

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company,)	
d/b/a AmerenCILCO)	05-0160
)	(cons.)
Central Illinois Public Service Company,)	05-0161
d/b/a AmerenCIPS)	
)	
Illinois Power Company, d/b/a AmerenIP)	05-0162
)	
Proposals to implement a competitive)	
procurement process by establishing)	
Rider BGS, Rider BGS-L, Rider RTP,)	
Rider RTP-L, Rider D, and Rider MV.)	
(Tariffs filed on February 28, 2005))	
)	

**DIRECT TESTIMONY OF WILLIAM STEINHURST
ON BEHALF OF THE CITIZENS UTILITY BOARD**

CUB Exhibit 2.0

June 15, 2005

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1 **Direct Testimony of William Steinhurst**
2 on behalf of the Citizens Utility Board
3 ICC Dockets No. 05-0160, 05-0161, 05-0162
4
5

6 **I. INTRODUCTION**
7

8 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

9 A. My name is William Steinhurst, and I am a Senior Consultant with
10 Synapse Energy Economics (Synapse). My business address is 45 State Street,
11 #394, Montpelier, Vermont 05602.
12

13 **Q. ON WHOSE BEHALF DID YOU PREPARE THIS PREFILED**
14 **TESTIMONY?**

15 A: I prepared this testimony on behalf of the Citizens Utility Board.
16

17 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS?**

18 A: I have twenty-four years' experience in utility regulation and energy
19 policy, including work on renewable portfolio standards and portfolio
20 management practices for default service providers and regulated utilities, green
21 marketing, distributed resource issues, economic impact studies, and rate design.
22 Prior to joining Synapse, I served as Planning Econometrician and Director for
23 Regulated Utility Planning at the Vermont Department of Public Service, the
24 State's Public Advocate and energy policy agency. I have written or co-authored
25 numerous papers and reports on utility regulation, energy policy, statistics, and
26 modeling and provided consulting services to the Illinois Energy Office, the

27 Massachusetts Executive Office of Energy Resources, the Natural Resources
28 Defense Council, the Regulatory Assistance Project, the Delaware Public Service
29 Commission, the Nova Scotia Utility and Review Board, the Connecticut Office
30 of Consumer Counsel, the Maine Office of the Public Advocate, AARP, the
31 Conservation Law Foundation, the Vermont Auditor of Accounts, the James
32 River Corporation, and the Newfoundland Department of Natural Resources.

33 I have testified as an expert witness in approximately 30 cases on topics
34 including utility rates and ratemaking policy, prudence reviews, integrated
35 resource planning, demand side management policy and program design, utility
36 financings, regulatory enforcement, green marketing, power purchases, statistical
37 analysis, and decision analysis. I have been a frequent witness in legislative
38 hearings and represented the State of Vermont in numerous collaboratives
39 addressing energy efficiency, resource planning and distributed resources.

40 I was the lead author or co-author of Vermont's long-term energy plans
41 for 1983, 1988, and 1991, as well as the 1998 report *Fueling Vermont's Future:
42 Comprehensive Energy Plan and Greenhouse Gas Action Plan*, as well as
43 Synapse's study *Portfolio Management: How to Procure Electricity Resources to
44 Provide Reliable, Low-Cost, and Efficient Electricity Services to All Retail
45 Customers*.

46 I hold a B.A. in Physics from Wesleyan University, and an M.S. in
47 Statistics and Ph.D. in Mechanical Engineering from the University of Vermont.

48

49 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

50 A. My testimony will address the proposal by Illinois Power Company, doing
51 business as AmerenIP; Central Illinois Public Service Company, doing business
52 as AmerenCIPS; and Central Illinois Light Company, doing business as
53 AmerenCILCO (“together Ameren” or “the Companies”) to use a clearing price
54 auction for procurement of wholesale power to serve Basic Generation Service
55 (BGS) load in its service territory. I will begin by considering the heart of the
56 Companies’ request, namely that the Illinois Commerce Commission
57 (Commission, ICC) consider only one procedure for the procurement of power for
58 BGS customers after the transition period and, in approving that procedure,
59 relieve the Companies of any responsibility for the results of procurement if the
60 Companies follow that procedure. I argue that this request, while offering
61 hypothetical benefits to customers, is too narrowly tailored and should be rejected
62 because it cuts off Commission review of the broad range of options that should
63 be considered as Illinois steps out from the transition period.

64 I then consider witness Fagan's testimony on the state of the wholesale
65 markets and the implications for the Commission's consideration of the
66 Companies’ particular proposal, the clearing price auction proposal. In addition, I
67 discuss a number of other ways in which the Companies' auction proposal fails to
68 provide necessary protections for consumers. I then recommend that the
69 Commission reject the Ameren proposal and instead order the Companies to carry
70 out the necessary procurement under traditional ratemaking.

71 Following that, I will consider, in the alternative, how the proposed
72 auction process ought to be improved, should the Commission decide to authorize
73 a mechanism similar to that proposed by Ameren.

74

75 **II. REASONS FOR CONCERN WITH THE COMPANIES' REQUEST**

76

77 **Q. PLEASE GENERALLY DISCUSS THE COMPANIES' REQUEST TO**
78 **THE COMMISSION.**

79 A. The Companies' testimony and exhibits present a very narrow question to
80 the Commission and then examine in minute detail only one preferred answer to
81 that question. In focusing only on the issues of why an auction is better than other
82 types of procurement and of *how* the auction should be carried out, the
83 Companies' testimony skirts or brushes aside the threshold issues of (1) whether
84 to grant summary approval of the proposed shift to new procurement option--the
85 clearing price auction, (2) when and how the Commission should review the
86 prudence of prior actions by the Companies that have led us to the point of
87 apparently needing to rely on market-based procurement, and (3) whether to grant
88 the Companies' request to relieve it of any responsibility for power procurement
89 other than implementing the auction as defined.

90

91 **Q. PLEASE ILLUSTRATE HOW THE COMPANIES' FILING AND**
92 **REQUEST ARE NARROWLY FRAMED.**

93 A. The Companies' witnesses consider procurement and competitive issues
94 primarily within the limited, specific context of an auction for full requirement

95 supply. Little or no room is allowed in the Companies' picture of this proceeding
96 for consideration of rate impacts. The Companies merely make sweeping
97 assertions such as that the Companies' preferred approach "'is expected to come
98 the closest' of any procurement approaches to address the concerns of Staff and
99 other parties." Resp. Exhibit 2.0 at lines 294-296. I do not agree that the
100 Commission's options are so limited.

101

102 **Q. WASN'T THERE A CONSENSUS ON THE COMPANIES' PROPOSED**
103 **AUCTION APPROACH?**

104 A. No, there was not. Contrary to the testimony of witness Baxter, the
105 Procurement Working Group did not come to a consensus on a specific
106 procurement method. Cf. Resp. Exhibit 1.0 at lines 77-78. In light of this lack of
107 consensus, the litigation process should provide the Commission with a broad
108 view of the options and alternatives open to it. Ameren ignores this lack of
109 consensus.

