to reduce further, the power supply obligation  
188 under their bundled service offerings. Consistent with these regulatory  
189 requirements, the Ameren Companies will continue to provide customers with  
190 regulated service options.

191 Second, the scope of procurement needs for post-2006 supply of bundled  
192 service has increased due to Ameren Corp.'s acquisition of AmerenIP and the  
193 pending transfer of the Illinois service territory of AmerenUE-Illinois ("Metro  
194 East") to AmerenCIPS. Although not specifically addressed in the CILCO  
195 commitment, Ameren Companies propose to include both the regulated supply  
196 needs of AmerenIP and Metro East in the competitive procurement process.

197 **Q. What is the status of AmerenUE's transfer of Metro East to AmerenCIPS?**

198 A. The Commission has approved the transfer of the Metro East plant and business  
199 to AmerenCIPS. The Missouri Public Service Commission, by its order of  
200 February 10, 2005, has also approved the transfer. I anticipate that the transfer  
201 will be completed later this year.

---

<sup>5</sup> In addition, a significant portion of AmerenIP's and Commonwealth Edison Company's ("ComEd's") customers have selected the "Power Purchase Option," which is a regulated supply service whose priced is based on a market value index.

202 *C. Procurement Opportunities Created by Restructured Wholesale Markets*

203 **Q. Please explain how opportunities to implement a highly transparent and**  
204 **competitive procurement process are provided by the regional wholesale**  
205 **market structure.**

206 A. It is important to recognize that the post-2006 procurement for Illinois utilities’  
207 regulated service will occur in a substantially evolved wholesale market structure.  
208 The Ameren Companies have already completed the transfer of operational  
209 control over their transmission facilities to the Midwest Independent  
210 Transmission System Operator (“MISO”), one of the two large Regional  
211 Transmission Organizations (“RTOs”) that serve Illinois. MISO is in process of  
212 starting up its hourly energy markets, which are subject to FERC-approved  
213 market power mitigation procedures. The introduction of these energy markets,  
214 along with MISO-PJM seams coordination and the creation of central/southern  
215 Illinois as a MISO trading hub, significantly increase the competitive procurement  
216 options available to meet the Ameren Companies’ post-2006 supply obligations.

217 With the introduction of energy markets, MISO will also facilitate  
218 competitive procurement through greatly improved transmission access and  
219 generation deliverability standards. For example, as currently planned, starting on  
220 April 1, 2005, all MISO-internal transactions will be able to utilize network  
221 integration transmission service (“network service”), including transactions that  
222 span multiple control areas. Also, external resources will only need to obtain firm  
223 service to a MISO boundary and, although such scheduling requirements remain  
224 for imports from PJM, the MISO-PJM seams coordination effort has already

225 resulted in the elimination of through-and-out rates between the two RTOs.  
226 Moreover, MISO has completed the preliminary generation deliverability  
227 analyses for its Day 2 energy market and resource adequacy standard. As  
228 explained by Mr. Ronald McNamara in his direct testimony in support of this  
229 filing, MISO identified over 120,000 MW of generating capacity from designated  
230 network resources that will be deemed deliverable (through network service) for  
231 the purpose of satisfying participants' resource adequacy requirements within the  
232 entire MISO footprint, including central and southern Illinois. All generating  
233 units, even those that have not yet passed MISO's deliverability test, will be able  
234 to participate in the MISO energy market, subject to MISO's market-based  
235 congestion management process. In this market structure, MISO will evolve to be  
236 the primary provider of ancillary services to both retail and wholesale power  
237 providers in the region and will introduce centralized markets for capacity and  
238 ancillary services over the course of the next two years. Mr. McNamara's direct  
239 testimony addresses these market developments in more detail.

240 These developments substantially enhance the efficiency and  
241 competitiveness of post-2006 power procurement for retail customers in Illinois.  
242 The progress made to date on MISO-PJM market structure initiatives ensures the  
243 feasibility and competitiveness of the proposed auction-based procurement of the  
244 Ameren Companies' post 2006 supply obligations, and additional developments  
245 will serve to further enhance the procurement process.

246 **D. FERC Affiliate Transaction Standards**

247 **Q. You also mentioned FERC standards for inter-affiliate power sales. Why are**  
248 **these standards an important consideration in the design of any post-2006**  
249 **procurement proposal?**

250 A. FERC's affiliate sales standards impose stringent conditions on how a  
251 procurement process needs to be structured. These federal standards, which  
252 would apply to *any* post-2006 procurement process, require that utilities'  
253 procurement processes involving potential purchases from affiliated suppliers  
254 must be highly transparent and managed independently. I address these  
255 standards, which have evolved considerably since Ameren Corp. first committed  
256 to utilize competitive procurement process during the CILCORP acquisition, in  
257 more detail in Section V of my testimony. As I also explain in that Section, the  
258 proposed competitive procurement process fully satisfies these requirements.

