STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company d/b/a AmerenCILCO,	:	**No. 05-0160**
Proposal to implement a competitive procurement process by establishing Rider BGS, Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV	:	
Central Illinois Public Service Company d/b/a AmerenCIPS	:	**No. 05-0161**
Proposal to implement a competitive procurement process by establishing Rider BGS, Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV	:	
Illinois Power Company d/b/a AmerenlP	:	**No. 05-0162**
Proposal to implement a competitive procurement process by establishing Rider BGS, Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV	:	**(Consol.)**

DIRECT PANEL TESTIMONY OF

JOHN L. DOMAGALSKI
CONSTELLATION NEWENERGY, INC.

RICHARD S. SPILKY
MIDAMERICAN ENERGY COMPANY

ON BEHALF OF THE

COALITION OF ENERGY SUPPLIERS

COMPRISED OF:

CONSTELLATION NEWENERGY, INC.
DIRECT ENERGY SERVICES, LLC.
MIDAMERICAN ENERGY COMPANY
PEOPLES ENERGY SERVICES CORPORATION
U.S. ENERGY SAVINGS CORP.

TABLE OF CONTENTS

Page

I. INTRODUCTION

Q. Mr. Domagalski, please state your name, employer, business address, and professional background.

A. My name is John Domagalski. I have been employed by Constellation NewEnergy, Inc. ("NewEnergy") since 2004, and I am responsible for electric supply pricing for the customers served by the NewEnergy Illinois office. NewEnergy's address is located at 550 W. Washington Blvd. in Chicago. In my position at NewEnergy, I oversee the development of new products and services such as metering, curtailable options, energy efficiency, and other services. Prior to joining NewEnergy, I worked for over ten (10) years as a consultant (Ernst & Young, PricewaterhouseCoopers, and Palmer Bellevue) advising retail energy suppliers around the world on business planning and corporate strategy, finance, and regulatory matters. I am a graduate of the Kellogg School of Management's International Executive MBA program (Kellogg-WHU program in Germany) and received a B.S. *magna cum laude* in Finance from De Paul University.

Q. Mr. Spilky, please state your name, employer, business address, and professional background.

A. Richard S. Spilky, MidAmerican Energy Company ("MidAmerican"), 4299 N.W. Urbandale Drive, Urbandale, Iowa 50322. I am employed by MidAmerican in the position of Director of Electric Products. I hold both a B.S. in Electrical Engineering and an M.B.A. from Bradley University. I have been employed by MidAmerican since June, 2004. From November, 2000 to June, 2004 I was employed at NewEnergy in the position of Director of Pricing and Product Development. From October, 1990 until

November, 2000, I was employed by Alliant Energy, (and/or its predecessor company Interstate Power Company), where I held various positions in account management, retail marketing, Demand Side Management program administration, and several years in the Energy Planning Consulting group. From January, 1988 until October, 1990, I was employed by Caterpillar, Inc., as an application engineer in the Electrical Power Generation division.

Q. On whose behalf are you testifying in this proceeding?

A. We are testifying on behalf of the Coalition of Energy Suppliers ("CES" or "Coalition"). The Coalition is composed of NewEnergy, MidAmerican, Peoples Energy Services Corporation, Direct Energy Services, LLC, and U.S. Energy Services Corp. This *ad hoc* coalition has been formed to propose measures to foster the development of a competitive retail electric market in Illinois. The positions set out in this direct testimony represent the positions of the Coalition as a group, but do not necessarily represent the positions of individual CES member companies. However, each member of the Coalition believes that the positions set forth in this testimony represent an improvement over the competitive procurement proposal advanced by AmerenIP, AmerenCILCO, and AmerenCIPS (collectively, "Ameren") in this proceeding. Additionally, some members of the CES believe that further changes are necessary to improve Ameren's procurement proposal. Those Coalition members are filing direct testimony on their own behalf in support of their additional proposed changes.

Q. What is the purpose of your direct testimony in this proceeding?

A. Our testimony generally focuses upon the retail rules associated with Ameren's proposal. Specifically, we address the following key topics:

