

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 05-0160, 05-0161 and

05-0162 (consolidated)

REBUTTAL TESTIMONY

OF

JAMES C. BLESSING

Submitted On Behalf

Of

**Central Illinois Light Company d/b/a AmerenCILCO,
Central Illinois Public Service Company d/b/a Ameren CIPS,
and Illinois Power Company d/b/a AmerenIP**

July 13, 2005

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REBUTTAL TESTIMONY
OF
JAMES C. BLESSING

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James C. Blessing. My business address is One Ameren Plaza,
1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom and in what capacity are you employed?

A. I am employed by Ameren Services Company as Managing Supervisor, Power
Supply Acquisition in the Strategic Initiatives Department.

**Q. Are you the same James C. Blessing who previously filed direct testimony in
this proceeding?**

A. Yes, I am.

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

A. The purpose of this testimony is to respond to certain of the statements and
concerns expressed by intervenors in their direct testimony in this case.

Q. How is your rebuttal testimony organized?

A. My rebuttal testimony is organized into the following components:

Section I. INTRODUCTION

24	Section II	SINGLE AUCTION
25	Section III	SUPPLIER CONTRACTS
26	Section IV	PRODUCT DESIGN
27	Section V	CONTINGENCY PLANS
28	Section VI	TRANCHE SIZE
29	Section VII	DEFAULT SUPPLY SERVICE AVAILABILITY
30		CHARGE
31	Section VIII	PROCUREMENT OF ANCILLARY SERVICES
32	Section IX	IDENTIFICATION OF RESOURCES
33	Section X	INDEPENDENT AUCTION REPORT OUTLINES

34 **II. SINGLE AUCTION**

35 **Q. What is the purpose of this section of your testimony?**

36 A. The purpose of this section of my testimony is to address concerns expressed in
37 certain intervenor testimony regarding the auction structure proposed by the
38 Ameren Companies in their direct case. More specifically, I will address the
39 concerns of Illinois Commerce Commission (ICC) Staff witnesses Mr. Ogur and
40 Dr. Salant who argue that there will exist a sufficient number of benefits to
41 operate a single auction for the combined needs of both the Ameren Companies
42 and Commonwealth Edison Company (ComEd) with switching allowed between
43 the products of the two.

44 **Q. Have the Ameren Companies made any modifications to the auction**
45 **approach proposed in their direct case?**

46 A. Yes, they have. After considering the concerns raised by the other parties, the
47 Ameren Companies, with the assistance of their auction design consultant Dr.

48 LaCasse, carefully weighed the benefits and drawbacks associated with holding a
49 single statewide auction in which suppliers could switch between the Ameren
50 Companies' products and the ComEd products. Dr. LaCasse discusses these
51 benefits and drawbacks in her rebuttal testimony.

52 In the end, the Ameren Companies have decided to modify their proposal
53 to allow suppliers to: (a) switch between the fixed-priced products of the Ameren
54 Companies and the fixed-priced ComEd products; and (b) switch between the
55 hourly-priced products of the Ameren Companies and the hourly-priced ComEd
56 products. However, the Ameren Companies' revised proposal continues to
57 preclude suppliers from switching between the fixed-priced products and the
58 hourly-priced products included in the auction. This limitation continues because,
59 as discussed by Dr. LaCasse, the fixed-priced products and the hourly-priced
60 products are simply not good substitutes for each other.

61 **III. SUPPLIER CONTRACTS**

62 **Q. Which intervenors raise issues concerning the terms of the Supplier Forward**
63 **Contracts (SFCs)?**

64 A. ICC Staff, Constellation Energy Commodities Group, Inc. (CCG), Dynegy Inc.
65 (Dynegy). Specifically, ICC Staff witnesses Mr. Ogur and Dr. Salant, Dynegy
66 witnesses Mr. Huddleston and Ms. Dornbusch, and CCG witness Mr. Smith
67 raised non-credit issues regarding the SFCs. I have classified the non-credit
68 issues raised into five categories: (a) default and termination; (b) cost and risk
69 responsibility; (c) force majeure provisions; (d) other issues of asymmetry; and
70 (e) miscellaneous issues.

71 DEFAULT AND TERMINATION

72 **Q. Mr. Smith states that the SFCs should be modified so that, in the event either**
 73 **Party terminates a SFC, all SFCs involving that BGS Supplier be terminated**
 74 **automatically (CCG Exhibit 1.0 at page 8). Do you agree?**

75 A. No. The default provisions of the SFCs provide that an “Event of Default” under
 76 any of the agreements for the provision of BGS Supply constitutes an Event of
 77 Default under the other SFCs. In each instance, the non-defaulting Party has,
 78 among its choices of remedy, the option but not the duty to terminate the contract.
 79 It is the Ameren Companies desire to minimize the amounts of capacity and
 80 energy that it must procure outside of the auction process. Giving the Ameren
 81 Companies the option and not the duty to terminate each SFC individually gives
 82 them the ability to terminate only those SFCs that are truly necessary. It is
 83 important to note that the Ameren Companies do not have a financial incentive to
 84 selectively pick and choose which SFCs to terminate. Any financial gain or loss
 85 achieved by doing so would be reflected in the rates of the Ameren Companies
 86 retail customers.

87 **Q. Several intervenor witnesses raise issues relating to calculation of the**
 88 **termination payment, as provided in Section 5.4. First, Mr. Huddleston**
 89 **states (DYN Exhibit 1.0 at pages 18-19) that the Ameren Companies should**
 90 **not be permitted to retain a portion of the Default Payment. Second, Mr.**
 91 **Smith states (CCG Exhibit 1.0 at pages 8-9) that the non-defaulting party –**
 92 **whether that be the Ameren Companies or the BGS Supplier – should**

93 **calculate a single Termination Payment applicable to all the SFCs. Do you**
94 **agree with these assertions?**

95 A. Not entirely. The Ameren Companies' ability to retain a portion of the
96 Termination Payment arises from the BGS Supplier's default. The SFCs provide
97 that only a commercially reasonable portion of the Termination Payment may be
98 retained, and that portion is retained solely as security for additional amounts
99 which may be due and owing as damages arising from the default. However, we
100 do agree with Mr. Smith that the non-defaulting party -- whether one of the
101 Ameren Companies or the BGS Supplier -- should calculate a single Termination
102 Payment for all contracts being terminated. We have proposed language to
103 modify Section 5.4.e to clarify that the right of the non-defaulting party to
104 calculate a single Termination Payment shall apply mutually to the Ameren
105 Companies and the BGS Supplier.

106 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 18) that a three-day cure**
107 **period should be permitted in the event the BGS Supplier: (a) loses its ability**
108 **to make purchases from or sales into the MISO markets; (b) the MISO holds**
109 **the Companies responsible for supply not provided by the BGS Supplier**
110 **(that it was responsible for providing); or (c) fails to comply with the**
111 **creditworthiness standards in the SFC. See Sections 5.1(viii) and (ix). Do**
112 **you agree?**

113 A. No. The reliable and uninterrupted provision of supply must be safeguarded by
114 the SFCs. It is essential that the BGS Supplier maintain its ability to serve the
115 load. Moreover, permitting a cure period in the event of the BGS Supplier's

116 failure to maintain the creditworthiness requirements could result in significant
117 exposure to the energy markets.

118 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 17) that one of the Ameren**
119 **Companies should be considered to be in default if it loses its status as a Load**
120 **Serving Entity in MISO or loses its ability “to transact business in the MISO**
121 **markets.” Do you agree?**

122 A. I do not. The SFCs require the Ameren Companies to procure transmission and
123 ancillary services. The SFCs do not hinge on the Ameren Companies’ ability to
124 transact business in the energy markets. Rather, it is precisely this ability (and
125 responsibility) which the BGS Supplier assumes by entering into the SFCs. The
126 Ameren Companies agree to revise the SFCs to make failure to procure
127 transmission and ancillary services an event of default for the Ameren
128 Companies.

129 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 17) that Section 5.1(viii)**
130 **appears to permit actions by the MISO to cause a BGS Supplier to be in**
131 **default. Do you agree?**

132 A. Mr. Huddleston’s characterization of Section 5.1(viii) is unhelpful. Section
133 5.1(viii) identifies defaults which result from the actions or inactions of the BGS
134 Supplier, not the MISO -- specifically, actions or inactions which: (a) cause the
135 BGS Supplier to lose its authority or ability to engage in transactions in the MISO
136 markets; or (b) cause the MISO to determine that there has been a failure to
137 provide the full Energy and Capacity contracted under the SFCs. Moreover, Mr.
138 Huddleston’s suggestion that Section 5.1(viii) permits the MISO to “cause the

139 Supplier to be in Default” while Section 3.1(viii) does not is rather curious. The
140 MISO would certainly have the authority to determine that the BGS Supplier is
141 not a Market Participant in good standing with the MISO and in compliance with
142 all obligations, rules and regulations, as established and interpreted by the MISO,
143 that are applicable to the Supplier in connection with its performance under the
144 SFCs. *See* Section 3.1(viii) (emphasis added). Maintenance of such good
145 standing, as established and interpreted by the MISO, is a continuing obligation of
146 the BGS Supplier. *See* Section 3.3.

147 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 19) that Sections 5.3.a to**
148 **5.3.d should be modified because damages attributable to the Supplier’s**
149 **failure to provide supply under the contracts and damages attributable to the**
150 **Ameren Companies’ failure to accept delivery are not symmetrical. Do you**
151 **agree?**

152 A. No, I do not. The SFCs will be entered into to allow the Ameren Companies to
153 fulfill their obligations to provide electric supply to their retail customers that
154 have not chosen an Alternative Retail Electric Supplier (ARES). The shift in
155 costs that Mr. Huddleston suggests here would ultimately be placed on the
156 Ameren Companies' retail customers. With that in mind, I believe a lack of
157 symmetry is appropriate in this case. I also note that these same provisions are
158 included in the New Jersey supplier contracts upon which these SFCs were based.

159 COST/RISK RESPONSIBILITY

160 **Q. Mr. Smith suggests (CCG Exhibit 1.0 at page 9) that, if new taxes are**
161 **imposed on any component of BGS Supply, that the Ameren Companies be**

162 **obligated to go to the ICC to seek permission to collect those taxes from end-**
163 **use customers, thereby excusing the BGS Supplier from liability for payment**
164 **of those taxes. Please comment on this suggestion.**

165 A. The SFCs have been drafted to provide a clear line of demarcation with respect to
166 responsibility for taxes. Section 15.14 draws that line at the Delivery Points, with
167 the BGS Supplier taking responsibility for taxes with respect to the BGS Supply
168 up to the Delivery Points, and the Ameren Companies taking responsibility
169 thereafter. That same allocation applies in respect of new taxes or Government
170 impositions and relieving the BGS Supplier from responsibility in respect of new
171 taxes simply shifts costs to end-use consumers. Just as Mr. Smith acknowledges
172 that “the Delivery Points should be the points of demarcation between the Ameren
173 Companies and BGS Suppliers as to which party bears the risk of changes in
174 market rules or requirements,” *see* Direct Testimony of Michael Smith at page 10,
175 so too should that line of demarcation apply to the risk of changes in taxes.