110

111 **Q. IS THERE ANOTHER CONCERN WITH HOW THE COMPANIES**
112 **HAVE LIMITED OR NARROWED THE MATTER BEFORE THE**
113 **COMMISSION?**

114 A. Yes. In a broad sense, Ameren's focus on ensuring smooth, timely
115 implementation of the proposed auction avoids the more important questions of
116 what prices are likely to come out of the auction. Ameren fails to adequately
117 address consumers' exposure to rates set under extreme circumstances.

118 Additionally, there is little consideration of the Commission’s inability to protect
119 consumers from adverse outcomes in an auction. If auction anomalies are present
120 but not detected, or the region experiences severe price spikes at the time of the
121 auction, the Commission would be unable to protect consumers. Customers with
122 no supply alternatives would have no recourse.

123

124 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE REQUESTS MADE BY**
125 **THE COMPANIES?**

126 A. Yes, I do. The Commission faces two momentous decisions—the choice
127 of how to fashion a method for post-transition power procurement to serve Basic
128 Generation Service customers and the choice of mechanisms for the Companies’
129 cost recovery under that new power procurement system.

130 For decades, procurement has been the responsibility of the retail utility
131 and cost recovery has followed traditional rate making principles, including after
132 the fact review of whether the Companies’ costs were prudent and resulted in just
133 and reasonable rates. In this proceeding, the Companies have presented a single
134 option for the Commission's consideration, an option that relieves the Companies
135 of the greatest part of their responsibility for the results of its power procurement
136 decision. The Commission and Ameren's BGS customers deserve better.

137 Foreseeing the need for these choices, the Commission wisely established
138 an investigation of the alternatives for procurement after the transition period,
139 well in advance of the end of that transition period. After numerous workshops
140 and meetings, the stakeholders who participated did not reach consensus on a new

141 system for procurement or a new approach to cost recovery. In those workshops,
142 there was sometimes agreement that certain approaches would work better if
143 fashioned in one way or another, but to my knowledge there was not agreement
144 among all the stakeholders that any one approach, even in the best form that could
145 be identified, would meet all the needs of customers and the State of Illinois. The
146 final report of the convener identified a "consensus" list of desired criteria for
147 procurement. However, even if all Parties were to accept this list as complete, it
148 does not address how those criteria should be either prioritized or, whether any of
149 them were essential. In fact, the final report stated, "The group agreed, given the
150 wide range of opinions among the 'stakeholders', that it would be next to
151 impossible to recommend either a specific scenario or to rank scenarios in order
152 of preference." Final Report to the Illinois Commerce Commission Presented by
153 the Procurement Working Group, September 23, 2004, at 2.

154 The Commission should consider broadly all the available options and
155 their potential impacts on all interests, including the smallest customers who are
156 the least able to shop for alternatives to BGS. Currently, there are *no* competitive
157 retail alternatives to BGS for residential customers. The Companies' proposal
158 seeks to sidestep immensely important issues relating to responsibility for power
159 procurement decisions, as well as alternative methods and cost recovery for the
160 power procurement.

161

162 **Q. WHAT DO YOU RECOMMEND THE COMMISSION DO CONCERNING**
163 **THE COMPANIES' PROPOSAL, WHICH SHIFTS POWER**

164 **PROCUREMENT FOR BASIC GENERATION SERVICE TO A**
165 **COMPETITIVE AUCTION AND ELIMINATES THE COMPANIES’**
166 **RESPONSIBILITY FOR ITS POWER PROCUREMENT CHOICES AND**
167 **THE RESULTS OF THOSE CHOICES?**

- 168 A. I recommend that the Commission:
- 169 a. Reject the Companies’ proposal;
- 170 b. Open a new docket to consider the full range of procurement options;
- 171 and
- 172 c. Affirm that, regardless of which procurement method is employed,
- 173 retail rates remain subject to traditional regulatory standards of
- 174 justness and reasonableness, which entail a prudence review of the
- 175 companies’ decisions.

176

177 **III. REASONS FOR CONCERN WITH AMEREN'S PROPOSED**
178 **CLEARING PRICE AUCTION**

179

180 **Q. WHAT PARTICULAR TYPE OF PROCUREMENT HAVE THE**
181 **COMPANIES RECOMMENDED FOR POWER TO SERVE BGS**
182 **CUSTOMERS?**

- 183 A. The Companies have proposed a multiple-round, descending clock
184 auction. The Company describes that process as follows:

185 The auction is a simultaneous, multiple round descending clock auction.
186 The auction simultaneously procures supply for all products, namely for
187 all load categories (i.e., BGS-FP, BGS-LFP, and BGS-LRTP) and for all
188 contract terms (i.e., 17 months for BGS-FP, BGS-LFP, and BGS-LRTP, as
189 well as 29 months and 41 months for BGS-FP). The auction proceeds in

190 rounds. In each round, bidders submit bids, bids are tabulated, and bidders
191 are provided information on the general progress of the auction. The
192 auction is a descending clock because prices tick down until there is just
193 enough supply to meet the requirements.
194

195 Resp. Exhibit 6.0 at line 1510 ff. This auction includes the procurement of rolling
196 three-year, fixed price contracts for customers smaller than 1MW in size. For
197 customers 1MW or greater in size, there would be an auction for one-year fixed-
198 price contracts. In addition, there would be an auction for one year fixed capacity
199 service with energy at spot market prices to serve real time pricing customers.

200 The Companies also propose that the Commission pre-approve the
201 process, assure the Companies full cost recovery for the cost of the process *and*
202 for all the power purchased pursuant to the process, and provide for automatic
203 approval of the results of each auction (unless the Commission acts otherwise
204 within two business days after receiving reports on the auction).¹
205

206 **Q. DOES THE COMPANIES' PROPOSED PROCESS FOR RUNNING ITS**
207 **CLEARING PRICE AUCTION PROVIDE PROPER OVERSIGHT AND**
208 **REVIEW OF POWER PROCUREMENT FOR BASIC UTILITY**
209 **SERVICE?**

210 A. No, it does not. The Companies' proposed procedures allow for only the
211 briefest and most narrow review of certain very limited and narrow issues.

¹ See, for example, proposed Rider MV in Cilco tariff binder at Sheet No. 27.028. Note that the tariff binder states the auction is deemed approved if the Commission does not act within *three* days of the Auction Completion Date, but the Auction Manager and Auction Advisor have one business day to prepare their confidential reports for the Commission, so the Commission only has two days in which to deliberate and act. River MV does provide for the possibility that the Commission could choose to institute an investigation of the auction results. If that occurs, the Company will not execute purchase contracts pursuant to the auction, but will either repeat the auction or purchase from the PJM markets to serve load. *Loc. cit.*

212

213 **Q. DO THESE PROCEDURES PROVIDE FOR A REASONABLE**
214 **ALLOCATION OF RESPONSIBILITY FOR POWER PROCUREMENT**
215 **FOR BASIC GENERATION SERVICE?**

216 A. No, they do not. Under the Companies' proposed procedures and the
217 orders requested by the Company, Ameren would have no responsibility for the
218 costs that result from its proposed process. Such a simple pass through of
219 whatever costs an auction develops will not protect the interests of BGS
220 customers and is not reasonable.