259 **E. Guidance Provided by Commission's Post-2006 Initiative, Stakeholders,**  
260 **and outside Experts**

261 **Q. What was the Ameren Companies' role in the Commission's Post-2006**  
262 **Initiative?**

263 A. The Ameren Companies have been very active participants in the workshops that  
264 the Commission organized to address the identified post-2006 challenges. Since  
265 the issues that the Ameren Companies have already been working on under its  
266 CILCO commitment were essentially the same as those addressed in the  
267 Post-2006 Initiative, the Ameren Companies have been able to contribute  
268 constructively to this process from the very beginning. In fact, at the very first

269 Post-2006 Initiative workshop I presented research performed by in-house and  
270 outside experts to identify and evaluate available competitive procurement  
271 options based on the experience from other restructured states.<sup>6</sup> Since that initial  
272 meeting, the Ameren Companies have fully participated in and contributed to  
273 each of the six Post-2006 Working Groups: procurement, rates, competitive  
274 issues, utility service obligations, energy assistance, and implementation.

275 **Q. How has the Post-2006 Initiative influenced the procurement and retail rate**  
276 **proposal that the Ameren Companies have filed?**

277 A. The Ameren Companies have designed their market value measurement and  
278 procurement proposal to take into account the insights and recommendations that  
279 resulted from the Post-2006 Initiative. For example, as the Post-2006 Staff  
280 Report also notes, the Procurement Working Group developed a list of 18  
281 desirable characteristics for selecting a post 2006 procurement process, which  
282 Staff summarized into five overarching policy goals: “(a) mitigation of market  
283 structure problems, (b) provision of regulatory certainty for suppliers and utilities,  
284 (c) provision of market based prices and rate stability, (d) provision of a  
285 straightforward mechanism to convert supply acquisition costs into retail rates  
286 using traditional rate design, and (e) provision of a working option by January  
287 2007.”<sup>7</sup> As I will discuss in further in Section IV of my testimony, based on the  
288 discussions in the Commission’s Post 2006 workshops and additional input from  
289 Staff, other stakeholders, and consultants, the proposed auction-based

---

<sup>6</sup> Craig Nelson, *Power Procurement Post 2006*, April 29, 2004 (as posted at <http://www.icc.state.il.us/ec/docs/040503ecPostNelson.pdf>)

<sup>7</sup> Post 2006 Staff Report, pp. 3, 7 and 12.

290 procurement approach was designed so it would to best satisfy these five  
291 overarching policy goals and the identified 18 desirable characteristics. In  
292 particular, the proposed auction-based competitive procurement process is also  
293 consistent with the “Staff’s preferred procurement method”, which, as Staff  
294 recognizes, not only “assures full transparency to all stakeholders” but also “is  
295 expected to come the closest” of any procurement approaches to address the  
296 concerns of Staff and other parties.<sup>8</sup>

297 **Q. How have the Ameren Companies solicited input from stakeholders and**  
298 **outside experts?**

299 A. The Ameren Companies first met with experts from The Brattle Group in  
300 February 2004 to review the procurement models used and the experience gained  
301 from other restructured states that have already addressed similar procurement  
302 and ratemaking challenges. This review showed that the general structure of our  
303 proposal competitive procurement approach is used in many restructured states  
304 and almost exclusively in restructured states similar to Illinois. I presented the  
305 insights from this review of other states’ procurement models at the April 29,  
306 2004 workshop. Mr. Hannes Pfeifenberger’s testimony further discusses this  
307 review of procurement approaches in other states, a summary of which has also  
308 been published as an article in *The Electricity Journal*.<sup>9</sup> We also sponsored the  
309 June 3, 2004 Procurement Working Group presentation of the competitive

---

<sup>8</sup> Post 2006 Staff Report, pp. 9-10.

<sup>9</sup> Pfeifenberger *et al.*, “Keeping up with Retail Access? Developments in U.S. Restructuring and Resource Procurement for Regulated Retail Service,” *The Electricity Journal*, December 2004, pp. 50-63.

310 procurement model used in Maryland, which in many ways is structured very  
311 similar to the New Jersey model.

312 The review of the experience in other restructured states also showed that  
313 the same procurement method frequently is used by all major utilities within a  
314 State. Through the Procurement Working Group's discussion of the approaches  
315 used by the utilities in Maryland and New Jersey it also became apparent that  
316 these two models have found the support of a broad and diverse group of  
317 stakeholders. Through these discussions it became apparent to us that the  
318 procurement approach utilized in New Jersey was uniquely suited to address the  
319 identified post-2006 challenges in Illinois, satisfy the procurement characteristics  
320 identified by the Procurement Working Group, and also meet FERC's standards  
321 for power purchases from affiliates. Through our participation in the other Post  
322 2006 Initiative working groups, it also became clear that the New Jersey  
323 procurement approach would be able to address many of the issues identified and  
324 discussed by the other Post 2006 Working Groups.