176 **Q. In a related discussion, Mr. Smith suggests (CCG Exhibit 1.0 at pages 9-10)**
177 **that the SFCs be modified so that each party provides the other copies of**
178 **applicable tax exemption certificates. Please comment.**

179 A. We do not object to this suggestion, and we have proposed revised language to
180 implement this revision.

181 **Q. Mr. Smith states (CCG Exhibit 1.0 at pages 10-11) that Section 13.2 should**
182 **be clarified, noting that the current language makes it unclear whether the**
183 **BGS Supplier is responsible for new or increased charges after the Delivery**
184 **Points. He also states that the Delivery Points should be the points of**

185 **demarcation between the responsibilities and risks borne by the Ameren**
186 **Companies and the BGS Suppliers. Do you agree?**

187 A. As stated earlier, we agree that the Delivery Points should be the points of
188 demarcation between the risks and responsibilities of the parties with respect to
189 changes in both Government impositions and MISO market rules. The word
190 “whether” which Mr. Smith suggests should be stricken (from the final clause of
191 the second sentence of the second paragraph of Section 13.2) does create
192 confusion as to the meaning of Section 13.2. We, therefore, propose to delete the
193 word “whether” and modify the sentence in order to clarify the provision.

194 **Q. Mr. Huddleston, in a related discussion (DYN Exhibit 1.0 at page 11)**
195 **criticizes the SFCs for imposing the risk of changes in the MISO market**
196 **rules on the BGS Suppliers. Please comment.**

197 A. Mr. Huddleston’s characterization is inaccurate to the extent that he suggests that
198 the SFCs impose the risk of changes in the MISO market and MISO’s market
199 rules solely on the BGS Suppliers. The SFCs use the Delivery Points as the
200 demarcation line separating the MISO market rule risks borne by the BGS
201 Suppliers from those borne by the Ameren Companies.

202 Changes almost inevitably will occur as the market matures. The parties
203 to the SFCs share the risks inherent in dealing with a new market and new market
204 rules. The SFCs allocate a portion of that risk to both the Ameren Companies and
205 the BGS Suppliers -- using the Delivery Points as the line demarcating
206 responsibility for those risks.

207 **Q. Mr. Huddleston also states (DYN Exhibit 1.0 at page 12) that neither party**
208 **should be held to MISO’s interpretation of its own rules and, accordingly,**
209 **has suggested an edit to Section 2.1.1. Do you agree with his suggested edit?**

210 A. We do not. The parties must agree to be bound by MISO’s interpretation of its
211 rules, subject to their ability to seek relief or other recourse in the appropriate
212 forum against objectionable rules or interpretations.

213 FORCE MAJEURE

214 **Q. Dr. Salant states (ICC Staff Exhibit 1.0 at page 104) that BGS Suppliers**
215 **should be excused from delivery of energy if there is no energy available in**
216 **the MISO markets. Mr. Huddleston (DYN Exhibit 1.0 at page 16) states that**
217 **BGS Suppliers should be excused from delivery of energy in the event of**
218 **physical inability to deliver. Do you agree with either of these suggestions?**

219 A. No. Section 2.1.b(v) establishes the primacy of the delivery obligation. The
220 fundamental objective of the SFCs is to secure uninterrupted actual physical
221 delivery of the BGS Supply, and that fundamental obligation is assumed by the
222 BGS Suppliers. Section 15.13(vii) reinforces the primacy of the delivery
223 obligation by unambiguously stating that physical delivery rather than financial
224 settlement is the objective of the SFCs. The BGS Suppliers take the responsibility
225 for securing and delivering supply, subject to physical impossibility which
226 prevents delivery to the Delivery Points. Contrary to Mr. Huddleston’s
227 suggestion, *see* DYN Exhibit 1.0 at page 16, if operational or other issues
228 concerning the transmission grid make it physically impossible to deliver supply
229 to the Delivery Points, Section 2.1.b(v) would relieve the BGS Suppliers of their

230 delivery obligations, so there would be no need for a “Force Majeure” provision
231 to provide such relief.

232 OTHER ISSUES OF ASYMMETRY

233 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at pages 15-16) that Section 10.4**
234 **places the burden of MISO compliance on the BGS Suppliers only, and not**
235 **on the Ameren Companies. Do you agree?**

236 A. We do not. Section 10.4 explicitly acknowledges the Ameren Companies’
237 obligations to comply with MISO’s operating instructions, policies, and
238 procedures. Section 10.4 simply imposes an obligation on the BGS Suppliers to
239 cooperate with the Ameren Companies so that the Ameren Companies will
240 remain in compliance with all MISO Emergency Operations Procedures. That
241 said, the Ameren Companies are willing to make certain clarifying changes to
242 Section 10.4, consistent with the language proposed by Mr. Huddleston.

243 **Q. In a related comment, Mr. Huddleston states (DYN Exhibit 1.0 at page 16)**
244 **that Section 10.5 appears to create a unilateral obligation for BGS Suppliers**
245 **to cooperate with the Ameren Companies when called upon to comply with**
246 **government or civic authority directives. Mr. Huddleston states that the**
247 **Ameren Companies should have the reciprocal obligation to cooperate with**
248 **the BGS Suppliers when they are called upon to comply with government or**
249 **civic authority directives. Do you agree?**

250 A. We do, and we have proposed modifications to Section 10.5 to clarify that the
251 parties have reciprocal obligations to cooperate with each other in respect of
252 compliance with directives of government or civic authorities.

253 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 20) that, as provided in**
254 **Section 15.3, the Ameren Companies should not be able to decide unilaterally**
255 **whether to deem an application for assignment of a SFC rejected if still**
256 **pending after 90 days. Do you agree?**

257 A. No. The 90-day period is commercially reasonable. It represents an attempt to
258 strike a balance between two competing imperatives: (1) the time required by a
259 regulatory agency from which an approval is sought; and (2) the need to have
260 resolution of outstanding matters so that business can proceed.

261 MISCELLANEOUS ISSUES

262 **Q. Dr. Salant states (ICC Staff Exhibit 1.0 at pages 111-113) that the Ameren**
263 **Companies and ComEd SFCs should be nearly identical. Do you agree?**

264 A. Where appropriate, the SFCs should be nearly identical, and we have incorporated
265 a number of modifications to the SFCs to more closely align them with the
266 ComEd SFCs. However, there are notable differences in the operations of the
267 Ameren Companies and ComEd, including differences in the operations and
268 regulations of the regional transmission organizations in which they operate.
269 Moreover, Dr. Salant identifies three areas in which the credit provisions of the
270 Ameren Companies and ComEd SFCs differ. Those issues are addressed in the
271 Rebuttal Testimony of Timothy Moloney.

272 **Q. Mr. Smith suggests (CCG Exhibit 1.0 at page 10) that the ICC establish**
273 **another working group process to review the SFCs. Please comment.**

274 A. We do not believe that any benefit would be derived from establishing another
275 working group. The parties have already engaged in a series of discussions on

276 this subject. Any remaining concerns should be addressed in rebuttal testimony
277 and the hearing. Establishing another working group process would simply delay
278 progress towards concluding an agreement and conducting the auction. However,
279 as explained by Mr. Craig Nelson in his rebuttal testimony, the Ameren
280 Companies agree they will continue to work with ComEd and staff to achieve
281 greater uniformity in the form and terms of the SFCs.

282 **Q. Section 15.13(ii) provides that the Ameren Companies will not be jointly and**
283 **severally liable to the BGS Suppliers. Ms. Dornbusch states (DYN Ex. 2.0 at**
284 **page 9) that this subsection should be deleted, as its inclusion “only serves to**
285 **unnecessarily increase the risk to Suppliers in the event one or two of the**
286 **[Ameren Companies] fails to pay.” Do you agree?**

287 A. No, I do not agree. This provision is appropriate given the factual circumstances
288 surrounding the SFCs. As the Ameren Companies have discussed, the purpose of
289 the Competitive Procurement Auction (CPA) is for each of the Ameren
290 Companies to acquire generation supply for the post-2006 period. Each of the
291 Ameren Companies has its own unique load and its own unique generation needs.
292 The BGS Suppliers will be supplying each of the three Ameren Companies
293 separately. The Supplier Agreements are between the three Ameren Companies,
294 on the one hand, and the BGS Supplier, on the other, simply for ease of
295 administration. Moreover, the Ameren Companies cannot undertake to commit
296 themselves to assuming joint and several liability to the BGS Suppliers because
297 they are not authorized by the ICC to pay or guarantee the debt or obligations of
298 each other.

299 **Q. On a related note, Dr. Salant states (ICC Staff Exhibit 1.0 at page 106) that**
300 **despite Section 15.13(ii)'s disclaimer of joint and several liability to the BGS**
301 **Supplier, the contracts are ambiguous because the rights and obligations of**
302 **the parties are not individualized and are not specified in the event that one**
303 **or more of the Ameren Companies defaults under the agreement. He**
304 **suggests that Article 5 be revised for clarity. Do you agree?**

305 A. No. I do not. I am not an attorney; however, Section 15.13(ii) unambiguously
306 provides that the Ameren Companies shall not be jointly and severally liable to
307 the BGS Supplier. Nothing in Article 5 supports contrary interpretation. Dr.
308 Salant suggests that price is affected by the uncertainty as to the BGS Supplier's
309 rights in the event of a default by one (or more, but not all three) of the Ameren
310 Companies due to the "lack of clarity with respect to the relationship among the
311 three Ameren [C]ompanies." However, Article 5 is unambiguous in providing
312 that a default by any of the Ameren Companies in respect of a material obligation
313 owed to the BGS Supplier would render the BGS Supplier the "Non-Defaulting
314 Party" and would entitle it to any of the rights and remedies provided upon the
315 occurrence of an Event of Default. Again, the definition of "Non-Defaulting
316 Party" is unambiguous on this point; if any of the Ameren Companies is the
317 Defaulting Party, then the BGS Supplier is the Non-Defaulting Party and it may
318 exercise any of the rights and remedies provided in Section 5.2.