- **Ameren's proposed "translation" methodology.** We respond to Ameren's proposed "translation" methodology or "Prism" ("Prism"), as set out in Ameren Exhibit 5.0, which, as proposed, will take the outputs from the wholesale auction and "translate" them into retail rates.
- **Ameren's proposed Rider D Default Service Supply Availability Charge.** We respond to Ameren's proposed Rider D Default Service Supply Availability Charge ("DSSAC") referred to in Ameren Exhibit 5.0 at lines 695-702, which appears to be a form of "exit fee" or "post-transition customer transition charge" that Ameren seeks to impose upon customers of Alternative Retail Electric Suppliers ("ARES") and other Retail Electric Suppliers (collectively, "RES") customers for a service that is not utilized by those customers.
- **Ameren's proposed Supply Procurement Adjustment.** We respond to Ameren's proposal regarding the Supply Procurement Adjustment ("SPA"). The costs that comprise the SPA are referred to as "any additional costs incurred by the Company or allocated to the procurement function related to the provisions of supply and energy." (Ameren Proposed Schedule for Electric Rates at Sheet No. 27.048). We provide examples of various additional direct and indirect expenses relating to the auction procurement process that should be included in the SPA. In addition, we address the proposed method of allocating the costs of the SPA referred to in Ameren Rider MV at Sheet No. 27.054 .

- **Ameren's proposed hourly product (BGS-LRTP).** We address the supply cost components associated with the BGS-LRTP product. (*See* Resp. Ex. 4.1 at Sheet No. 27.030.)
- **Revisions to other retail rules.** We explain that there are several other retail rules that should be revised, including in the following specific areas:
  - **Uncollectibles as a supply-related cost.** We respond to Ameren's direct testimony concerning its proposed method of allocating uncollectible expenses in the retail tariffs. (*See* Ameren Schedule for Electric Rates at Sheet 27.049.)
  - **Enrollment window.** We address why customers should be allowed 75 days to choose Ameren's annual auction product rather than the 30 days proposed by Ameren. (*See* Resp. Ex. 3.0 at lines 196-67; Resp. Ex. 5.0 at line 361.)
  - **Review of Communication Materials**. We explain why the Commission should direct Ameren to initiate a separate docketed proceeding in which communication materials regarding the new procurement process would be reviewed, commented upon, and approved by the Commission.

II. AMEREN'S PROPOSED "TRANSLATION" METHODOLOGY

Q. Have you identified any problems associated with Ameren's proposal for "translating" the applicable final wholesale clearing prices into retail supply charges?

A. Yes. Customers under 1 MW offered the BGS-FP would be broken into several customer classes for purposes of "translation" of the auction price into retail rates. The translation methodology proposed by Ameren (which can be found in the Translation to Retail

Charges part of Rider MV – Market Value of Power and Energy), takes into account relative costs associated with electric energy, generation capacity, and ancillary services. However, unlike the translation tariff proposed by Commonwealth Edison Company ("ComEd") in ICC Docket No. 05-0159, the Ameren proposal would not allocate the migration risk premium to recognize differing migration potential across customer classes.

Thus, while ComEd's procurement proposal appropriately recognizes that large customer switching will impose additional costs, Ameren's proposal fails to make an allocation of the migration risk premium in a way that recognizes the distinctions among customer classes. Yet, Ameren has not articulated a reason for failing to make the distinction.

Q. What is the impact of not including a migration risk premium in the translation Prism?

A. Ameren's failure to address allocation of migration risk premium will tend to shift the cost burden of that premium to smaller customers. That is, under Ameren's proposal, smaller customers would be paying a higher rate in order to compensate the successful auction bidders for the risk that the larger customers will choose an alternative supplier. This runs contrary to one of Ameren's stated goals to "design class rates that reflect cost causation and equitable cost recovery principles." (Resp. Ex. 5.0 at lines 87-88.)

Q. Can you illustrate the magnitude of the impact that Ameren's proposal likely would have?

A. Yes. The impact of Ameren's proposal is illustrated by considering estimates generated by ComEd for the incremental effect on each of its proposed customer groupings under its CPP-B rate (i.e., ComEd's blended product that incorporates many of the features of Ameren's BGS-FP) due to migration risk.