325 **Q. Have you utilized additional stakeholders' input in the development of its**  
326 **procurement process?**

327 A. Yes. We repeatedly solicited input from Staff, Commonwealth Edison Company,  
328 the manager of the New Jersey auction, regional power suppliers, industrial  
329 customers, consumer representatives and the Attorney General's office. In June  
330 2004, we met with the manager of the New Jersey auction, Chantale LaCasse of  
331 National Economics Research Associates ("NERA"), who is testifying in this  
332 proceeding, to discuss the feasibility of applying the New Jersey model in Illinois.

333 We subsequently developed a whitepaper, "Post 2006 Guidelines and Ameren  
334 Competitive Procurement Proposal," that synthesized the guidance and insights  
335 we had obtained at that point.

336 On several occasions from June through September 2004, the Ameren  
337 Companies met to discuss their post-2006 guidelines and competitive  
338 procurement proposal with the ICC Staff, potential wholesale suppliers of post-  
339 2006 service (including, among others, Dynegy, Midwest Gen, Morgan Stanley,  
340 Calpine, Goldman Sachs, Select Energy, Constellation, Ameren Energy  
341 Marketing, and Exelon Generation), as well as the consumer representatives,  
342 industrial customers and the Attorney General's office, as mentioned above.  
343 Several of these meetings with Staff and other stakeholders also included ComEd  
344 and Dr. LaCasse.

345 Based on the feedback from these stakeholder meetings, we first updated  
346 our whitepaper in early September and, with further guidance through the  
347 Commission's Post-2006 Initiative process and additional feedback from Staff  
348 and the other stakeholders, developed the details of the procurement and retail  
349 rate proposals that we present in this filing. The auction process itself was  
350 designed by Dr. LaCasse based on the Illinois market structure and her experience  
351 with developing similar auctions in New Jersey and Ohio. The auction process  
352 and its development is discussed in more detail in Dr. LaCasse's testimony (Resp.  
353 Ex. 6.0).

354 **III. SUMMARY OF THE AMEREN COMPANIES' PROPOSAL**

355 **Q. What is the essence of your filing?**

356 A. In essence, “market value” would be based on the results of a Commission-  
357 approved Competitive Procurement Auction (“CPA”) process and methodology  
358 used to translate the Auction outcome into class-specific retail values. Retail rates  
359 for Basic Generation Service (“BGS”) would reflect the “translated” market  
360 values. We hope to receive regulatory approval no later than January 2006. An  
361 order in this time frame is needed so that the independent Auction Manager has  
362 sufficient time to prepare the auction. Upon approval, the Auction Manager would  
363 immediately prepare to hold the first auction for BGS supply in May 2006. Under  
364 our procurement proposal, the Commission would monitor the auction with the  
365 help of Staff and an independent Auction Advisor retained by the Commission,  
366 and, if conducted in accordance to the pre-specified process, the Commission  
367 would confirm its results within a few days after close of the auction. The price  
368 of the awarded BGS contracts would then be reflected in the BGS component of  
369 bundled retail rates based on the pre-specified, Commission-approved rate  
370 allocation methodology. The market value would be subject to periodic  
371 adjustment, as provided for in the Customer Choice Law. Mr. Robert Mill and  
372 Mr. Wilbon Cooper elaborate further on the rate treatment.

373 To implement this process, the tariff filing addresses three closely  
374 interrelated aspects of the Companies’ post-2006 bundled service offerings: (1)  
375 how they will procure power in wholesale markets for their regulated service  
376 offerings to achieve the most competitive price; (2) how the bundled retail rates of  
377 regulated service offerings will be structured to result in stable but market-based  
378 prices for utility-provided energy; and (3) how they propose to recover their

379 prudently-incurred procurement costs. I will also explain in this section of my  
380 testimony the customer protection measures built into this proposal and its  
381 consistency with other State policy considerations.

382 *A. Competitive Procurement Process for Post-2006 Supply Requirements*

383 **Q. How do the Ameren Companies propose to procure wholesale supply for**  
384 **their Post-2006 bundled service offerings?**

385 A. The testimony of Dr. LaCasse and Mr. James Blessing explain the procurement  
386 process in more detail and the filed procurement-related documents—the Market  
387 Value Tariff, the Competitive Auction Procurement Rules, and the BGS Supplier  
388 Forward Contracts—contain the full specification of the proposed process.

389 In summary, the Companies<sup>10</sup> propose to use the filed auction process to  
390 procure energy and other services from wholesale suppliers for three categories of  
391 full requirements products: (1) fixed-priced BGS for residential and small  
392 business customers (“BGS-FP”); (2) fixed-priced BGS for large business  
393 customers (“BGS-LFP”); and (3) a fixed-price capacity product that, combined  
394 with spot purchases of energy from MISO, provides real-time pricing of energy  
395 for large business customers (“BGS-Large Service Real-Time Pricing” or “BGS-  
396 LRTP”). To provide additional price stability for residential and small business  
397 customers, BGS-FP supply will be procured through overlapping three-year  
398 contracts where approximately one third of the BGS-FP load is auctioned on an  
399 annual basis.

---

<sup>10</sup> Owing to the pending Metro-East transfer, AmerenUE will not be an Illinois distribution company when the delivery of BGS begins.