319 **Q. Mr. Ogur states (ICC Staff Exhibit 4.0 at pages 35-37) that the Ameren**
320 **Companies need to clarify how Network Integration Transmission Service**
321 **("NITS") acquired by the Ameren Companies from MISO will be used to**

322 **move BGS supply, and suggests language to be added to Section 2.1.c(iv)**
323 **(ICC Staff Ex. 4.0 at page 39). Can you comment?**

324 A. The Ameren Companies are willing to make changes to Section 2.1.c(iv)
325 consistent with what Mr. Ogur requests.

326 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at pages 7-9) that obligations related**
327 **to not-yet-created renewable energy, demand side management, and low-**
328 **income programs should not be imposed on BGS Suppliers. Do you agree?**

329 A. Section 2.1.b(xi) provides that the BGS Suppliers will bear responsibility for
330 Renewable Energy Portfolio Standards (RPS) that apply with respect to the BGS
331 Supply as of the Auction Date. The BGS Suppliers are thus not exposed to any
332 liability with respect to an RPS that is not known when the SFCs are entered into.
333 The SFCs do not provide for the allocation of responsibility with respect to
334 demand side management or low-income programs. Mr. Huddleston
335 acknowledges that those matters are not explicitly covered in the draft contracts.

336 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 12) that the Ameren**
337 **Companies should provide a more precise definition of delivery point. Do**
338 **the Ameren Companies agree?**

339 A. We simply disagree with Mr. Huddleston's suggestion that a more precise
340 definition is required, and we note that Dynegy has proposed neither an
341 alternative definition nor modifications to the current definition. Dynegy has not
342 clearly detailed why the existing definition is inadequate.

343 **Q. Mr. Huddleston comments (DYN Exhibit 1.0 at pages 13-14) that, under**
344 **Section 4.1.b, termination of a SFC results in that BGS Supplier being**

345 **ineligible to participate in future CPAs, even if the termination is due to the**
346 **default of one of the Ameren Companies. He suggests that such ineligibility**
347 **should only arise in the event of default by the BGS Supplier. Do you agree?**

348 A. No. Section 4.1.b governs the termination of rights with respect to the SFC only
349 and does not speak to the impact of such termination on the BGS Supplier's
350 ability to participate in future auctions. The SFCs do not seek to impose any
351 prohibition against participation in future CPAs as a penalty for termination of the
352 SFCs -- regardless of which party is responsible for such termination. That said,
353 in order to eliminate any ambiguity with respect to this point, the Ameren
354 Companies are willing to add the language suggested by Mr. Huddleston.

355 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 15) that the Ameren**
356 **Companies should be held to a "Prudent Utility Practice" standard and**
357 **proposes that the defined term be introduced to the SFCs along with**
358 **accompanying modifications to various provisions of the contracts to**
359 **incorporate the standard. Do you agree?**

360 A. We do not believe that the introduction of the defined term is necessary,
361 particularly when one considers the application of the concept as proposed by
362 Dynegy. For example, Dynegy proposes to introduce the concept of "Prudent
363 Utility Practice" in Section 7.1 as a limitation on the BGS Suppliers' obligation to
364 adhere to the Ameren Companies' operational requirements necessary to protect
365 the integrity of the Ameren Companies' local distribution systems. No beneficial
366 purpose is served by introducing the standard as a limitation in this context.

367 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 15) that the SFCs should not**
368 **modify any interconnection agreements and should expressly state that they**
369 **are not modifying any interconnection agreements. Please comment.**

370 A. It is not the intent of the SFCs to modify any existing interconnection agreements.
371 Though I am not an attorney, it is my understanding that they would not have
372 such legal effect.

373 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at pages 19-20) that Section 7.1**
374 **should be clarified to indicate what documents the Ameren Companies will**
375 **rely upon to calculate load shares. Please comment.**

376 A. Mr. Huddleston objects to Section 7.1's reliance on calculations of load shares in
377 accordance with procedures set forth on Ameren Companies' website. There is
378 no intention to alter those procedures without input from BGS Suppliers.

379 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 20) that Section 15.3 would**
380 **permit assignment of the SFCs by the Ameren Companies to a party that is**
381 **not creditworthy. Do you agree?**

382 A. I do not. Mr. Huddleston's comment is addressed to a customary exclusion from
383 the requirement that consent to an assignment be obtained. That exclusion applies
384 in the event: (a) the entity receiving the assignment is succeeding to all or
385 substantially all of the assets of the company in question (*e.g.*, through a merger);
386 (b) such entity agrees in writing to be bound by all of the terms and conditions to
387 which the assignee was bound; and (c) all necessary regulatory approvals have
388 been obtained.

389 **Q. Mr. Huddleston states (DYN Exhibit 1.0 at page 13) that the Ameren**
390 **Companies have not justified the provision in Section 2.1.c(vii) that, in the**
391 **event of default by an ARES, can retain some portion amounts to offset costs**
392 **or losses incurred by the Ameren Companies. Please comment.**

393 A. Mr. Huddleston suggests that Section 2.1.c(vii) permits the Ameren Companies to
394 retain “some unknown portion” of the amounts received from an ARES as
395 damages, penalties, or forfeited security due to the failure of such ARES to
396 provide adequate notice of customer switching or other default. The amounts that
397 the Ameren Companies retain cannot be arbitrarily determined by the Ameren
398 Companies. Rather, those amounts retained must be no greater than appropriate
399 to offset their costs or losses attributable to the ARES’ default.

400 We note, however, that Dynegy’s mark-up of SFC Section 2.1.c(vii)
401 replaces the capitalized term “Default” with “default” and proposes revisions to
402 other language in the provision. We agree that the correction concerning the use
403 of the capitalized term should be incorporated. In addition, we are willing to
404 accept some of the additional language offered by Dynegy.

405 **Q. Dynegy includes a redlined version of the BGS-FP SFC, showing its**
406 **suggested changes. Have you reviewed this?**

407 A. Yes, I have.

408 **Q. Are the Ameren Companies willing to make any of these changes?**

409 A. To a certain extent, yes. The Ameren Companies are willing to make changes to:
410 (a) eliminate unused definitions; (b) correct typographical errors; (c) clarify
411 certain provisions of the SFCs without changing the substantive meaning; and (d)

412 reflect the Ameren Companies' willingness to make the changes discussed in my
413 rebuttal testimony. I have included as Resp. Ex. 11.1 a redline of the revised
414 BGS-FP SFC showing the changes made. The Ameren Companies will make the
415 same changes to the BGS-LFP and BGS-LRTP SFCs.

416 **IV. PRODUCT DESIGN**

417 **Q. What is the purpose of this section of your testimony?**

418 A. The purpose of this portion of my testimony is to discuss the suggested changes
419 to the Ameren Companies' proposed product design made by certain intervenors
420 in their direct testimony. More specifically, I will discuss the product design
421 changes proposed by Mr. Robert Stephens and Mr. James Dauphinais on behalf of
422 Illinois Industrial Energy Consumers (IIEC), Dr. Philip O'Conner on behalf of the
423 Coalition of Energy Consumers (CES), and Mr. James Steffes on behalf of Direct
424 Energy Services, LLC, and U.S. Energy Savings Corp. (collectively, DES).

425 **Q. Please provide your understanding of the changes to the product design that**
426 **the IIEC witnesses have proposed.**

427 A. My understanding of the IIEC's direct testimony on product design is that they
428 generally agree with the products that the Ameren Companies have proposed but
429 would like to see some modifications. Specifically, the testimony of Mr.
430 Stephens proposes the BGS-LFP product that the Ameren Companies have
431 included for their Large Commercial and Industrial (LC&I) customers be divided
432 into two products, one product for the LC&I customers with peak demands less
433 than 3 MW and a second product for LC&I customers with peak demands equal
434 to or greater than 3 MW. (IIEC Exhibit 1 at lines 224-251.) In addition, Mr.

435 Stephens has suggested the addition of a three-year product for large customers,
436 although it is not clear to me if this is meant to include all customers 1 MW and
437 larger or just the customers 3 MW and larger. (IIEC Exhibit 1 at line 310-355.)

438 Mr. Dauphinais also makes a couple of suggestions that have an affect on
439 the product design. First, Mr. Dauphinais suggests that the Ameren Companies
440 be required to modify its fixed priced riders to permit customers to participate in
441 the MISO markets as demand response resources. (IIEC Exhibit 2 at lines 271-
442 289.) He also suggests that the Ameren Companies be required to exempt
443 customers who take service under Rider RTP-L from capacity charges if those
444 customers agree to meet the MISO interruptible demand requirement. (IIEC
445 Exhibit 2 at lines 291-321.)

446 **Q. And what is your understanding of the changes to the product design that the**
447 **CES witness has proposed?**

448 A. CES witness Dr. O'Connor recommends in his testimony that the Residential and
449 Small Business (R&SB) customers taking BGS-FP Supply be bifurcated at the
450 400 kW level. (CES Exhibit 1.0 at lines 287-303.) He further recommends that
451 the Ameren Companies procure one-year fixed priced contracts for these
452 customers which would become the default option for these customers. (CES
453 Exhibit 1.0 at lines 313-315.) Dr O'Connor also recommends that the 30-day
454 open enrollment period included in the Ameren Companies product design for the
455 BGS-LFP product be increased to 75 days. (CES Exhibit 1.0 at lines 670-679.)

456 **Q. Do you have any concerns with these proposed changes to the product**
457 **design?**

458 A. Yes, I do.

459 **Q. Please explain.**

460 A. My concern is that the changes proposed by the IIEC and CES witnesses get away
461 from what should be the primary objective of the product design, which is to
462 create a set of products to procure BGS Supply for the Ameren Companies'
463 customers that: (a) provides a default service option for customers not
464 participating in retail choice; and (b) maximizes the efficiency of the proposed
465 auction process.

466 While some of the proposed changes are simply to divide the two fixed-
467 priced customer groups that the Ameren Companies have proposed into four
468 customer groups (IIEC's proposed separate product for LC&I customers 3 MW
469 and above and CES' proposed separate product for RS&B customers 400 kW and
470 above) other proposed changes appear to seek the Ameren Companies to provide
471 the wide range of retail options that the parties would like to see in the retail
472 market (IIEC's proposed 3-year product for large customers, IIEC's proposed
473 interruptible RTP product, IIEC's proposed modification to the fixed-priced
474 riders that would allow customers to participate in the MISO demand response
475 program).

476 **Q. Please describe the rationale behind the Ameren Companies product design.**

477 A. When developing their product design, the Ameren Companies considered the
478 trade-offs between, on the one hand, creating a large number of customer groups
479 (and auction products) based on differing load characteristics and switching risks
480 and, on the other hand, having fewer customer groups and relying on the rate

481 translation prism to handle differences such as differences in load characteristics.

482 Taking the positions of the CES and IIEC witnesses to their logical
483 extreme, one approach could be to then divide the Ameren Companies' loads into
484 many small pieces based on size, customer sophistication, and load
485 characteristics. The auction then would determine the market price for each
486 customer group rather than relying on the traditional ratemaking principals that
487 underlie the rate translation prism. Unfortunately, though, this approach is neither
488 practical nor wise.