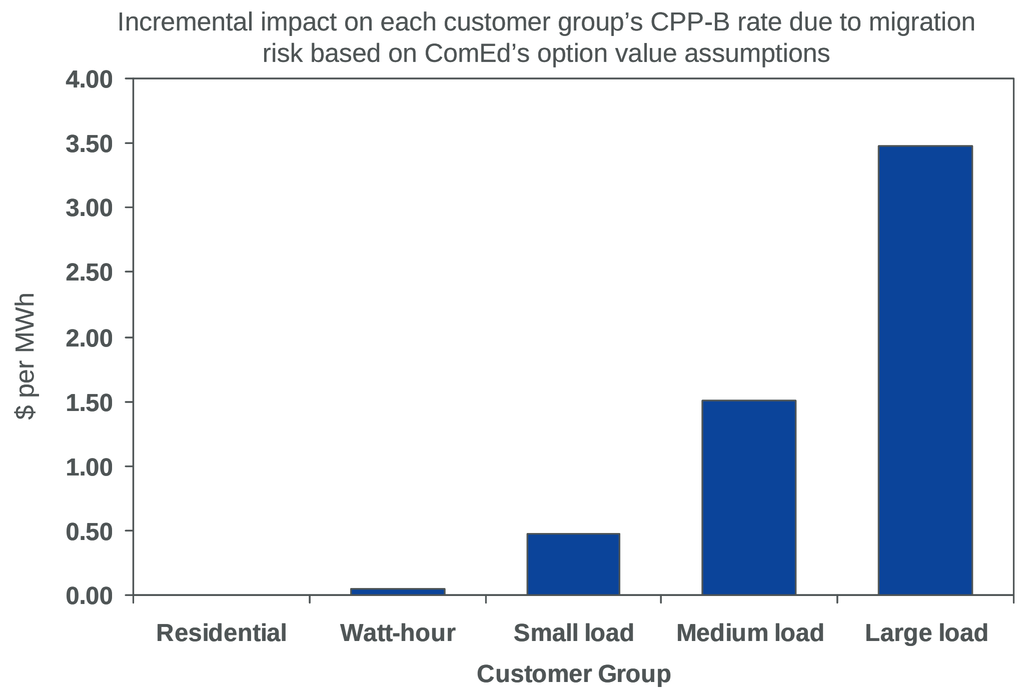
Q. Why is it appropriate to examine ComEd's figures in examining the migration risk premium for Ameren?

A. The obstacles to choice in Ameren's service territory during the transition period have rendered the switching data for Ameren less indicative of post-transition migration potential than the transition period switching data in the ComEd service territory.

Q. What estimates did ComEd present regarding the impact of migration risk?

A. ComEd's resulting estimates are summarized in the figure below:

<u>Table CES 3.1</u>



Source data: ComEd Exhibit 7.6 Schedules 1 and 2

As illustrated in the figure above, ComEd's proposed Large Load (400 kW to 1 MW) customer group is likely to have a higher incremental effect per MWh due to the relatively higher switching experienced with them. On the other hand, the Residential customer group is not likely to experience any incremental effect on rates due to migration risk since there has not been any switching in that segment to date.

Q. What assumptions did ComEd make regarding migration potential?

A. In order to value the migration risk premium, ComEd needed to make an assumption concerning the propensity of each customer group to elect RES service. ComEd – using switching statistics data as of December 2004 – assumed that all MWh that have elected RES service and that half of all MWh on the PPO would consider electing RES service in the future. Neither the switching statistics nor our experience in the competitive market support an assumption that only 50% of PPO customers would switch to RES supply if the economics so dictated. Thus, ComEd erred in underweighting the migration potential of PPO load.

Q. What in particular leads you to conclude that customers are willing to choose the least-cost available service regardless of whether it is utility supply or RES supply?

A. Based upon our companies' experience in the Illinois retail electric market and the observed pattern of migration between PPO and RES service for most customer groups in the ComEd service territories in most years, we conclude that customers exhibit a willingness to choose the least cost available service, regardless of whether it is utility supply or RES supply. This migration pattern is readily apparent in the 100kW to 400 kW and the 400 kW to 1 MW customer groups. These two groups have experienced annual net load migration out of bundled service in every year since at least 2002. In 2002 and 2003, there was a good deal of net migration into RES service and little or no net migration into the PPO for these customer groups. In 2004, the migration pattern was reversed, with net migration into the PPO and out of both bundled and RES services. This preference in service is at least in part related to the relative level of savings available from each product in a given year. These basic trends are also observed in the 0-100 kW customer group, but are not as visually apparent because this segment continues to experience overall load growth.

Q. Based on the analysis set out above, what assumptions should Ameren make about the migration potential of PPO load in its Prism?

A. The migration potential associated with PPO load should be set to 100% for the Ameren Prism. This approach would be consistent with CES' recommendation in the ComEd proceeding. Because the PPO has played a relatively more important role in competitive choice in the Ameren service territory (compared to the ComEd service territory), the migration potential associated with PPO load takes on even greater importance in the context of Ameren's proposal.

Q. How does switching between Bundled, PPO, and RES service in ComEd's service territory compare to the migration patterns experienced in the Ameren service territories?