221

222 **Q. ISN'T IT ROUTINE FOR UTILITIES TO SIMPLY PASS THROUGH**
223 **COSTS FROM PROCUREMENT IN COMPETITIVE MARKETS?**

224 A. No. Some states that have instituted competitive procurement for default
225 service have approved such a pass through. New Jersey and Maryland are
226 examples. However, utilities routinely purchase goods and services from auction-
227 based markets, requests for proposals (RFPs), or other competitive processes
228 (forward contracts and spot purchases of fuels from commodity exchanges, power
229 from generators and other suppliers, equipment of all sorts, and many other goods
230 and services). Those purchases likewise have been routinely subject to ordinary,
231 after the fact rate review in subsequent rate cases, which includes prudence
232 review.

233

234 **Q. DOES THE PROPOSED AUCTION PROCESS ASSUME AND DEPEND**
235 **ON A FULLY COMPETITIVE WHOLESALE ELECTRICITY MARKET?**

236 A. Absolutely.

237

238 **Q. SHOULD THE COMMISSION BE CONFIDENT THAT SUCH A**
239 **COMPETITIVE WHOLESALE MARKET EXISTS NOW OR WILL**
240 **EXIST AT THE TIME OF THE FIRST PROPOSED AUCTION?**

241 A. Definitely not. This issue is addressed at length in the prefiled testimony
242 and exhibits of witness Fagan. He identifies multiple, serious concerns about the
243 lack of competitiveness and maturity of the MISO wholesale electricity markets
244 now and similar concerns about that market as it is likely to exist for at least some
245 time after the time of the first proposed auction.² His conclusion is clear: the
246 Illinois region of the MISO wholesale electricity market, on which the entire
247 proposed auction depends, cannot be viewed as fully competitive. His testimony
248 clearly indicates that there is a strong possibility that any competitive
249 procurement will be relying on a flawed wholesale market.

250

251 **Q. WHY SHOULD THE COMMISSION BE CONCERNED IF**
252 **COMPETITIVE PROCUREMENT FOR BASIC GENERATION SERVICE**
253 **IS BASED ON A FLAWED WHOLESALE ELECTRICITY MARKET?**

254 A. The Commission should be concerned about this problem, because a
255 flawed wholesale market can result in wholesale market prices that are higher

² MISO is the Midwest Independent Transmission System Operator, the RTO responsible for a number of Midwest states and Canadian provinces or portions thereof, including the non-PJM portion of Illinois.

256 than fair or necessary; some market participants will be able to cause market-
257 clearing prices to be higher than would occur otherwise in a fully competitive
258 market. This would translate into unnecessarily high bids from participants in
259 Ameren's proposed Competitive Procurement Auction (CPA) process and, hence,
260 into higher than necessary retail rates for BGS customers.

261

262 **Q. GIVEN WITNESS FAGAN'S CONCERNS ABOUT THE WHOLESALE**
263 **MARKETS, HOW SHOULD THE COMMISSION VIEW THE**
264 **COMPANIES' REQUEST?**

265 A. The Commission should be very cautious about committing BGS
266 customers to taking power to be procured under mechanistic procurement that
267 depends on such a flawed market, no matter how well designed that mechanism
268 may be.

269

270 **Q. WHAT OTHER CONCERNS SHOULD THE ICC BEAR IN MIND WHEN**
271 **CONSIDERING THE PETITION?**

272 A. There are at least two such concerns. First, even if those wholesale
273 markets were not potentially flawed, the shift to providing BGS from a clearing
274 price auction is likely to have a severe economic impact on ratepayers and the
275 Illinois economy. Second, even if the auction did not pose such problems, the
276 auction design, as proposed, does not provide adequate oversight and
277 accountability and does not take all supply and demand-side resources into
278 account.

279

280 **Q. IS A CLEARING PRICE AUCTION LIKELY TO RESULT IN**
281 **INCREASED COSTS FOR BASIC UTILITY SERVICE CUSTOMERS?**

282 A. Yes, it is. The Ameren Companies have “publicly stated that they
283 presently anticipate average rate increases in the range of 10-20% for Illinois
284 electric operations as a whole.” Ameren Resp. to CUB DR 1.32. This is an
285 increase in the bundled rate due *only* to the power supply component. The impact
286 on the Illinois economy as a whole from such a rate increase would be substantial.
287 In my prefiled testimony in a related Commonwealth Edison proceeding before
288 the Commission, I estimated that a rate increase of approximately 13% for the
289 Commonwealth Edison service territory (as is expected from implementing
290 Commonwealth Edison's proposal) would cause job losses in excess of six
291 thousand in Illinois, not counting the effect on the Illinois economy of any
292 potential distribution rate increase.

293 While I have not performed a similar study for the smaller Ameren
294 footprint, I would expect the impacts from an Ameren increase to be of a similar
295 kind and of a scale proportional to the dollar burden of the Ameren footprint rate
296 increase relative to the dollar burden of the Commonwealth Edison rate increase.
297 This study utilized a macroeconomic model of Illinois. The impact on the state's
298 economy from an increase in Commonwealth Edison's bundled rate was
299 simulated, including the effect on employment for the state as a whole. While a
300 similar type of rate increase for the Ameren footprint would represent a different
301 annual dollar cost to consumers, the estimated impact on the Illinois economy *per*

302 *dollar of increased electric costs* would be similar.

303

304 **Q. IS THE PROPOSED AUCTION, IN FACT, WELL DESIGNED?**

305 A. Not entirely. While the Companies' proposal is based on a model that has
306 worked reasonably well, there are a number of flaws in the proposed auction
307 design and process. The proposed auction design and process impose
308 unnecessary economic risks on BGS customers, do not provide adequate
309 oversight and accountability, and do not take all supply and demand-side
310 resources into account. Those flaws threaten the interests of BGS consumers,
311 especially small commercial and residential consumers.

312

313 **Q. PLEASE SUMMARIZE HOW THE COMPANIES' AUCTION DESIGN,**
314 **AS PROPOSED, IMPOSES UNNECESSARY ECONOMIC RISKS ON**
315 **BASIC UTILITY SERVICE CUSTOMERS.**

316 A. The proposed auction imposes unnecessary economic risks on BGS
317 customers because it does not include long term, fixed price renewables or energy
318 efficiency among the resources used. I am aware that the Governor's Sustainable
319 Energy Plan (and counterproposals that have been made) contains concepts that
320 would deliver such benefits to BGS customers. Hence, this issue may be dealt
321 with in another forum. But as the outcome of that proceeding remains in doubt at
322 this time, if the Commission approves a competitive procurement in this
323 proceeding, it should include in that order a requirement that the benefits of long-
324 term fixed price renewables and energy efficiency be provided as part of BGS,

325 should the proceedings on the Governor's Plan fail to deliver them. Even if the
326 Governor's Plan proceeding does deliver such benefits, the Commission should
327 require that any competitive BGS procurement include such additional long-term
328 renewable energy and energy efficiency resources as are needed to provide the
329 level of economic risk mitigation that is warranted for BGS customers.