489 **Q. Please Explain.**

490 A. The Ameren Companies do not intend or expect to replicate their rate books
491 through the auction. Their goal is to procure only the electricity commodity in the
492 lowest cost fashion. In many ways, the Ameren Companies as wires companies
493 are much like gas utilities. Gas utilities buy gas from the wholesale market and
494 pass along those costs to their customers. They do not buy specific products in
495 the wholesale market in order to create specific retail product offerings for their
496 retail customers. Similarly, the Ameren Companies should behave in a manner
497 consistent with their role as wires companies and not as companies offering a
498 variety of retail generation products to meet specific end use customer needs.

499 The Ameren Companies' roles as wires companies is recognized by IIEC
500 witness Mr. Stephens' acknowledgment that the Integrated Distribution Company
501 (IDC) rules would prohibit the Ameren Companies from actively marketing retail
502 products. (IIEC Exhibit 1 at lines 154-158.) The Ameren Companies, as IDCs,
503 should not be competing with ARES. In my judgment, offering the products

504 being recommended is contrary to the wires company paradigm and could stymie
505 retail competition.

506 **Q. How do you then reconcile offering the BGS-LFP?**

507 A. Recognizing that retail competition has not progressed in some portions of the
508 Ameren Companies' service areas, as a short-term solution and compromise, it
509 was decided to offer this product. Even so, the Ameren Companies do not view
510 this product offering as permanent in nature. Once competition for this product or
511 customer group has improved, it may very well be withdrawn from the auction.

512 **Q. Do you have other practical concerns with any of these proposals to expand
513 the product offerings on which you would care to comment?**

514 A. Yes. I am concerned that Mr. Dauphinais' recommendations #3 and #4 (IIEC
515 Exhibit 2 at lines 49-56) regarding loads which may qualify as Demand Response
516 Resources (DRR) or interruptible loads would be problematic to implement.

517 **Q. Can you elaborate upon the concerns with Mr. Dauphinais' DRR proposal?**

518 A. Yes. I do not believe it is possible under the MISO Energy Market Tariff (EMT)
519 for BGS Suppliers to qualify these loads as Demand Response Resources or to
520 administer them as such within the MISO markets.

521 **Q. Why would BGS Suppliers be unable to qualify these loads with MISO?**

522 A. It is critical to understand that BGS Suppliers are not serving distinct customers;
523 rather they are serving a "slice of system" – or a percentage of a load within a
524 certain supply class. The MISO EMT in Section 38.2.2(g) states in part that a

525 “Market Participant Applicant seeking to submit Demand Response Resource
526 Offers in the Energy Markets shall: (i) demonstrate to the satisfaction of the
527 Transmission Provider that it has exclusive rights through ownership, operational
528 control or other contractual rights to the output of Demand Response Resources
529 capable of responding to the Dispatch Instructions...” (emphasis added). BGS
530 Suppliers, who also serve as the Market Participants for the subject load, clearly
531 would not have “exclusive rights” – rather they would have a shared right to the
532 output of such resources.

533 **Q. Is there another means for these BGS-LFP customers to receive the benefit of**
534 **having the characteristics of a DRR?**

535 A. Yes. Such customers could obtain these benefits by exercising their right to
536 choice and switching to an ARES that, as IIEC witness Mr. Stephens notes, could
537 “provide customized products and prices to individual customers that reflect the
538 customers’ unique operating characteristics and service needs.” (IIEC Exhibit 1 at
539 lines 162-163.)

540 **Q. Please elaborate upon your concerns with Mr. Dauphinais’ recommendation**
541 **that BGS-LRTP customers who can be interrupted should not be charged for**
542 **capacity.**

543 A. While I understand his concern, I am unsure from a practical standpoint how the
544 actual interruptible service this creates would be administered. Similar to my
545 discussion above, BGS-LRTP Suppliers do not serve distinct customers, rather
546 they serve slices of customers. This again raises practical issues as to how this

547 can be administered, even if only considering reliability curtailments.
548 Interruptible demand resources must be specifically registered by the applicable
549 Market Participant. Having a single resource registered and administered by
550 multiple Market Participants, therefore, is problematic.

551 **Q. Mr. Dauphinais claims that if this recommendation is not implemented**
552 **“hourly pricing customers who meet MISO Interruptible Demand**
553 **requirements will unjustly and unreasonably be required to purchase**
554 **unnneeded capacity through Ameren’s hourly pricing proposal.” (IIEC**
555 **Exhibit 2 at lines 54-56.) Do you agree?**

556 A. No. Any requirements associated with BGS-LRTP supply are applicable only to
557 those customers who have not chosen an ARES. If they do not want to “purchase
558 unneeded capacity” they can choose an ARES that can “provide customized
559 products and prices to individual customers that reflect the customers’ unique
560 operating characteristics and service needs.” (IIEC Exhibit 1 at lines 162-163.)

561 **Q. What factors did the Ameren Companies consider and what approach did**
562 **the Ameren Companies choose when developing their product design?**

563 A. The Ameren Companies looked at a number of factors and chose to take a
564 conservative approach. The factors considered by the Ameren Companies were:
565 (a) switching risk; (b) customer metering; (c) that additional products are already
566 included in the first auction to step into the three year ladder for the R&SB
567 customers; (d) the fact that the auction products can be easily adjusted in later
568 auctions; and (e) lessons learned from past auctions in New Jersey.

569 **Q. Please explain how historical switching patterns were considered.**

570 A. As I described in my direct testimony (Resp. Ex. 3.0 at lines 72-78), the ability of
571 a customer to switch to an ARES creates volume uncertainty and risk for BGS
572 Suppliers. This switching risk is greater for larger customers than for smaller
573 customers. The Ameren Companies' product design attempts to best mitigate this
574 switching risk for all customer groups.

575 **Q. Please explain how customer metering was considered.**

576 A. As discussed in the rebuttal testimony of Mr. Cooper, the product design was
577 chosen in a manner that allows the Ameren Companies to provide the historical
578 hourly load data that potential bidders will require to accurately price each auction
579 product.

580 **Q. Please explain how the added products required in the first auction were**
581 **considered.**

582 A. As I discussed earlier, increasing the number of products in the auction tends to
583 result in a longer auction that could result in a higher auction price. The Ameren
584 Companies considered this relationship when deciding on its product design. In
585 doing so, the decision was made to minimize the number of products procured by
586 dividing the customers into just two customer groups and rely more on the rate
587 translation prism in arriving at a market price for individual customers.

588 This is even more important in the first auction when additional products
589 are required to step into the process. As I discussed in my direct testimony (Resp.
590 Ex. 3.0 at lines 110-115), in order to step into the overlapping three-year contracts
591 that the Ameren Companies propose to procure for their R&SB customers, they
592 will procure three products for these customers in the first auction (17-month, 29-

593 month, and 41-month) as compared to only one product (3-year) in each
594 subsequent auction. With the two 17-month products (BGS-LFP and BGS-
595 LRTP) that they will procure for LC&I customers, the Ameren Companies will be
596 procuring a total of five products in the first auction compared to three in each
597 subsequent auction. The Ameren Companies did not want to add even more
598 products to this group.

599 **Q. Please explain how the product design can be easily adjusted in later auctions**
600 **and how this fact was considered in developing the auction design for the**
601 **first auction.**

602 A. I will use the R&SB customers as an example of how the product design can be
603 adjusted easily in future auctions. Assume that for the first auction, the ICC
604 decides to accept the Ameren Companies' product design as proposed. Also
605 assume that following the first auction all stakeholders agree that for the second
606 auction, customers with peak demands in the 600 kW to 1 MW range should be
607 procured separately using 1-year products. At that time (*i.e.*, the time between the
608 first and second auction), these customers would already have 1/3 of their supply
609 under contract for two additional years and 1/3 of their supply under contract for
610 one additional year. So, in the second auction, the Ameren Companies would
611 procure the following products: (a) a 3-year contract for 1/3 of the supply for
612 R&SB customers with peak demands less than 600 kW; (b) a 1-year contract for
613 1/3 of the supply for R&SB customers equal to or greater than 600 kW; and (c)
614 the two 1-year products for the LC&I customers.

615 In this way, the auction product design would result in the equal to or
616 greater than 600 kW R&SB customer group with 2/3 under contract for 1 year,
617 and 1/3 under contract for one year. In the following auction, the same method
618 can complete the shift to 1-year contracts.

619 Because it is this easy to adjust the product design from one auction to the
620 next, the Ameren Companies feel even more comfortable with their decision to
621 take a conservative approach for the first auction in which 100 % of the load is up
622 for auction. The product design can be easily changed at any time if it needs
623 refinement in the future to, for example, increase the auction efficiency or to
624 support the further development of retail competition.

625 **Q. What were the lessons learned from the New Jersey auctions and how were**
626 **these lessons considered?**

627 A. The primary lessons learned from New Jersey is to start with a relatively
628 conservative approach and to refine that approach as needed. In the first New
629 Jersey auction, the product design was quite simple. The New Jersey utilities
630 procured a single fixed-priced product to serve all of their customers for a one-
631 year term. In the subsequent auctions, the New Jersey utilities then refined the
632 product design, first procuring supplies for small customers separately from the
633 large customers and moving to rolling three-year contracts for the small
634 customers to provide some stability in their rates.

635 The Ameren Companies considered the New Jersey experience in
636 developing their product design. By limiting the number of customer groups to
637 two and adopting the three-year rolling contracts for its small customer group, the

638 Ameren Companies are starting with a conservative, simple product design that
639 can easily be modified in subsequent auctions.

640 **Q. Based on the items the Ameren Companies considered and the testimony of**
641 **the IIEC and CES witnesses, would you recommend any changes to the**
642 **product design included in the Ameren Companies direct case?**

643 A. No, I would not.

644 **Q. Did CES witness Dr O’Conner have any other recommendations related to**
645 **product design that you wish to comment on?**

646 A. Yes. I would like to comment on Dr. O’Connor's recommendation that the open
647 enrollment period for the BGS-LFP product should be 75 days rather than the 30
648 days proposed by the Ameren Companies. (CES Exhibit 1.0 at lines 670-679.)

649 **Q. Do you have any concerns with expanding the open enrollment period to 75**
650 **days?**

651 A. Yes, I do. It is my belief that increasing the open enrollment period from 30 to 75
652 days and, as a result, asking the BGS-LFP Suppliers to hold their price open for
653 an additional 45 days will increase the resulting auction price for the BGS-LFP
654 product. The Ameren Companies arrived at the 30-day open enrollment period
655 included in their proposal as a balance of the trade offs between giving customers
656 extra time to weigh their options and minimizing the risk premium associated
657 with requiring the winning BGS-LFP Suppliers to leave their price open for the
658 duration of the open enrollment period. The Ameren Companies believe that the
659 30-day open enrollment period is the appropriate balance.