A. Much of the switching in the Ameren service territories has actually been related to legacy special contracts and the PPO enlistment. RESs are directly serving only a handful of very large customers in the downstate service territories. Illinois Power's PPO is a good illustration of the switching rate in the Ameren service territories. Customer choice for medium industrial and commercial class customers in the IP service territory has been generally inconsequential. This point is illustrated in recent switching statics that reveal as of the end of 2004, about 90% of IP's delivery services customers under 1 MW were taking PPO service and about 60% of IP's larger-use delivery services customers had switched to the PPO. (*See* ILL. COMM. COMM'N, *Competition in Illinois Retail Electric Markets in 2004*, April 2005 at 6 & 7.)

Q. Please summarize the level of switching that has occurred to date in the Ameren service areas.

A. These differences in overall switching statistics are summarized in the table below, which considers percent of ComEd and Ameren load on bundled service for the under 400 kW and 400kW to 1 MW customer groupings as of December 2004.

<u>Table CES 3.2</u>

	ComEd Load on Bundled Service	Ameren Load on Bundled Service
< 400 kW	77%	93%
400 kW to 1 MW	37%	77%

Sources: ComEd Exhibit 7.6 in ICC Docket No. 05-0159; Ameren response to CUB DR 1.04.

Q. Why hasn't competition developed in the Ameren service territories in the way that it has in ComEd's service territory?

A. Coalition witness Dr. O'Connor has set forth several reasons why competition has not developed in the Ameren service territories. (*See* CES Ex. 1.0 at 370-403.) We agree with Dr. O'Connor's points that: (i) the lack of competitive development in the Ameren service territories is in part related to retail tariff terms and conditions and business practices; and (ii) we anticipate that many, if not all, of the retail issues raised by Dr. O'Connor will be addressed by the Commission in Ameren's upcoming delivery services rate case.

Q. How should the Ameren Prism be revised to allocate the migration risk premium?

A. The Commission should direct Ameren to adopt the approach to migration risk treatment in the Prism that CES has recommended for use by ComEd in its Prism. Furthermore, due to the obstacles to switching that have been observed in the Ameren market as noted above, CES recommends that Ameren should utilize the same switching levels, as a percent of relevant Ameren class load, as indicated by the ComEd data. This should be done at the time the data inputs for the Ameren Prism are set prior to distribution to registered auction bidders.

III. AMEREN'S PROPOSED RIDER D-DEFAULT SUPPLY SERVICE AVAILABILITY CHARGE

Q. What is the Ameren proposed Default Supply Service Availability Charge ("DSSAC")?

A. Ameren has proposed to assess a 15 cent-per-megawatt-hour (15¢/MWh) charge on all customers over 1 MW that select electric supply from someone other than Ameren. Although Ameren does not provide any legitimate justification for this charge in its direct testimony, apparently this charge is supposed to compensate Ameren for the option such customers have to switch to the hourly, real-time service, Rider RTP-L. In its response to a data request EPS Data Request 2.01, Ameren asserted that "In essence, Rider D represents a capacity option premium, giving customers the right to take BGS-LRTP as default service." (*See* Ameren response to EPS Data Request 2.01, attached to CES Ex. 1.0 as CES Ex. 1.7.)

Q. Did Ameren provide any details concerning how much this fee will cost these customers?

A. Ameren did not provide any such details in its direct testimony. However, in response to a data request, Ameren stated that it has "hard coded" a fee of 15¢/MWh. (*See* Ameren's response to IIEC Data Request 1-19 attached to CES Ex. 1.0 as CES Ex. 1.6.) However, Ameren admitted in response to another data request that it has no study or analyses to support its "hard coded" anticipated charge. (*See* Ameren's response to IIEC Data Request 3-6 attached to CES Ex. 1.0 as CES Ex. 1.8.)

Q. Are there competitive implications associated with allowing Ameren to assess such a fee from customers that choose a supplier other than Ameren?

A. Yes. The DSSAC appears to be a form of "exit fee" or "post-transition customer transition charge" that Ameren seeks to impose upon RES customers for a service that those customers do not utilize. As designed, the DSSAC is a baseless, anti-competitive charge that would deter customers from switching to RESs.

Q. Has ComEd proposed to assess a similar charge on customers who choose to engage an alternate provider in the competitive market?

A. No. It is also worth noting that ComEd does not currently collect such a fee, even though it offers hourly pricing as a default service to customers with demands over 3 MW whose Rate 6L service has been declared competitive. Thus, in directly analogous circumstances, ComEd neither is collecting nor has proposed to collect such a fee.

Q. What is your recommendation concerning this charge?

A. Imposition of the DSSAC would frustrate development of competition in the Ameren service areas. As Ameren has failed to justify the purpose of the fee, let alone the specific charges associated with it, the Commission should reject Ameren's proposed DSSAC. If Ameren does identify specific costs associated with reserve capacity for hourly customers, those costs should be recovered solely and fully from customers who take service under Ameren's BGS-LRTP.

