

1 ILLINOIS COMMERCE COMMISSION

2 DOCKET NOS. 00-0259, 00-0395, and 00-0461 (cons.)

3 PREPARED REBUTTAL TESTIMONY OF

4 PHILLIP G. BREEZEEL

5 SEPTEMBER 12, 2000

6 ILLINOIS POWER COMPANY

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WITNESS PHILLIP G. BREEZEEL
DATE 10-3-00 REPORTER ob

7 I. INTRODUCTION AND PURPOSE

8 1. Q. Please state your name and business address.

9 A. My name is Phillip G. Breezeel. My business address is 500 S. 27th
10 Street, Decatur, IL 62525.

11 2. Q. Are you the same Phillip G. Breezeel that submitted direct testimony in
12 this case?

13 A. Yes.

14 3. Q. What is the purpose of your rebuttal testimony?

15 A. I will acknowledge three specific points of agreement with ICC Staff
16 witnesses Zuraski and Christ. I will also address two issues raised by
17 IIEC witness Stephens and two additional issues raised by ICC Staff
18 witness Zuraski.

19 II. POINTS OF AGREEMENT WITH ICC STAFF WITNESSES

20 4. Q. What are the points of agreement that you wish to acknowledge?

21 A. 1) I am encouraged by the fact that Staff witness Zuraski has
22 recommended that the "into Cinergy" market is more appropriate for
23 Illinois Power than an "into ComEd" market. 2) I am also encouraged

24 that Staff witness Christ has concluded that the basis adjustment
25 methodology proposed by Illinois Power is superior to other
26 methodologies evaluated. 3) Illinois Power supports Mr. Zuraski's
27 recommendation that each utility should have a separate index. Any
28 benefit that is assumed through the adoption of a single index is more
29 than offset by the inherent error which will result from forced
30 uniformity. It is important to recognize the inherent basis difference
31 which exists between various regions and the differing administrative
32 systems of each of the utilities. What works for Illinois Power may not
33 work for ComEd or Ameren. For example, IP's rolling 12 month
34 calculation of market value provides benefits to customers and the
35 Company, but ComEd and Ameren favor performing a market value
36 calculation twice a year. A twice a year calculation is certainly better
37 than using the NFF value, and even better yet is IP's 12 market value
38 calculations per year. Yet, establishing 12 market calculations per year
39 may be unworkable for ComEd and Ameren, and it should not be forced
40 upon them.

41 III. REBUTTAL OF IIEC WITNESS STEPHENS

42 5. Q. What are the two issues raised by the IIEC that you will address?

43 A. First, I will address the Mr. Stephens' contention that Illinois Power
44 should offer the Power Purchase Option ("PPO") when a customer is not
45 paying a transition charge. Second, I will address the 2000 Neutral Fact-
46 Finder ("NFF") process.

47

48 6. Q. In your direct testimony you stated that you were familiar with the
49 Customer Choice and Rate Relief Law of 1997 ("Customer Choice
50 Law").

51 A. Yes, that is correct.

52 7. Q. Could you please briefly describe how you gained your familiarity with
53 the Customer Choice Law?

54 A. Yes. During the negotiating stages prior to the law being passed by both
55 houses and signed by the governor, I was involved on a full-time basis
56 developing strategy and analyzing alternative language and provisions
57 related to the bill being consider by the house and senate. I also
58 participated in many of the negotiating sessions. Since the time that the
59 bill was signed into law, I have been involved on numerous occasions
60 with the application/implementation of the law at Illinois Power.

61 8. Q. Was the Power Purchase Option ("PPO") provision included in the bill
62 when it was originally introduced into the legislature?

63 A. No, it was not.

64 9. Q. Was the PPO intended to be the primary vehicle or focal point of
65 competition in Illinois?

66 A. No, it was not.

67 10. Q. ~~What was your recollection of~~ ^{was} Why the PPO ~~was~~ added?

68 A. ~~My recollection is that~~ The PPO was ~~negotiated~~ ^{was} for the purposes of
69 allowing customers who did not want participate in the true competitive

70 market place to potentially benefit from lower prices while maintaining
71 the safety net of being served by their incumbent utility and to allow
72 customers to have a proxy of competitive choice, even if there were
73 transmission constraints whereby that customer could not have access to
74 the market.

75 11. Q. What is the primary vehicle of competition in Illinois Power's territory
76 today?

