

REBUTTAL TESTIMONY OF KOBY BAILEY

1
2 Q1. Please state your name and business address.

3 A1. Koby A. Bailey, 1844 Ferry Road, Naperville, Illinois 60563.

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NICOR ENERGY
Direct Testimony in this

Exhibit No. 2.0

4 Q2. Are you the same Koby Bailey who previously filed
5 proceeding?

Witness _____

6 A2. Yes.

Date 10-3-00 By *cal*

7 Q3. What is the purpose of your Rebuttal Testimony?

8 A3. My Rebuttal Testimony addresses the Testimonies of Messrs. Crumrine and
9 Nichols on behalf of Commonwealth Edison Company ("ComEd"), and briefly
10 touches on the testimonies provided by Ms. Munson on behalf of Central Illinois
11 Light Company ("CILCO"), and Mr. Stephens on behalf of the Illinois Industrial
12 Energy Consumers ("IIEC"). The central issue I'm addressing concerns ComEd's
13 and Central Illinois Public Service Company and Union Electric Company's
14 ("Ameren") A/B Period calculations, or Section IV(A) in the outline of issues
15 developed by the parties in the workshops. It is Nicor Energy's position that this
16 Period A/B method of calculating market values discourages competition during
17 certain times of year.

18 **IV. Time Period of Calculations**

19 **A. Applicable Period A/B**

20 Q4. How does the Period A/B method of calculating market values discourage
21 competition during certain times of year?

22 A4. Customers will begin to evaluate competitive options from now through 2001 and
23 beyond. However, customers electing the PPO option in ComEd's service

24 territory right now, and through the first four months of 2001, will utilize Period
25 B market values and corresponding CTC values. Providing customers with stable
26 pricing for a relatively short time period of four months or less does not instill
27 certainty in the market. Customers will only know the market value for this four-
28 month period along with their corresponding transition charges. I do agree with
29 Mr. Crumrine and Mr. Nichols on Page 7 of their joint testimony where they state
30 that: "Having a known value for a defined period allows customers to make
31 careful decisions and plan ahead." However, customers will not know what the
32 market value and corresponding CTC numbers will be through the remainder of
33 the year. Therefore, I take exception to ComEd's testimony that this A/B Period
34 pricing provides more certainty for customers considering delivery services. It is
35 this lack of certainty that causes me to conclude that the A/B Period method
36 discourages competition.

37 In addition, customer choice as it relates to the utility PPO option can vary
38 significantly if the election to receive the PPO is not made during the summer
39 months. To put it another way, customers are penalized by electing the PPO
40 option in non-summer months because of the Period B market values and
41 corresponding CTC charges.

42 Q5. Do you have any exhibits that illustrate this point?

43 A5. Yes. Attached to this testimony is Nicor Energy, L.L.C.'s Exhibits 2.1 – 2.6,
44 which demonstrate the discrepancy in CTC values and potential savings for two
45 different hypothetical customers in ComEd's service territory through the use of
46 the Period A/B methodology. These Exhibits are explained later in my testimony.

- 47 Q6. On pages 7 and 8 of ComEd's Testimony, Mr. Nichols and Mr. Crumrine state
48 that the Applicable Period A/B approach better incorporates the market
49 information necessary to send proper price signals. Do you agree with this
50 assertion?
- 51 A6. No. Period B fails to incorporate summer pricing, which affect summer CTC
52 values, which in turn affect the economics of choice by sending perverse
53 economic price signals to customers who want to choose competitive delivery
54 services in the non-summer seasons of the year. As full-nonresidential retail
55 choice commences January 1, 2001, customer confusion manifests with the lack
56 of a stable, forward looking market value and corresponding CTC charge for a
57 term that is effectively four months or less. A customer electing delivery services
58 immediately after acquiring eligibility is limited in certainty by the Period A/B
59 pricing methodology.
- 60 Q7. Do you agree with Messrs. Nichols and Crumrine that the use of nonsummer
61 applicable Period B values for those customers electing delivery services after the
62 summer period, ensures accurate price signals and limits gaming?
- 63 A7. No. With Period B not incorporating summer pricing, and the corresponding
64 higher market values associated with summer pricing, the high transition charges
65 for a given customer choosing the utility PPO option in non-summer times of year
66 gets penalized. To illustrate, attached as Nicor Energy L.L.C. Exhibits 2.1 though
67 2.6 demonstrate some discrepancies from the customer viewpoint related to
68 Period A/B pricing. For our purposes, we take two basic customers (X and Y),
69 with associated demands of approximately 600 kW and 2000 kW respectively,