660 **Q. Do suppliers agree that the existence of an open enrollment period for the**
661 **BGS-LFP product could result in an increased auction price for this**
662 **product?**

663 A. Yes. Mr. Smith, representing CCG (a potential BGS Supplier) had this to say
664 concerning the 30-day open enrollment period:

665 “However, the Commission should be aware that, since the potential BGS-
666 LFP customers will have a period of time (Ameren has proposed
667 30 days) to choose the BGS-LFP service (rather than an hourly
668 service or receiving service from an ARES), it is likely that the
669 generation supply rates for BGS-LFP customers will be higher as
670 suppliers will likely price an auction premium into their bids to
671 account for this optionality.” (CCG Exhibit 1.0 at lines 80-88.)

672 The Ameren Companies received similar feedback from other potential BGS
673 Suppliers as we discussed our procurement proposal with various stakeholders
674 over the past 12-18 months.

675 **Q. In his testimony, Dr. O’Connor states as the first reason as to why the ICC**
676 **should direct the Ameren Companies to adopt a 75-day open enrollment**
677 **period is because “[C]ustomers want it”. (CES Exhibit 1.0 at line 686.) Is**
678 **that consistent with your discussions with stakeholders?**

679 A. No, it is not. As part of our discussions with stakeholders concerning the Ameren
680 Companies procurement proposal prior to the filing our direct testimony, we had
681 numerous conversations with the IIEC. During those conversations we discussed
682 the pros and cons of longer and shorter open enrollment periods. It was my

683 impression that the IIEC was comfortable with the 30-day open enrollment period
684 included in the Ameren Companies proposal.

685 **Q. In your opinion, upon what considerations should the ICC base its decision**
686 **as it relates to the duration of the open enrollment period?**

687 A. While the Ameren Companies have put a great deal of thought into the design of
688 this product and the tradeoffs between shorter and longer open enrollment
689 periods, at the end of the day it is the customers that are eligible to take this
690 service who will have to live with the constraints of the open enrollment period
691 and the likely higher prices if the ICC decides to direct the Ameren Companies to
692 increase the duration of the open enrollment period beyond the 30 days included
693 in its proposal. The ICC should base its decisions on how the retail consumers
694 will be affected by potential increases in retail rates.

695 **Q. Were there any other intervenor witnesses that have suggested modifications**
696 **to the product design included in the Ameren Companies proposal?**

697 A. Yes, Mr. James Steffes testifying on behalf of DES also recommends some
698 modifications to the product design. (DES/USEC Exhibit 1.0 at lines 162-183.)

699 **Q. Please explain your understanding of the modifications he recommends in his**
700 **testimony.**

701 A. Mr. Steffes is not proposing simple modifications to the product design, rather he
702 is proposing radical changes based on a fundamental difference of opinion as to
703 customer's desire to have reasonably stable rates and the utilities' role in providing
704 those reasonably stable rates. More specifically, Mr. Steffes is proposing that: (a)
705 customers over 1 MW should have a default rate that is hourly; (b) customers that

706 have under 1 MW annual peak and usage greater than 15,000 kWh should receive
707 a default price that results from a monthly auction; and (c) customers that use
708 15,000 kWh or less should receive a default price that results from a quarterly
709 auction.

710 **Q. When developing its product design and deciding on the terms of the various**
711 **products, what type of things did the Ameren Companies consider?**

712 A. Among other things, the Ameren Companies considered the consensus opinions
713 of the ICC's Post 2006 Initiative Procurement Working Group (PWG), the
714 positions of specific stakeholders that participated in the PWG, the current
715 development of the retail markets in the Ameren Companies' service territories
716 and the Ameren Companies' expectations of how competition might develop in
717 the future.

718 **Q. How did the Ameren Companies consider the consensus opinions of the**
719 **PWG and the positions of specific stakeholders that participated in the**
720 **PWG?**

721 A. Included in the final report of the PWG is a list of 18 consensus attributes that the
722 stakeholders participating in the PWG agreed that any approved procurement
723 process should include. Included as item # 7 in that list is the following:

724 *"It should facilitate stable rates and mitigate volatility for applicable*
725 *customers for relevant time periods"*

726 This indicates to me that rate stability and mitigation of market volatility is
727 considered by the stakeholders in Illinois to be an important feature of the
728 procurement process adopted by the ICC.

729 In addition, Synapse Energy Economics, Inc. on behalf of the Citizen’s Utility
730 Board, the City of Chicago, and the Cook County State’s Attorney as part of the
731 PWG presented its version of the portfolio management approach which they
732 called the “Smart Portfolio Management” model. This model, as proposed, would
733 have the utilities procure up to 80% of its required supply through rolling 4-year
734 contracts with the remaining supply procured through long-term, renewable
735 contracts and short-term spot purchases. To me, this indicates that these
736 stakeholders that look out for the interest of end use customers do indeed value
737 rate stability.

738 **Q. Do you believe that the Ameren Companies, proposal is consistent with these**
739 **PWG concepts?**

740 A. Yes.

741 **Q. Do you believe that the proposed product design of Mr. Steffes is consistent**
742 **with these PWG concepts?**

743 A. No.

744 **Q. In his direct testimony, Mr. Steffes asserts that monthly pricing is not a new**
745 **concept in Illinois using the natural gas business as an example. (DES/USEC**
746 **Exhibit 1.0 at lines 452-459.)Do you believe this is an accurate**
747 **characterization?**

748 A. No, not entirely. While Mr. Steffes may be correct that the purchased gas
749 adjustment (PGA) portion of a customer rates may indeed change monthly , this
750 does not necessarily mean that these monthly PGA prices are composed of
751 transactions with one-month terms entered into the month prior to delivery. In

752 fact, it is my understanding that the contracts underlying this “monthly price” may
753 be of much greater duration than one month. The natural gas industry relies upon
754 many instruments including long-term hedge contracts to mitigate the volatility of
755 the daily and monthly markets.

756 **Q. Please explain why this former point is important.**

757 A. This is important because Mr. Steffes is recommending that the Ameren
758 Companies hold a monthly auction for customers with peak demands less than 1
759 MW and usage greater than 15,000 kWh. (DES/USEC Exhibit 1.0 at lines 162-
760 183.) Under this proposal, 100% of this load would be up for auction each month.
761 He then uses the NICOR gas example to say that this is already occurring in
762 Illinois.

763 **Q. What is your understanding of the length of contracts represented in
764 NICOR’s “monthly price” that Mr. Steffes refers to?**

765 A. Up to five years.

766 **Q. What is the basis of your understanding?**

767 A. The direct testimony of Gary R. Bartless, PE, Vice-President Supply Operations
768 on behalf of Northern Illinois Gas Company d/b/a Nicor Gas Company, dated
769 April 7, 2004 in ICC docket NO 04-0681 contains the following question and
770 answer at lines 152-158.

771 *Q. In reference to page 7 of Attachment BOB-2, what is meant by the
772 term “firm supply” purchases?*

773 *A. “Firm supply” refers to gas supply purchased through
774 agreements, generally for a period of up to five years directly
775 between Nicor Gas and producers and marketers which has a firm
776 delivery requirement associated with it, and the cost of firm*

777 *pipeline transportation service held by Nicor Gas. Firm supply is*
778 *considered as more reliable because the contract contains charges*
779 *for non-performance.*

780 **Q. Do other Illinois natural gas utilities whose PGA rate may change monthly**
781 **(or at least more frequently than annually) similarly use long-term**
782 **contracts?**

783 A. It is my understanding that they do. Based on my conversations with the
784 AmerenEnergy Fuels & Services personnel responsible for purchasing gas supply
785 for the Ameren Corporation's natural gas utilities, I understand that it is standard
786 to use contracts of up to 6 years and in general less than 25 % of the total winter
787 gas supply is priced at daily market rates.

788 **Q. Based on your knowledge of the procurement auction process proposed by**
789 **the Ameren Companies in this case, do you believe that the product design**
790 **proposed by Mr. Steffes could be procured efficiently using auctions?**

791 A. No, I do not. Under Mr. Steffes proposal, the Ameren Companies would be
792 required to run an auction each and every month in order to procure fixed price
793 service for its R&SB customers with annual usage greater than 15,000 kWh.
794 They would also be required to hold auctions on a quarterly basis for their R&SB
795 customers with annual usage less than 15,000 kWh. What Mr. Steffes doesn't
796 seem to consider when making this proposal is the time and expense required to
797 set up and run a descending clock auction and the time and expense required on
798 the part of suppliers to participate in this type of auction. Not only would it be
799 extremely expensive and inefficient to hold monthly auctions, it simply is not
800 practical. The time that is required to set up, promote, complete the application

801 process and actually run an auction is approximately 5 months. Under Mr.
802 Steffes' proposal, it would be required that there be, at any point in time, five
803 active auctions at some point in the process. This would create a great deal of
804 confusion for all parties involved.

805 In addition, under Mr. Steffes' proposal, the expense of setting up and
806 running a single auction along with the expense of suppliers to participate in a
807 single auction will be spread over a very small number of MWh that these
808 customers use over the course of a single month. In contrast, under the Ameren
809 Companies' proposal, this same expense would be spread over the MWh used by
810 those same customers taking service under the three-year contracts proposed by
811 the Ameren Companies.

812 **Q. Other than the concerns discussed above, are there any other potential**
813 **problems with Mr. Steffes' proposal as it relates to the procurement auction**
814 **process?**

815 A. Yes, there is. As I state above, participation in an auction such as been proposed
816 by the Ameren Companies requires an investment of time and money on the part
817 of suppliers. It is very possible that suppliers will not be willing to make such an
818 investment if winning earns them only a one-month contract. If suppliers choose
819 to not participate this could result in a less competitive auction and higher auction
820 prices could result. Another negative effect could be insufficient participation to
821 procure 100 % of the load in the auction. This would result in unfilled tranches
822 being filled in the MISO spot markets and even more price volatility of the R&SB
823 customers.

824 V. **CONTINGENCY PLANS**

825 Q. **What is the purpose of this section of your testimony?**

826 A. In this section, I will discuss the Ameren Companies' position on the
827 recommendation made by Staff witness Dr. Eric Schlaf concerning prudence
828 review for electricity purchased outside the proposed auction process.

829 Q. **Please describe your understanding of Dr. Schlaf's recommendation
830 concerning prudence review for electricity purchased outside the proposed
831 auction process. (ICC Staff Exhibit 5.0 at lines 336-391.)**

832 A. As I understand Dr. Schlaf's testimony, he has no objections with the contingency
833 plans proposed by the Ameren Companies. He does, however, recommend that in
834 every instance in which the Ameren Companies purchase electricity outside the
835 proposed auction process that the Companies be required to file a report with the
836 ICC explaining the reasons for purchasing the additional electricity. Upon receipt
837 of the report, the ICC could open an investigation to determine whether the
838 Ameren Companies own actions contributed to the need for the additional
839 electricity.