IV. AMEREN'S PROPOSED SUPPLY PROCUREMENT ADJUSTMENT

Q. Do you have any concerns regarding Ameren's current Supply Procurement Adjustment ("SPA") proposal?

A. Yes. Although Ameren includes a number of cost categories that should be included in the SPA, we note the absence of other types of costs not specifically mentioned by Ameren to ensure that all appropriate costs have been included. Furthermore, while we generally support Ameren's proposed allocation method in terms of allocating the SPA on a ¢/kWh basis, Ameren fails to provide enough detail to determine how this allocation will be distributed among the various customer classes. Therefore we are concerned that the allocation method may improperly place an inappropriate proportion of these costs onto the smaller customer classes and perhaps even onto the residential customer class.

Q. What is the basis for costs that should be included in the Supply Procurement Adjustment?

A. We agree with and support the goal asserted in Ameren's direct testimony: "to design class rates that reflect cost causation and equitable cost recovery principles, with appropriate consideration of equity and fairness to all customer classes." (Resp. Ex. 5.0 at lines 87-89.) Attainment of that goal will benefit retail customers and will contribute to the overall fairness of rates. This approach seems to be consistent with the structure outlined in the Illinois Public Utilities Act ("Act"). (*See, e.g.*, 220 ILCS 5/16-110(c)(ii) (prescribing that the electric utility is able to collect "a fee to compensate the electric utility for the service of arranging the supply or purchase of such electric power and energy"); s*ee also* 220 ILCS5/16-112(k) (providing that costs shall be applied taking into account "the daily, monthly, annual and other relevant characteristics of the customers' demands on the electric utilities' system.").) All direct and indirect costs associated with the service of arranging for the supply of electric energy supplied by the utility should be allocated taking into consideration the relevant characteristics of the customers' demands on the electric utility's system.

Q. What costs has Ameren already identified as those to be included in the Supply Procurement Adjustment?

A. Ameren has listed cost categories such as, "professional fees, costs of engineering, supervision, insurance, payments for injury and damage awards, taxes, licenses, and any other administrative and general expense not already included in the auction prices for power and energy service, not recovered from the supplier fee." (Ameren Proposed Schedule for Electric Rates at Sheet No. 27.048.)

Q. What types of costs should be included in the Supply Procurement Adjustment based on the applicable guiding principles?

A. Two types of costs – direct and indirect – should be included in the SPA. **First**, any cost that Ameren incurs directly as a result of procuring its power through the proposed auction process should obviously be included in the SPA. The Commission should ensure that generation supply costs are not allocated to delivery services for collection. An improper allocation of costs will distort the true generation supply costs, distort the market, and frustrate customer choice and competition.

Direct supply cost such as the cost of conducting the auction process itself, the expenses of various employees time in reviewing the results of the auction, communicating the auction results to the Commission and other parties, incorporating the results into the billing system, and other similar auction-related direct expenses are examples of such costs.

Second, Ameren will incur a variety of indirect costs as a consequence of utilizing this supply method. These costs arise from Ameren's ongoing role as a provider of electric energy at retail, even though it would be acquiring the related wholesale energy through the auction. For example, Ameren will incur costs as Ameren employees process and track customer accounts that leave for RES service or those accounts that opt into BGS-

LFP. Ameren also will likely dedicate employee time and systems to communicating the changing load characteristics to the winning suppliers as customers go onto or leave the various supply sources.

Q. Are there other costs that Ameren will incur under the proposed competitive procurement proposal?

A. Yes. Payments will need to be made to the wholesale suppliers each month and the Market Value Adjustment Factor ("MVAF") mechanism will need to be calculated on an ongoing basis, each requiring Ameren employee time and expense. Also, costs likely will be incurred in the communication process as Ameren employees, acting both in person for large accounts and at the call center for smaller accounts, answer questions about the supply options offered by Ameren and about the role of the auction supply in customers' electric bills under this new scenario.

Ameren also likely will incur capital expenses associated with providing such services (*e.g.* utilization of or upgrading its billing and communications systems). It is possible that Ameren may choose to produce marketing or communication materials for distribution to customers describing the new supply options and rules pertaining to them, again incurring indirect supply-related costs.

Q. How do you propose that all of these direct and indirect costs be allocated into the SPA charge?

A. A precedent for identifying costs properly allocated into the SPA charges is established by, for example, the identification and allocation of marketing expenses as related to energy supply through today's ComEd PPO. Such identified expenses should be appropriately allocated a supply administrative overhead allocation in addition to the specific employee and capital expenses themselves. In order to facilitate an accurate account of the expenses involved, the Commission should require Ameren to track employee time and company expenses related to these indirect supply-related activities. All of these direct and indirect costs and expenses associated with this new procurement model should be distributed into the appropriate capital and non-capital cost categories and allocated an appropriate administrative overhead cost proportion; the combination of all of these costs should then be included in the SPA.