70 with usage of 50% on-peak and 50% off-peak. Both these hypothetical customers
71 are located in ComEd's service territory, and the calculations assume these
72 customers begin with service on bundled rates, Rate 6 - Time of Day, and Rate 6
73 Large - Time of Day, respectively.

74 Q8. What do Exhibits 2.1 and 2.4 illustrate?

75 A8. Exhibit 2.1 shows the discrepancy in CTC rates the 600 kW customer will pay by
76 electing ComEd's PPO service on July 28th and July 29th 2000 respectively. The
77 dates, July 28th and July 29th, correspond to taking service under Period A versus
78 taking service under Period B. As suggested, Customer X will pay \$.01354 more
79 per kWh by electing the PPO option in period B versus electing the PPO option in
80 Period A. By taking the PPO option in period B in this scenario, Customer X will
81 pay an extra \$28,677.72 in transition charges versus taking the PPO with
82 corresponding Period A CTC values.

83 Similarly, Customer Y with a demand of approximately 2000 kW's will pay an
84 extra \$.01234 per kWh and an extra \$88,285.29 by taking the PPO in Period B
85 versus Period A.

86 Q9. What do Exhibits 2.2 and 2.5 illustrate?

87 A9. Exhibits 2.2 and 2.5 show the corresponding savings Customers X and Y can
88 expect to receive by electing the PPO option in periods A and B respectively.
89 Customer X will lose \$11,870.72 by electing the PPO in period B, while
90 Customer Y will lose \$38,959.54 by electing the PPO in period B.

91 Q10. What do Exhibits 2.3 and 2.6 illustrate?

92 A10. These exhibits show the breakdown for Customers X and Y in terms of usage
93 data, bundled rates and PPO charges for the A and B periods. These spreadsheets
94 comprise the information for the graphs contained in Exhibits 2.1, 2.2, 2.4 and
95 2.5.

96 Q11. What are your conclusions from the information contained in the Exhibits?

97 A11. ComEd's and Ameren's use of the A/B Period results in discrepancies in market
98 values and CTC values. This phenomenon is due to the fact that Period B market
99 values do not take summer pricing into account. I also disagree with the criticism
100 that updating market values only twice a year causes less customer confusion. I
101 would say that this deregulation process causes plenty of customer confusion
102 regardless of which method is utilized. However, I tend to have more faith in
103 customers and feel that they can adapt appropriately, or wait until the next month
104 to begin delivery services.

105 **IV. Time Period of Calculations**

106 **B. IP's 12-Month Rolling Calculation**

107 Q12. Do you agree that with CILCO Witness Munson and IIEC Witness Stephens that
108 the Illinois Power 12-month rolling calculation approach raises some logistical
109 issues such as DASR submittal and switching issues?

110 A12. Yes. Certainly, the Illinois Power proposal is not perfect and could use some
111 adjustments, some of which are identified by Mr. Stephens on page 15 of his
112 Direct Testimony. However, my point is this: Having a one-year market price
113 that is updated on a monthly basis is preferable to the disjointed A/B Period
114 proposals of the other two utilities. As suggested in my Direct Testimony,
115 uniformity in this area would be ideal for marketers, but there may be some
116 practical differences between utilities' operations that would constrict adopting