840 Q. **Do you agree with Dr. Schlaf's recommendation?**

841 A. Yes, I do. In the situation in which the actions of the Ameren Companies
842 contributes to the need to procure additional electricity outside the proposed
843 auction process, it seems reasonable that the prudence of those actions be
844 reviewed by the ICC.

845 VI. **TRANCHE SIZE**

846 Q. **What is the purpose of this section of your testimony?**

847 A. In this section of my testimony, I will discuss the recommendation of ICC Staff
848 witness Dr. Salant that a tranche be defined in units of approximately 2 MW. I
849 also will discuss how the Ameren Companies propose to address Dr. Salant's
850 concerns with tranches of 100 MW in size.

851 **Q. What did Dr. Salant state as his concern with the 100 MW tranche size**
852 **proposed by the Ameren Companies?**

853 A. In his direct testimony Dr. Salant states:

854 "Tranches of 100 MW are problematic because they may restrict
855 participation of some smaller suppliers and may also limit the
856 ability of some bidders to shape the load they acquire to best match
857 their resources." (ICC Staff Exhibit 1.0 at lines 1254-1257.)

858 **Q. To which small suppliers is Dr. Salant referring to when he says that**
859 **tranches of 100 MW may restrict their participation.**

860 A. It is unclear from his testimony to which suppliers Dr. Salant is referring to when
861 he uses the phrase "smaller suppliers." But, based on his recommendation of a
862 tranche size of 2 MW, I would assume that he is referring to suppliers as small as
863 2 MW in size.

864 **Q. Do you agree with Dr. Salant's concern that tranches of 100 MW may**
865 **restrict participation of some small suppliers?**

866 A. No, I do not. I find it difficult to believe that a small supplier with as little as 2
867 MW of generation would participate in the auction even if the tranche size were
868 smaller. The products included in the Ameren Companies proposal are full
869 requirements products in which winning suppliers are required to supply the
870 capacity and energy of a fixed percentage of the load for that customer group in

871 every hour. It is unlikely that such a small supplier will have the ability to serve
872 or the appetite for the risk associated with supplying the full requirements, load
873 following tranches of load being procured in the auction.

874 **Q. Have any of the potential BGS Suppliers you have discussed your CPA**
875 **process with objected to the 100 MW tranche size?**

876 A. No, they have not. Since we began discussions with stakeholders more than a
877 year ago we have held various meetings with a large group of potential BGS
878 Suppliers. During that time, not once have any of these potential BGS Suppliers
879 indicated that the proposed 100 MW tranche size limits their ability to participate
880 in the auction or shape the load they pursue in the auction to best match the
881 resources they control.

882 **Q. Have any potential BGS Suppliers filed direct testimony in this case**
883 **objecting to the proposed 100 MW tranche size?**

884 A. No, not that I am aware of.

885 **Q. Assuming for a moment that very small suppliers would be willing to take on**
886 **a full requirements supply obligation and participate in the auction, is there**
887 **a cost to the Ameren Companies associated with allowing such small**
888 **suppliers to participate in the auction?**

889 A. Yes, there would likely be an increase in the administration cost that would be
890 incurred by the Ameren Companies should a large number of small suppliers win
891 tranches of load in the auction.

892 **Q. Are you referring to the administration cost of running the auction or the**
893 **administration cost of administering the SFCs that result from the auction?**

894 A. I am referring to the cost of administering the resulting SFCs. For each winning
895 BGS Supplier in the auction there will be a number of administrative tasks that
896 will take place. These tasks include setting up and maintaining MISO load zones
897 in each of the three Ameren Company control areas, daily tasks associated with
898 Ameren Services acting as the Meter Data and Management Agent (MDMA) for
899 each BGS Supplier, the generation of monthly bills, and the daily activities
900 associated with administering the credit provisions included in the SFCs. Each of
901 these tasks generally will require the same amount of time and effort regardless of
902 whether the BGS Supplier is serving 1 MW or 1,000 MW. Therefore, if ten small
903 generators were successful in winning 2 MW of load in the auction and assuming
904 five BGS Suppliers won the remaining load, the cost of the administration of the
905 resulting SFCs would be roughly three times what it would have been if the five
906 large BGS Suppliers won 100% of the load.

907 **Q. In your example above, who would be paying for the increased**
908 **administrative cost?**

909 A. This cost would be passed on to the Ameren Companies' customers taking BGS
910 supply via the Supply Procurement Adjustment Charge included in the Rider MV
911 tariff.

912 **Q. Are there any practical concerns with implementing a tranche size of only 2**
913 **MW?**

914 A. Yes, I believe such a small tranche may lead to settlement concerns with MISO
915 given my understanding that the lowest level at which MISO will settle is 1/10th
916 of 1 MW. A tranche represents a percentage of the total rather than an exact MW

917 amount and is based upon the annual peak without any assumption of further load
918 switching. When these factors are considered in combination with load shape and
919 potential load switching, the likelihood that the load in a given hour (or set of
920 hours) falls below this 1/10th of 1 MW threshold must be considered.

921 **Q. Do the Ameren Companies suggest any modifications to their proposed 100**
922 **MW tranche size to address Dr. Salant's concerns?**

923 A. Yes, the Ameren Companies suggest that the ICC accept a tranche size of 50
924 MW. Using a 50 MW tranche size would open up the auction to participation by
925 suppliers in the 50-100 MW range and would allow larger suppliers to further
926 shape their load bids to better match their resources. This goes a long way to
927 addressing Dr. Salant's concerns. In addition, this new proposal addresses the
928 Ameren Companies' concerns as it relates to the cost of administering the
929 resulting SFCs, MISO settlement, and pace of the auction. In addition, a 50 MW
930 tranche size is consistent with current industry practice in the wholesale markets
931 as they relate to the size of standard, forward-traded products. It is my
932 understanding that standard forward-traded products are transacted in 50 MW
933 increments.

934 **VII. DEFAULT SUPPLY SERVICE AVAILABILITY CHARGE**

935 **Q. Various intervenors have raised concerns related to the Default Supply**
936 **Service Availability Charge (DSSAC) suggesting that it should be eliminated.**
937 **Does the DSSAC provide any value to the auction process itself?**

938 A. Yes, there are two areas in which the DSSAC included in the Ameren Companies'
939 proposal adds value to the auction process. First, it allows a mechanism for

940 winning BGS-LRTP Suppliers to be compensated for the risk they bear by taking
941 on the obligation of being the default supplier for customers who choose to take
942 service from an ARES. Second, it provides a known revenue stream for the BGS-
943 LRTP Suppliers regardless of the number of customers who elect to take BGS-
944 LRTP service.

945 **Q. Please describe how BGS-LRTP customers who choose to take service from**
946 **an ARES create risk for the BGS-LRTP Suppliers.**

947 A. These customers create risk for the BGS-LRTP Suppliers because they have the
948 option to return to BGS service at any time throughout the year. This could occur
949 due to a decision made by one of these customers to return to BGS or could occur
950 because the ARES serving the customer defaults and dumps the customer back to
951 BGS with little or no notice. The retail tariffs being proposed by the Ameren
952 Companies would place these customers on BGS-LRTP Supply. The BGS-LRTP
953 Suppliers provide this "provider of last resort service" (POLR) for these
954 customers. These BGS-LRTP Suppliers have agreed to stand ready to supply the
955 capacity and energy required to serve them. Standing ready to serve (regardless
956 of season) creates supply risks that the BGS-LRTP Suppliers must manage.

957 **Q. Do you believe the BGS-LRTP will expect to be compensated for taking on**
958 **this risk?**

959 A. Yes, I do.

960 **Q. Absent the DSSAC included in the Ameren Companies' proposal, which of**
961 **the Ameren Companies' customers would be forced to compensate the BGS-**
962 **LRTP Supplier for this risk?**

963 A. It is my opinion, that if the DSSAC is eliminated the BGS-LRTP Suppliers will
964 include this risk premium into their fixed price bids for the BGS-LRTP product in
965 the auction. If this turns out to be the case, the customers taking service under the
966 Rider BGS-LRTP will be compensating the BGS-LRTP Suppliers for the risk
967 created by those customers taking service from an ARES. Depending on the
968 number of customers who choose BGS-LRTP Supply, the premium placed on
969 these customers could become significant.

970 **Q. Please describe why you believe that this premium could become significant.**

971 A. When potential BGS-LRTP Suppliers are preparing to bid on the BGS-LRTP
972 product, they will determine a total dollar value for the POLR obligation risk
973 premium that they feel needs to be included in their bid. They then will estimate
974 the number of customers that will sign up for BGS-LRTP Supply. Depending on
975 the number of customers they expect to sign up for BGS-LRTP supply, the
976 magnitude of the premium they embed in their price could get quite high.

977 **Q. Please describe how providing a known revenue stream provides value to the
978 auction process.**

979 A. Assume for a moment that all customers eligible to take BGS-LRTP Supply value
980 price certainty. In the worst case scenario, not one customer will sign up for
981 BGS-LRTP Supply. In this scenario, absent the inclusion of the DSSAC, the
982 winning bidders would take on the obligation to provide POLR service for all
983 eligible customers but receive no revenue associated with providing this service in
984 exchange. My fear is that if potential BGS-LRTP Suppliers who are considering
985 bidding on this product believe that this is a likely scenario, they may choose not

986 to bid on this product. This also is a concern even if potential BGS-LRTP
987 Suppliers believe that only a very small amount of customer load will choose this
988 supply option.

989 The inclusion of the DSSAC would provide a known revenue stream for
990 those BGS-LRTP Suppliers that win tranches of BGS-LRTP Supply regardless of
991 the number of customers who choose this supply option. It is my opinion that this
992 known revenue stream will provide an incentive for potential BGS-LRTP
993 Suppliers to bid on the BGS-LRTP product even if it is their assessment that very
994 few or no customers will choose the BGS-LRTP Supply option.

995 **VIII. PROCUREMENT OF ANCILLARY SERVICES**

996 **Q. Have you reviewed ICC Staff Witness Ogur's Section III – Procurement of**
997 **Ancillary Services?**

998 A. Yes.

999 **Q. Do you agree with Mr. Ogur's recommendation that Suppliers should be**
1000 **given the option to self-supply Ancillary Services?**

1001 A. No. First, I note that I am not aware of any potential BGS Supplier that has
1002 objected to this aspect of the Ameren Companies' proposal.

1003 The Ameren Companies believe that their proposal creates a competitively
1004 neutral position for all potential BGS Suppliers. It would not be proper to create a
1005 situation where one potential BGS Supplier may be able to create an undue
1006 advantage in the process by self-supplying Ancillary Services.