Q. How has Ameren proposed to collect the Supply Procurement Adjustment?

A. Ameren plans to collect these costs on a ¢/kWh basis. (*See* Ameren Rider MV at Sheet No. 27.054.) As mentioned earlier, we generally support Ameren's proposed collection method in terms allocating the SPA on a ¢/kWh basis. However, Ameren has not provided enough detail to determine how this allocation will be distributed among the various customer classes.

Q. What may be wrong with collecting the Supply Procurement Adjustment using Ameren's proposal allocation method?

A. The allocation method proposed by Ameren may improperly assign an inappropriate proportion of these costs to the smaller customer classes and perhaps even to the residential customer class. Hopefully, Ameren will provide sufficient detail in its rebuttal testimony regarding how this allocation will be distributed among the various customer classes. If Ameren's proposal were to allocate supply procurement adjustment expenses simply based on the number of customer accounts, in each customer class, the vast majority of these expenses would be paid for by the residential class, which comprises over 87% of the number of accounts. (*See* Resp. Ex. 5.4.) Given the distribution of actual effort across customer classes, this would be an inaccurate allocation of the costs. Absent a more thorough discussion and demonstration in rebuttal, the Commission should be concerned about the allocation of the cost and should carefully consider which customer classes are going to bear the majority of these costs.

Q. Why do you believe that this would be an inaccurate allocation of costs?

A. The majority of the marketing, supply, and informational transactions will undoubtedly involve non-residential classes that are more likely to seek pricing information from Ameren as they determine their alternatives. Such non-residential customers also will be seeking information from non-utility providers. Each seller, including the utility, must bear such expenses through the provision of its own supply services. These customers likely will call Ameren with questions about their supply options, and Ameren representatives will, in many cases, make personal visits to clarify matters for customers.

Even if such Ameren personnel are not "advocating" that the customer purchase Ameren supply, this sort of information distribution is indeed marketing, because marketing consists mainly of communicating price and other information. BGS-LFP sign-up activity will be derived from non-residential classes, which in turn will require more Ameren employee action administering these occurrences and communicating the ramifications of these supply option choices from a supply and accounting point of view. Although these marketing costs invariably will be incurred by Ameren, a lopsided cost allocation method based on number of accounts would produce inaccurate results and violate Ameren's own stated principle to avoid "a non-cost based advantage for customers to elect power from an Ameren Company, to the detriment of competitive providers." (*See* Resp. Ex. 5.0 at lines 103-105.)

Q. How should the Supply Procurement Adjustment be allocated to better assign the costs to the cost-causers?

A. Ameren has already indicated its preference to allocate these costs on a ¢/kWh basis. (*See* Ameren Rider MV at Sheet No. 27.054.) However, we propose that the SPA be allocated evenly per kWh for all customer classes. Additionally, we suggest that the SPA should be tracked in the MVAF to ensure that Ameren neither over- nor under-collects for this expense on an ongoing basis.

The per kWh allocation approach properly accounts for the fact that the average non-residential customer account uses more kWh than the average residential account and that more of Ameren's own internal resources and indirect supply administration costs under the proposed auction methodology will be directed toward the non-residential classes in administering the tariffs. This allocation method will produce a more accurate allocation of these costs consistent with the requirements of the Act.

Q. Do you have any concerns regarding Ameren's development of communication materials that will describe the new procurement process?

A. Yes. AmerenCILCO, AmerenCIPS, and AmerenIP each has been approved to operate as an Integrated Distribution Company ("IDC"). (*See* ICC Docket Nos. 02-0392, 04-0242, 04-0630.) The Illinois Administrative Code states that while operating as an IDC, a utility "shall not promote, advertise or market with regard to [the] offering or provision of any retail electric supply service." (83 Ill. Admin Code 452.240(a).) The Commission should be concerned about how Ameren may go about balancing "good customer communications" with what may be construed as "marketing" of its new supply options. That is, Ameren and other interested parties should have an opportunity to derive an appropriate balance between getting the word out to customers about the supply choices available from Ameren, while ensuring there is no bias that would direct customers toward necessarily taking those supply options offered by the utility. As a result, the Commission should direct Ameren to initiate a separate docketed proceeding in which pertinent communication and marketing materials would be reviewed, commented upon, and approved by the Commission.