330

331 **Q. PLEASE EXPLAIN HOW THE COMPANIES' AUCTION DESIGN, AS**
332 **PROPOSED, FAILS TO PROVIDE FOR ADEQUATE OVERSIGHT AND**
333 **ACCOUNTABILITY.**

334 A. It does so in two ways. First, the Companies' proposal does not provide
335 for consumer representation inside the procurement process. While it provides for
336 an outside observer (the Auction Advisor), the Auction Advisor is not focused on
337 or accountable to consumer interests. Second, the Companies' proposal does not
338 provide for an adequate level of monitoring of market power that would affect the
339 relevant wholesale electricity markets nor for a mechanism to initiate vigorous
340 state-level action to mitigate such market power or to counter abuse of such
341 power.

342

343 **Q. ARE THERE ANY OTHER CONCERNS WITH THE PROPOSED**
344 **AUCTION PROCESS THAT THE COMMISSION SHOULD TAKE INTO**
345 **ACCOUNT?**

346 A. Yes, one additional broad concern with the proposed process seriously
347 threatens the interests of consumers. As, I explained above, the Companies'

348 proposal would price power for BGS customers on the basis of a clearing price
349 auction, rather than on the basis of the cost of power.

350

351 **Q. HOW SERIOUS IS THE CONCERN ABOUT SHIFTING TO A MARKET-**
352 **CLEARING PRICE FOR BGS POWER?**

353 A. In my prefiled testimony in a related Commonwealth Edison proceeding
354 before the Commission, I estimated that a shift to pricing all power at market
355 clearing prices stands to cost Commonwealth Edison ratepayers as much as \$1
356 Billion per year relative to cost-based procurement.³ A copy of that study is
357 attached as CUB Exhibit 2.2. While I have not performed a similar study for
358 Ameren, I believe that a clearing price auction, where one pays the price of the
359 most expensive offer for all power used, is likely to impose costs on BGS
360 customer load that are substantially greater than those that would have flowed
361 from traditional cost-based ratemaking.

362

363 **Q. PLEASE SUMMARIZE YOUR VIEW OF THE PROPOSED AUCTION**
364 **DESIGN AND PROCESS.**

365 A. Acceptance of the proposed auction design and process would be a huge
366 leap of faith that is unjustified, given the flawed wholesale market underpinning
367 the proposed auction and the additional design flaws in the Companies' proposed
368 procurement.

³Our study compared the revenues that Exelon could expect from market-based pricing of its Illinois nuclear units to the revenues Exelon would receive if the output of those units were priced at the system lambda plus 10%. The system lambda is the year-round average of the marginal generating cost of all units in the region (including peakers) and is, itself, certainly higher than the variable operating costs of baseload units.

369

370 **IV. RECOMMENDATIONS FOR REJECTION OF PROPOSED**
371 **AUCTION**

372

373 **Q. GIVEN THESE CONCERNS WHAT DO YOU RECOMMEND THE ICC**
374 **DO?**

375 A. I recommend that the Commission reject the Ameren proposal and refuse
376 to place BGS customers on competitive auction procurement.

377 Given the level of concern about market power and other issues in the
378 Illinois region of the MISO wholesale market, the potential for a substantial
379 increase in power costs by establishing power costs for retail customers solely on
380 the basis of a clearing price auction, and the various economic risks that the
381 Companies' proposal would impose on BGS customers, especially those that are
382 the smallest and least able to access competitive alternatives, I recommend that
383 the Commission adopt an alternative approach.

384

385 **Q. IF THE ICC REJECTS THE PROPOSED AUCTION, WHAT ARE ITS**
386 **ALTERNATIVES?**

387 A. While there are many possibilities, I would bring the following to the
388 Commission's attention:

389 a. The Commission could require a different form of competitive procurement,
390 such as a Request for Proposals (RFP), which has some of the benefits of a
391 "pay as you bid" auction, but is more flexible. Significant controls on affiliate
392 transactions would be required under this option.

393 b. The Commission could reject the competitive procurement and require
394 Ameren to procure least cost power under traditional cost recovery standards.
395 Such procurement would be subject to traditional ratemaking standards.

396 I recommend the Commission adopt the second alternative above, namely
397 to reject the auction proposal and order the Company to procure least cost power
398 supply for BGS customers subject to traditional ratemaking standards.

399

400 **V. RECOMMENDATIONS FOR AUCTION ENHANCEMENTS IF AN**
401 **AUCTION IS ORDERED**

402

403 **Q. DO YOU HAVE RECOMMENDATIONS FOR THE COMMISSION ON**
404 **HOW TO MITIGATE THE SHORTCOMINGS OF THE COMPANIES’**
405 **PROPOSED AUCTION DESIGN, SHOULD THE COMMISSION DECIDE**
406 **TO AUTHORIZE AN AUCTION OF THE TYPE PROPOSED BY THE**
407 **COMPANIES?**

408 A. Yes. Although I recommend that the Commission reject the Ameren
409 proposal and refuse to place BGS customers on competitive auction procurement,
410 if the Commission chooses to order an auction procurement, I recommend that it
411 require the following:

- 412 a. An option for the Commission to reject the entire procurement if the result
413 is unsatisfactory (not just if a procedural flaw is discovered);
414 b. Improved oversight and accountability for the auction process in the form
415 of a Consumer Observer⁴;

⁴ I explain the meaning of this term and the role of the Consumer Observer in my testimony below.

- 416 c. Inclusion of a State entity who is assigned responsibility for market
417 monitoring and taking action in the event of exercise of wholesale market
418 power;
- 419 d. An allocation of power to long term, fixed price renewable sources and
420 energy efficiency, if consideration of those resources as part of the
421 Governor's Sustainable Energy Plan does not result in comparable risk
422 mitigation benefits to BGS customers.

423 I discuss each of these recommendations below in more detail.

424

- 425 **a. THE COMMISSION SHOULD RETAIN THE OPTION TO REJECT**
426 **THE PROCUREMENT RESULT**

427

428 **Q. IF, AS YOU RECOMMEND, THE COMMISSION RETAINED THE**
429 **OPTION TO REJECT THE ENTIRE PROCUREMENT OUTCOME DUE**
430 **TO AN UNSATISFACTORY RESULT, WHAT ALTERNATIVES WOULD**
431 **IT HAVE AT ITS DISPOSAL TO ENSURE CONTINUATION OF BASIC**
432 **UTILITY SERVICE AFTER SUCH A REJECTION?**

433 A. The primary alternative would be (1) to order Ameren to temporarily
434 carry out least cost procurement using short term to medium term instruments
435 (spot purchases, bilateral contracts and forward contracts of one month up to one
436 year, appropriate hedges, and the like), and (2) consider whether to reschedule the
437 auction for another attempt or use a different competitive process. I discuss the
438 reasons for this recommendation in my testimony below regarding the proposed
439 Consumer Observer's role.