1007 Further, self-supply of Ancillary Services is not a simple undertaking. In
1008 fact, it is my understanding that contrary to Mr. Ogur's assertions, it is quite

1009 complex and costly – more so if the BGS Supplier is given the flexibility to elect
1010 the self-supply option at will between control areas and/or products.

1011 Finally, the expected development of MISO’s Ancillary Services market
1012 in 2006-2007 (which Mr. Ogur acknowledges in Section II – Switching of his
1013 direct testimony (ICC Staff Exhibit 4.0 lines 323- 326)) suggests that his concern
1014 is somewhat transitional in nature.

1015 **Q. Please explain why you believe Mr. Ogur's concerns may be transitional in**
1016 **nature.**

1017 A. Once the MISO Ancillary Services markets are operational, it is my
1018 understanding that a BGS Supplier, that has the capability and desire to provide
1019 Ancillary Services, would be able to do so by participating in the MISO Ancillary
1020 Services market. As such, though under the Ameren Companies' proposal the
1021 BGS Supplier would not be directly self-supplying Ancillary Services, they could
1022 still obtain value for their abilities to provide Ancillary Services from the market
1023 and factor this into their bid development.

1024 **Q. Why do you believe that self-supply is complex and costly?**

1025 A. It is my understanding that in order to self-supply, various systems must be in
1026 place to monitor compliance and to initiate the action required of the BGS
1027 Supplier. In this regard, the self-supply of regulation service is particularly
1028 problematic. For this to work, two things must occur: (a) the subject loads must
1029 be metered in real time so as to allow the individual contribution of each BGS
1030 Supplier to the required regulation action be calculated and transmitted in real

1031 time; and (b) the BGS Supplier's response must be measurable by and visible to
1032 the control area.

1033 **Q. What metering would be required to allow for the exact determination of**
1034 **each BGS Supplier's particular contribution to a specific request for**
1035 **regulation?**

1036 A. As I understand it, we would need to have metering in place to allow each of the
1037 Ameren Companies' control areas to see in real-time the load of each of the three
1038 categories of BGS Load: (a) BGS-FP; (b) BGS-LFP; and (c) BGS-LRTP.

1039 **Q. Is it your understanding that this metering is currently in place?**

1040 A. It is my understanding that it is not. Rather, it is my understanding that the
1041 existing metering only allows each control area to see in real-time only that
1042 control area's aggregate load. This includes the load of all three of the categories
1043 of BGS Load discussed above along with the load obligation of ARES and other
1044 distribution companies (*i.e.*, municipalities and cooperatives). In order to allow
1045 the exact determination of each BGS Supplier's particular contribution to the
1046 specific request for regulation actions it would be necessary to install, at a
1047 minimum, real-time metering for each LC&I customer electing BGS Supply
1048 along with each customer taking service from an ARES, including, potentially,
1049 some level of residential customers.

1050 **Q. What is your understanding on the length of time required to install any**
1051 **necessary metering, telecommunications equipment, and make the required**
1052 **changes to the energy management systems of each of the affected control**
1053 **areas to allow for the self-supply of regulation services?**

1054 A. It is my understanding that putting the systems and metering in place would be
1055 very time consuming and most certainly could not be accomplished in the short
1056 time between a September auction when BGS Suppliers would be identified and
1057 the start of delivery in January.

1058 **Q. How about the second item you mentioned that would need to occur, the**
1059 **BGS Supplier's response must be measurable by and visible to the Control**
1060 **Area. Is this something that could be accomplished in time for delivery?**

1061 A. It is my understanding that while this item also creates some potential technical
1062 issues, it is reasonable to expect that systems could be put in place in time for
1063 delivery in January, even with a September auction. What is less certain is how a
1064 BGS Supplier's response to a control signal would be allocated between each of
1065 the three control areas.

1066 The technical issues are created by the fact that each winning BGS
1067 Supplier will have load obligations in each of the three Ameren Companies
1068 control areas. Each of these control areas will have to make calculations
1069 independently as to the required regulation response and it is reasonable to
1070 assume that all three control areas will not have the same direction and magnitude
1071 of regulation response in each and every interval. Since it is likely that a BGS
1072 Supplier will choose to use the same resources located in one control area to
1073 provide these services all three control areas, the self-supplying resource will be
1074 presented with three different control signals, with one likely in the opposite
1075 direction of the other two. Being able to determine which control area received
1076 which portion of the control response would be critical to allow each control area

1077 to measure and monitor their Area Control Error (ACE) and ensure compliance
1078 with the control performance standards.

1079 **Q. How could a BGS Supplier receive an undue advantage by self-supplying**
1080 **Ancillary Services?**

1081 A. It is my understanding that while the affected control area would do its best to
1082 attempt to identify and collect the direct costs associated with the equipment and
1083 changes associated with self-supply, there may be certain costs which are not
1084 easily identifiable or assignable to particular parties. To the extent that the
1085 complete, actual costs for arranging the self-supply of Ancillary Services were not
1086 borne by the BGS Supplier electing this option, the BGS Supplier might gain an
1087 unwarranted competitive advantage relative to other BGS suppliers.

1088 **Q. Do you have any other observations on this issue?**

1089 A. Yes. I believe that it would be appropriate to recognize the relatively small
1090 contribution to the total expected cost of supply made by Ancillary Services.
1091 Doing so may illustrate the limited theoretical benefit that may be obtained by
1092 offering BGS Suppliers a self-supply option.

1093 **Q. The MISO only permits certain of the Ancillary Services to be self-supplied.**
1094 **Have you estimated the contribution that these Ancillary Services might have**
1095 **on the total cost for supply?**

1096 A. Yes. MISO permits the Ancillary Services covered by EMT schedules 3, 5, and 6
1097 to be self-supplied. Using the current cost-based rates for Schedules 3, 5 and 6
1098 applicable to each of the Ameren Companies' control areas and assuming a 55%
1099 load factor (4,818,000 kWh for a 1,000 kW peak demand), these amounts range

1100 from \$0.00180/kWh to as little as \$0.00049/kWh. These costs are a relatively
 1101 small portion of the total wholesale market price.

AmerenIP Control Area					
	Rate		Total	\$/kWh	
Schedule 3	\$ 65.00 /kW Year	1.70% of Coincident Peak	\$1,105.00	\$0.00023	
Schedule 5	\$ 65.00 /kW Year	2.20% of Coincident Peak	\$1,430.00	\$0.00030	
Schedule 6	\$ 40.00 /kW Year	2.20% of Coincident Peak	\$880.00	\$0.00018	
			\$3,415.00	\$0.00071	
Ameren Control Area					
	Rate		Total	\$/kWh	
Schedule 3	\$ 6,240 /MW Month	1.16% of Coincident Peak	\$868.61	\$0.00018	
Schedule 5	\$ 6,240 /MW Month	1.54% of Coincident Peak	\$1,153.15	\$0.00024	
Schedule 6	\$ 1,760 /MW Month	1.54% of Coincident Peak	\$325.25	\$0.00007	
			\$2,347.01	\$0.00049	
AmerenCILCO Control Area					
	Rate		Total	\$/kWh	
Schedule 3	\$0.3055 /kW Month	100% of Coincident Peak	\$3,666.00	\$0.00076	
Schedule 5	\$0.3941 /kW Month	100% of Coincident Peak	\$4,729.20	\$0.00098	
Schedule 6	\$0.0231 /kW Month	100% of Coincident Peak	\$277.20	\$0.00006	
			\$8,672.40	\$0.00180	

1102
 1103
 1104

1105 **IX. IDENTIFICATION OF RESOURCES**

1106 **Q. Do you have any comments regarding Mr. Ogur's concerns with the**
1107 **requirements in the SFC that BGS Supplier's identify the specific capacity**
1108 **resources being used to fulfill their obligations?**

1109 A. Yes. I believe that his concerns are unfounded and that his recommendations are
1110 unnecessary.

1111 **Q. Do the Ameren Companies agree that the identification of specific capacity**
1112 **resources is commercially sensitive information?**

1113 A. No, they do not. By identifying the specific capacity resources that they will
1114 utilize to fulfill their capacity obligations under the SFCs the BGS Suppliers are
1115 in no way indicating that these same resources will be utilized to fulfill their
1116 energy obligations. In fact, the SFCs specifically allow the BGS Suppliers to
1117 fulfill their energy obligations from whatever resources they wish in any hour.
1118 Mr. Ogur acknowledges this capability in Staff's response to data request Ameren
1119 – Staff 1.10. Therefore, it is unlikely that any potential BGS Supplier would
1120 consider the identification of specific capacity resources as revealing
1121 commercially sensitive information.

1122 **Q. Is the Ameren Companies proposal consistent with industry practice?**

1123 A. Yes, I believe so. AmerenIP has recently entered into purchased power
1124 agreements with affiliates of Dynegy, Exelon, and Aquila. Each of these
1125 agreements provide for the identification of specific resources. I am unaware of
1126 any objections made by these suppliers to provide this data during negotiations,

1127 nor did other suppliers that made offers to AmerenIP during their request for
1128 proposal last year object to providing this data if required.

1129 **Q. Have any potential BGS Suppliers objected to this portion of the Ameren**
1130 **Companies' proposal?**

1131 A. No, not that I am aware of. Based on my participation in various meetings with
1132 potential BGS Suppliers prior to filing our direct case and in reviewing the direct
1133 testimony of the various intervenors in this case, I am unaware of any potential
1134 BGS Supplier or intervenor, other than ICC Staff, that has expressed a concern
1135 with this aspect of the Ameren Companies' proposal.

1136 Additionally, in response to an Ameren Companies' data request reading
1137 "(p)lease identify those suppliers which have indicated to Mr. Ogur that they may
1138 choose not to participate in the auction for Ameren products if required to provide
1139 the subject information to the Ameren Companies" Mr. Ogur replied "Mr. Ogur
1140 did not discuss this issue with any potential supplier." (Response Ameren-Staff
1141 1.09.)

1142 **Q. Do the Ameren Companies have a need know the identity of these resources?**

1143 A. Yes, they do. When developing its post 2006 procurement proposal, the Ameren
1144 Companies made a conscious decision to retain the role of the load serving entity
1145 (LSE) for the BGS Load. Retaining this role makes it clear that the Ameren
1146 Companies are the POLR for this load and ultimately are responsible for
1147 providing a reliable supply of generation resources to serve this load. In
1148 performing their duties as the LSEs, the Ameren Companies will need to know

1149 the identity of the specific capacity resources that the BGS Suppliers will use to
1150 fulfill their obligations under the SFCs.