V. AMEREN'S PROPOSED REAL TIME PRICING PRODUCTS

Q. Please describe Ameren's proposed Real Time Pricing (RTP) products.

A. Customers taking service under Ameren's proposed Riders RTP and RTP-L would receive hourly energy rates. These proposed energy rates would reflect locational marginal hourly prices at multiple delivery points within Ameren and would be adjusted for applicable transmission and distribution losses. Additionally, Ameren has proposed that customers taking this service would pay suppliers' charges related to capacity and Rider D – Default Service Supply Availability Charge.

Q. Does the Coalition support Ameren's proposal to offer RTP energy products?

A. The Coalition agrees that an RTP energy product should be made available for all customers in the Ameren service territory.

Q. Which customers may take the proposed RTP products?

A. Under Ameren's proposal, the Rider RTP-L product would serve customers with individual demands equal to or greater than 1 MW. Ameren's proposed Rider RTP would serve customers with individual demands of less than 1 MW.

Q. Do you have any comments regarding Ameren's proposed RTP products?

A. Yes. Ameren has failed to properly recognize the additional costs that will be incurred as a result of Ameren providing service for RTP products. In other words, at this time, it is unclear whether the hourly energy products, as currently proposed by Ameren, fully recover the costs associated with providing that service to customers.

Q. What costs associated with the RTP products has Ameren failed to consider?

A. Serving customers under Ameren's proposed RTP products creates additional costs that generally are not incurred with the fixed-price full requirements products. These costs are driven by the fact that the electric energy price varies on an hourly basis. The additional costs that need to be recovered by Ameren in offering these products are as follows:

- **Credit risk and exposure.** Customers taking these products are exposed to wide variability in hourly prices. While there is limited experience in MISO to date, the PJM Real Time Locational Marginal Prices in the ComEd zone had over 100 hours with prices over $100/MWh over the May 1, 2004 to April 30, 2005 time period. (*See* http://www.pjm.com/markets/energy-market/real-time.html.) This uncertainty in prices is likely to be observed in MISO and could result in a rate of uncollectibles that might well exceed levels indicated by the limited past experience with hourly priced products in the Ameren service area. Thus far, most customers relying on hourly priced products have done so on the basis of specific business programs for better adapting energy supply and costs to business operations and objectives. To the extent that an RTP product is the default product for certain classes of customers, there may be customers going on hourly who might not do so as a result of analysis. These customers naturally will involve a greater risk of uncollectibles. Ameren has neither provided an estimate of this cost component, nor proposed an allocation or recovery methodology that would provide a high level of confidence that such costs would be recovered from the cost-causers rather than from others.

- **Incremental cost to serve.** Serving RTP customers likely will cost more than serving customers receiving fixed-rate products. Reasons for this include: (1) RTP products require more intervention, which in turn increases costs to serve (e.g., acquiring, scrubbing, and inputting hourly data will take additional time to process); (2) RTP customers likely would have more questions about their bills, especially when prices are high; and (3) there is a much higher probability that RTP customer bills would be delayed due to a lack of data, resulting in increased working capital expenses. The direct and indirect costs and related capital expenditures also should be considered in calculating the total cost associated with serving hourly customers.

Q. How should these additional costs associated with the hourly products be recovered?

A. For consistency and equity, these costs should be allocated evenly per kWh to all customers receiving RTP products. As with the SPA, these costs should be fully accounted for and allocated on a simple ¢/kWh basis as part of the energy charges. As noted in Section II above, if Ameren identifies costs associated with purchasing reserve capacity for these customers, those costs should be charged to the customers who take this service exclusively. These costs should be updated annually to reflect changes in the cost structure.

VI. REVISIONS TO OTHER RETAIL RULES

Q. Are there any other retail rules proposed by Ameren that need to be revised?

A. Yes. Two additional issues relating to Ameren's proposed retail rules need to be revised. These issues concern: (1) supply-related uncollectible expenses; and (2) allowing customers 75 days to choose Ameren's annual auction product rather than 30 days as proposed by Ameren. Each of these issues will be addressed below.

Q. How has Ameren proposed to collect supply-related uncollectible expenses?

A. Ameren identifies the Uncollectible Adjustment as a supply-related cost component in its direct testimony. (*See* Ameren Proposed Schedule for Electric Rates at Sheet No. 27.049; Ameren Rider MV at Sheet No. 27.054.) Ameren proposes that this cost "be determined based upon an average of the three previous years of uncollectible expense." (Ameren Proposed Schedule for Electric Rates at Sheet No. 27.049.)

Q. Do you have any recommendations for this cost methodology to more properly allocate the supply-related uncollectible expenses?