440

441 **b. NEED FOR A CONSUMER OBSERVER**

442

443 **Q. IS THERE ANOTHER ASPECT OF THE COMPANIES' PROPOSAL**
444 **THAT SHOULD BE CORRECTED?**

445 A. Yes. Ameren has proposed that the auction it recommends be monitored
446 by a single entity, called the Auction Advisor. The Auction Advisor would be a
447 representative of the Commission's Staff. I believe that a specific consumer
448 perspective also needs to be represented in the oversight of the auction, should the
449 Commission choose to authorize one.

450

451 **Q. DO YOU HAVE A RECOMMENDATION REGARDING HOW A**
452 **SPECIFIC CONSUMER PERSPECTIVE SHOULD BE INCORPORATED**
453 **INTO THE OVERSIGHT OF SUCH AN AUCTION?**

454 A. Yes. I recommend that the Commission provide a role for Consumer
455 Observer. This role would be similar to that of the Auction Advisor proposed by
456 Ameren who would be charged with observing and reporting on how well the
457 process conforms to the approved model. *See*, Resp. Exhibit 6.0 line 1452 ff.
458 The role I would recommend for the Consumer Observer would be similar, but
459 with a different focus. The Consumer Observer should have the same access to
460 information and processes as the Auction Advisor, but would be charged with
461 monitoring the process and outcome from a consumer perspective and presenting
462 that perspective to the Commission prior to its deliberation as to whether to accept
463 or reject the results of the auction. The Consumer Observer would also be

464 positioned to play a fully knowledgeable and active role in process improvement
465 reviews each year and in the formal review I recommend every three years (as
466 well as in the annual informal reviews proposed by Ameren). Resp. Exhibit 4.0 at
467 lines 275 ff. The presence and full participation of a Consumer Observer is a
468 fundamental issue of fairness and of the perception of fairness.

469

470 **Q. IS THERE A PRECEDENT FOR A CONSUMER OBSERVER?**

471 A. Yes. The Maryland procurement process (an RFP approach) provides for
472 such a role.

473

474 **Q. WHY IS IT IMPORTANT THAT CONSUMERS BE ALLOWED AN**
475 **OBSERVER TO OVERSEE ANY ICC ORDERED AUCTION PROCESS**
476 **FOR BASIC UTILITY SERVICE PROCUREMENT?**

477 A. Many auction advocates cite transparency as one of the primary benefits
478 of the auction process. For wholesale bidders (both generation suppliers and
479 purely financial bidders) and basic utility service providers, this holds true.
480 Throughout the auction, these parties know exactly what is taking place—they are
481 fully aware of different bids and bid strategies; they see which generators win
482 supply contracts and which ones fail to win. All of this is beneficial to these
483 parties. It helps them not only understand what goes on during the auction, but
484 more importantly, that the process worked as intended. In other words, for these
485 parties, the auction process is transparent.

486 The same cannot be said for consumers. From their perspective, the
487 auction process is a big black box; all they know is that a generation rate was
488 determined. In other words, consumers bear the full consequences of the process
489 without having adequate insight into the actual process.

490 In the Companies' filing, it is clear that this situation is not projected to
491 change. However, there is absolutely no valid reason why a Consumer Observer
492 could not nor should not be allowed to observe and review the auction process in
493 the same way the Auction Advisor currently observes and reviews the auction
494 process.

495 I therefore recommend that a Consumer Observer be allowed to observe
496 any auction process ordered by the Commission.

497

498 **Q. PLEASE EXPLAIN WHAT THE CONSUMER OBSERVER'S ROLE**
499 **SHOULD BE.**

500 A. The Consumer Observer's role is multi-faceted. It includes the following
501 activities:

- 502 a. Observing all activities leading up to the auction itself, including software
503 development and testing, bidder education and communications, bidder
504 qualification, and so on;
- 505 b. Observing preparatory steps such as establishment of the opening prices and
506 number of tranches;
- 507 c. Real-time monitoring of all aspects of the auction;
- 508 d. Reviewing and analyzing auction data and documents, as needed;

- 509 e. Briefing of the Commission Staff on all of the above;
- 510 f. Forming its own assessment of the auction;
- 511 g. Making recommendations to the Commission regarding the acceptance or
512 rejection of the auction results;
- 513 h. Assisting the Commission in its decision on acceptance or rejection of the
514 auction;
- 515 i. Providing an independent report covering the same issues and factors as do
516 the Auction Manager's and Auction Advisor's reports to the Commission;⁵ and
- 517 j. Making recommendations to the commission about future auctions.
- 518

519 **Q. WOULDN'T SOME OF THIS DATA BE AVAILABLE TO THE PUBLIC**
520 **IN THE FORM OF REPORTS PROVIDED BY THE AUCTION**
521 **MANAGER?**

522 A. In New Jersey and I believe as proposed in Illinois, reports provided to the
523 public by the Auction Manager are in a redacted form. In my view, such reports
524 are of insignificant value to an entity responsible for protecting consumers'
525 interests. All of the important data is redacted. The position of some parties that
526 only the Auction Manager and the Commission Staff's Auction Advisor may have
527 access to confidential information about bids and the auction process is a
528 judgment on the part of those parties and not necessarily correct. In fact, in
529 Maryland, the Office of the Public Advocate has played a role quite similar to the
530 one I propose for the Consumer Observer. That role was the result of a settlement
531 signed by many parties, including suppliers that bid in the Maryland procurement.

⁵ See, Resp. Exhibit 6.0, line 1465 ff.

532

533 **Q. WHAT KIND OF RECOMMENDATIONS COULD THE AUCTION**
534 **ADVISOR AND CONSUMER OBSERVER MAKE?**

535 I believe that it is appropriate and necessary for the Auction Advisor, as
536 well as the Consumer Observer, to have the ability to recommend rejection of the
537 auction results on the basis that the auction resulted in unreasonable price bids. I
538 understand that this is controversial, and that it has been argued that this provision
539 would chill competition. This is not an acceptable reason for prohibiting such
540 authority. Innumerable competitive solicitations occur in private, commercial and
541 government procurement processes where the purchaser reserves the right to
542 reject the results for any reason or no reason without chilling competition. I see
543 no reason why this procurement would be any different. Furthermore, I believe
544 that potential bidders, especially generation owners, have a strong incentive to
545 capture a share of the BGS load (a very large market), and that they will
546 aggressively bid to serve that market.

547

548 **Q. HOW WOULD THE CONSUMER OBSERVER BE CHOSEN?**

549 A. The Consumer Observer should be selected by, and *only* by, the specific
550 consumer advocacy entities that are identified as appropriate for that role in the
551 design of the auction procurement. In particular, no other stakeholders should
552 have any authority over that selection or over the actions of the Consumer
553 Observer. The only exception to that provision should be the ability of the
554 Company to request the ICC to enforce whatever agreements or orders cover the

555 activities of the Consumer Observer, including but not limited to confidentiality
556 agreements.