1151 First, as the LSE, the Ameren Companies will be responsible for procuring
1152 the Network Integration Transmission Service (NITS) for the load. The
1153 identification of the designated network resources (DNRs) are an integral part of
1154 this process. Mr. Ogur seems to suggest that the Ameren Companies could
1155 simply point to the SFCs, which under the MISO business practices will qualify
1156 as DNRs, in order to procure the required NITS. While this is true, what Mr.
1157 Ogur seems to overlook is that by identifying the SFCs as DNRs and not the
1158 specific capacity resources that the BGS Suppliers will utilize to serve the load
1159 will preclude the BGS Suppliers from having the ability to nominate and receive
1160 the specific financial transmission rights (FTRs) that they will likely desire to
1161 hedge their congestion risk. It is my understanding that the MISO limits its
1162 market participants to nominating and receiving FTRs based on the DNRs
1163 identified in the NITS procurement process. It is unclear to me what FTRs, if
1164 any, that the BGS Suppliers would be entitled to should the Ameren Companies
1165 point to the SFCs as their DNRs.

1166 Second, as the LSE, the Ameren Companies will be responsible for
1167 identifying its specific capacity resources in order to meet the Mid-America
1168 Interconnected Network, Inc. (MAIN) capacity resource requirements. Mr. Ogur
1169 suggests that the Ameren Companies simply request MAIN to look to the
1170 individual BGS Suppliers to fulfill this obligation of the Ameren Companies.
1171 This suggestion is simply unacceptable to the Ameren Companies. The Ameren

1172 Companies take seriously their obligation as the LSE to provide a reliable supply
1173 of electricity to their customers. Turning this obligation over to the BGS
1174 Suppliers and hoping that the BGS Suppliers adequately fulfill this obligation is
1175 unacceptable to the Ameren Companies. This is an obligation that the Ameren
1176 Companies take very seriously. The Ameren Companies are not willing to turn
1177 this obligation over to a potentially large set of third parties.

1178 **Q. Is this information already available to the Ameren Companies or MISO**
1179 **market participants in general?**

1180 A. It is my understanding that this data in some form is already available to others.
1181 As noted by Mr. Ogur, the MISO Transmission Customer (in this case, the
1182 Ameren Companies) is already able to view all information; including DNRs,
1183 associated with their own service. The applicable MISO Transmission Owners
1184 (including AmerenCILCO, AmerenCIPS, and AmerenIP) might also have access
1185 to portions of the DNR data submitted in the NITS process for planning,
1186 forecasting, and operational purposes. Other data, including that for existing
1187 designated resources is available via the MISO Generator Deliverability Test
1188 Results which are publicly posted on the MISO website.

1189 Most telling, however, is that MISO files the results of FTR allocations
1190 with the Federal Energy Regulatory Commission (FERC) and such filing is
1191 publicly available via the MISO and FERC websites. This data includes the
1192 identity of the asset owner, the source, and the sink. As noted above FTRs related
1193 to NITS are defined from DNRs to loads. By identifying the source the DNR is
1194 necessarily identified.

1195 In short, the universe of competitors (including the Ameren Companies'
1196 affiliates) and, indeed the general public, might already have access to this data in
1197 some form.

1198 **Q. Should Mr. Ogur's recommendations regarding the identification of**
1199 **resources be adopted?**

1200 A. No. They are unnecessary and do not adequately address the Ameren Companies
1201 legitimate concerns regarding resource adequacy.

1202 **X. INDEPENDENT AUCTION REPORT OUTLINES**

1203 **Q. Did the Ameren Companies' initial proposal provide for an independent**
1204 **Auction Advisor that would monitor the auction and provide a report to the**
1205 **ICC?**

1206 A. Yes.

1207 **Q. Does the Ameren Companies' proposal still provide for an independent**
1208 **Auction Advisor that would monitor the auction and provide a report to the**
1209 **ICC?**

1210 A. Partly yes and partly no. The Ameren Companies still provide for an Auction
1211 Advisor. However, the Ameren Companies now propose that the monitoring,
1212 reporting and other activities previously proposed for the Auction Advisor be
1213 performed by the ICC Staff in consultation with the Auction Advisor and/or any
1214 other expert(s) the ICC Staff believes would be appropriate.

1215 **Q. Why did the Ameren Companies modify its proposal to shift these**
1216 **responsibilities to the ICC Staff?**

1217 A. To properly monitor, report, and perform other activities relative to the auction
1218 review, the responsible party should have: (a) a deep and broad experience in
1219 Illinois and expertise with Illinois-specific issues – for example, administration of
1220 the Public Utilities Act; and (b) technical auction experience. The ICC Staff has
1221 the necessary Illinois background and is best suited to bring together the technical
1222 knowledge of the Auction Advisor and other technical experts. Based on its
1223 reconsideration of these factors, the Ameren Companies now believe that the
1224 Illinois consumers will be best protected by the ICC Staff taking a principal role
1225 in the auction review.

1226 **Q. Under the Ameren Companies' revised proposal, who will submit auction**
1227 **reports to the ICC and when?**

1228 A. As discussed in the rebuttal testimony of Mr. Nelson, the Ameren Companies
1229 have modified their proposal so that the ICC Staff and the Auction Manager each
1230 will independently submit auction reports to the ICC. Pursuant to this change to
1231 the Ameren Companies proposal, both the ICC Staff and Auction Manager
1232 independent reports must be submitted to the ICC by the end of the business day
1233 following the Auction Completion Date.

1234 **Q. Dr. Salant suggests that the Ameren Companies provide a list of information**
1235 **to be given to the Auction Advisor (now ICC Staff) in a timely manner to**
1236 **enable the ICC Staff to prepare its auction report for the ICC. (ICC Staff**
1237 **Exhibit 1.0 at 2167-2242). Do you have any thoughts on Dr. Salant's**
1238 **suggestion?**

1239 A. Yes. The Ameren Companies agree that the Auction Manager should provide
1240 information to the ICC Staff to allow the ICC Staff to prepare its auction report.
1241 It is important, however, for the ICC Staff to independently assess the auction to
1242 the extent possible.

1243 **Q. Have the Ameren Companies developed a list of topics to be addressed in the**
1244 **Auction Manager’s independent report to the ICC?**

1245 A. Yes. The Ameren Companies have developed a detailed outline specifying the
1246 topics to be addressed in the Auction Manager's report. The outline is structured
1247 as a series of questions that should be answered by the Auction Manager. A copy
1248 of the Auction Manager Report Outline listing each of the specific questions to be
1249 addressed is attached hereto as part of Resp. Ex. 11.2.

1250 **Q. Have the Ameren Companies developed an outline list of topics that should**
1251 **be addressed in the ICC Staff’s report to the ICC as recommended by Dr.**
1252 **Salant?**

1253 A. Yes. The Ameren Companies have developed a detailed outline specifying the
1254 topics to be addressed in the ICC Staff’s report. Like the Auction Manager
1255 Report Outline, the ICC Staff Report Outline is structured as a series of questions
1256 that should be answered by the ICC Staff. A copy of the ICC Staff Report
1257 Outline listing each of the specific questions to be addressed is attached hereto as
1258 part of Resp. Ex. 11.2.

1259 **Q. What topics will ICC Staff’s report cover?**

1260 A. The ICC Staff report will assess whether or not the Ameren Companies' auctions
1261 were conducted fairly and appropriately and all necessary actions to ensure the

1262 competitiveness and integrity of the auctions were followed. The ICC Staff report
1263 also should discuss any issues or concerns identified by the ICC Staff and any
1264 recommendations the ICC Staff has regarding further action by the ICC.

1265 The Ameren Companies anticipate that the report would address four
1266 general areas: (a) pre-auction activities; (b) the conduct of the auction; (c) external
1267 events that may have affected the auction results; and (d) any issues, concerns or
1268 recommendations identified by the ICC Staff.

1269 **Q. Must the ICC Staff depend on information from the Auction Manager to**
1270 **independently assess the auction?**

1271 A. No. Generally, the ICC Staff will be able to develop an independent assessment
1272 of the auction because it will be present during the auction and will directly
1273 observe the auction activities. However, the ICC Staff may not be able to closely
1274 observe certain pre-auction activities. In this circumstance, the Auction Manager
1275 likely will have more information. In this case, the ICC Staff should rely on
1276 information provided by the Auction Manager. In this way, the ICC Staff can
1277 consider the pre-auction activities independently without being "in the room" for
1278 all pre-auction activities.

1279 **Q. What specific process do the Ameren Companies propose for providing the**
1280 **pre-auction information to the ICC Staff?**

1281 A. The Ameren Companies propose that the Auction Manager's report address pre-
1282 auction activities. The Ameren Companies suggest that the Auction Manager
1283 provide the ICC Staff with a draft of the pre-auction activities section of the

1284 Auction Manager's report two weeks prior to the auction and provide an updated
1285 draft of that section by the start of the auction.

1286 The ICC Staff then would include an independent assessment of the pre-
1287 auction activities by responding to the following inquiries:

- 1288 1. Is there any reason to believe that the promotional activities described in the
1289 AM report materially differed from the activities that the AM committed to
1290 undertake and discussed with the ICC Staff?
- 1291 2. Were there suggestions that the ICC Staff made to the AM regarding
1292 promotion that were disregarded without a good explanation?
- 1293 3. Does the ICC Staff have any reason to believe that the data dissemination
1294 activities as described in the AM report differ from the commitments made by
1295 the AM with respect to these activities?
- 1296 4. Were there any suggestions with respect to data or data dissemination made
1297 by the ICC Staff to the AM that were disregarded without a satisfactory
1298 explanation?
- 1299 5. Do the AM activities during the application, qualification and registration
1300 process as described in the AM report give rise to any concern that any
1301 bidders were treated unfairly during these stages of the pre-auction process?
1302 If there are any concerns, please fully describe the concerns and the extent to
1303 which they may have had a material impact on the auction?
- 1304 6. Are the AM descriptions of AM's and ICC Staff agreement on the resolution
1305 of association and confidential information issues accurate?
- 1306 7. Did bidder training activities, if observed, correspond to those committed to
1307 by the AM? Did the ICC Staff make any suggestions with respect to bidder
1308 training that were disregarded by the AM without a good explanation?
- 1309 8. Is the ICC Staff able to confirm that the auction parameters were developed as
1310 described in the AM report?

1311 **Q. Do the Ameren Companies believe that this process – where the ICC Staff**
1312 **and the Auction Manager each produce independent auction reports – will**
1313 **provide sufficiently independent assessments and permit the ICC to reach a**
1314 **conclusion on the auction within the deadline?**

1315 A. Yes. The process described above will result in two independent auction
1316 assessments being provided to the ICC within one business day of the auction's
1317 close. These reports will allow the ICC to reach a conclusion before the deadline
1318 with the assurance that its decision will be based on two independent assessments.

1319 **Q. Does this conclude your rebuttal testimony?**

1320 A. Yes, it does.