77 A. As of the end of August, Illinois Power only had one customer that was
78 purchasing power and energy from a third party. All the rest of the
79 customers that have exercised "choice" are on the PPO.

80 12. Q. Do you wish to comment on Mr. Stephens' contention that Illinois
81 Power should offer the PPO to customers who are not paying a transition
82 charge?

83 A. Yes. Illinois Power does not believe that a utility is required to offer
84 PPO to customers that are not paying a transition charge. Illinois Power
85 will provide its legal position on this policy in its briefs in this case.
86 However, also from a policy standpoint, the IIEC's position should be
87 rejected. First, the PPO was never intended as the primary means of
88 implementing choice in Illinois. Attempts to enhance the PPO to the
89 detriment of other competitive offerings are counter to the development
90 of competition. Second, as Mr. Zuraski notes (at p. 12) in his discussion
91 of how to interpret a zero CTC, "...a zero CTC implies that the average
92 customer in the class is already getting a bargain relative to the market."

93 To extend this point, for all customers with a load of 100 kw or greater
94 (i.e., has an individually calculated transition charge), each customer
95 with a zero transition charge is getting a bargain relative to the market.
96 Thus, there is no basis in the law to provide these customers with an
97 even better deal. Finally, the PPO and TC language in the Customer
98 Choice Law were all part of a carefully crafted balance. Altering the
99 meaning of this language and, thereby, upsetting the balance is not
100 appropriate.

101 13. Q. Do you wish to comment about the 2000 NFF process?

102 A. Yes.

103 14. Q. Please, go ahead.

104 A. Mr. Stephens stated at page 11 that "The Companies may change some
105 of their opinions as a result of the 2000 NFF report." Nothing could be
106 further from the truth. The 2000 NFF process is flawed just as previous
107 NFF efforts have been. The direct testimony of Commonwealth Edison
108 witnesses Crumrine and Nichols, beginning with the sixth question and
109 answer (which begins on page 3) continuing through the eighth question
110 and answer (which ends on page 6), provides a very succinct summary
111 of the flaws that continue with the 2000 NFF process. Some of this is
112 expanded upon in Messrs. Jones and Peters rebuttal testimony.

113 IV. REBUTTAL OF ICC STAFF WITNESS ZURASKI

114 15. Q. What are the two issues raised by ICC witness Zuraski that you will
115 address?

116 A. First, I will address the Mr. Zuraski's comments regarding stimulating
117 competition by overestimating MVI. Second, I will address Mr.
118 Zuraski's assertion that RES' may face additional costs of doing
119 business that are not faced by a utility.

120 16. Q. Does IP have a concern with Mr. Zuraski's comments regarding the
121 stimulation of competition by overestimating MVI.

122 A. Yes. IP does not disagree that having a market value index above the
123 actual market would have the effect of stimulating competition. What
124 we want to point out here though is that this stimulation is the direct
125 result of the utilities (who are statutorily entitled to the Transition
126 Charges) in effect subsidizing competition through the undercollection
127 of TC's.

128 To see this, assume the MVI is artificially inflated by 2
129 cents/kWh (by means of inappropriate "adjustments") over the actual
130 market price. In this situation, utilities subsidize competition because
131 they (1) collect 2 cents/kWh less in TCs for each kWh sold, and (2)
132 cannot recover that loss in the market place because no one will buy the
133 "overpriced" energy. We feel that the focus of this proceeding should be
134 upon the establishment of a proper, accurate market value index
135 replacement for the severely flawed NFF process, rather than on
136 arbitrarily choosing to over or under estimate the value. Neither over
137 nor under estimation is in the public interest.

138 17. Q. Does a RES face additional costs of doing business that may not exist
139 for a utility?

140 A. Possibly, but we debate the merit of including any adjustment for them
141 here. As to any supposed additional costs of dealing with the utilities'
142 business practices and/or additional marketing costs, no one has shown
143 that these costs are greater than the credits for the utility's cost for
144 marketing expense, etc. which are already included in the calculation of
145 the TC. In fact, one could argue that, given that a given ARES may
146 operate in a much larger geographical region, is allowed to choose the
147 customers with which it desires to deal and may deal with a wide variety
148 of commodities and services beyond those traditionally offered or
149 contemplated by the traditional utility, the ARES actually has larger
150 economies of scale and lower overall marketing costs than that which is
151 included as a credit in the TC calculation.

152 18. Q. Does this conclude your rebuttal testimony?

153 A. Yes, it does.