557

558 **Q. WHO WOULD THE CONSUMER OBSERVER REPRESENT?**

559 A. The entities that appoint the Consumer Observer and to whom the
560 Consumer Observer reports and is accountable should be recognized as official
561 consumer advocates. Possible choices include the Citizens Utility Board (CUB)
562 and the Illinois Attorney General's Office. There may be similar entities in other
563 regions of the state. Ad hoc membership organizations, such as representatives of
564 only limited subsets of consumers, should not be included. Whatever entities are
565 included should be subject to the jurisdiction of the Commission, at least for the
566 purpose of enforcement of the agreements or orders governing the activities of the
567 Consumer Observer.

568

569 **Q. HOW DO THE COMPANIES RESPOND TO THE CONCEPT OF A**
570 **CONSUMER OBSERVER?**

571 A. In response to Data Request CUB 1.26, the Companies say that they reserve
572 consideration of an "Auction Monitor" or Consumer Observer, as long as
573 confidentiality provisions acceptable to suppliers would be adopted and enforced.

574

575 **Q. WHAT IS YOUR VIEW REGARDING CONFIDENTIALITY OF DATA**
576 **AND THE CONSUMER OBSERVER?**

577 A. Confidentiality is an issue relevant to protecting bidders from competitive
578 harm between and among other bidders or potential bidders. However, this
579 becomes a non-issue given that the consumer observer would sign a
580 confidentiality agreement. My understanding is that, in New Jersey, the Auction
581 Advisor is provided with all information in the possession of the Auction
582 Manager and has access to observe all stages of the procurement process prior to
583 and during the auction. The Consumer Observer should be subject to the same
584 confidentiality requirements as the Auction Advisor - no more and no less.

585

586 **c. NEED FOR AN INDEPENDENT STATE MARKET MONITORING**
587 **ENTITY**

588

589 **Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS FOR**
590 **IMPROVING THE CHANCE THAT AN AUCTION PROCUREMENT**
591 **WOULD BE APPROPRIATE?**

592 A. Yes. I recommend that Illinois create a state-level entity to monitor the
593 presence or abuse of market power in both wholesale and retail sectors of the
594 electricity industry in Illinois. I will refer to this entity as the Illinois Market
595 Monitoring Unit (MMU). It is my understanding that the Illinois Attorney
596 General's Office is already authorized to perform this function (as well as
597 monitoring of retail electricity markets) and has a statutory right to access the

598 information needed to do so, at least to the extent that the Commission has or
599 obtains such information.

600

601 **Q. WHY IS SUCH AN ENTITY NEEDED?**

602 A. First of all, as witness Fagan explains in detail, the existence of a variety
603 of wholesale electricity market flaws in MISO's Illinois region is evident. Those
604 flaws mean that we should be concerned about the existence and potential abuse
605 of market power.

606 When the Federal Energy Regulatory Commission (FERC) allowed
607 wholesale market rate authority to go into effect, it required the various
608 Independent System Operators (ISOs) to create internal market monitoring
609 entities within the ISO's organization. FERC required that those entities have
610 responsibility for monitoring for abuse of market power and for establishing
611 procedures for the mitigation of that power.

612 FERC also endorsed the concept of an independent market monitor, in
613 addition to the internal MMU each ISO is required to employ. Such independent
614 entities are in place in New England, New York and MISO. Such an independent
615 entity is able to provide an additional perspective on market operations, market
616 rules, and market abuses as well as address the issue of possible shortcomings
617 within the ISO's internal market monitoring unit. Also, an independent market
618 monitor can compare the RTO's practices with those of other RTOs and
619 recommend improvements.

620 From a consumer perspective, it is important to have a truly independent
621 entity to look at the effectiveness of the overall market structures, as well as the
622 effectiveness of market monitoring and mitigation procedures. RTO market
623 monitors often support market and rule change proposals made by their own
624 RTO, which may weaken the RTO's market monitoring and mitigation ability.
625 An Illinois MMU's charge should include providing an independent voice on
626 changes or needed improvements to RTO markets and rules. A state-level MMU
627 could effectively do this since it is not absorbed in daily monitoring of market
628 activity and would have a broad public interest view. This role is especially
629 important as the RTO MMU's role and authority is and has always been under
630 constant attack by various market participants.

631

632 **Q. WHAT CONCLUSION DO YOU DRAW FROM THE ABOVE POINTS?**

633 A. Consumers will see little or no benefit from retail competition or
634 competitive procurement of Basic Generation Service (BGS) if wholesale power
635 markets are not fully competitive. This is more than a theoretical issue. For all
636 these reasons, Illinois should to explore all available avenues for enhancing the
637 monitoring and mitigation of market power in its wholesale electricity markets.

638

639 **Q. WHY IS ILLINOIS AN ESPECIALLY APPROPRIATE JURISDICTION**
640 **FOR IMPLEMENTING A STATE MMU?**

641 A. Illinois is one of the few states that developed its own institutional
642 oversight of the nuclear power industry. The success of that nuclear oversight

643 covering a number of years, and numerous historical examples of states’
644 economic and environmental self-advocacy in fields supposedly protected at the
645 federal level, suggest that a similarly useful role could be crafted to protect
646 consumers for wholesale electricity market power abuse. In addition, the Illinois
647 Attorney-General's Office has relevant statutory authority for access to the
648 necessary information.

649

650 **Q. WHAT DO YOU PROPOSE?**

651 A. I propose that the Commission require, as a condition precedent to any
652 competitive procurement process for Illinois, the establishment of a state-level
653 entity charged with representing electricity consumers' interests by monitoring the
654 development and performance of wholesale electricity markets and associated
655 markets for capacity, transmission and other goods and services. The purpose
656 would be to detect actual and potential market power and abuse and to take action
657 to prevent or eliminate such market power or abuse wherever it occurs.

658

659 **Q. WHAT TOOLS OR AVENUES WOULD SUCH A STATE MMU HAVE**
660 **FOR SEEKING REDRESS IN THE EVENT OF ACTUAL OR**
661 **POTENTIAL ABUSE?**

662 A. That would depend on the specific issue. If flaws were detected in
663 wholesale market structures or regulation, solutions would likely be sought
664 through proposals to the RTO or petitions to FERC seeking alterations to the
665 market structure in question or with promoting remedial legislation. Remedies for

666 actual abuses could be sought through FERC, RTO, or US Department of Justice
667 action to enforce or improve competitive standards, through litigation in the
668 courts, or through promoting remedial legislation. There might also be
669 opportunities to address problems impacting BGS customers through changes and
670 enforcement under Illinois' regulatory authority.

671 This idea could, potentially, extend far beyond RTO-administered
672 markets, if Illinois wished. Scrutiny of the behavior of electricity and natural gas
673 exchanges and traders, such as we see carried out by the New York Attorney
674 General's office and, perhaps, scrutiny of retail electric marketing abuses (to the
675 extent there is a retail electric market) could also be included.