A. Yes. We suggest that the uncollectible expenses should be separately accounted for between "delivery services"-related uncollectible expenses and "energy"-related uncollectible expenses, and charged to customers accordingly. That is, since all customers (regardless of their energy supplier) are, in a practical sense, delivery services customers of the utility, the delivery related uncollectible expenses should be allocated into the delivery service charges and paid fairly by all customers in all classes. However, the energy-related uncollectible expenses should be allocated only to those customers who choose Ameren as their energy supplier and should be allocated evenly per kWh into the energy supply charges of BGS-LFP, BGS-FP and BGS-LRTP tariffs. Additionally, these supply-related uncollectible expenses should be tracked in Ameren's MVAF, to ensure that Ameren neither over nor under collects for these costs.

Q. Why is it important that the market be allowed 75 days to choose Ameren's annual auction product rather than the 30 days that Ameren has proposed?

A. There are very practical reasons why Ameren's proposed 30-day sign-up window should be expanded to 75 days. Most customers in this group will likely be looking for competitive suppliers to either beat the utilities' offer with similar contract provisions or will be looking for other supply contract options that the utilities' offer omits or disregards. It takes a significant amount of time for customers (and/or their consultants) to gather their information together, decide what types of supply options are desired, send out Requests for Proposals to RESs, receive feedback and proposals from various RESs, compile this information, conduct their own internal reviews, and contract negotiations in an effort to make a timely decision. It also takes a significant amount of effort on the part of the RESs to prepare pricing proposals and enter into contract negotiations for the hundreds and hundreds of accounts who do their "shopping" during this time frame as is the case today.

Thirty days is simply too short a time frame to accomplish these tasks, and if imposed likely would result in customers simply choosing the utility supply option because they did not possess adequate time to follow the decision making steps necessary to evaluate any other alternatives.

VII. <u>SUMMARY OF RECOMMENDATIONS</u>

Q. Please summarize your recommendations.

A. We recommend that Ameren's proposed **translation mechanism** be revised as follows:

- Ameren should revise its Prism to make an allocation of the migration risk premium in a way that recognizes the distinctions among customer classes;
- The Commission should direct Ameren to adopt the approach to migration risk treatment in the Prism that CES has recommended in ICC Docket No. 05-0159 for use by ComEd in its Prism.

We recommend that the Commission reject Ameren's **Rider D Default Service Supply Availability Charge**. The DSSAC as proposed by Ameren seeks to impose on RES customers a charge for a service not being utilized. If Ameren identifies costs associated with purchasing reserve capacity for RTP customers, those costs should be charged to the customers who take Ameren's RTP offerings exclusively.

We recommend that Ameren's proposed **Supply Procurement Adjustment** be revised as follows:

- All of the direct and indirect costs and expenses associated with this new procurement model should be distributed into the appropriate capital and non-capital cost categories and allocated an appropriate administrative overhead cost proportion; the combination of all of these types of costs should be included in the SPA.

- The SPA should be allocated evenly per kWh across all customer classes and not be allocated proportionally based on the number of accounts.
- The SPA should be tracked in the MVAF to ensure that Ameren neither over nor under collects for this expense.
- The Commission should direct Ameren to initiate a separate docketed proceeding in which communication materials regarding the new procurement process would be reviewed, commented upon, and approved by the Commission.

We recommend that **Ameren's proposed BGS-LRTP** be revised as follows such that additional costs that need to be recovered by Ameren in offering this product include:

- Credit risk and exposure. Customers are exposed to wide variability in hourly prices. This kind of uncertainty in prices is likely to result in an increased rate of uncollectible expenses. Ameren has neither provided an estimate of this cost component, nor proposed an allocation methodology.
- Incremental cost to serve. Serving RTP customers likely will cost more than serving customers receiving the BGS-LFP and BGS-FP products. The direct and indirect costs and related capital expenditures should be considered in calculating the total cost associated with serving these customers.

For consistency and for equity purposes, these costs should be allocated evenly per kWh to all customers receiving RTP products.

We recommend some **additional retail rules** as proposed by Ameren be revised as follows:

- The **uncollectible expenses** should be separately accounted for between “delivery services”-related uncollectible expenses and “energy”-related uncollectible expenses, and charged to customers accordingly;
- The **uncollectible expenses** should also be tracked using the MVAF to ensure that Ameren neither over nor under collects for this expense; and
- Ameren should allow a 75-day **enrollment window** for Ameren's annual auction product, rather than the limit shopping options to the 30-day period proposed by Ameren.

Q. Does this conclude your direct panel testimony?

A. Yes.