676

677 **Q. WHAT WOULD IT COST TO IMPLEMENT AN ILLINOIS MMU?**

678 A. The primary cost of this action would be personnel costs for monitoring
679 and potential litigation costs for taking action in the case of detected market
680 power abuse. There might also be costs for personnel or technical assistance in
681 actively participating in PJM⁶ or MISO committee activities or FERC
682 rulemakings, as well as associated research costs. Experience suggests that a
683 credible job of routine monitoring and RTO/FERC involvement could be done for
684 something on the order of \$1 million per year. Given the large scale of the
685 wholesale market and the magnitude of effects that can be seen even with
686 infrequent exercise of market power, the savings to consumers from addressing

⁶ PJM is the RTO responsible for a number of MidAtlantic and central states or portions thereof, including the non-MISO portion of Illinois.

687 almost any detected abuse would far exceed the cost of establishing an Illinois
688 MMU.

689 I would expect there to be numerous side benefits for consumers, as well.
690 One very important benefit is that by merely existing, this entity may deter bad
691 behavior saving customers lots of money.

692

693 **Q. YOU HAVE MENTIONED ACCESS TO INFORMATION SEVERAL**
694 **TIMES. WOULD AN ILLINOIS MMU BE ABLE TO ACCESS THE**
695 **INFORMATION NEEDED TO DO ITS JOB?**

696 A. Confidentiality of wholesale market data, such as bids and generation
697 costs, is a very contentious issue. Generators fight hard to keep this information
698 secret. RTO and FERC market monitors routinely collect and summarize such
699 data, but are barred by various RTO rules from disclosing it. The Independent
700 Market Monitors in New York and New England have access to all market
701 information. State public utility regulators also have the right to request and
702 receive this data under information disclosure procedures adopted in New
703 England and PJM. In addition, masked market bid and offer data in some
704 jurisdictions become public after a certain length of time passes, e.g., six months.

705 Furthermore, while FERC has ruled that access to wholesale market
706 transaction data and other confidential market monitoring data is limited to "state
707 commissions who have the regulatory and legal authority to monitor retail electric
708 markets within the state," and expressed concern about "the possibility of many
709 other state agencies being able to receive confidential information," I understand

710 that the Illinois Attorney General's Office has specific constitutional and legal
711 authority in this area. 107 FERC 61,322 at 10. I recognize that FERC has issued
712 certain orders establishing confidentiality requirements for ISO or RTO release of
713 confidential market data that have implications for state regulatory commission
714 access to that data. To the extent that such data are necessary for a state-level
715 MMU to carry out its duties, other avenues may need to be pursued, such as
716 requests to FERC to find that data are not confidential, use of subpoena powers,
717 or other options.

718

719 **d. INCLUSION OF RENEWABLES AND ENERGY EFFICIENCY INTO**
720 **BGS**

721

722 **Q. WHAT IS BEING DONE IN ILLINOIS WITH REGARD TO**
723 **RENEWABLE GENERATION AND ENERGY EFFICIENCY**
724 **PLANNING?**

725 A. The Governor of Illinois has called upon the ICC to set up a task force, the
726 Governor's Sustainable Energy Plan Task Force, to explore the best ways to
727 incorporate renewables and energy efficiency into Illinois's electricity supply and
728 demand-side options.

729

730 **Q. HAVE THERE BEEN ANY RESULTS WITHIN THE TASK FORCE**
731 **THUS FAR?**

732 A. Both Ameren and ComEd submitted proposals, and several counter
733 proposals followed. Given the uncertainty of the outcome of the Task Force, my

734 overall recommendation regarding energy efficiency and long-term renewables in
735 BGS procurement is that the ICC should retain the authority and option to act on
736 matters relating to the incorporation of renewables and energy efficiency should
737 the Governor's proceedings fail to deliver the right set of benefits to basic utility
738 service customers.

739

740 **Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD RETAIN**
741 **FLEXIBILITY TO ADDRESS THESE ISSUES.**

742 A. Consumers need and value electric price stability. Adding energy
743 efficiency resources and long-term contracts (life of unit or fixed terms of 10-
744 years or more) with fixed and reliable pricing is a practical way to deliver that
745 stability. Such products also reduce the overall proportion of supply procured
746 from more volatile shorter-term clearing price markets. Long-term or life of unit
747 renewable energy purchases enhance price stability, since their costs are not
748 affected by fossil fuel price swings or temporary shortages of generation. Energy
749 efficiency resources enhance price stability for the same reason and also because
750 many of the most attractive sources of efficiency savings also reduce on-peak
751 energy use and peak demand.

752

753 **Q. PLEASE EXPLAIN THE BENEFITS ASSOCIATED WITH LONG-TERM**
754 **RENEWABLE CONTRACTS AND ENERGY EFFICIENCY.**

755 A. I specifically recommend use of long-term contracts from renewable
756 sources. Long-term, fixed price contracts for traditional fossil fuel supply are

757 difficult to procure at a reasonable price, because such resources are associated
758 with high fuel price risk and environmental regulatory risk, such as the risk of
759 future carbon dioxide emission regulation. Renewable resources, on the other
760 hand, are free of such risks. Thus, only renewables can promise consumers
761 reasonable, fixed generation prices for the long-term.

762 Energy efficiency resources make sense in constructing a default service
763 procurement strategy, but for different, yet complementary, and compelling
764 reasons. Not only does acquisition of efficiency savings reduce the cost of service
765 and bills paid by BGS consumers, but it does so in a way that simultaneously
766 mitigates price volatility, reduces the potential for wholesale market power abuse,
767 and improves service reliability.

768 In combination with wise procurement practices to mitigate market power,
769 inclusion of long-term fixed price renewables and energy efficiency in the
770 portfolio for BGS procurement reduces a number of financial risks that would
771 otherwise be borne by BGS customers, and over time, can reduce cost as well.
772 Therefore, the Commission, if it approves an auction of any kind, should ensure
773 that those enhancements are included, either as a result of the outcome of its
774 proceedings on the Governor's Sustainable Energy Plan or directly via this
775 proceeding.

776

777 **Q. ARE THERE OTHER ADVANTAGES TO LONG-TERM RENEWABLE**
778 **CONTRACTS?**

779 A. Yes. Renewable developers can obtain better financing terms from the
780 financial markets when a project has long-term supply contracts in place. In other
781 words, long-term contracts are associated with lower capital costs for the
782 construction of new plants. I view this as a win-win; long-term renewable
783 contracts could pair lower capital costs with more stable and lower prices for BGS
784 customers over the long-term.

785
786 **Q. DO YOU HAVE A RECOMMENDATION FOR THE COMMISSION**
787 **WITH REGARD TO THE INCORPORATION OF RENEWABLE**
788 **GENERATION INTO BASIC UTILITY SERVICE PROCUREMENT,**
789 **SHOULD THE COMMISSION NEED TO ACT ON THIS MATTER?**

790 A. Yes. A portion of the basic utility service system energy requirements,
791 increasing each year, should be procured from renewable resources on a long-
792 term basis.

793
794 **Q. WOULD THIS APPROACH DELIVER GREATER FINANCIAL**
795 **PROTECTION AND RATE STABILITY TO BGS CUSTOMERS THAN A**
796 **RENEWABLE PORTFOLIO STANDARD (RPS) APPROACH?**

797 A. Yes, as mentioned above, an RPS approach can be somewhat effective at
798 getting renewable plants built, but consumers do not realize the full economic
799 benefits of including renewables in the BGS portfolio unless they can also benefit

800 from a long-term fixed price contract for their use. The cost savings and price
801 stability that BGS consumers would obtain from including long-term, fixed price
802 contracts for renewable power would not available to BGS consumer from a
803 system that relies only on compliance with a renewable portfolio standard (RPS)
804 with tradable credits alone; the RPS approach generally re-prices the cost of
805 renewable certificates each year, leaving customers to pay high prices for
806 certificates now with no assurance of avoiding fossil fuel risks later. Let me
807 explain this further. With an RPS in place, but without specific long-term
808 contracts for renewables in place, renewables end up being simply another
809 generation option. And their price, like the price of any other generation option,
810 is based on the cost of the unit on the margin. In the case of Illinois, all
811 generation is therefore generally priced by reference to fossil fuel generation via
812 the market clearing prices. In this scenario, even though renewable energy has no
813 fuel component, since the price for all generation is based on the marginal unit
814 cost, customers pay for energy from renewables as if they were paying for energy
815 that runs on fossil fuel.

816 Alternatively, were there specific long-term renewable contracts in place
817 to service basic utility service customers, the renewable generation component
818 could be priced at the true cost of operating the renewable resource without regard
819 to fossil fuel prices. This cost should be significantly lower, over-time, than the
820 cost of operating a fossil fuel resource. Therefore, it makes sense for the
821 Commission to link any renewable policy directly to basic utility service policy

822 by procuring a certain percentage of basic utility service supply through long-term
823 renewable contracts.

824

825 **Q. WHAT IS YOUR RECOMMENDED PROCESS FOR PROCURING**
826 **LONG-TERM RENEWABLE CONTRACTS?**

827 A. I believe it might be best to use an RFP process for the renewable supply
828 contracts, while continuing to use an auction process for the remainder of the
829 load. This is because the RFP process offers a bit more flexibility and may allow
830 for longer terms. For example, if in any given year, bids for renewable generation
831 seem unreasonable, offers could simply be rejected and another RFP would be
832 issued the following year.

833

834 **Q. SHOULD SUCH AN RFP PROCESS BE RUN SIMULTANEOUSLY TO**
835 **THE AUCTION PROCESS?**

836 A. No. I propose running the RFP process for the renewables contracts prior
837 to the auction date for the majority of load. This way, the result of the RFP
838 process will be known to all suppliers prior to the auction and should not be a risk
839 factor that negatively affects suppliers' bids.

840

841 **Q. PLEASE EXPLAIN FURTHER THE BENEFITS ASSOCIATED WITH**
842 **INCLUDING ENERGY EFFICIENCY IN PORTFOLIO MANAGEMENT.**

843 A. Energy efficiency:

- 844 • Reduces the risks associated with fossil fuels and their inherently unstable price
845 and supply characteristics and avoids the costs of unanticipated increases in future
846 fuel prices;
- 847 • Avoids the hard to predict costs of complying with potential future environmental
848 regulations, such as CO2 regulation;
- 849 • Improves the overall reliability of the electricity system by lowering peak demand
850 and providing more time and flexibility to respond to changing market conditions,
851 while moderating the “boom-and-bust” effect of competitive market forces on
852 generation supply;
- 853 • Defers expensive transmission and distribution upgrades and mitigating expensive
854 transmission congestion problems; and
- 855 • Promotes local economic development and job creation.

856

857 **Q. HOW CAN ENERGY EFFICIENCY BE INCORPORATED INTO THE**
858 **PROCUREMENT OF BASIC GENERATION SERVICE?**

859 A. I believe there are two ways to approach this task. One would be to allow
860 providers of demand-side resources to bid into the auction just as do supply-side
861 options. The other would be to set aside a portion of the BGS load and then to
862 procure this portion separately through energy efficiency programs carried out by
863 the utility or an independent third party. Either would be compatible with
864 competitive procurement of the remaining residual load from an auction or
865 alternative method or delivery by the utility.

866

867 **Q. HOW WOULD THE PROCUREMENT OF ENERGY EFFICIENCY**
868 **RESOURCES "FIT INTO" THE COMPANIES' PROPOSED**
869 **COMPETITIVE PROCUREMENT PROCESS?**

870 A. The short answer is that the Companies would not and do not need to
871 directly enter that process. Rather, the most convenient way to procure energy
872 efficiency resources would likely be to procure them separately from the BGS
873 power procurement. The BGS power procurement "product" is already defined in
874 terms of each winning bidder committing to supply a certain set percentage of the
875 BGS customer load as it happens to occur. To the extent that efficiency resources
876 are procured outside of that process, the BGS supply bidders will simply see a
877 reduced load before the auction takes place. Of course, they should be provided
878 with a clear picture of the funding and procurement goals for efficiency resources
879 so that they will be able to estimate the load they are likely to need to serve.

880

881 **e. ADDITIONAL COMMENTS ON AUCTION DESIGN**

882

883 **Q. DO YOU HAVE CONCERNS ABOUT THE FIXED-PRICE 3-YEAR**
884 **CONTRACT LADDERING SCHEME THAT THE COMPANIES HAVE**
885 **PROPOSED FOR SMALL RESIDENTIAL CUSTOMERS?**

886 A. I would prefer to see a more diversified laddering scheme such as one that
887 incorporated a mix of 1, 3, and 5-year contracts, but given the size of the Ameren
888 BGS territory and the immaturity of the MISO markets, I recommend, for the
889 time being, keeping a simple ladder, such as the one that is proposed by Ameren.
890 Of course, as I discussed above, I would still like to see the inclusion of both

891 renewables and energy efficiency at this time. But, beyond this modification, I
892 am currently satisfied with the Companies' 3-year laddering proposal.

893
894 **Q. HOW OFTEN SHOULD THE AUCTION PRODUCTS BE REVISITED?**

895 A. The Companies propose an informal workshop after each auction. Resp. Exhibit
896 4.0 at lines 276 ff. I do not disagree with this. The mix of auction products could
897 be discussed at such informal workshops. However, over time, as market
898 conditions and financial hedging instruments mature and change, it might make
899 sense to incorporate entirely new products into the auction mix and an informal
900 workshop would not necessarily result in such a significant issue being addressed
901 fully. I, therefore, recommend that the ICC order a formal review of the product
902 mix every three years. I say this having in mind that the ICC and utility should
903 make such changes that are in the public interest with care and deliberation, and
904 with participation by intervenors, so as not to unduly disrupt wholesale markets or
905 auction participants' perceptions. But I see no need to arbitrarily rule out
906 changes, should markets or other circumstances require them consistent with the
907 public interest.

908

909 **Q. DOES THAT CONCLUDE YOUR TESTIMONY AT THIS TIME?**

910 A. Yes, it does.